2012 REGISTRATION DOCUMENT

essilor

Seeing the world better

contents

Seeing the world better

REGISTRATION DOCUMENT
& Annual Financial Report

2012

The French version of this Registration Document was filed with the Autorité des Marchés Financiers (AMF) on April 2, 2013, in accordance with Article 212-13 of the General Regulations of the AMF. It may only be used in support of a financial transaction if accompanied by an offering memorandum approved by the Autorité des Marchés Financiers. This document has been prepared by the issuer and is binding on the signatories.

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Essilor at a glance

1.1 Key figures and highlights

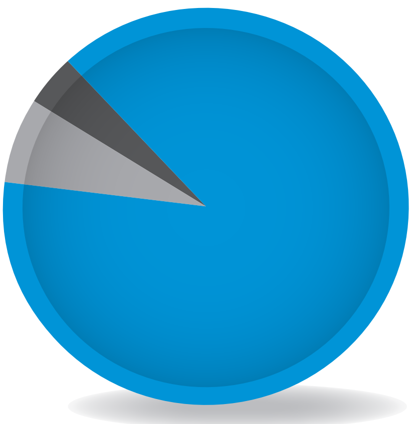
1.1.1 Main consolidated financial data

REVENUE
€4,989M
+19.1%

NET PROFIT
€584M

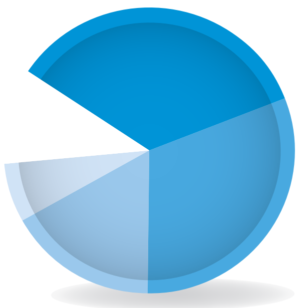
24 **NEW PARTNERSHIPS AROUND THE WORLD** (REPRESENTING €171M IN FULL-YEAR REVENUE)

REVENUE BY OPERATING SEGMENT AND REGION



Lenses and Optical Instruments
89.1%

Geographical breakdown of the Lenses and Optical Instruments division



North America: 34.8%
Europe: 31.2%
Asia-Pacific, Middle East, and Africa: 16.6%
Latin America: 6.5%

Readers
6.9%

Equipment
4.0%

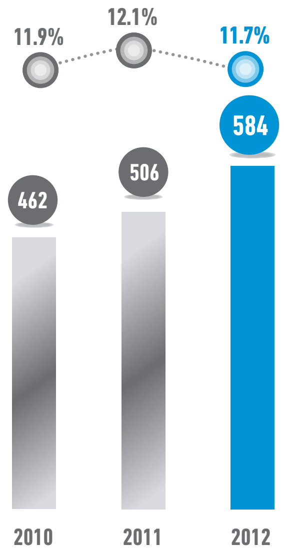
50,668
EMPLOYEES IN 56 COUNTRIES ACROSS FIVE CONTINENTS

22
PLANTS WORLDWIDE

MORE THAN 400
PRESCRIPTION LABORATORIES AND EDGING CENTERS

PROFIT ATTRIBUTABLE TO GROUP EQUITY HOLDERS +15.5%

IN MILLIONS OF EUROS AND AS A % OF REVENUE



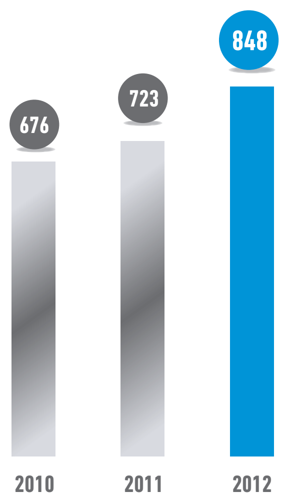
NET EARNINGS PER SHARE +14.7%

IN EUROS

OPERATING CASH FLOW*

IN MILLIONS OF EUROS

* *Operating cash flow excluding change in working capital requirements*



1.1.2 Highlights of the fiscal year

Excerpts from the Management Report of the Board of Directors of February 27, 2013

The ophthalmic optics market continued to grow in 2012, with good business volume in developed countries and sustained dynamism in fast-growing countries. In this buoyant environment, Essilor continued to gain market share thanks to its capacity for innovation in terms of products, services and the economic models it has implemented. The Group also continued to pursue its acquisitions strategy, boosting its business portfolio at the same time as increasing its geographical coverage.

Highlights of the year included:

- 14.5% growth in revenue excluding the currency effect;
- Contribution from operations[(1)] maintained at 17.9% of revenue;
- Continued innovation, with the launch of 232 new products spanning all market segments;
- Success of the new Crizal UV anti-reflective lens and Varilux S series progressive lens;
- Ongoing implementation of the acquisition and partnership program, with 24 partnership agreements signed during the year, including 14 in fast-growing markets, representing full-year revenues of €171 million;
- Penetration of five new high-potential geographic markets;
- Successful integration of Stylemark into FGX International, the North American leader in non-prescription glasses;
- Continuous optimization of the Company's manufacturing resources.

The Group's consolidated financial statements are presented in Section 3 of the Registration Document and revenues are presented in detail in section 1.3.5.

1.1.3 Selected financial information for interim periods

Financial information for interim periods has not been included in this Registration Document. As a reminder, the consolidated results as of June 30, 2012 were released on August 31, 2012. The press release, the consolidated balance sheet, the consolidated income statement, and the consolidated cash flow statement at June 30, 2012, and the presentation of the first-half 2012 results may be downloaded from the Group's website at www.essilor.com, Investors / Publications and Downloads Section.

(1) Contribution from operations: operating income before share-based payments, restructuring costs, other income and other expenses, and before goodwill impairment.

1.2 Company history

1.2.1 A global group

1.2.1.1 Essilor was created by the merger of two innovative companies

The first, *the Société des Lunetiers (Essel)* was an eyewear manufacturer that traced its origins to the *Association Fraternelle des Ouvriers Lunetiers*, a workers' cooperative created in 1849. In 1953, Essel invented and patented the first progressive lens, which it called Varilux. The lens was introduced in the market in 1959. With its origins as a workers' cooperative, Essel had a strong employee share ownership culture that remains a key feature of Essilor's corporate culture to this day.

The second was *the Société Industrielle de Lunetterie et d'Optique Rationnelle* (Silor) whose founder, Georges Lissac, invented the first plastic lens, marketed under the Orma brand.

The two companies merged in 1972 to form Essilor.

For the merger to be a success, the priority in the 1970s was to build a group specializing in ophthalmic optics. All the associated businesses, dating back to the companies' beginnings, were therefore gradually sold off (compasses, drawing and topography implements).

1.2.1.2 International expansion between 1970 and 1980

Essilor was already present in the export market in the 1970s. Essel's products were sold in Japan while Silor had begun making inroads into the US market. A distribution network was gradually built up, first in Europe and the United States, and then in Asia.

In the 1980s, Essilor became an international player and began transferring part of its stock lens production to emerging countries. The first plastic lens plant was opened in the Philippines. The establishment of stock and prescription lens production plants was accompanied by an expansion of the local distribution base. In some countries, such as Australia and the Netherlands, Essilor bought out its local distributor, while in other countries, including Japan and Canada, local distributors were bought out while new subsidiaries were created.

At the end of the 1980s, Essilor had become the world's leading manufacturer of ophthalmic optics.

1.2.1.3 Essilor becomes world leader in the 1990s

In the early 1990s, the ophthalmic optical market was reshaped by a wave of mergers and acquisitions and an increase in competition. In this environment, Essilor – by then the world's leading ophthalmic optics company – focused on strengthening its positions through a global expansion strategy. Until the mid-1990s, Europe accounted for the bulk of the Company's sales.

In 1995, it acquired Gentex Optics, one of the leading US manufacturers of polycarbonate lenses.

This was followed by a number of other international expansion initiatives, designed to provide better service to customers, establish Essilor's corrective lenses in all markets throughout the world and optimize manufacturing operations.

1.2.1.4 The Group enters a new phase in its global expansion in the 2000s

The pace of acquisitions slowed between 2000 and 2001, due to the higher level of debt generated by share buybacks in connection with Saint-Gobain's disposal of its interest in Essilor, but since then the Group has continued to expand rapidly in international markets.

With the aid of an acquisition and partnership policy with prescription laboratories, this strategy aims to grow and strengthen the Group's positions in developed countries and enables Essilor to affirm its status as a leader in fast-growing countries, especially in China, India and Latin America.

This strategy also allows the acquisition of new technologies for the entire Group and the integration of new distribution networks which are developing a segmented product offer for eye care professionals.

As a result, in 2010, Essilor finalized the acquisition of Signet Armorlite, one of the largest independent manufacturers of ophthalmic lenses. It is located primarily in the United States and Europe and has a worldwide production and distribution license for Kodak brand lenses. Moreover, in 2011, the Group acquired 50% of Shamir Optical, another independent ophthalmic lens manufacturer.

1.2.1.5 Two new divisions are created

Essilor has continued to expand its scope of activity in the optical market.

In 2008, the Group acquired Satisloh, a global leader in prescription laboratory equipment, thus creating its Equipment Division.

In 2010, Essilor acquired FGX International, the North American leader in non-prescription reading glasses. This acquisition led to the creation of the Readers Division. It was supplemented in 2011 by the takeover of Stylemark, another major player in the United States with a substantial portfolio of licensed brands of sunglasses and non-prescription reading glasses.

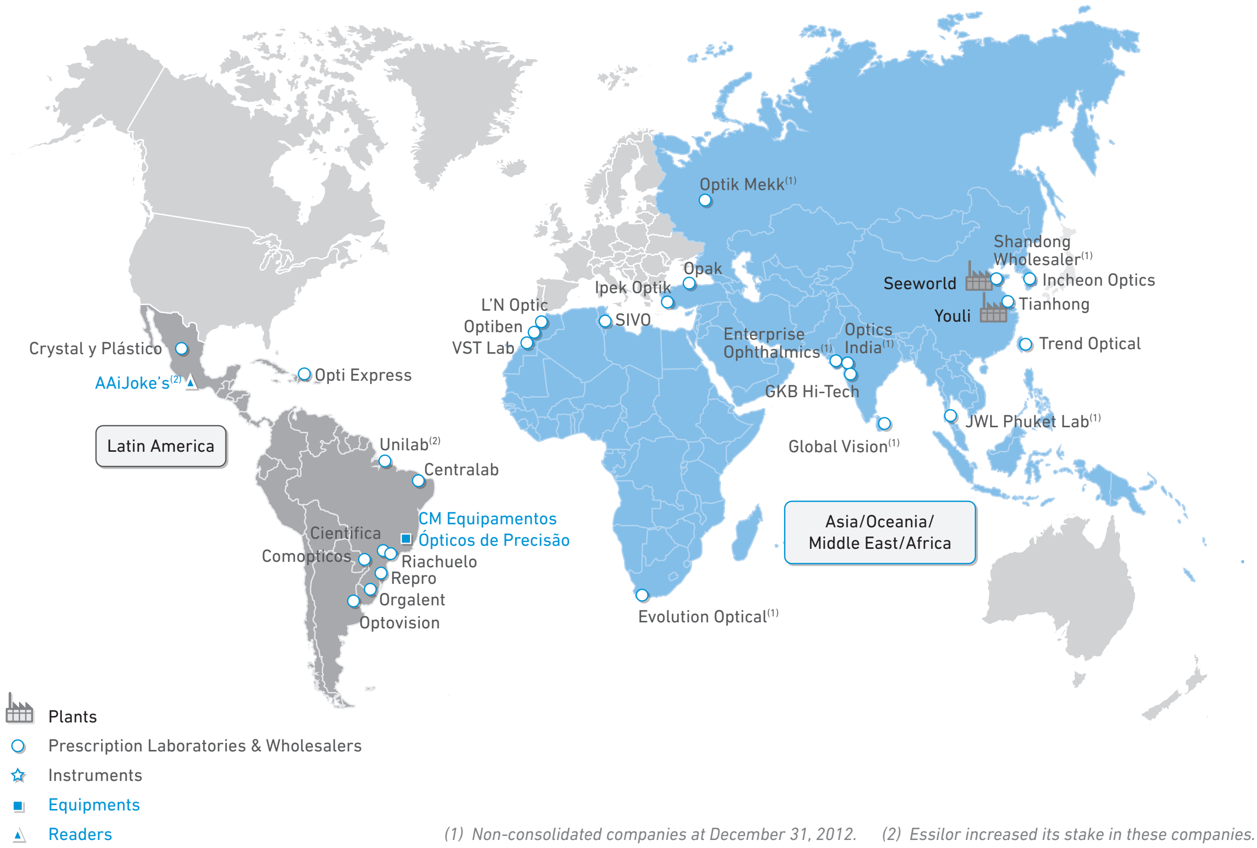
1.2.2 Strategic partnerships

All the strategic partnerships set up since the 1990s have represented innovative solutions allowing us to expand our international positions, distribution networks, product offerings and technology portfolios:

- in 1990, the Group entered into a partnership with US-based PPG Industries to develop Transitions variable-tint plastic lenses;
- in 1999, the Group joined forces with Japan's Nikon Corp., to create Nikon-Essilor Co. Ltd. This new joint venture combined Essilor's business interests in Japan, including Japanese marketing rights for the Varilux brand, with all of Nikon's ophthalmic optical assets, including worldwide marketing rights for Nikon-brand products in this segment;
- in 2002, the Group teamed up with Samyung Trading Co. Ltd. in South Korea to form another joint venture, Essilor Korea Ltd, which has subsidiaries in South Korea and China;
- in 2006, the Group established a partnership with India's GKB Rx Lens;
- in 2010, the Group signed a partnership with Wanxin Optical in China;
- In 2011, the Group signed a partnership with Shamir Optical in Israel.

Continued active acquisition and partnership strategy both in fast-growing countries and developed countries over the last two years

■ 31 acquisitions and partnerships in fast-growing countries in 2011 and 2012:



(1) Non-consolidated companies at December 31, 2012. (2) Essilor increased its stake in these companies.

- 21 acquisitions and partnerships in developed countries in 2011 and 2012:

(1) Non-consolidated companies at December 31, 2012. (2) Essilor increased its stake in these companies.

1.3 The Group's businesses

1.3.1 Ophthalmic lens industry

The task of the players in the ophthalmic optical industry is to correct and protect vision. Consumers purchase glasses about every three years to correct defects such as myopia, hypermetropia, presbyopia and astigmatism.

The ophthalmic lens industry is organized into four distinct businesses. These businesses correspond to the phases in the transformation of the product ordered by consumers: raw materials suppliers, lens manufacturers, prescription laboratories and edging centers, and distributors.

<table>
<tr><td>Raw materials suppliers</td><td colspan="3">Chemical companies and glass manufacturers</td></tr>
<tr><td>Lens manufacturers</td><td rowspan="2">Integrated manufacturers with laboratories
Essilor</td><td colspan="2">non integrated manufacturers – Essilor</td></tr>
<tr><td>Lens finishers</td><td>Independent laboratories</td><td rowspan="2">Optical chains with integrated laboratories</td></tr>
<tr><td>Retailers</td><td colspan="2">Independent opticians – Non-integrated optical chains</td></tr>
<tr><td>End customers</td><td colspan="3">Consumers</td></tr>
</table>

According to the data available to the Group, the world market for ophthalmic optics represents approximately 1.2 billion lenses or approximately 585 million consumers per year.

Chemical companies and glass manufacturers

Raw materials are developed and produced by glass manufacturers for glass lenses and by chemical companies for the polymerizable thermoset resins and injectable thermoplastic resins used in plastic lenses.

Essilor is a customer of chemical companies and glass manufacturers around the world.

Lens manufacturers

Using these raw materials, lens manufacturers produce single-vision finished lenses and a variety of semi-finished lenses.

Finished lenses are for simple eyesight corrections, while semi-finished lenses allow for more complex eyesight corrections.

Essilor conducts this business.

Prescription laboratories and edging centers

Prescription laboratories transform semi-finished lenses into finished lenses corresponding to the exact specifications of an optician's or optometrist's order. This customization enables them to deliver the broadest possible array of correction combinations, especially for presbyopia. In the process, they surface and polish the semi-finished lenses and then apply coatings (tinting, anti-UV, anti-scratch, anti-reflective, anti-smudge, anti-static, light-filtering, anti-fog, etc.)

Essilor operates in this segment and owns more than 400 prescription laboratories and edging-mounting centers around the world.

In addition, Essilor's Equipment business designs equipment ranges (primarily machines for surfacing and anti-reflective coatings) and sells consumables to prescription laboratories.

Retailers and optical chains

Lenses are marketed through a number of channels, including independent eye-care professionals, cooperatives, central purchasing agencies and retail optical chains.

The primary role of eye-care professionals is to advise customers on the choice of lens, based on the prescription, as well as the choice of frame. They then send the prescription data to the lens manufacturer or prescription laboratory.

The interaction among these players differs from one country to another.

In the United States and the United Kingdom, for example, laboratories and edging centers usually fully mount the lenses and frames and deliver ready-to-wear eyeglasses to the eye-care professional.

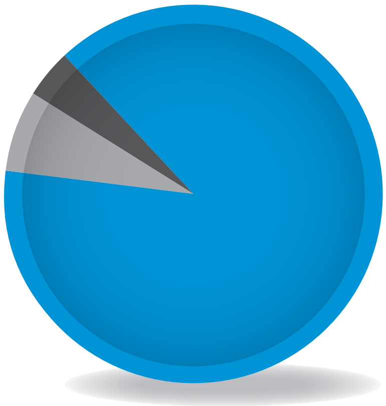
In countries such as France and Germany, laboratories deliver round lenses to opticians, who then adjust them to fit the frame.

Essilor is a supplier for optical retailers and chains worldwide.

1.3.2 Business overview

Excerpts from the Management Report of the Board of Directors of February 27, 2013

BREAKDOWN OF ESSILOR'S 2012 REVENUE BY OPERATING SEGMENT



2012 revenue
€4,989 million

Lenses and Optical Instruments 89.1%
- Corrective lenses
- Optical instruments for opticians/optometrists

Equipments 4.0%
- Machines and consumables used by plants and prescription laboratories

Readers 6.9%
- Non-prescription reading glasses
- Sunglasses

1.3.2.1 Lenses and Optical Instruments

Business Overview

Essilor designs, manufactures and customizes corrective lenses to meet each person's unique vision requirements.

Through a wide range of lenses that offer greater comfort, Essilor provides solutions for correcting myopia, hypermetropia, astigmatism and presbyopia to enable people to regain perfect vision and protect their eyesight.

Essilor serves every segment of the ophthalmic lens market with globally recognized brands, such as:

- Varilux and its range of progressive lenses, including the Varilux S series, a new range of lenses launched in 2012 (see section 1.4.3, "Key products and services launched in 2012");
- Crizal and its range of anti-reflective, anti-smudge and anti-static lenses, including Crizal UV, a new generation of lenses launched at the beginning of 2012 (see section 1.4.3, "Key products and services launched in 2012");
- Optifog for anti-fog lenses, a new category introduced in 2011;
- Xperio for polarized lenses;
- Nikon, Transitions (photochromic lenses) and Kodak used under agreement with Nikon Corporation, Transitions Optical Inc. and Kodak.

Essilor also designs, develops, distributes and maintains a range of lens edging instruments for opticians and prescription laboratories, and vision screening instruments for eye-care professionals, schools, occupational medicine centers, the military and other institutions.

In 2012, the Lens and Optical Instruments business represented 89.1% of the Group's revenue.

Market and competitive position

According to the Group's estimates, 4.2 billion people worldwide are in need of vision correction. Among these, 1.7 billion, or 25% of the global population, already have equipment to correct and protect their vision.

The world market for ophthalmic optics represents a total of 1.2 billion lenses or approximately 585 million consumers per year, with an estimated manufacturing value of approximately €10 billion. Its long-term growth, traditionally ranging from 3% to 4%, is primarily based on the demand from fast-growing countries with an under-equipped population, on the ageing global population, and on the increasing number of unmet visual needs.

In a highly fragmented market comprised mainly of small local competitors, the Group estimates Essilor's market share to be 36% in terms of volume. Essilor's main competitors are Hoya (Japan) and Carl Zeiss Vision (Germany).

In 2012, according to estimates produced by the Essilor group, the global optics market grew by 4%, with volumes driven primarily by strong growth countries in Asia and Latin America.

The long-term development of the different market segments is characterized by:

- the replacement of mineral lenses with organic lenses, primarily in the emerging countries;
- the growth in new organic materials which make it possible to produce very thin lenses, including the high and very high indices and polycarbonate;
- the replacement of bifocal lenses with progressive lenses;
- the development of surface coatings and multi-layer lenses, essentially anti-reflective, anti-smudge and variable tint lenses;
- the growth in the developing countries supported by the growth in their middle class.

Essilor's sales by volume for 2012 rose by approximately 6.5% globally, reflecting the Group's strong performance in high and very high index materials, polarized lenses and anti-reflective lenses.

Essilor's customers are:

- opticians/optometrists for ophthalmic lenses and edging-mounting instruments directly or indirectly through distributors;
- prescription laboratories for lenses and edging-mounting instruments.

1.3.2.2 Equipment

Business Overview

The Equipment business consists primarily of Satisloh, which manufactures and sells equipments and consumables used by prescription laboratories.

In 2012, the Equipment business represented 4.0% of the Group's revenue.

Market and competitive position

In value, the Group estimates the market for equipment and consumables used by prescription laboratories at around €500 million.

Satisloh is the world's leading supplier of surfacing machines and anti-reflective coating units. Its global market share is substantial, particularly in digital surfacing machines, small machines that produce anti-reflective lenses in one hour, and consumables.

Satisloh's customers are prescription laboratories, integrated optical chains and lens manufacturers.

Its main competitors are Schneider (Germany) in surfacing and Leybold (Germany) in anti-reflective coating machines.

1.3.2.3 Readers

The business

The Readers segment primarily consists of the American company FGX International, acquired by Essilor in 2010. FGX International specializes in the design and sale of non-prescription reading glasses and is also present in the retail sunglasses market.

Its portfolio includes well-known brands such as Foster Grant, Magnivision, Gargoyles, SolarShield and Corinne McCormack, and it has licenses for brands such as Ironman.

In 2011, FGX International acquired its competitor Stylemark, which itself had a major portfolio of brands under license, including Nine West, Dockers®, Reebok®, Hello Kitty® and various Disney® brands.

In 2012, the Readers business represented 6.9% of Group revenue.

Market and competitive position

FGX International is the North American leader in non-prescription reading glasses.

Internationally, the competitors of FGX International are small local players.

Its products are sold to large retail companies (e.g., Wal-Mart and Target), pharmacies (e.g., Walgreens and CVS) and specialized retail outlets (e.g., Barnes and Noble), as well as to eye care professionals and department stores.

FGX International buys its products from outside manufacturers.

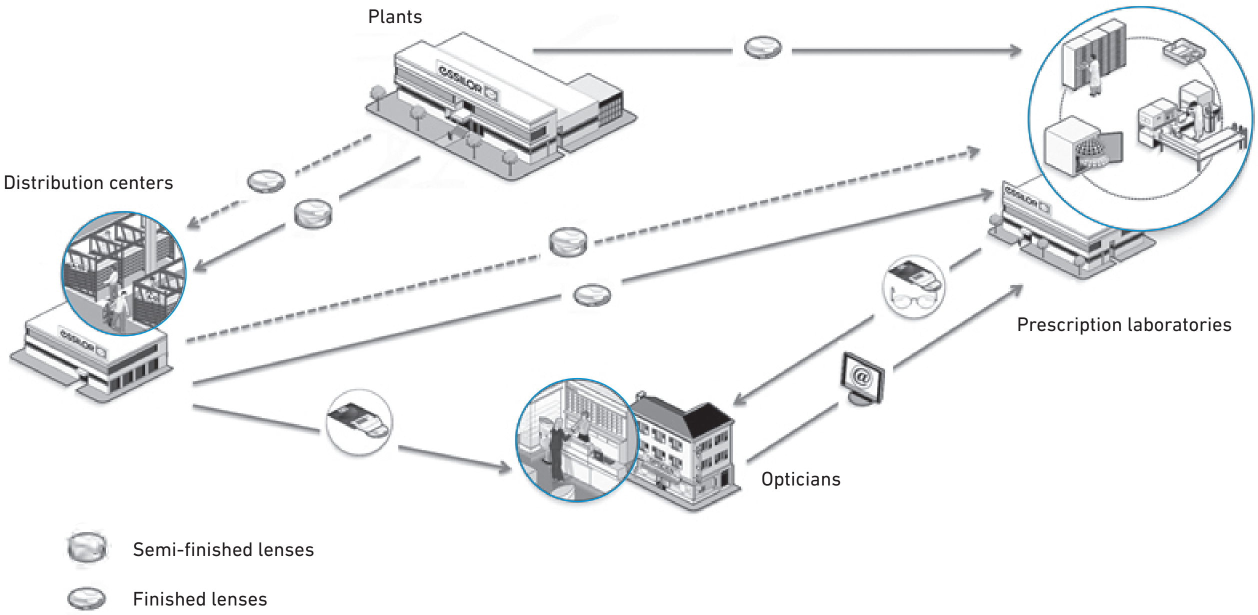
The Readers market is estimated at 220 million pairs per year in volume and is close to €1.1 billion per year in value.

FGX International holds a market share of around 22% in volume.

1.3.3 Organization and network of the Group's businesses

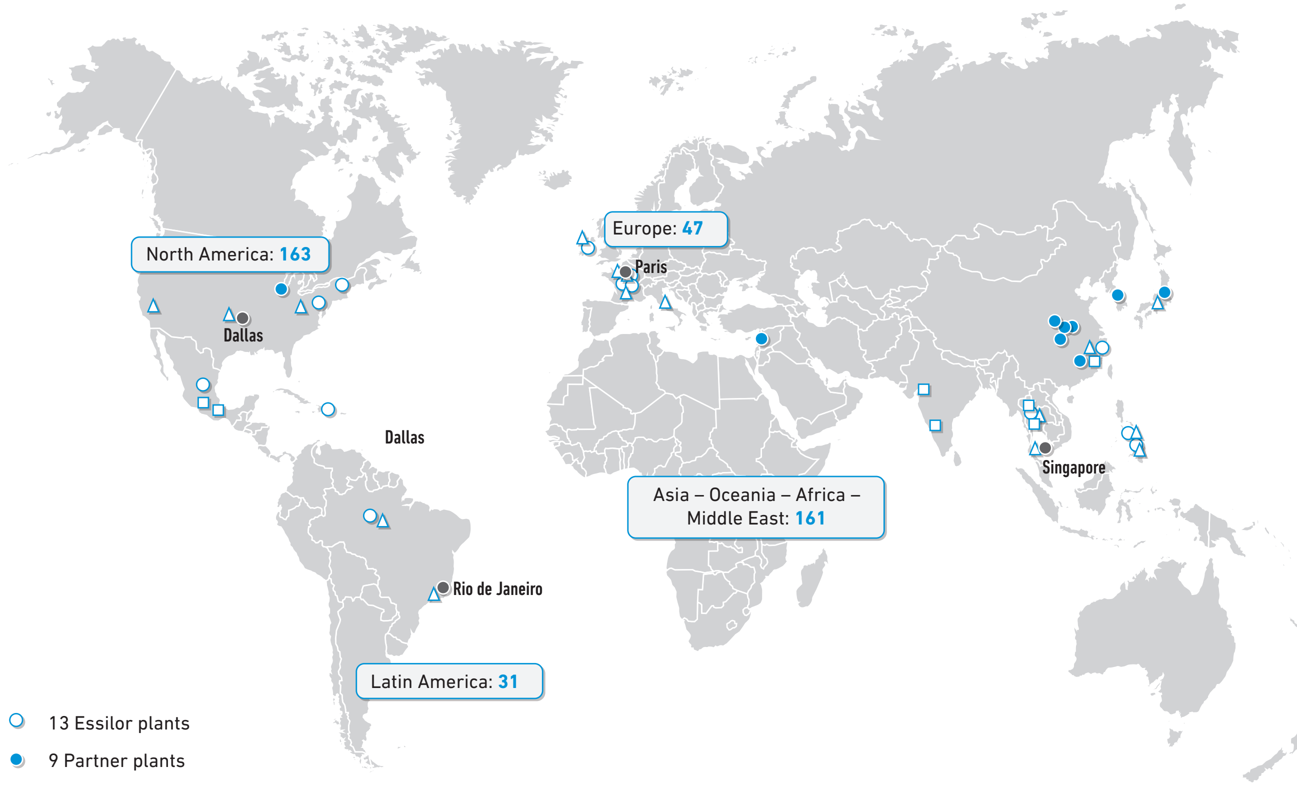
1.3.3.1 Lenses and Optical Instruments

■ Business process



Essilor's business process is designed as a complete network. The Group is involved in every step, from product manufacture to delivery to stores. It has a global network of plants, prescription laboratories, edging centers and distribution centers serving eye-care professionals (optical retailers and chains) throughout the world.

A unique global network



- 13 Essilor plants
- 9 Partner plants
- More than 400 prescription laboratories and edging centers
- 7 Export prescription laboratories
- 16 Distribution centers
- Regional head offices

Production plants

Their role is to ensure the secure supply of finished and semi-finished lenses to subsidiaries and direct customers, on-time, per specifications and at the best cost.

PLANT LOCATIONS AT DECEMBER 31, 2012 (CITY AND DATE OF ENTRY IN THE GROUP)

North and Latin America	Europe	Asia-Pacific	Partner production plants
United States ■ Carbondale, Pennsylvania – 1995 ■ Dudley, Massachusetts – 1995 **Mexico** ■ Chihuahua – 1985 **Puerto Rico** ■ Ponce – 1986 **Brazil** ■ Manaus – 1989	**Ireland** ■ Ennis – 1991 **France** ■ Dijon – 1972 ■ Ligny en Barrois (Les Battants) – 1959 ■ Sézanne – 1974	**Philippines** ■ Marivelès – 1980 ■ Laguna – 1999 **Thailand** ■ Bangkok – 1990 **China** ■ Shanghai – 1997	**Japan** ■ Nikon-Essilor – Nasu – 2000 **Korea** ■ Essilor Korea via its subsidiary Chemiglas – Yangsan – 2002 **China** ■ Essilor Korea via its subsidiary Chemilens – JiaXing – 2006 ■ ILT Danyang – Danyang – 2010 ■ Wanxin Optical – Danyang – 2010 ■ Youli Optics – Danyang – 2011 ■ Seeworld Optical – Danyang – 2012 **Israel** ■ Shamir Optical – Kibbutz Shamir – 2011 **United States** ■ X-Cel Optical – Sauk Rapids, Minnesota – 2012

The Group had a total of 22 plants as of December 31, 2012, excluding:

- the production units of BNL in France and Specialty Lens Corp in the United States, companies acquired in 2003;
- the plant of Signet Armorlite in Mexico, in which the Group acquired majority interests in 2010.

Prescription laboratories and edging centers

Prescription lens laboratories transform semi-finished lenses into custom-made finished lenses.

At year-end 2012, the Group's prescription laboratories and edging centers were located as follows:

North America	163
Europe	47
Asia-Pacific – Africa – Middle East	161
Latin America	31

Logistics centers

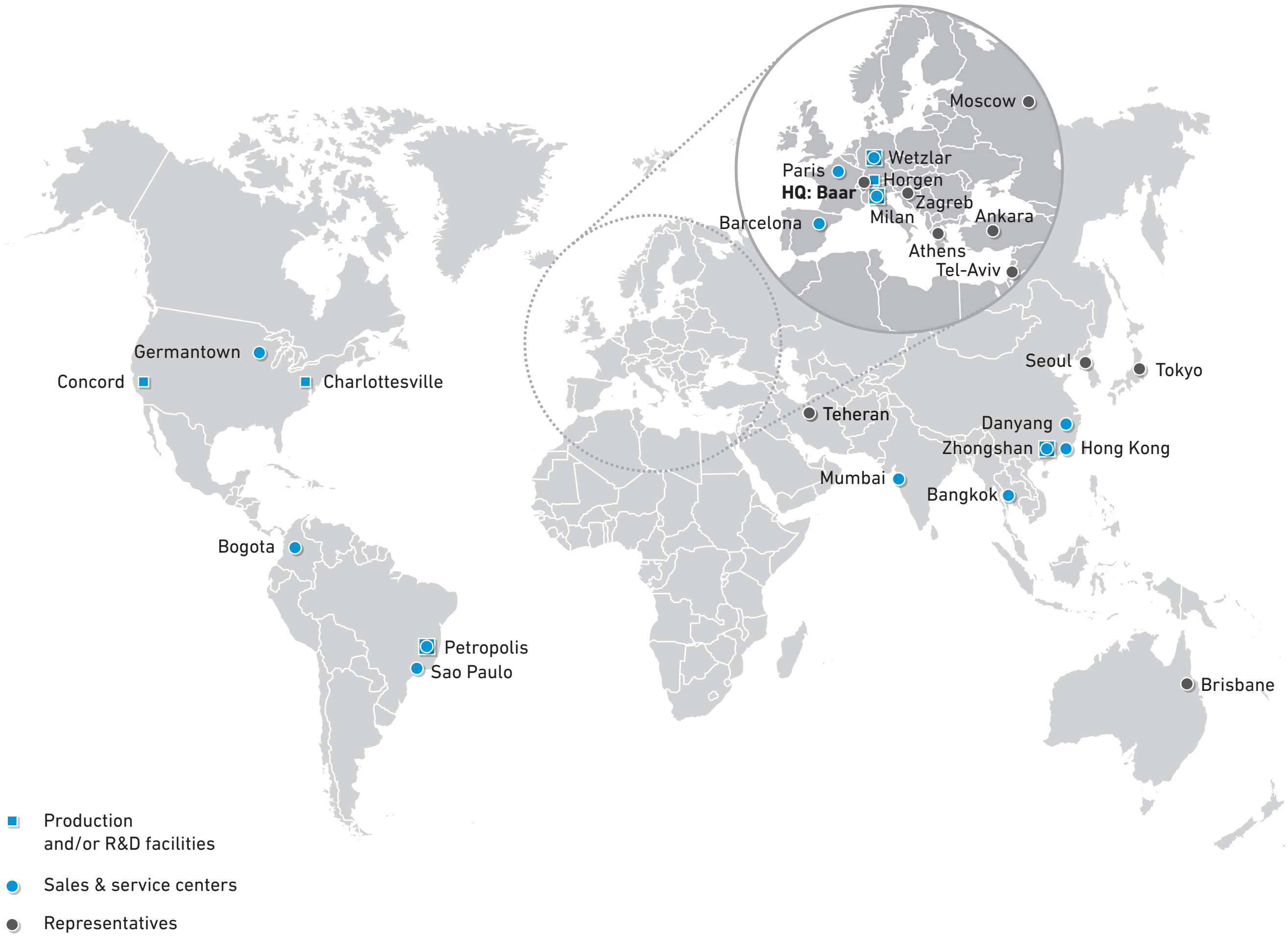
Logistics centers take delivery of finished and semi-finished lenses and ship them to distribution subsidiaries and prescription laboratories. Sixteen centers are located throughout the world: six in Asia, five in Europe, three in North America and two in Latin America.

The distribution of products produced by Essilor and its subsidiaries is done:

- either by the Group's subsidiaries or networks in the countries where Essilor is located; or
- by distributors if the Group does not have its own subsidiaries.

1.3.3.2 Equipment

Satisloh, which represents the Equipment business and whose headquarters are in Baar in Switzerland, owns production units in Germany (Wetzlar), Italy (Milan), the United States (Charlottesville and Concord), Brazil (Petropolis) and China (Zhongshan), and has representative offices in many other countries.



1.3.3.3 Readers

FGX International, which represents the Readers business and whose headquarters are in Smithfield, Rhode Island, in the United States, does not own any production units.

It has representative offices in the United States, Canada, Mexico, the United Kingdom, Italy and China.

1.3.4 The Group's strategy

Excerpts from the Management Report of the Board of Directors of February 27, 2013

For all of its businesses, Essilor's strategy is based on four key pillars:

- innovation in terms of products, services and technology, reflected in particular in the launch each year of a large number of products with improved performance and new benefits for wearers to resolve vision problems;
- the development of offers tailored to all market segments and all regions to meet the various needs of eye care professionals and consumers;
- an active acquisitions and partnership strategy with industry stakeholders, allowing the Group to strengthen its local presence or enhance its business portfolio;
- stimulating demand through the development of vision information and screening campaigns, plus initiatives to make visual correction accessible to as many people as possible.

1.3.5 Performance of the Group's businesses in 2012

Excerpts from the Management Report of the Board of Directors of February 27, 2013

CONSOLIDATED REVENUE

Change in revenue between 2011 and 2012	Reported	Like-for-like	Changes in scope of consolidation	Currency effect
€ millions	+799.3	+217.5	+389.0	+192.8
As a %	+19.1%	+5.2%	+9.3%	+4.6%

In 2012, consolidated revenue totaled €4,988.8 million, an increase of 19.1% over the previous year.

- Like-for-like revenue growth was 5.2%. The increase reflected vibrant sales by the Lenses and Optical Instruments business across all regions and the good performance of the Readers business.
- Acquisitions lifted revenue by 9.3%. The inclusion of Shamir Optical's first-half revenue and the impact of consolidating StyleMark from January 1, 2012 added 4.1%, the partnerships and bolt-on acquisitions[1] signed in 2011 and 2012 contributed 2.8% and the consolidation of Nikon-Essilor and Essilor Korea on a 100% basis (versus 50% previously) contributed 2.4%.
- The currency effect was a positive 4.6%, reflecting primarily the US dollar's appreciation against the euro, but also the appreciation of the Canadian and Australian dollars, the British pound and the Chinese yuan. Conversely, the depreciation of the Brazilian real had a negative impact on revenue.

1.3.5.1 Highlights by business and region

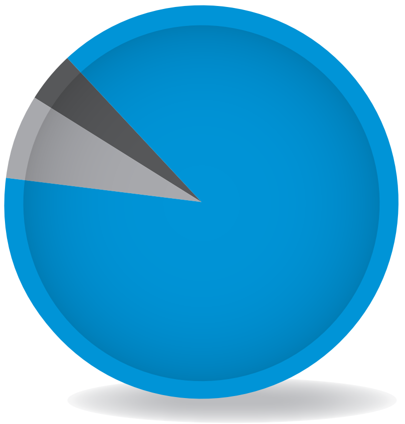
Excerpts from the Management Report of the Board of Directors of February 27, 2013

Revenue € millions	2012	2011	Reported	Like-for-like
Lenses and Optical Instruments	**4,445.2**	**3,795.8**	**+17.1%**	**+5.3%**
North America[b]	1,735.9	1,503.1	+15.5%	+4.0%
Europe	1,558.7	1,471.2	+5.9%	+2.6%
Asia-Pacific, Africa[a]	828.6	551.2	+50.3%	+12.3%
Latin America[b]	322.0	270.3	+19.2%	+13.0%
Equipment	**199.2**	**184.6**	**+7.9%**	**+1.4%**
Readers	**344.4**	**209.1**	**+64.7%**	**+5.9%**
TOTAL	**4,988.8**	**4,189.5**	**+19.1%**	**+5.2%**

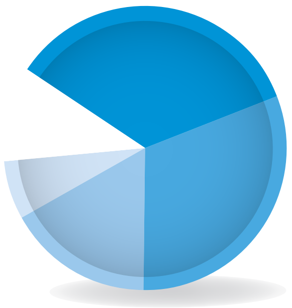
(a) The full consolidation of Nikon-Essilor and Essilor Korea from January 1 and February 1 respectively added €101.3 million to 2012 revenue representing an impact of 18.6% in the Asia-Pacific-Africa region and 2.4% for the Group.

(b) Revenue for Mexico, which amounted to €15.9 million in 2011, is now presented under Latin America.

BREAKDOWN OF ESSILOR'S 2012 REVENUE BY OPERATING SEGMENT



Geographical breakdown of the Lenses and Optical Instruments division



Revenue generated by fast-growing countries amounted to €911 million, or 18.3% of the Group's revenue.

(1) Aquisitions or local partnerships.

Lenses and optical instruments

North America

Essilor had an excellent year in North America. Revenue was up 4.0% like-for-like, lifted by the combined impact of successful product launches, favorable market conditions and initiatives undertaken in prior years.

In the **United States**, revenue grew 5.0% like-for-like. Growth was led by value-added products, with independent eyecare professionals enthusiastically welcoming the deployment of Crizal UV throughout the entire Crizal range. Coinciding with the Crizal advertising campaign that began in 2012, Crizal UV's launch drove a sharp rise in volumes together with better differentiation and a positive price effect. The new Varilux S series was introduced in the United States in the second half, along with the Definity 3 progressive lens.

Concerning distribution channels, 2012 saw very strong activity levels with the major optical chains. The contract for the supply of anti-reflective solutions signed with one of the country's leading chains, LensCrafters, was renewed and extended, and a new lens supply contract was signed with another major national chain.

Sales via eyeglass and contact lens distributors grew at a healthy rate.

In **Canada**, the success of the multi-network distribution strategy helped to offset a mixed performance by Nikon Essilor in the independent optician segment and the decision by a major national chain to in-source part of its lens production.

Europe

Revenue in Europe grew 2.6% like-for-like, despite a challenging economic environment particularly in Southern Europe. Activity was strong during the first three quarters. However the fourth quarter growth rate was adversely affected by the high basis of comparison in the same period of 2011, which saw the ramp up of a major supply contract in the United Kingdom, and a sales uplift due to the production problems experienced by a major competitor. The negative impact of high prior year comparatives was nonetheless partly offset by strong initial sales of the new Crizal UV lenses launched in the second quarter and the Varilux S series introduced in stages as from September.

The business in **France** continued to perform well, thanks to the group's own marketing efforts that included extending the distribution networks, successfully launching new products such as Varilux S series, optimizing BBGR's positioning with national chains and leveraging the appeal of Shamir products in certain regions. Revenues were up strongly in the **United Kingdom**, lifted by the full-year impact of a supply contract with a leading optical chain, Boots Opticians, and solid sales to independent opticians. In **Central Europe**, **Northern Europe** and **Eastern Europe**, revenue grew modestly, reflecting differing situations from one country to another. In **Germany**, Essilor performed well in the optical chain segment and demonstrated good potential in the independent optician segment. Revenue in **Benelux** and **Southern Europe** was affected by difficult local economic environments. Nonetheless, the business in **Spain** benefited from a very significant increase in BBGR's penetration rate with a national optical chain.

Asia-Pacific – Africa – Middle East

Revenue in the Asia-Pacific/Middle East/Africa region was up by a strong 12.3% like-for-like, reflecting increased momentum in fast-growing markets and firm sales in the region's developed markets. Varilux and Crizal enjoyed vibrant demand throughout the region.

In **China**, sales of mid-range products continued to expand very rapidly, helped by the good positioning of the Company's partners. Wanxin's distribution of Kodak lenses in the domestic market delivered very good results, while premium lens sales continued to be lifted by Varilux and Crizal lenses.

In **India**, strong gains were recorded in all market segments, thanks to new products and sustained efforts to expand coverage of the customer base. All of the Company's partners turned in very good performances.

In **Indonesia** and the **ASEAN** countries, revenue continued to grow at a rapid pace and the product mix improved.

Operations in **Japan** had a good year, even before taking into account the positive effect of the change in the competitive environment. In particular, the group increased its sales to two optical chains.

In **Australia and New Zealand**, the network of independent eye care professionals performed very well. In the optical chain segment, the Eyebiz partnership improved product mix.

During 2012, the Company also entered several countries for the first time (Sri Lanka, Tunisia and Togo).

Latin America

In a less favorable economic environment than in 2011, Essilor reported revenue up 13.0% like-for-like.

In **Brazil**, Essilor continued to deploy its multi-network strategy. Leveraging partnerships with independent laboratories to speed distribution of value-added lenses, the Company secured a rapid increase in sales of progressive lenses, anti-reflective coatings and photochromic lenses. In particular, anti-reflective coating centers were deployed at two partner laboratories. The Crizal UV lens was launched in Brazil's major cities at the end of the year.

It was another year of very strong growth in **Mexico**, where Essilor continued to take advantage of the opportunities created by the under-penetration of the main value-added lens categories. The Varilux progressive lens and Crizal anti-reflective lens ranges increased their market shares. A new laboratory was opened in Mexico City to improve service quality, while the signature of a major partnership agreement with an independent distributor, Crystal y Plastico, will allow the Company to deepen its geographic coverage and strengthen its position in the mid-range segment.

In **Colombia**, a marketing subsidiary was set up during the year to speed deployment of the Company's various brands. After a good start to the year in **Argentina**, performance was affected by slower economic growth and import restrictions.

Instruments

The Instruments Division experienced a limited decline in business during 2012, in a particularly tight market environment in Europe which accounts for a significant proportion of its revenue.

Essilor strengthened its overall positions in the edging tool segment, but performances were uneven depending on the country. In Europe, the fall-off in sales concerned Southern Europe, particularly Italy and Spain, and Central Europe. In France, sales were higher, helped by the ongoing success of the Mr. Orange edger. Outside Europe, the Division performed well in the United States, Canada, Asia and Brazil.

The growing number of opticians choosing to install optometric equipment helped to drive expansion in this segment of the European market. Essilor's revamped product line-up contributed to market share gains among independent opticians and stronger positions with the optical chains.

Lastly, during 2012, Essilor began marketing its M'Eye Fit range of measuring tools that are designed as aids for the sale of individualized lenses by eyecare professionals. The Company has considerably strengthened its position in the measuring device segment by acquiring a majority stake in Interactive Visuel System (IVS), a global leader in technological sales support solutions for opticians. IVS's products include the Visioffice measuring column that allows eyecare professionals to dispense premium lenses in the Varilux range.

Equipment

The Equipment Division reported a 1.4% increase in like-for-like revenue despite high prior-year comparatives and a less favorable climate for capital expenditure. This good performance reflects ongoing laboratory investment in digital surfacing machines, primarily in the United States and Latin America, as well as firm demand in the Consumables division. Satisloh's overall volumes were also lifted by the extension of a contract to supply one-hour anti-reflective lens machines to LensCrafters, a large optical chain in the United States.

The Division's capacity for innovation enabled it to selectively increase market share via a more flexible deployment of its technological solutions, a more global services network and the introduction of new business models. Satisloh launched the Box-Coater 1200-MPX, a high-output anti-reflective lens machine for mass manufacturers. MicroLab was introduced for smaller laboratories interested in digital surfacing. The modular system offers wide manufacturing flexibility for digital surfacing processes, as well as new On-Block Manufacturing processes.

The Division also continued to expand internationally, led by its many successes in Latin America and the opening of a new 2,000-sq.m showroom in Dan Yang, China to showcase its technology to Asian customers.

Readers

The Readers Division had a good year, with like-for-like revenue gaining 5.9%. Growth was mainly fueled by the sunglasses segment, which benefited from the ramp-up of a new contract with a major nationwide chain and the introduction of new collections at several key accounts at the end of the year.

Performance in the non-prescription glasses segment was more mixed, due to ongoing inventory drawdown at the start of the year. In the United States, FGXI was helped by the launch of a revamped line-up for a major retailer and the ramp-up of a new supply contract with a fast-growing variety store chain. These efforts were backed by a television ad campaign featuring Brooke Shields, the new face of Foster Grant eyewear products.

FGXI also continued its development outside the United States, posting strong sales growth in the United Kingdom and Latin America. In Latin America, the Division launched business operations in South America (Ecuador, Bolivia and Peru) and a certain number of Central American countries, while expanding in Mexico and Chile alongside existing or new customers. In Italy, Polinelli reported market share gains in a difficult economic climate.

The integration of Stylemark and the implementation of the resulting synergies are in line with expectations. Following the transaction, distribution operations are gradually being merged at the FGXI site in Rhode Island. The acquisition has also allowed Essilor to accelerate its growth in the department store segment, increasing its sales to various fast-growing key accounts.

1.3.5.2 Operating highlights

Excerpts from the Management Report of the Board of Directors of February 27, 2013

Production and capital expenditure

Essilor operates 13 plants throughout the world: four in North America, one in South America, four in Europe and four in Asia. Added to this number are the production units of companies with which Essilor has formed equity partnerships, such as Nikon-Essilor (Japan), Essilor Korea (via its subsidiaries Chemiglas in South Korea and Chemilens in China), ILT (China), Wanxin (China), Shamir Optical (Israel) and, since 2012, Seeworld (China), Youli (China) and X-Cel Optical (United States).

In 2012, production volumes at Essilor and partner plants reached just over 430 million lenses, a substantial increase compared to 2011. A number of factors account for this increase in volume:

- strong demand in Europe and Asia, a consequence of climatic events in Thailand at the end of 2011, which affected the production of an Asian competitor;
- replenishment of inventory (particularly at Essilor plants where a low point was reached at the end of 2011), guaranteeing a good level of service;
- entry of Seeworld and Youli into the Group's scope of consolidation in 2012.

In terms of material, polycarbonate and high-index lenses were strong sellers. Material with a 1.56 index was up sharply, largely because of the consolidation of Seeworld and Youli.

In 2012, against this backdrop of increasing volumes, the Group generated major productivity gains and maintained its tight grip on production costs.

Capital expenditure focused on adding production capacity, particularly in Asia at production plants for semi-finished polycarbonate lenses and anti-reflective coatings, and on two new production units in Asia slated to open in 2013. The first plant in Laos will manufacture finished polycarbonate lenses and will strengthen production capacity of Essilor's plant in Thailand. A second plant in Vietnam, in partnership with Chemiglas, will produce 1.6-index single-vision lenses (finished or semi-finished) to meet growing global demand.

Among the year's other highlights, Essilor began manufacturing its new range of Varilux S series progressive lenses which required modifying the specifications for and manufacture of molds for semi-finished lenses, and also the manufacturing process for customized finished lenses.

Lastly, the Group continued its operating excellence program CAP (Change Accelerating Program), aimed at improving the quality and competitiveness of its products and services. Over the last five years, this program has resulted in a 30% reduction in launch times for new products, a 50% reduction in product non-quality cost (cost corresponding to losses resulting from poor product quality) and a 50% reduction in water consumption at the Group's plants.

Global prescription lens production and finishing

Essilor has a network of over 400 prescription laboratories and edging centers around the world. These entities produce custom lenses based on orders from eye-care professionals (opticians, optometrists, etc.) to match the end consumer's optical prescription. Using semi-finished lenses from the factory, the prescription laboratories and edging-mounting centers finish the product with surfacing operations, polishing, treatments (multi-layer coatings) and edging-mounting. In 2012, the Group's prescription laboratories (excluding acquisitions and partnerships completed in 2012) produced and coated more than 90 million lenses.

During fiscal year 2012, the Group continued to forge partnerships with a significant number of laboratories around the world, mainly in fast-growing countries (see Section 1.3.5.3, "Acquisitions and partnerships for the year"). In parallel, Essilor continued to optimize its network and streamline facilities, particularly in North America. At the same time, growth continued at the seven export laboratories in Asia (Thailand, China and India) and Mexico.

In terms of investment, the Group's key actions in 2012 for its prescription laboratories focused on strengthening capacities for digital surfacing, multi-layer treatments and edging-mounting.

For prescription laboratories, 2012 was characterized by the global launch of Crizal UV and by the roll-out of the new range of Varilux S series progressive lenses in some 10 prescription laboratories in North America and Europe. This latter range required major adjustments to the manufacturing process. In fact, the design of this new Varilux range required a unique adaptation of production processes. The Group developed a new digital surfacing process that was significantly more accurate and made it possible to produce highly customized lenses. In light of this, processes and information systems had to be re-thought and in particular two new pieces of equipment were designed and developed to guarantee a very accurate alignment between the front and backside of the lens during surfacing. Furthermore, this new digital surfacing process has reduced tenfold the number of semi-finished stock-keeping units managed under the Varilux S series range compared with previous ranges of Varilux progressive lenses.

Also in 2012, Group entities continued the DEO (Digital-Surfacing External Offer) roll-out to independent laboratories mainly in the United States and Latin America. DEO is a partnership offer in digital surfacing, comprising technology installation, supply of semi-finished lenses and training in process monitoring so that the Group's lenses can be produced locally. At the end of the year, almost 100 independent laboratories were equipped with DEO.

Lastly, the year was also marked by the roll-out of an offer that allowed LensCrafters, a major optical chain, to produce in one hour lenses with anti-reflective coating at 250 of its sales outlets in the United States. This offer included the installation of the technology and the supply of semi-finished lenses to each store.

Logistics

Essilor's Logistics segment covers the Group's entire product flow worldwide: from production sites and central warehouses to prescription laboratories and sales outlets of professional optics customers (opticians, optometrists, etc.). In particular, the segment simultaneously manages flows of series productions (finished lenses, mainly single-vision lenses, manufactured at the factory) and flows of prescription lens productions (semi-finished lenses manufactured at the factory and then treated at a prescription laboratory).

In 2012 inventories increased by 4% in line with the Group's organic growth.

The year's highlights for Logistics included the launch of new products, particularly Crizal UV, Definity 3, Varilux S series and the next generation of Transitions variable-tint lenses (planned for launch in 2013).

The Group also continued its programs to optimize and streamline lens distribution, particularly in the United States, to ensure a more secure supply of its lenses. In that sense, in 2013 Essilor will open a new logistics center in the United States. Located in Dallas, near the Innovation and Technology Center, this new logistics center will mainly serve the west and south of the United States, while the Columbus logistics center will supply the north and east of the country.

The year also saw the continued roll-out of frame and lens turnkey offers to major retailers in Europe, Australia and the United States, thanks to a new intercontinental logistics center for stock lenses, frames and prescription lenses.

Lastly, the Group continued its efforts to streamline costs related to changes made to lens ranges and the obsolescence of previous generations of lenses.

1.3.5.3 Acquisitions and partnerships during the year

Excerpts from the Management Report of the Board of Directors of February 27, 2013

In 2012, Essilor continued its bolt-on acquisitions strategy[(1)] which allowed it to extend its local coverage and accelerate the global distribution of its innovations. The Group thus took out or increased its interests in 24 companies representing total annual revenue of approximately €171 million. Fourteen of these transactions were conducted in fast-growing countries in Latin America, the Middle East, the Mediterranean region, Africa and Asia.

North America

- In the United States, the Group acquired an 80% interest in **X-Cel Optical**, an ophthalmic lens manufacturer based in Minnesota. X-Cel Optical manufactures just over 2 million corrective lenses for annual revenue of approximately $33 million.
- Essilor of America continued to develop its network of prescription laboratories across the country by acquiring:
  - **Blue Optics**, with annual revenue of approximately $3.5 million, in Texas;
  - **Central Optical**, with annual revenue of approximately $11 million and **Carskadden Optical Company** with annual revenue of $1.7 million, in Ohio;
  - **Balester Optical**, with annual revenue of $13.7 million, in Pennsylvania;
  - **Hirsch Optical**, with annual revenue of $8.3 million, in New York;
  - **Lenstech Optical**, with annual revenue of $6 million, in Indiana.
- In Canada, Essilor acquired a majority interest in **Imperial Eyewear**, an Ontario-based laboratory with annual revenue of approximately C$1 million, specializing in lenses for wrap-frame sunglasses.

Europe

- In France, the Group acquired 68.3% of the capital of **Interactif Visuel Système (IVS)**, a global leader in technological sales support solutions for opticians. IVS designs, develops and sells a wide range of sales support and ophthalmic measurement solutions, under the Activisu brand. IVS generates annual revenue of around €20 million.

Asia-Pacific/Middle East/Africa

- In China, Essilor acquired a majority stake in lens manufacturer **Jiangsu Seeworld Optical** with annual revenue of approximately €7 million, and a 50% stake in **Tianhong**, a major ophthalmic lens distributor with annual revenue of approximately €19 million.
- In South Korea, Essilor Korea acquired an 80% stake in distributor **Incheon Optics** with annual revenue of approximately €3 million.
- In India, Essilor acquired a 50% interest in **Optics India**, a distributor of edging equipment for optical chains, prescription laboratories and hospitals with annual revenue of €0.7 million. This company is not consolidated in Essilor's financial statements.

(1) Acquisitions or local partnerships.

- The Group entered the Sri Lankan market with the acquisition of **Global Vision**, a prescription laboratory and distributor with annual revenue of approximately €1 million. This company is not consolidated in Essilor's financial statements.
- In Australia, the Group increased to 66% – from 33% – its stake in **Wallace Everett Lens Technology**, a prescription laboratory with annual revenue of approximately €3.2 million.
- In Turkey, Essilor took a majority interest in **Ipek Optik**, which has a prescription laboratory in Izmir and annual revenue of approximately €5 million). The Company also acquired a 51% stake in **Opak**, a prescription laboratory based in Istanbul with annual revenue of €8 million.
- In Tunisia, the Group took a majority stake in the **SIVO** laboratory and its marketing subsidiary SICOM, both of which are located in Sfax. SIVO generates approximately €10 million in revenue and has distribution subsidiaries in Morocco, Côte d'Ivoire, Cameroon and Togo.
- In South Africa, the Group acquired a majority interest in **Evolution Optical**, a prescription laboratory formed by the merger of Uniti Optical and Progress Optical, based in Capetown and Johannesburg respectively, with annual revenue of €1.2 million. This company is not consolidated in Essilor's financial statements.

Latin America

- In Brazil, Essilor continued to expand its presence by acquiring a majority stake in **Riachuelo**, a prescription laboratory in Sao Paulo with annual revenue of approximately €9 million, and also a majority stake in **Centralab**, a prescription laboratory in Rio Grande do Norte State with annual revenue of approximately €2 million.
- In Mexico, Essilor took a majority stake in **Cristal y Plástico**, a key market player based in Guadalajara with two prescription laboratories and two distribution and edging facilities, with annual revenue of approximately €9 million).
- In Argentina, Essilor acquired a 51% stake in **Optovision**, a prescription laboratory based in Buenos Aires with annual revenue of approximately €3.5 million.

1.3.6 Dependence on patents, licenses, industrial, commercial or financial contracts or new manufacturing processes

The Group is not dependent on any contracts, patents or licenses or on any one or several customers that currently have a material impact on its operations or that could have a significant impact on expiration. Similarly, it is not dependent on any supply contracts, since purchases are spread among a number of suppliers. All contracts are on arm's length terms.

1.3.7 Exceptional factors

No exceptional factors influenced the Group's main businesses or markets in 2012.

1.4 Innovation

1.4.1 Research and development

Excerpts from the Management Report of the Board of Directors of February 27, 2013

Innovation: at the core of the Group's strategy

Since Essilor's beginnings, innovation has been one of the Group's strategic areas and a competitive advantage. Essilor was behind two major inventions in the ophthalmic industry: organic lenses and progressive lenses, both launched in 1959.

The Group devotes a significant percentage of revenue each year to R&D, engineering and the development of new manufacturing processes, spending €161.9 million in 2012 and €151.5 million in 2011, before the research tax credit deduction.

To offer innovative technical solutions, products, processes and services to meet individual vision correction needs, Essilor's R&D Department is organized into three branches: Optics, Physics-Chemistry and Breakthrough Technologies. It also has the help of some of the best experts in the world. Its role is to maintain Essilor's position as the world's leading ophtalmic optics company in terms of technologies and products. R&D strategy is therefore focused on driving technological breakthroughs, supported by extensive patent filings.

Each year sees innovations in:

- surface coatings;
- materials; and
- designs, primarily in progressive lenses.

Technologies developed by other industries are regularly integrated to constantly improve Essilor's product properties.

Since 2006, Essilor has used digital surfacing technology to develop new generation progressive lenses combining:

- the wavefront management system, a revolutionary method for calculating progressive surface (design);
- a high-precision production technique; and
- new personalization options.

More than 200 new products in 2012

In 2012, the Group launched 232 new products. This high number is due to the increased personalization of lenses and a desire to respond to the specific local demands. See Section 1.4.3 "Key products and services launched in 2012."

In 2012, the Group also continued to develop digital surfacing technology to create new product ranges allowing for more lens customization for wearers.

Finally, R&D and engineering teams prepared flagship launches for the 2013 fiscal year, most notably the new generation of Transitions variable-tint lenses and the new generation long-term anti-fog lens, Optifog.

Partnership-driven innovation

Since its creation, Essilor has been working with universities and other industries to develop its products in a considerable number of areas (such as materials, coatings and digital technologies). In 2012, the Group teamed up with *École Polytechnique de Montréal* and six other manufacturing partners to launch the "Multisectorial Industrial Research Chair in Coating and Surface Engineering" in Canada. Also in 2012, the Group renewed its collaboration agreement with the University of Shanghai, whose active research programs are focused on high-performance, multi-functional nanomaterials aimed at increasing the value added of Essilor's new products.

A global organization

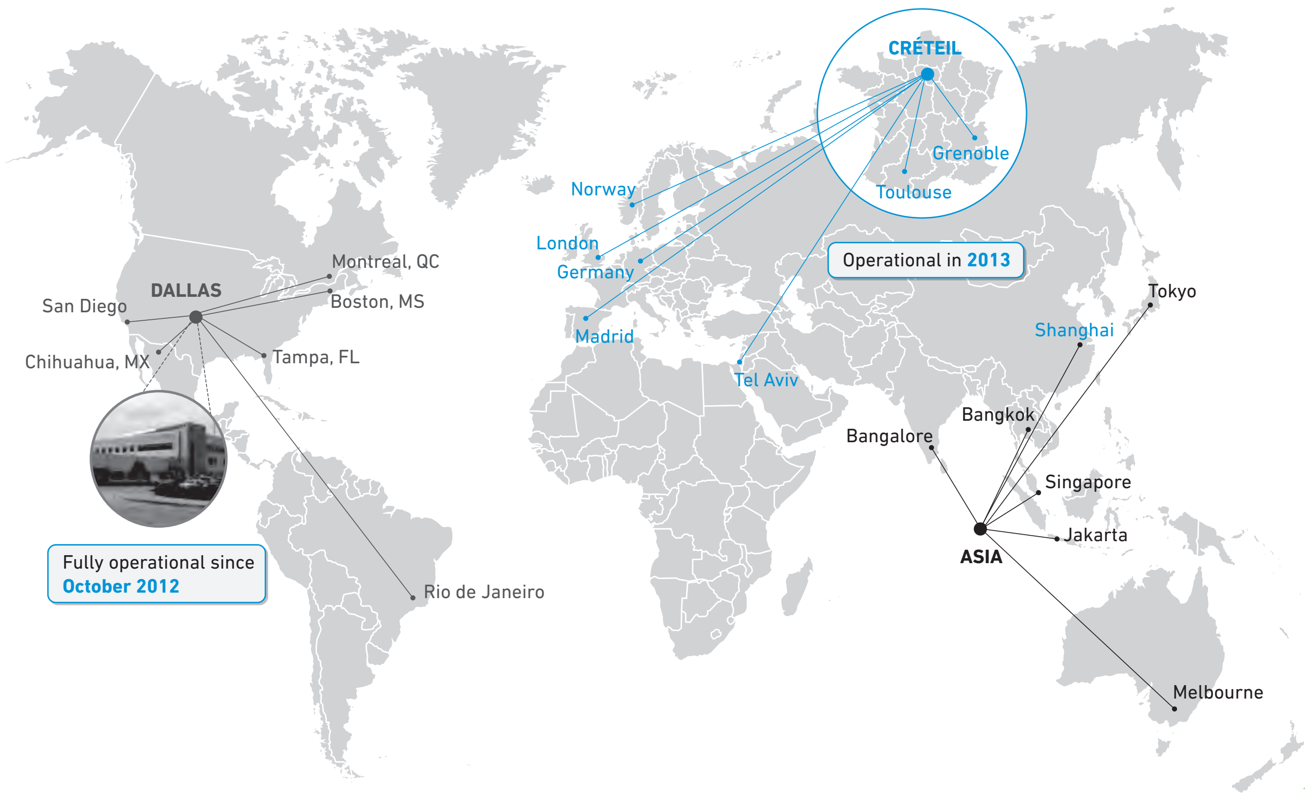
In 2011, Essilor brought together the skills and resources of the R&D, engineering and technical support teams at three Innovation and Technology Centers around the world, in France (Créteil), the United States (Dallas) and Asia (Singapore). The goal of these centers is to strengthen the synergies between the teams in order to:

- optimize quality, performance and development time and launch products on the global market;
- better meet customer needs and the specific requirements of each market;
- be able to identify and forge the best research partnerships with academic institutions and other manufacturers.

Thus, in 2012, the Group officially opened its Innovation and Technology Center in the United States, the first stage of this global project. The center, which brings together the innovation strength of the Americas region in a single campus, enjoys the support and active involvement of Essilor of America operating teams which are already located in Dallas.

The Innovation and Technology Center in France is forecast to open in 2013.

In 2012 the Group also focused on strengthening its R&D platform in Singapore, which is working with a network of private- and public-sector partners, including the research joint venture with Nikon (NEIJRC) and the University of Shanghai, and the Engineering Division based in Bangkok.



1.4.2 Patents and licenses

Excerpts from the Management Report of the Board of Directors of February 27, 2013

At the end of 2012, the Group, including the companies in which it owns all the capital (BNL, Gentex Optics, GX International, Rupp and Hubrach, Satisloh and Signet Armorlite) held 1,013 patent families representing a total of over 5,600 patents and patent applications in France and abroad.

The Group's very active innovation policy is sustained and strengthened by an equally active intellectual property policy, both upstream, to support innovation (by using patents as a tool for innovation) and downstream, to optimize protection for all innovations.

It is also Group policy to prevent patent infringements. As such, all Group employees have access to guides, forms and awareness-raising sessions on intellectual property to create, protect and defend the Essilor group's intellectual property around the world.

The commitments given in the context of exclusive or non-exclusive use of patents through licenses are not material.

1.4.3 Key products and services launched in 2012

Excerpts from the Management Report of the Board of Directors of February 27, 2013

The Group launched 232 new products in 2012, illustrating its capacity for innovation.

A major innovation was added to the Crizal anti-reflective lens range – Crizal UV. This new generation of lens is the first to offer protection against UV light that are reflected off the backside of the lens. Combined with traditional UV protection on the front, the Crizal UV lens offers unique protection against UV light. The range reflects Essilor's commitment to develop visual health aspects beyond visual acuity and visual comfort. The innovation was an immediate success with eye care professionals. In the United States, the entire Crizal range was converted to Crizal UV in 2012. In other regions, the launch has been more gradual. The launch was accompanied by the creation of the e-SPF (eye-sun protection factor), an index that measures the UV protection afforded by a lens. This index developed by Essilor and which was endorsed by two highly regarded optometry institutes in the United States and Germany, aims to establish a standard similar to the UV protection index used in the sunscreen industry.

In the Varilux progressive lens range, the Group made a major technological breakthrough with the launch of the new Varilux S series. This new generation of lens, which is backed by 14 patents and three proprietary technologies, eliminates the compromise inherent in the structure of progressive lenses between width of field and stability of a moving image. As a result, it provides wearers with visual comfort very close to natural vision. The range is available in two standard versions (S series and short) and two customized versions (Fit and 4D, which for the first time include the dominant eye in their measurement). The Varilux S series was launched in the United States and Europe in the second half of 2012 and will be launched in other regions in early 2013.

Still in progressive lenses, the Group launched the third generation of the Definity range, a Dual Add lens whose progressive surface is spread across both sides of the lens. This new design uses the latest technology in digital surfacing that in particular makes it possible to optimize mounting parameters.

For its part, Shamir launched "in Touch," a new progressive lens specially tailored to smartphone users.

In 2012, Essilor continued to develop new sales support solutions for its optician customers. The Instruments Division launched "M'Eye Fit," a range of measuring instruments to supplement Essilor's offer and designed to promote customized lenses in all market segments.

Lastly, Essilor also expanded and modernized its catalogue of optician services with several innovative offers:

- a training program in e-learning format rolled out globally by Essilor Academy (formerly Varilux University), and featuring a variety of modules covering disciplines in optics and management of sales outlets;
- "Serious Gaming"-type training courses: interactive games based on sales protocol and aimed at developing opticians' ability to advise customers according to their needs and lifestyle;
- the "Virtual Store," a tool allowing opticians to rethink the organization of their point of sale to improve the consumer's experience.

New products were also launched by Satisloh, in the Equipment market, and by FGX International, in the non-prescription reading glasses and sunglasses market.

1.5 Investments

Investments

(€ millions)	2012	2011
Purchases of property, plant and equipment and intangible assets	241.2	204.7
Depreciation and amortization	243.8	191.7
Financial investments net of cash acquired	171.2	379.5
Purchase of treasury shares	111.8	147.5

Purchases of property, plant and equipment

Capital expenditure net of the proceeds from asset sales were up at €232.3 million (or 4.7% of revenue) in fiscal 2012 compared with €192 million the previous year. Most of these investments were in prescription laboratories, which are expanding in most regions of the world. Almost 20% of investments were allocated to stock lens production. The construction of the Innovation and Technology Centers in Dallas (United States) and Créteil (France) were the focus of another portion of the investment effort.

Investments were distributed between Lenses (€187 million, of which €56 million for Europe, €47 million for North America and €84 million for the rest of the world), Readers (€39 million) and Equipment (€6 million).

Financial investments

Financial investments net of cash acquired amounted to €171.2 million in 2012, versus €379.5 million in 2011. These investments mainly related to acquisitions made by the Group.

The Group also spent €111.8 million (net of disposal proceeds) on share buybacks in 2012, compared with €147.5 million in 2011.

In early 2013, Essilor made several acquisitions in various parts of the world. Details of these acquisitions may be found in Section 3.4 Note 31, “Events after the year-end.”

Principal outstanding investments

Capital expenditure committed but not completed amounted to approximately €89 million at December 31, 2012 and mainly included the construction of the Innovation and Technology Center in France and pending equipment orders. This amount broke down as follows: €45 million in Europe, €27 million in North America and €17 million for the rest of the world.

Principal future investments

In 2013, the Group will continue its capital expenditure in production and prescription. The Group continues to acquire prescription capacities in its export laboratories. It will also continue to invest in its Innovation and Technology Center in France.

In the area of finance, the Group will continue its external growth strategy.

For more information, refer to Section 3.4, Note 31, “Events after the year-end.”

1.6 Property, Plant and Equipment

The carrying amount of property, plant and equipment – including assets under finance leases – held by consolidated companies was €1,001 million at the end of 2012 (€955 million at the end of 2011). These assets consist mainly of buildings and production plant and equipment:

- buildings consist mainly of plants, prescription laboratories and administrative offices. Their locations reflect the Group's broad international presence. The main plants, laboratories and administrative offices are located in France and the United States, while other plants are located primarily in Ireland, Thailand and the Philippines;
- production plant and equipment include machines and equipment for producing semi-finished and finished lenses in plants located mainly in Asia (Thailand, China, and the Philippines) and in the United States.

The prescription laboratories also have machines and equipment for surfacing, coating, edging and mounting lenses. These assets are located at many different sites around the world, with a higher concentration in France and the United States.

The following information is presented in the notes to the consolidated financial statements under Section 3.4:

- analysis of property, plant and equipment and related movements: Notes 13 and 14;
- geographic location of property, plant and equipment and intangible assets (carrying amount) and additions for the period: Note 3;
- finance lease liabilities of the Group by main maturity: Note 22.2;
- commitments under non-cancelable operating leases by main maturity: Note 25.

Details of capital expenditure for 2012, which increased the tangible fixed asset pool of the Company, are provided in Section 1.5 of the Registration Document.

Also refer to Section 1.3.3 of the Registration Document.

1.7 Risk factors

Operational risks

Operational risks are managed by the operating units concerned. They are tasked with anticipating, to the extent possible, and actively monitoring changes in such risks in order to reduce their potentially negative impact and, if necessary, escalate them to the Executive Committee. The risks set out below can be inherent in our industry (such as substitution risk where raw materials are concerned), or specific to our Group (such as the risks in implementing the Group's external growth strategy).

Group risks linked to economic conditions in mature markets

The Group's sales are closely linked to fluctuations in average per capita purchasing power and to the economic conditions in its main markets. In 2012, 82% of Essilor's sales were in "mature" markets. Given the persistent economic uncertainty in some of the Group's important markets, particularly Europe, the Group cannot exclude the possibility of a drop in consumer sales or a change in consumption patterns.

To benefit from the opportunities associated with fast growing markets and to diversify its geographic risk, the Group is gradually strengthening its new entity covering the "AMERA" region (Asia, Middle East, Russia and Africa) and a second entity covering Latin America. Essilor's growth in these regions is especially strong, sustained by demographic fundamentals, the rise in purchasing power and the Group rolling out into those markets an adapted mid-range product offering. As a result, the fast growing markets are an increasing part of the Group's sales.

Another line of Essilor's strategy is focused on capturing the full potential of mature markets, primarily through a policy of continuous innovation, stimulating upscale demand by launching new differentiated products, and developing customer services and solutions.

Risks linked to substitutions of raw materials and consumables

Changing regulations (especially in the European Union, regulations governing the "Registration, Evaluation, Authorization and Restriction of Chemicals" or REACH) may force us to find new alternatives for raw materials and consumables. Changing the raw materials or consumables used in our lens manufacturing processes can theoretically lead to the inability to produce, temporarily or permanently, certain types of products or treatments.

In order to anticipate any impact, to define priorities and to review current action plans, a Critical Raw Materials and Consumables Committee ("MPCC") meets on a monthly basis chaired by a member of Essilor Executive Committee. This multidisciplinary committee includes, in particular, R&D, Procurement, Logistics, Engineering and Health & Safety Departments. It reviews the assumptions underlying our priorities (criticality of change, time available to find a solution, impact on our processes) in terms of possible or confirmed changes, establishes action plans and follows up these plans for key points.

Risks linked to the growing importance of retail chains

Retail chains offering ophthalmic optical equipment to end consumers are playing an increasing role in a certain number of the Group's essential markets. Given the ability of these chains to attract a growing number of consumers into their stores (existing or potential), the Group could lose market shares if it ignores this distribution channel.

To respond to these challenges, Essilor has a highly diversified portfolio of products and services, as well as a strong capacity for innovation and adaptation, allowing it to offer and implement solutions adapted to these chains' particular needs. In a competitive context conducive to the destruction of value, the Group thus has advantages that give it the capacity to create, offer and implement new innovative business models, thereby creating long-term differentiation against its competitors.

In addition, the Department of Strategic Key Account Partnerships (under the responsibility of an Executive Committee member) develops a strategic overall vision of the key multinational accounts and provides support to local teams to allow them to develop better-adapted responses to the demands and strategies of their business partners. This organizational structure also allows it to better manage the complexity that some commercial agreements involve.

Risks linked to logistics chain management

The Group's quality of service relies on a sophisticated logistics chain which aims to control, on very short time cycles, complex flows (mass production plants, laboratories, transporters, distribution centers) and an extremely large number of possible product combinations (over 630,000 references to suit indices, materials, the unique prescription of every glasses wearer, treatments chosen, color, personalization markings, etc.).

This logistics chain can experience malfunctions, even temporary blockages, due to external factors (in particular natural disasters, geopolitical events that can translate into blocked transportation capacity in a given country) or internal factors (in particular risks linked to information systems, see below). All told, this could translate into long delivery delays or even a temporary inability to supply certain customers or certain products.

To reduce this inherent risk in our industry, Essilor has implemented a diversified industrial strategy aimed at spreading risk across 22 production plants around the world and at setting up distribution centers on every continent. Furthermore, with over 400 laboratories across all continents, the Group has the capacity to reorient its flows quickly in the event of crisis. Lastly, the Group's Logistics Department, as well as its regional counterparts, are responsible for implementing substitution and business continuity solutions, especially in regard to what it considers to be the most sensitive sites.

Risks linked to the security of information systems

The Group's activity depends in part on its information systems, particularly for ensuring the proper functioning of production, distribution, billing, reporting and consolidation, as well as for effectively organizing internal and external communications. A failure (whether due to malfunction or malice, internal or external), or even a total system shutdown, could translate into loss or corruption of sensitive data, delivery delays, loss of market shares and could adversely impact the Group's reputation.

The Group's Information Systems Department and its local units contribute, through various strategies, to reducing the possibility that this risk would occur. These include, in particular, publishing an Information Systems security policy and distributing safety guidelines, especially regarding compliance with local regulations, such as the protection of personal data and bank data, implementing system backup rules, network access, technical architecture principles aimed at ensuring enhanced system integrity and robustness, and programs to raise awareness of users.

Risks linked to the implementation of its external growth strategy

In the context of increasing concentration in our industry, the Group's strategy consists of acquiring equity interests (generally majority interests) in well-defined target companies, with the objective of helping them grow profitably and to be able to benefit from that growth. Essilor therefore needs to put in place the necessary resources to achieve the projected synergies, and oversee that these acquired partner companies develop in accordance with forecasts and operate appropriate governance policies.

Although it cannot guarantee to achieve these objectives, Essilor capitalizes on its extensive experience of welcoming new companies into the Group and promoting its values – including entrepreneurial spirit, respect and trust – to maximize its chances of success in fostering its acquisitions. Partners are thus invited, by various means, to invest and participate in the Group's development – including discussion meetings with the Executive Committee. The Group also pays particular attention to the shareholders pact with each acquired company.

With regard to the joint ventures in which it is involved, the Group is not aware of specific risks other than those inherent in such partnerships (partner relationships, political changes in the countries concerned, environmental risk that may affect operations, etc.).

Market risks

Market risks are managed by the Group Finance and Treasury Departments. The head of the Treasury Department reports to the Chief Financial Officer, who is a member of the Executive Committee.

The financial instruments relating to these market risks are presented in Section 3.4, Note 26 and 23.

Liquidity risk

The Company's financing strategy is designed to ensure that borrowing needs are met at all times, in terms of both amounts and duration, by diversifying sources of financing.

Much of the medium- and long-term financing and short-term liquidity is centralized at the parent company through bank loans, private placements, medium-term lines of credit or commercial paper. Cash pools and short- and medium-term loans established with the Group's main subsidiaries are gradually centralizing liquidity.

Currency risk

In view of the fact that the Group operates in numerous countries, it is exposed to currency fluctuations. Exposures to currency risk are routinely hedged by the appropriate market instruments. Foreign exchange market transactions are entered into solely to hedge risks arising on business operations. The Company does not carry out any currency trading transactions without any underlying commercial transaction.

Interest rate risk

The interest rate management policy is to minimize the cost of financing while protecting the Group against an adverse change in interest rates.

Essilor International raises financing for its own needs as well as for substantially all of the needs of subsidiaries. Interest rate risks are therefore managed at corporate level.

Counterparty risk

Available cash is invested in accordance with the two overarching principles of security and liquidity.

The Group sets limits on investment periods and vehicles, as well as on concentrations of counterparty risks, and monitors these on a monthly basis.

Legal risks (material claims and litigation, proceedings, arbitration)

The principal accounting for provisions for contingencies is presented in Section 3.4, Note 1.32 of the accounting principles in the notes to the consolidated financial statements. Furthermore, Note 5.1 of the financial statements at December 31, 2012 presents other operating income and expenses in detail, Note 21 presents changes in provisions and Note 28 presents Litigation.

Germany

At the end of 2008, the German competition authorities, the "Bundeskartellamt" ("BKA"), launched an investigation into possible breaches of German competition law by major players in the ophthalmic optics market, including two of our subsidiaries, Essilor GmbH and Rupp & Hubrach Optik GmbH.

Following this investigation, on June 10, 2010, the BKA sent formal notification of fines to the major ophthalmic optic companies in Germany. Accordingly, our two subsidiaries were officially notified of violations representing an aggregate amount of around €50 million.

Essilor GmbH and Rupp & Hubrach Optik GmbH are contesting both the grounds for the BKA's findings and the amount of the fine which they deem to be disproportionate. Two appeals were therefore lodged against the BKA's decisions on June 15 and 16, 2010. None of the fines will be paid while these appeals are pending. The Group is not currently in a position to forecast their outcome or timetable.

Following the receipt of the notices from the BKA, the Group booked provisions of €50.7 million in its 2010 consolidated financial statements.

Since that date, there have been no further developments in proceedings, other than the appointment of a new prosecutor in charge of the case. In the absence of new evidence, the provisions created in the 2010 financial statements were maintained at December 31, 2012.

United States and Canada

Following the settlement of charges brought by the Federal Trade Commission after an investigation into Transitions Optical Inc's business practices in 2009, around twenty motions for authorization to bring class actions have been filed since late March 2010 against Transitions Optical Inc, Essilor International, Essilor of America and Essilor Laboratories of America before US and Canadian courts. The plaintiffs in these motions are alleging that the companies concerned endeavored to jointly monopolize the market for the development, manufacture and sale of photochromic lenses between 1999 and March 2010.

Joinder of the US cases before a federal court in Florida was authorized in late 2010. The plaintiffs' admissibility proceedings began in the first half of 2011 and the discovery phase was completed in late 2012. A court decision is awaited to confirm or deny the qualification of the motions as class actions and determine the procedure's next steps. The claims received contain no claims for damages. The Group has not recorded any provisions in relation to the above at this stage.

Other disputes

Essilor International was subject to a tax audit for fiscal years 2009, 2010 and 2011. The Company received a notice of adjustment pertaining to 2009 and is contesting some of the adjustments requested.

In addition, a provision of €20.5 million has been made in the consolidated financial statements for varous audits and litigation proceeding underway in the Group.

To the Company's knowledge, there are no other current or pending legal or tax disputes, governmental or judicial proceedings or arbitration which may have or have had in the past 12 months a significant impact on the financial position, income, profitability, operations or assets of the Company or Group.

Industrial and environmental risks

Industrial risks

See Section 1.3 of the Registration Document, for a description of the Company's business activities.

To the Company's knowledge, the nature of its industrial business does not present any particular risk.

To the Company's knowledge, the acquisitions made in activities significantly different from the Company's traditional activities, particularly in instruments and machine tools or pre-mounted glasses, have not led to any specifics in their industrial activities that would expose the Company to any new specific risks.

The Company has set up a system to manage issues related to the European Registration, Evaluation, Authorization and Restriction of Chemical Substances (REACH) Directive. Under REACH, companies that manufacture and import chemical substances are required to assess the risks arising from their use and to take the necessary measures to manage them. To its knowledge, the Company complies with this directive.

Environmental risks

Within the scope of the entities that it controls operationally, environmental management systems have been implemented and are being maintained at upstream production facilities and, where appropriate, at downstream prescription laboratories. The Company aims to have the environmental management systems of all its sites audited and certified, site by site, to ISO 14001 standards.

These systems help to minimize the environmental impact of our operations and prevent incidents, while also forming the basis for developing action plans based on environmental performance improvement targets.

The starting point in each case is a detailed environmental analysis to identify and qualify the related risks.

As part of the gradual widening of the boundaries of environmental reporting within the Group's consolidated companies, the Company has begun establishing regular relationships with selected new companies and operating departments in the Group, notably but not only with the Global Environment, Hygiene and Safety Department (Global EHS Department), which is in charge of this. It falls within the scope of the Global Operations Department.

The Company can thus allow these new entities to benefit from its experience and expertise in these fields so as to extend the culture of environmental risk prevention along with oversight of certain management procedures and systems and the sharing of best practices already used by the Group.

Refer to Section 4 herein on corporate social responsibility and sustainable development.

Insurance

The Group's wholly-owned subsidiaries have high-level risk prevention programs and the Group follows a risk prevention and protection strategy designed to drive constant improvement in behaviors, procedures and equipment.

Essilor's plants throughout the world are audited by our insurers who issue reports detailing the levels of insurance cover required at each facility and, where applicable, recommending measures to reduce insurance risks. The engineering departments of Essilor's insurers are consulted concerning the design and protection of certain construction projects and other major works as necessary. The projects are reviewed and adjusted to take into account both the needs of the Group and the prevention targets set jointly with the insurers. Physical assets are regularly valued by independent experts.

In addition, the growing geographical diversification of our operations helps to limit the potential impact of a major loss at a given facility on the Group's financial position.

In view of the nature of the business, the Group is not exposed to any specific insurance risks.

Insurance cover is provided mainly by our worldwide insurance programs negotiated at corporate level. The programs comprise a master policy drawn up in France and local policies in other countries, which together provide the same level of cover for all of our controlled subsidiaries throughout the world.

They are placed with leading insurers that have no ties with the Group.

Local insurance policies are taken out by subsidiaries to add to the cover provided by the worldwide programs and comply with local insurance requirements.

The programs cover property and casualty risks (fire, explosion, machine damage , natural disasters), consequential business interruption (loss of gross margin due to the halting of production following an accident), losses due to the interdependence of the various sites, transportation risks (covering all movements of goods) and liability risks (operating, after-sales, clinical trials, professional and environmental liability covering also biodiversity and the cost of depolluting sites, as well as the responsibility incumbent on Essilor and its subsidiaries to transport raw materials, waste and products).

Under the laws of certain countries, insurance cover must be taken out with local insurers, in which case the guarantees may be different from those provided under the worldwide insurance programs. The worldwide master policy covers any excess loss not covered by a local policy.

The Group does not have any insurance policies with a captive insurance company; minority-owned entities manage their insurance needs independently.

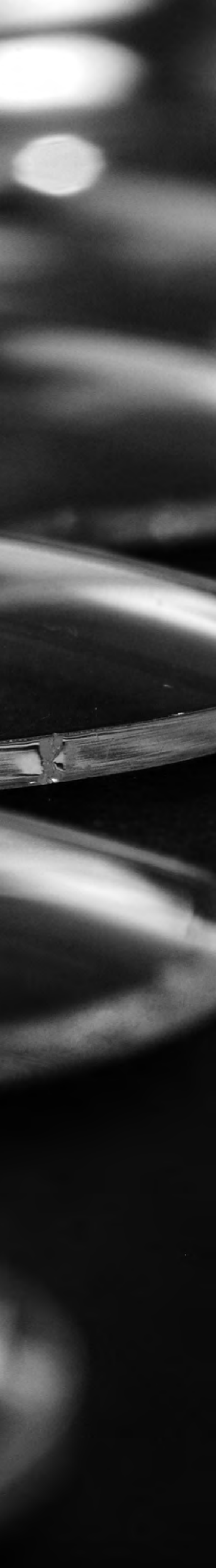
The Group's policies have low deductibles and transfer substantially all of the risk to the insurance market.

No major damage was recorded in 2012 and no company of the Group was involved in significant insurance disputes.

To determine the required level of cover for wholly owned subsidiaries, the Group estimated the extent of exposure to major risks, after taking into account the mitigating effects of internal controls, preventive and protective measures and alternative flows.

The maximum insurance cover for property and casualty risks and business interruption was kept at €200 million in 2012 and at €1.5 million for transportation risks.

The total cost of the Group policies was €4.31 million in 2012. This was slightly higher than the previous year since the scope is constantly expanding as a result of the Group's external growth and actions to integrate acquisitions into its insurance program.



2

Corporate governance

2.1 Management and supervisory bodies

2.1.1 Board of Directors

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). As of December 31, 2012, Essilor's Board of Directors had 15 members, including three members representing employee shareholders. Board members are 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. The average age of Board members in 2012 was 59. Each Board member is required to hold 1,000 Company shares.

The following changes occurred at the close of the Shareholders' Meeting of May 11, 2012: Louise Fréchette was appointed as a new Director, and Benoît Bazin, Antoine Bernard de Saint-Affrique and Olivier Pécoux were re-appointed to the Board for a three-year term.

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:

- the Board member is an employee or corporate director or officer of the Company or of a Group company (or has been during the previous five years);
- the Board member is a corporate director or officer 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) corporate director or officer of the Company;
- the 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;
- the Board member has any close family ties with a corporate director or officer;
- the Board member has been a company auditor company over the past five years;
- the 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 a Board member is an "independent" Director, based on the opinion of the Corporate Directors and Officers 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."

At its meeting of November 27, 2012, the Board of Directors determined that nine of the fifteen members of Essilor's Board of Directors were independent based on the above criteria, representing more than the one-half minimum prescribed in the internal rules and in the AFEP/MEDEF code for companies with a broad shareholder base and no controlling shareholder.

There are no appointments of co-opted Board members to be approved by the Shareholders' Meeting of May 16, 2013 (see AMF Interpretation No.3 of January 2006) since Maureen CAVANAGH was not continuing the term of Yves GILLET after the Shareholders' Meeting but running for election for a new three-year term.

The Board of Directors conducted a new evaluation of the independence of each Board member in relation to the criteria stipulated in the AFEP-MEDEF Corporate Governance Report of 2003, which were incorporated in full in the AFEP-MEDEF Corporate Governance Code of December 2008 and completed in April 2010.

Directors' management expertise and experience

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. (See information provided for each Director.)

No convictions for fraudulent offences, involvement in bankruptcies, public incrimination and/or sanctions

To the Company's knowledge:

- 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, sequestration or liquidation as a member of a board, a management or supervisory body or as a Chief Executive Officer; and
- none of the executive or non-executive directors have been publicly incriminated or sanctioned by statutory or regulatory authorities (including designated professional bodies).

Every year, each Board member completes and signs a no-convictions declaration containing all the categories listed in Appendix 1 of the European Prospectus Rules.

Operations of the Board of Directors and the Committees of the Board

The operations of the Board of Directors and the special Board Committees are governed by internal rules adopted by the Board at its meeting of November 18, 2003, subsequently amended from time to time and most recently on February 27, 2013 and a Directors' Charter under the terms of which and in accordance with the Company's bylaws, each Board member is required to hold 1,000 Company shares. (For more details, please refer to Section 2.3.)

List of directorships at December 31, 2012

HUBERT SAGNIÈRES

57 years old

Number of shares: 11,080

Main position held within the Company: Chairman and Chief Executive Officer (since January 2, 2012)

Business address: Essilor International – 147 rue de Paris – 94227 Charenton Cedex – France

First appointment as Director: May 14, 2008

Current term ends: 2014

Personal information – Experience and expertise
Hubert Sagnières has been Chairman and Chief Executive Officer of Essilor since January 2, 2012. He joined Essilor in 1989 as President of International Marketing. He was appointed President of Essilor Canada from 1991 to 1996, and President of Essilor Laboratories of America in 1996, then President of Essilor of America, a position he held until 2005. From 2006 to 2009, he was President, Essilor Europe and North America before being named Chief Operating Officer in August 2008, then Chief Executive Officer from January 1, 2010 to January 2, 2012.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chairman and Chief Executive Officer, Essilor International*

- Chief Executive Officer, Essilor International*(b) (until January 2, 2012)

Chairman, Essilor of America, Inc. (USA)

Director, Essilor International and subsidiaries
- Essilor of America, Inc. (USA)
- Transitions Optical Inc. (USA)
- Frames for America, Inc. (USA)
- Essilor Canada Ltee/Ltd (Canada)(b)
- Transitions Optical Holdings B.V. (Netherlands)
- Omics Software Inc./Logiciels Omics, Inc (Canada)(b)
- Cascade Optical Ltd (Canada)(b)
- Reseau Essilor in Canada Inc./Essilor Network in Canada Inc, (Canada)(b)
- Groupe Vision Optique Inc. (Canada)
- Optique Lison Inc. (Canada)(b)
- Vision Optique Inc. (Canada)
- Visionware Inc. (Canada)(b)
- Westlab Optical Ltd (Canada)(b)
- Econo-Optic Ltée (Canada)(b)
- Essilor Vision Foundation (USA)

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chairman and Chief Executive Officer, Essilor International

Chief Executive Officer, Essilor International

Chief Operating Officer, Essilor International

Chairman, Essilor of America, Inc. (USA)

Chairman and Chief Executive Officer, Essilor of America, Inc. (USA)

Director, Essilor International and subsidiaries
- Essilor of America, Inc. (USA)
- Transitions Optical Inc. (USA)
- Frames for America, Inc. (USA)
- Essilor Canada Ltee/Ltd (Canada)
- Transitions Optical Holdings B.V. (Netherlands)
- Omics Software Inc./Logiciels Omics, Inc (Canada)
- Cascade Optical Ltd (Canada)
- Cascade Optical Ltd (Canada)
- Groupe Vision Optique Inc. (Canada)
- Optique de l'Estrie Inc. (Canada)
- Optique Lison Inc. (Canada)
- Vision Optique Inc. (Canada)
- Vision Optique Technologies Ltée (Canada)
- Visionware Inc. (Canada)
- Westlab Optical Ltd (Canada)
- Nassau Lens Co., Inc. (USA)
- K&W Optical Limited (Canada)
- Vision Web Inc. (USA)
- Econo-Optic Ltée (Canada)
- Essilor Vision Foundation (USA)

(a) Term of office expired during the fiscal year.
(b) Term of office started during the fiscal year.
** Listed company.*

PHILIPPE ALFROID

67 years old

Number of shares: 260,782

Main position held within the Company: Director

Business address: Not applicable – retired since June 30, 2009

First appointment as Director: May 6, 1996

Current term ends: 2014

Personal information – Experience and expertise
Philippe Alfroid was Chief Operating Officer of Essilor until his retirement in June 2009. He began his career with PSDI in Boston before joining the Essilor group in 1972. He has held executive positions in different operational departments, including contact lenses and frames. He was appointed Vice President Financial Control in 1987 and promoted to Chief Financial Officer in 1991. He was appointed Chief Operating Officer in 1996. Philippe Alfroid, who served as Chief Financial Officer and then as Chief Operating Officer, brings to the Board his very broad knowledge of the company.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Vice Chairman of the Supervisory Board, Faiveley Transport*

Director
- Eurogerm*
- Essilor of America, Inc. (USA)
- Gemalto N.V. (Netherlands)*

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chief Operating Officer, Essilor International

Chairman
- Essilor of America, Inc. (USA)
- Omega Optical Holdings, Inc. (USA)

Vice Chairman of the Supervisory Board, Faiveley Transport (ex Faively SA)

Director
- Sperian Protection
- Essilor of America, Inc. (USA)
- Gentex Optics, Inc. (USA)
- EOA Holding Co, Inc. (USA)
- EOA Investment, Inc. (USA)
- Omega Optical Holdings, Inc. (USA)
- Essilor Canada Ltee/Ltd (Canada)
- Pro-Optic Canada Inc. (Canada)
- Shanghai Essilor Optical Company Ltd (China)
- Faiveley Transport
- Eurogerm
- Gemalto N.V. (Netherlands)

* *Listed company.*

BENOÎT BAZIN

Independent Director

44 years old

Number of shares: 1,000

Business address: Saint-Gobain – Les Miroirs – 18 avenue d'Alsace – 92096 Paris La Défense – France

Major positions:

Executive Vice President, Compagnie de Saint-Gobain

Chairman, Saint-Gobain Distribution Bâtiment, Building Distribution division

First appointment as Director: May 15, 2009

Current term ends: 2015

Personal information – Experience and expertise
Benoît Bazin is Senior Vice President Director, Building Distribution Sector at Saint-Gobain and Executive Vice President at Compagnie de Saint-Gobain. He began his career with Saint-Gobain in 1993 as project manager. He was subsequently Corporate Planning Director from 2000 to 2002, President of the Abrasives – North America division from 2002 to 2005 and Chief Financial Officer from 2005 until 2009. Benoît Bazin brings to the Board his experience as Chief Financial Officer and senior manager of major international group.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Saint-Gobain group

Executive Vice President, Compagnie de Saint-Gobain*

Chairman
- Saint-Gobain Distribution Bâtiment Sas
- Partidis Sas

Chairman of the Supervisory Board
- Point P S.A.
- Lapeyre

Chairman of the Board of Directors
- Projeo
- Saint-Gobain Distribution Nordic AB (Scandinavia)

Director
- Fondation Saint-Gobain Initiatives
- Jewson Ltd (United Kingdom)
- Saint-Gobain Building Distribution Ltd (United Kingdom)
- Norandex Building Material Distribution Inc. (USA)

Supervisory Board member, Saint-Gobain Building Distribution Deutschland GmbH (Germany)

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Saint-Gobain group

Executive Vice President, Compagnie de Saint-Gobain

Chairman
- Saint-Gobain Distribution Bâtiment Sas
- Partidis Sas
- Saint-Gobain Distribution Bâtiment Suisse AG (Switzerland)

Chairman of the Supervisory Board
- Point P S.A.
- Lapeyre

Chairman of the Board of Directors
- Projeo
- Saint-Gobain Distribution Nordic AB (Scandinavia)

Director
- Fondation Saint-Gobain Initiatives
- Jewson Ltd (United Kingdom)
- Saint-Gobain Building Distribution Ltd (United Kingdom)
- Norandex Building Material Distribution Inc. (USA)

* *Listed company.*

ANTOINE BERNARD DE SAINT-AFFRIQUE

Independent Director

48 years old

Number of shares: 1,000

Business address: Unilever – 100 Victoria Embankment – Blackfriars – London EC4P 4BQ – United Kingdom

Major positions: President of Food, Unilever

First appointment as Director: May 15, 2009

Current term ends: 2015

Personal information – Experience and expertise
Antoine Bernard de Saint-Affrique is President of Foods at Unilever. He joined Unilever in 2000 after serving as Marketing Director of Amora-Maille (Danone group then PAI), holding the positions of Vice President, Sauces and Condiments Europe until 2003 and of Chairman and Chief Executive Officer of Unilever Hungary, Croatia, Slovenia from 2003 to 2005. He was subsequently Vice President of the Unilever group, in charge of Central and Eastern Europe and Russia from March 2005 until August 2009 and Executive Vice President in charge of skin products for the group from August 2009 to September 2011. Antoine Bernard de Saint-Affrique brings to the Board his international experience and his expertise in marketing and sales.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Unilever group
- President of Food, Unilever*
- Director, Icosmeticals SAS[b]

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

President of Food, Unilever

Executive Vice President, Unilever, "Skin Care and Skin Cleansing" Unilever (Central & Eastern Europe)

Director
- Inmarko (Russian Federation)
- Icosmeticals SAS

(b) *Term of office ended during the fiscal year*
* *Listed company.*

YVES CHEVILLOTTE

Independent Director

69 years old

Number of shares: 1,012

Business address: Not applicable – retired since January 2004.

First appointment as Director: May 14, 2004

Current term ends: 2013

Personal information – Experience and expertise

Yves Chevillotte was Deputy Chief Executive Officer of Crédit Agricole S.A. from 2002 to his retirement in 2004. He started at the Crédit Agricole group in 1969, where, in 1985, he became head of its regional branches. In 1999, he joined Caisse Nationale as Executive Vice President in charge of the Market Development Division. Yves Chevillotte brings to the Board experience as senior manager of a major international bank and his knowledge of financial matters. Yves Chevillotte brings to the Board his experience as senior manager of a major international bank and his knowledge of financial matters.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chairman of the Board of Directors
- Arvige
- G.A.S.F.O.

Vice Chairman of the Board of Directors, SA Soredic

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chairman of the Board of Directors
- Arvige
- G.A.S.F.O.

Vice Chairman of the Board of Directors, SA Soredic

Vice Chairman of the Supervisory Board, Finaref

Director
- Mission Possible
- F.R.A.C.

MIREILLE FAUGÈRE

Independent Director

56 years old

Number of shares: 1,000

Business address: 3 avenue Victoria – 75184 Paris Cedex 04

Major positions: General Director, Assistance Publique – Hôpitaux de Paris (AP-HP)

First appointment as Director: May 11, 2010

Current term ends: 2013

Personal information – Experience and expertise

Mireille Faugère is Chief Executive Officer of *Assistance Publique Hôpitaux de Paris* (AP-HP). A graduate of *École des Hautes Études Commerciales de Paris*, she began working in operational positions for SNCF in the early 1980s. She was then given responsibility for the TGV Méditerranée network, SNCF's flagship project. Starting in 1996, she took over the Sales and Marketing Action Department and created the voyages-sncf.com website in 2000. From 2003 to 2010, she was General Manager of the high-speed branch of SNCF. Mireille Faugère is also an independent Director at EDF and chair of the Ethics Committee of the EDF Board of Directors. Mireille Faugère brings to the board her expertise in marketing and sales and her knowledge of the world of healthcare.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chief Executive Officer, Assistance Publique – Hôpitaux de Paris (AP-HP)

Director, EDF*

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chief Executive Officer
- Assistance Publique – Hôpitaux de Paris (AP-HP)
- SNCF Voyages

Chairman, Voyage-sncf.com

Director
- EDF
- SNCF Voyages Développement
- SNCF Participations

* *Listed company.*

XAVIER FONTANET

64 years old

Number of shares: 272,549

Business address: Not applicable

First appointment as Director: June 15, 1992

Current term ends: 2013

Personal information – Experience and expertise
Xavier Fontanet was Chairman and CEO of Essilor from 1996 to 2009, then Chairman of the Board of Directors from January 1, 2010 to January 2, 2012. He is still a Director. He began his career as Vice President of the Boston Consulting group and became Chief Executive Officer of Bénéteau in 1981. He managed food service operations for the Wagons-Lits group from 1986 until 1991. He joined Essilor in 1991 as Chief Executive Officer. Xavier Fontanet brings to the Board his extensive Knowledge of the ophtalmic optics industry and of the company

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chairman of the Board of Directors, Essilor International*(b) (until January 2, 2012)

Director
- L'Oréal* (Chairman of the Appointments and Governance Committee)
- Crédit Agricole SA*(b)
- Fonds stratégique d'investissement (SA)(b)

Member of the Supervisory Board, Schneider Electric SA*

Permanent representative of Essilor International on the Board of Directors of the Association Nationale des Sociétés par Actions (Ansa)

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chairman of the Board of Directors, Essilor International

Chairman and Chief Executive Officer, Essilor International

Chairman
- EOA Holding Co., Inc. (USA)
- Nikon and Essilor International Joint Research Center Co Ltd (Japan)

Director
<u>Essilor International and subsidiaries</u>
- Essilor of America, Inc. (USA)
- Transitions Optical Inc. (USA)
- EOA Holding Co, Inc. (USA)
- Shanghai Essilor Optical Company Ltd (China)
- Transitions Optical Holdings B.V. (Netherlands)
- Nikon-Essilor Co. Ltd (Japan)
- Nikon and Essilor International Joint Research Center Co Ltd (Japan)
- Essilor Manufacturing India Private Ltd (India)
- Essilor India PVT Ltd (India)
- Essilor Amico (L.L.C.) (United Arab Emirates)

<u>External companies</u>
- L'Oréal
- Crédit Agricole SA
- Fonds stratégique d'investissement (SA)

Member of the Supervisory Board, Schneider Electric SA

Permanent representative of Essilor International on the Board of Directors of the Association Nationale des Sociétés par Actions (Ansa)

(b) Term of office ended during the fiscal year
** Listed company.*

LOUISE FRÉCHETTE

Independent Director

66 years old (Canadian nationality)

Number of shares: 1,000

Business address: Not applicable

First appointment as Director: May 11, 2012

Current term ends: 2015

Personal information – Experience and expertise
Louise Fréchette is Chairman of the Board of Directors of CARE Canada and a member of the Board of Directors of CARE International. She is also a member of the Global Leadership Foundation. From 1998 to 2006, she was the Deputy Secretary-General of the United Nations, the first appointee to this position. Prior to that, she pursued a career in the Public Service of Canada, serving as Ambassador to Argentina, Ambassador and Permanent Representative to the United Nations, Associate Deputy Minister of Finance and Deputy Minister of National Defense. Louise Fréchette brings to the Board, among other things, her UN and non-governmental organizations experience, her knowlege of emerging countries and her experience in sustainable development and governance matters.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chairman of the Board of Directors, CARE Canada

Member of the Board of Directors
- CARE CANADA
- CARE INTERNATIONAL[a]
- Montreal Board of International Relations

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chairman of the Board of Directors
- CARE CANADA
- Pearson Peacekeeping Centre

Member of the Board of Directors
- CARE CANADA
- Pearson Peacekeeping Centre
- Montreal Board of International Relations

(a) Term of office started during the fiscal year.

YI HE

Director representing employee shareholders

59 years old

Number of shares: 12,500

Business address: Unit D2, 20th Floor – N° 398 Huai Hai Middle Road – Luwan District – Shanghai – China P.R.C. 200020

Major positions: Chairman of Essilor (China) Holding Company (China)

First appointment as Director: January 27, 2010/May 11, 2010

Current term ends: 2014

Personal information – Experience and expertise
Yi He is a Director representing Valoptec Association. Since September 2010, he has been Chairman of Essilor (China) Holding Company (China). After studying Management and Strategy at the *École des Hautes Études Commerciales*, in 1991 he joined Danone group as Chief Executive Officer of the Shanghai subsidiary. He joined the Essilor group in 1996 as Chief Executive Officer of Shanghai Essilor Optical Company Ltd (China).

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chairman and Director of Essilor (China) Holding Company (China)

Chief Executive Officer and Director, Shanghai Essilor Optical Company Ltd (China)

Director
- Danyang Sales and Distribution Co. Ltd (China)
- Jiangsu Wanxin Optical Co. Ltd (China)
- Sur Art Retail group Ltd (China)
- Jiangsu Youli Optical Spectables Ltd (China)
- Xin Tianhong Optical Co. Ltd (China)[a]
- Shanghai Nvg Optics Co. Ltd (China)

Member of the Board of Directors, Valoptec Association

Member of the Supervisory Board, Essilor group 7-year FCPE

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chairman and Director of Essilor (China) Holding Company (China)

Chief Executive Officer and Director, Shanghai Essilor Optical Company Ltd (China)

Director
- Danyang Sales and Distribution Co. Ltd (China)
- Jiangsu Wanxin Optical Co. Ltd (China)
- Sur Art Retail group Ltd (China)
- Jiangsu Youli Optical Spectables Ltd (China)
- Shanghai Nvg Optics Co. Ltd (China)

Member of the Board of Directors, Valoptec Association

Member of the Supervisory Board, Essilor group 7-year FCPE

(a) Term of office started during the fiscal year.

BERNARD HOURS

Independent Director

56 years old

Number of shares: 1,222

Business address: DANONE – 17 boulevard Haussmann – 75009 Paris – France

Major function: Deputy General Manager, Danone (S.A.)

First appointment as Director: May 15, 2009

Current term ends: 2015

Personal information – Experience and expertise
Bernard Hours has been Deputy General Manager of Danone since 2008 and Vice Chairman of the Board of Directors since 2011. He joined Danone in 1985, working first in sales and marketing for Evian and Kronenbourg, then as Marketing Director for Danone France in 1990. He was then President of Danone Hongrie (1994) and Danone Allemagne (1996) before becoming President of LU France in 1998. In 2001, he joined the Dairy Division as President of Business Development and became Vice President of the division in 2002. Bernard Hours brings to the Board his experience as a senior manager of a major international group and his knowledge in the field of marketing and sales.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Danone group

Deputy General Manager and Vice Chairman of the Board of Directors, Danone (S.A.)*

Member of the Supervisory Board, Ceprodi

Director
- Danone (S.A.)*
- Flam's
- Essilor of America, Inc. (USA)
- Fondation d'Entreprise Danone (Association)

Permanent representative of Danone (S.A.) Danone S.A. (Spain)

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Danone group

Deputy General Manager and Vice Chairman of the Board of Directors, Danone (S.A.)

Chairman of the Supervisory Board
- Danone Baby and Medical Nutrition B.V. (Netherlands)
- Danone Baby and Medical Nutrition Netherland (Netherlands)
- Danone GmbH (Germany)
- Danone Holding AG (Germany)

Member of the Supervisory Board, Ceprodi

Director
- Danone (S.A.)
- Flam's
- Colombus Café
- Stonyfield Farm, Inc. (USA)
- Essilor of America, Inc. (USA)
- The Dannon Company (USA)
- Grupo Landon (Spain)
- Fondation d'Entreprise Danone (Association)

Permanent representative of Danone (S.A.) Danone S.A. (Spain)

* *Listed company.*

MAURICE MARCHAND-TONEL

Independent Director

68 years old

Number of shares: 1,000

Business address: Not applicable

Major positions:

Senior Advisor, BearingPoint France SAS

Advisor Director, Invescorp. Bank B.S.C.

First appointment as Director: November 22, 2006/May 11, 2007

Current term ends: 2014

Personal information – Experience and expertise
Maurice Marchand-Tonel is an independent consultant. He began his career in 1970 with Boston Consulting group, then served successively as Chairman of Compagnie Olivier (1979), Chief Executive Officer of Sommer (1984) and Chairman of Givenchy (1987). Next, he headed Ciments Français International and Transalliance. In 2000, he became a partner at Arthur Andersen/BearingPoint where he has been Senior Advisor since 2004. He is President of the European American Chamber of Commerce, Advisory Director of Investcorp, Senior Advisor at Newbury Pinet (Boston) and member of the Supervisory Board of Faiveley Transport. Maurice Marchand-Tonel brings to the Board his experience both as a senior manager and as a high-level corporate advisor.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chairman, European American Chamber of Commerce (France)

Member of the Supervisory Board, Faiveley Transport*

Director
- European American Chamber of Commerce (Cincinnati, USA)
- European American Chamber of Commerce (New York, USA)

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Vice Chairman of the Supervisory Board, Du Pareil au Même

Member of the Supervisory Board, Faiveley Transport

Chairman, European American Chamber of Commerce (France)

Director
- Faiveley Transport
- Groupe Souchier
- DT 2000
- Financière Huysmans
- European American Chamber of Commerce (Cincinnati, USA)
- European American Chamber of Commerce (New York, USA)
- French American Chamber of Commerce (Chicago, USA)

* *Listed company.*

AÏCHA MOKDAHI

Director representing employee shareholders

57 years old

Number of shares: 10,349

Business address: Essilor International – 147 rue de Paris – 94227 Charenton Cedex – France

Major positions: Supply Chain Director, Essilor Europe

First appointment as Director: January 24, 2007/May 11, 2007

Current term ends: 2014

Personal information – Experience and expertise
Aïcha Mokdahi is Director of Essilor's Supply Chain for Europe and Chairman of Valoptec Association. She began her career in 1976 in the frames division, where she successively held the positions of product manager, logistics manager and sales development manager. In 1990, she joined the Lens division, holding various managerial positions in the Global Operations Department, in particular Logistics Director Europe until year-end 2003. From 2004 to 2008, she was head of acquisitions at Essilor subsidiary BBGR.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chairman of the Board of Directors, Valoptec Association

Member of the Supervisory Board, Essilor group 7-year FCPE

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chairman of the Board of Directors, Valoptec Association

Member of the Supervisory Board, Essilor group 7-year FCPE

OLIVIER PÉCOUX

Independent Director

54 years old

Number of shares: 1,000

Business address: Rothschild & Cie – 23 bis avenue de Messine – 75008 Paris – France

Major positions:

Chairman of the Executive Committee, Rothschild et Cie

Managing Partner, Rothschild et Cie Banque

First appointment as Director: January 31, 2001/May 3, 2001

Current term ends: 2015

Personal information – Experience and expertise
Olivier Pécoux is Managing Partner of Rothschild & Cie Banque, Managing Director for investment banking for Rothschild group, where he started working in 1991 and Managing Director and Member of the Executive Board of Paris-Orléans since March 2010. He began his career at Peat Marwick then at Schlumberger as a financial advisor in Paris and New York. In 1986, he joined Lazard Frères in Paris and was named Vice President of the investment bank's New York office in 1988. Olivier Pécoux brings to the Board his experience in financial and banking matters and his extensive knowledge of Essilor for which he has been intrumental since 2001.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Rothschild group

Managing Director and Member of the Executive Board, Paris-Orléans*

Managing Partner, Rothschild et Cie Banque

Managing Director, P.O. Gestion[(a)]

Director
- Rothschild España (Spain)
- Rothschild Italia (Italy)
- Rothschild GmbH (Germany)

Member of the Supervisory Board, Financière Rabelais[(b)]

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Rothschild group

Managing Director and Member of the Executive Board, Paris-Orléans

Managing Partner
- Rothschild et Cie
- Rothschild et Cie Banque

Director
- Rothschild España (Spain)
- Rothschild Italia (Italy)
- Rothschild Gmbh (Germany)

Member of the Supervisory Board Financière Rabelais

(a) Term of office started.
(b) Term of office ended during the fiscal year.
** Listed company.*

2

MICHEL ROSE

Independent Director

69 years old

Number of shares: 1,000

First appointment as Director: May 13, 2005

Current term ends: 2014

Personal information – Experience and expertise
Michel Rose was Co-Chief Operating Officer of Lafarge, where he was mainly responsible for the Cement Division before his retirement in 2008. He joined Lafarge in 1970 as an engineer, moved to the Research Center and was later named to lead the company's Internal Communications Department. After managing Lafarge's activities in Brazil from 1980 to 1984, he was named Executive Vice President Human Resources and Communication and later headed the Biotechnologies Division. He was appointed Senior Executive Vice President in 1989, served as Chairman and Chief Executive Officer of Lafarge North America from 1992 to 1995 and was named to manage the company's operations in high-growth markets in 1996. In 2003, he was appointed Chief Operating Officer of Lafarge, in charge of the Cement Division. Michel Rose brings to the Board his experience in human ressources and senior management of a major international group.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Director
- La Poste
- Lafarge Maroc (Morocco)
- Malayan Cement (Malaysia)

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chief Operating Officer (not a Director), Lafarge

Director
- La Poste
- Neopost
- Lafarge North America (USA)
- Lafarge Maroc (Morocco)
- Malayan Cement (Malaysia)
- Unicem (Niger)

Chairman, Fondation de l'Ecole des Mines de Nancy

Director whose term ended during fiscal year 2012

YVES GILLET

Director representing employee shareholders

49 years old

Number of shares: 23,343

Business address: Lat Krabang Industrial Estate, 213 Lumplatiew Road, Lat Krabang, Bangkok 10520 – Thailand

Major positions: Chief Executive Officer Essilor Manufacturing (Thailand) Co. Ltd – Thailand

First appointment as Director: January 28, 2009/May 15, 2009

End of term: October 11, 2012 (Resignation)

Personal information – Experience and expertise
Yves Gillet was a Director representing Valoptec Association until October 11, 2012. He joined Essilor in 1995 as Director of the Manaus plant in Brazil, becoming Director of the Chihuahua plant in 1999. He was subsequently President of Essilor Brazil from 2000 until 2004 and Chief Executive Officer of Essilor España until April 1, 2012.

POSITIONS AND TERMS OF OFFICE HELD AT DECEMBER 31, 2012

Chief Executive Officer
- Essilor Manufacturing (Thailand) Co. Ltd (Thailand)[a]
- Essilor España, SA (Spain)[b]

Director
- Essilor Lao Company Ltd (Laos)[a]
- Essilor Optical Laboratory Thailand Co. Ltd (Thailand)[a]
- Essilor Manufacturing Philippines (Philippines)[a]
- Optodev Inc. (Philippines)[a]
- Essilor Distribution (Thailand) Co. Ltd (Thailand)[a]

Member of the Board of Directors
- Essilor España, SA (Spain)[b]
- Valoptec Association[b]

Member of the Supervisory Board, FCPE Valoptec International[b]

POSITIONS AND TERMS OF OFFICE HELD OVER THE PAST FIVE YEARS

Chief Executive Officer of Essilor España, SA (Spain)

Member of the Board of Directors
- Essilor España, SA (Spain)
- Valoptec Association

Member of the Supervisory Board, FCPE Valoptec International

Yves Gillet, whose term in office will end at the close of the Shareholders' Meeting of May 16, 2013, was replaced provisionally by Maureen Cavanagh at the Board of Directors' meeting of November 27, 2012.

There are no appointments of co-opted Board members to be approved by the Shareholders' Meeting of May 16, 2013 (see AMF Interpretation No.3 of January 2006) since Maureen Cavanagh will not be continuing the term of Yves Gillet after the Shareholders' Meeting, but will be running for election for a new three-year term.

(a) Term of office started during the fiscal year.
(b) Term of office ended during the fiscal year.
** Listed company.*

2.1.2 Committees of the Board

In 1997, Essilor set up various Committees of the Board in accordance with corporate governance rules (Audit Committee, Compensation and Appointments Committee and Strategy Committee). Each committee reports to the Board on its work and the resulting proposals. In early 2013, the work of the Audit Committee was extended to cover the monitoring of certain risks, this task being by law the responsibility of the Board, which will continue to monitor strategic risk directly (including reputation risk) and risk associated with governance of the Company. At its meeting of February 27, 2013, the Board decided to set up a Corporate Social Responsibility Committee.

2.1.2.1 Audit and Risk Committee: members and role

The Board's internal rules stipulate that the Audit Committee is to have 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 corporate directors or officers. At least one of the independent directors must be an expert in financial and accounting matters.

The Audit Committee is chaired by Yves Chevillotte. As of December 31, 2012, the other members were Philippe Alfroid (since July 1, 2009), Antoine Bernard de Saint-Affrique, Benoît Bazin and Aïcha Mokdahi. Under the terms of a decision of the Board of Directors dated February 29, 2012, Benoît Bazin was appointed at the proposal of the Audit Committee as an independent director with specific skills in financial matters.

Under the Board of Directors' internal rules, as amended by the Board at its meeting on February 27, 2013 and in accordance with Article L.823-19 of the French Commercial Code, the Audit Committee examines issues related to the preparation and control of accounting and financial information. The committee acts at all times under the responsibility of the Board of Directors.

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;
- as well as 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.

It reports regularly to the Board of Directors on its activities and notifies the Board immediately of any problems that it encounters.

As part of its duties, the Audit and Risk Committee also has to report regularly to the Board of Directors on its activities and notify the Board immediately of any problems that it encounters.

Its remit also extends to analyzing the procedures in place within the Company to ensure:

- the integrity of the financial statements:
  - presentation of the bi 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 efficacy of internal control and major risk management procedures:
  - understanding the way in which the Company identifies, evaluates, anticipates and manages its major financial, operational, compliance and reporting risks; conversely, strategic risks and risks related to governance remain the sole responsibility of the Board, which can delegate them to the Audit and Risk Committee as required,
  - evaluation of the ability, availability and positioning of the organization in charge of monitoring the Company's risk control,
  - issuance, if necessary, of recommendations for improving existing procedures and introducing new ones.

  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 senior management,
  - review and evaluation of the qualifications, performance, 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 and the responses of Senior Management, including about the quality of internal control procedures.

  The recommendation to the Board of Directors regarding the appointment of the Statutory Auditors (ultimately elected for six years by the Shareholders' Meeting) must be based on an analysis of the previous term (including a qualitative review of the service provided and the fees) and the new requirements. In the case of reappointment of audit companies, there must be a certain amount of rotation between geographical regions and a relative balance in terms of fees charged by the two companies. The Audit and Risk Committee may, depending on circumstances, recommend to the Board of Directors that a tender be issued:
- the performance of internal audits:
  - review of the Internal Audit Charter, its role and scope,
  - 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.

2.1.2.2 Corporate Directors and Officers and Compensation Committee: members and role

The Board's internal rules stipulate that the Corporate Directors and Officers and Compensation Committee is to have at least three members, all of whom must be independent non-executive directors.

The Compensation Committee is made up of Michel Rose (Chairman), Mireille Faugère, Bernard Hours and Maurice Marchand-Tonel. All members of the committee are independent directors.

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

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

For work performed during 2012, refer to Section 2.3 of this Registration Document in the "Chairman's Special Report", under "Preparation and organization of meetings of the Board of Directors", sub-section "Corporate Directors and Officers and Compensation Committee."

2.1.2.3 The Appointments Committee: members and role

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 (chair), Yves Chevillotte, Maurice Marchand-Tonel and Michel Rose.

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.

For work performed during 2012, refer to Section 2.3 of this Registration Document in the "Chairman's Special Report", under "Preparation and organization of meetings of the Board of Directors", sub-section "Appointments Committee."

2.1.2.4 The Strategy Committee: members and role

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.

The Strategy Committee, chaired by Xavier Fontanet until January 2, 2012 then by Hubert Sagnières thereafter, consists of all Essilor Board members.

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. The Chief Executive Officer makes regular presentations to the Board on these issues, assisted where necessary by Executive Committee members.

The Committee's annual work plan is drawn up by its Chairman after discussions with senior management and the Board of Directors.

For work performed during 2012, refer to Section 2.3 of this Registration Document in the "Chairman's Special Report", under "Preparation and organization of meetings of the Board of Directors", sub-section "Strategy Committee".

2.1.2.5 The Corporate Social Responsibility (CSR) Committee: members and role

Internal rules stipulate that the CSR Committee be comprised of a minimum of four and maximum of six members, at least two of whom must be independent directors, plus the Chairman and Chief Executive Officer and one non-independent Director from Valoptec.

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

The CSR Committee which is chaired by Louise Fréchette is made up of Aïcha Mokdahi, Bernard Hours and Hubert Sagnières.

The main role of the CSR Committee, within the remit of the Board of Directors, is to ensure that the Essilor 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. Of the seven billion people on the planet, 4.2 billion need visual correction and 1.7 billion actually get it. Therefore, some 2.5 billion people do not. 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.

In carrying out this mission, the Group focuses on two objectives:

- economic goals related to profitability and creating economic value;
- community-focused goals related to creating social value.

This twofold approach, based on developing community initiatives, is an innovative means of positive differentiation in the market.

The CSR Committee is also responsible for governance of the Group's social 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 these 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 community-related 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.

2.1.3 The Executive Committee

2.1.3.1 Members of the Executive Committee

Members of the Executive Committee as of December 31, 2012:

Tadeu	ALVES	President, latin America Region
Eric	BERNARD	President of Essilor China
Jayanth	BHUVARAGHAN	President – South Asia, ASEAN, Emerging Brands, Lab Operations & IT – AMERA (Africa, Middle East, Russia and Asia)
Carl	BRACY	Executive Vice President, Marketing & Business Development, Essilor of America
Jean	CARRIER-GUILLOMET	President, Essilor of America
Patrick	CHERRIER	President AMERA Region (Africa, Middle East, Russia and Asia)
Lucia	DUMAS	Corporate Communications
Bernard	DUVERNEUIL	Chief Information Officer
Marc	FRANÇOIS-BRAZIER	Corporate Senior Vice President, Human Resources
Norbert	GORNY	Senior Vice President, Satisloh, Equipment and Consumables
Réal	GOULET	President, Essilor Laboratories of America
Eric	LEONARD	President, Europe Region
Eric	PERRIER	Corporate Senior Vice President, Research and Development
Géraldine	PICAUD	Chief Financial Officer
Patrick	PONCIN	Corporate Senior Vice President, Global Engineering
Thierry	ROBIN	Senior Vice Present "Digital Surfacing Strategic Opportunity"
Bertrand	ROY	Senior Vice President of Strategic Partnerships
Kevin	RUPP	Chief Financial Officer and Executive Vice President, Finance & Administration, Essilor Of America
Hubert	SAGNIÈRES	Chairman and Chief Executive Officer
Paul	du SAILLANT	Chief Operating Officer
Eric	THOREUX	Corporate Senior Vice President, Strategic Marketing
Laurent	VACHEROT	Chief Operating Officer
Carol	XUEREF	Corporate Senior Vice President, Legal Affairs and Development

2.1.3.2 The Executive Committee

The Executive Committee holds around nine two-day meetings each year to review the Company's business performance and all of its activities. It plays a unifying role by liaising with the Company's other cross-functional boards and committees. The Executive Committee is tasked with reviewing, understanding, considering, implementing and organizing the Company's strategy and in some cases, making strategic decisions. It reviews proposed changes and the Group's medium and long-term outlook and goals. It issues opinions on the actions to be implemented in order to achieve them.

Chaired by Hubert Sagnières, the committee is made up of the Company's top corporate and business executives, with either global responsibilities – for example corrective lens manufacturing – or regional responsibilities (Europe, North America, Latin America, Asia).

2.1.4 No potential conflicts of interest

Every year, each Director completes and signs a declaration containing all the items provided for in Appendix 1 of the European Prospectus Rules.

To the best of the Company's knowledge, there are no potential conflicts of interest between Board members' duties to the Company and their private interests or other duties. 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 related deliberations.

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.

To the Company's knowledge, there are no family ties between directors.

2.1.5 Related party agreements and commitments

The following agreements and commitments authorized and concluded during previous years were still valid in principle during 2012 but no actions were taken to perform them.

Suspension of Hubert Sagnières' employment contract

At its meeting on November 26, 2009 and in light of Hubert Sagnières having more than 20 years' service with the Company up to his appointment as Chief Executive Officer, the Board suspended his employment contract with effect from January 1, 2010.

If the contract subsequently comes back into effect, Hubert Sagnières' compensation will be based on his 2008 compensation as President, Essilor Europe and North America, plus an amount corresponding to the annual average compensation increases awarded to category IIIC executives in the period to the date when the contract is reactivated.

His gross compensation for 2008 amounted to €932,000, based on an average euro/Canadian dollar exchange rate of €1=CAD 1.4861.

Supplementary defined benefit loyalty-based retirement plan for Hubert Sagnières

At its meeting of November 27, 2008, under the procedure concerning related party agreements, the Board of Directors authorized extending the "Article 39" supplementary retirement plan to Hubert Sagnières, Chief Operating Officer, both in respect of his expatriation contract, which remained in force and in his capacity as Executive Director. Such pension benefits are qualified as a form of additional compensation under Article L.225-42-1 of the French Commercial Code (*Code de Commerce*). The Board authorized the maintenance of supplementary pension benefits for Hubert Sagnières after January 1, 2010 but in his capacity as Chief Executive Officer, in line with the agreement incorporated in Supplementary Agreement 5 to the "Article 39" supplementary pension plan contract RK120438983.

Agreement related to the severance payment introduced by the Tepa Law N°2007 of August 21, 2007

Hubert Sagnières, former Chief Operating Officer and Chief Executive Officer as of January 1, 2010, continues to benefit from a clause in his employment contract – a contract that is currently suspended – signed with the Company before he became a corporate officer, entitling him to an amount equivalent to two years' contractual compensation in the event his contract is terminated by the Company other than for serious or gross misconduct or when he reaches normal retirement age.

At its meeting of March 3, 2010, the Board of Directors reiterated the performance conditions set by the Board at its meeting of March 4, 2009 and upon which the potential payment of this benefit was contingent, namely:

■ Performance measurement

Performance to be measured by the achievement rate of the annual goals set by the Board of Directors for the Chief Operating Officer and used to calculate the variable portion of his compensation. It is equivalent to the average performance achieved by the corporate officer during the three-year period prior to his departure.

Should he leave during the three-year period following his appointment as corporate officer, his performance shall be measured on the basis of the achievement rate of the annual goals used to calculate the variable portion of his compensation as Executive Director. It is equivalent to the average performance achieved by the Executive Director during the three-year period preceding his departure.

■ Performance conditions

If actual results average between 100% (and over) and 50% of the target, the termination benefit will be determined on a strictly proportionate basis (for example, if actual results represent 90% of the target, 90% of the termination benefit is paid).

For a performance rate below 50%, no benefit shall be paid.

The Shareholders' Meeting of May 11, 2010 approved this agreement under the terms of a specific resolution. The Shareholders' Meeting of May 5, 2011, on the occasion of the renewal of term as Director of Hubert Sagnières, once again approved this agreement under the terms of a specific resolution.

As required by Article R.225-30 of the French Commercial Code, the Auditors have been informed that no new agreements and commitments were authorized in 2012, and that no agreements and commitments authorized during previous years were executed during the year 2012.

2.2 Compensation and benefits

2.2.1 Compensation of the members of the management, governance and supervisory bodies

Compensation of key management personnel, as defined in IAS 24, is presented in Note 30 to the Financial Statements, Section 3.4.

2.2.1.1 Compensation of corporate directors and officers

The compensation of corporate directors and officers, as defined by the AMF recommendation of December 2008, is set by the Board of Directors on the proposal of the Compensation Committee.

All the compensation components (fixed, short-term variable, long-term compensation plans, supplementary retirement benefits) and the balance among those components are taken into account by the Board of Directors when defining the compensation of a senior manager who is a corporate director and officer.

Hubert Sagnières was Chief Executing Officer from January 1, 2010 to January 1, 2012. He was appointed Chairman and Chief Executive Officer effective as of January 2, 2012.

The annual compensation of Hubert Sagnières as Chairman and Chief Executive Officer includes a fixed component and a variable component.

At its meeting of November 24, 2011 and on the recommendation of the Compensation Committee, the Board of Directors set the gross annual compensation of Hubert Sagnières at €800,000 with effect from January 2, 2012, the date of his appointment as Chairman and Chief Executive Officer. The gross target-based variable compensation for 2012 was also set at €800,000, if objectives were 100% achieved. This may vary from 0% to 150% of the target amount, based on the achievement of the objectives. Hubert Sagnières requested that the Board of Directors no longer award him directors' fees following his appointment as Chairman and Chief Executive Officer, a request ratified by the Board in a formal resolution.

Variable compensation is 85% based on financial targets and 15% based on personal targets, broken down as follows:

- 40% on an adjusted Net EPS objective; if the target is exceeded significantly the maximum is set at 68%;
- 30% on an organic growth objective; if the target is exceeded significantly, the maximum is set at 51%;
- 15% on a growth by acquisition objective, which cannot be exceeded;
- 15% on three personal objectives related to business strategy, which cannot be exceeded.

In order to best reflect the performance of the executive and neutralize the factors external to his actions, the evaluation of financial goals is conducted by eliminating the distortions owing to variations in currency exchange rates. Moreover, net EPS is adjusted for the impact of non-recurring costs, which it is impossible to budget, and the total impact from acquisitions for the year that are not used in the "growth by acquisition" criterion.

At its meeting on February 27, 2013, the Board of Directors, on the proposal of the Compensation Committee, determined the variable component to be paid for 2012 to Hubert Sagnières. After examining the achievement of objectives, the Chairman and Chief Executive Officer's variable portion ended up totaling 123% of gross annual fixed compensation (versus 131.3% for 2011), or €984,000.

The details of the calculation are presented in the table below:

W			A	W x A	W x A x target in €
Weighting	**Objective**	**Performance measurement**	**% achievement**	**% weighted achievement**	**Achievement in €**
40%	Net EPS	0% to 170%	128.0%	51.0%	€408,000
30%	Organic growth	0% to 170%	141.0%	42.0%	€336,000
15%	Growth by acquisition	0% to 100%	100.0%	15.0%	€120,000
15%	Personal factor	0% to 100%	100.0%	15.0%	€120,000
100%				**123.0%**	**€984,000**

For 2013, at its meeting of February 27, 2013, as recommended by Corporate Directors and Officers and Compensation Committee the Board of Directors decided to maintain:

- 40% on an adjusted Net EPS objective; if the target is exceeded significantly the maximum is set at 68%;
- 30% on an organic growth objective; if the target is exceeded significantly, the maximum is set at 51%;
- 10% on a growth by acquisition objective, which cannot be exceeded;
- 20% on four personal objectives related to business strategy, which cannot be exceeded.

The level of achievement required for these objectives was established in a precise, rigorous manner but cannot be made public. In light of the specific situation of the Company in relation to its competitors in matters of financial communication, disclosing these performance measurement criteria seems detrimental to the proper execution of the strategy.

2.2.1.2 Breakdown of corporate directors' and officers' compensation

The amounts provided in the tables below are gross amounts before social security and income tax withholding.

TABLE 1 – SUMMARY OF COMPENSATION AND OPTIONS AND STOCK GRANTED

Hubert SAGNIÈRES In €	**2012** Chairman and Chief Executive Officer	**2011** Chief Executive Officer
Compensation for the year (see Table 2 for details)	1,791,547	1,781,588
Value of options granted during the year		
Value of performance share rights granted during the year	1,212,750[(a)]	1,038,000[(a)]

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

TABLE 2 – SUMMARY OF COMPENSATION

Hubert SAGNIÈRES In €	2012 Chairman and Chief Executive Officer		2011 Chief Executive Officer	
	Amount due	**Amount paid**	**Amount due**	**Amount paid**
Fixed component	800,000	800,000	650,000	650,000
Variable component[(a)]	984,000	853,450	853,450	871,000
Exceptional component[(b)]	-	-	250,000	250,000
Directors' fees	-	-	20,800	20,800
Benefits in kind:				
▪ car	-	-	-	-
▪ unemployment insurance	7,547	7,547	7,338	7,338
▪ other	-	-	-	-
TOTAL	**1,791,547**	**1,660,997**	**1,781,588**	**1,799,138**

(a) Variable component for Hubert Sagnières for 2012: 123% of achievement of objectives (131.3% for 2011).
(b) Temporary exceptional annual double residence allowance.

2.2.1.3 Directors' fees

The Ordinary Shareholders' Meeting of May 11, 2010 voted to award directors' fees of €525,000. At its meeting of July 13, 2010, the Board of Directors decided to allocate this sum as shown in the table below, unchanged at this day.

Directors' fees	Fixed component	Variable component based on attendance record
All Board members	€3,800	€2,000 per meeting
Chairman of the Audit Committee	€22,000	€2,200 per meeting
Chairman of the Corporate Directors and Officers Committee	€11,000	€2,200 per meeting
Only for independent Directors, members of the Audit, Compensation or Appointments Committee	Not applicable	€2,200 per meeting
For the members of the Strategic Committee	Not applicable	€1,000 per meeting

TABLE 3 – DIRECTORS' FEES AND OTHER COMPENSATION RECEIVED BY NON-EXECUTIVE CORPORATE OFFICERS[a]

In €	2012	2011
Philippe Alfroid	25,600	29,600
Alain Aspect		12,100
Benoît Bazin	28,600	29,600
Antoine Bernard de Saint-Affrique	28,600	27,400
Maureen Cavanagh	2,600	
Yves Chevillotte	55,000	58,200
Mireille Faugère	26,400	18,800
Xavier Fontanet	24,200	
Louise Fréchette	12,400	
Yves Gillet	14,200	20,800
Yi He	19,800	20,800
Bernard Hours	26,400	27,400
Maurice Marchand-Tonel	30,800	32,000
Aïcha Mokdahi	19,800	17,800
Olivier Pécoux	14,800	18,800
Michel Rose	41,800	42,000
TOTAL	**371,000**	**355,300**

(a) No non-executive corporate officer received any compensation other than directors' fees.

2.2.2 Awards of stock subscription (or purchase) options and performance shares

The long-term compensation plans are a fundamental component of the entrepreneurial culture of Essilor and its compensation policy.

They contribute to:

- the development of Company spirit, which has been one of the fundamental reasons for Essilor's performance since its creation;
- the encouragement of long-term commitment by key managers and talents in the Group;
- maintaining the loyalty of key managers and talents in the Group;
- participation in competitive compensation by Group employees.

Since 2006, Essilor has decided to award performance shares and by default, capped performance options. The awarding of performance shares instead of stock subscription (or purchase) options has proven to be less dilutive for shareholders. Moreover, the holding obligation inherent to performance share award plans strengthens the convergence of interests between employee shareholders and external shareholders (see the "Holding condition" Section).

Award of November 27, 2012

On November 27, the Board of Directors decided to award a maximum number of 1,274,980 performance shares and 81,760 capped performance options to 8,117 Group employees.

Under the terms of this plan, Hubert Sagnières received a maximum award of 45,000 performance shares, or 3.3% of the total number of shares awarded (sum of performance shares and performance options awarded) and 0.021% of capital at December 31, 2012.

Vesting conditions for shares and holding obligation

Essilor's long-term compensation plans were designed to encourage the alignment of interests of employee shareholders and external shareholders.

The final awarding of performance shares is dependent upon:

- a performance condition based on the progress of the trading price of the share measured over several years;
- an employment condition in order to guarantee the long-term commitment of the beneficiaries and their loyalty to the Company;

- an obligation to hold shares definitively acquired to strengthen the convergence between the interests of employee shareholders and external shareholders;
- stricter conditions for corporate directors and officers.

Performance condition

The acquisition and number of shares definitively awarded are subject to a performance condition based on the annualized progress of the Essilor share price over a period of between two and six years (from N+2 to N+6) from their award date:

- at the time they are awarded, the initial reference price (equal to the average of the 20 opening prices preceding the award date) is determined;
- two years after the award (N+2), an average price equal to the average of the opening prices for the three months preceding the date of the second anniversary of the award is calculated.
- If the change in the average price and the initial reference price is:
  - greater than 14.5% (an annualized increase[1] of 7%), all shares initially awarded are definitively acquired subject to compliance with the employment condition (detailed in Section "Employment condition");
  - greater than or equal to 4.0% and less than 14.5% (corresponding respectively to an annualized increase[1] greater than or equal to 2% and less than 7%), only a portion of the shares initially awarded is definitively acquired subject to compliance with the vesting condition (detailed in the Section "Employment condition");
  - less than 4.0% (for an annualized increase[1] of less than 2%), no shares are acquired. In this case, another evaluation of performance will be made three months later with annualized share price benchmarks between 2% and 7%. This measurement of performance may be repeated until the sixth anniversary date of the award (N+6).

The first time that the annualized increase between the average price and the initial reference price crosses the 2% threshold (as an annualized increase) is when the number of shares vested is determined once and for all, even if the annualized increase subsequently rises. As time progresses, the minimum threshold (increase of the trading price) to be achieved to receive a minimum number of Essilor shares increases: 4% at N+2, 6.1% at N+3, 8.2% at N+4, etc. and 12.6% at N+6.

If, at the end of N+6, the minimum threshold of a 12.6% rise in the trading price has not been achieved, the plan becomes null and void and the employees receive no Essilor shares.

Employment condition

For French residents, the award of shares is subject to the beneficiary's employment with the Group on the date the performance condition is achieved, which may occur between the second anniversary and the sixth anniversary of the award (see performance conditions detailed above).

For non-French residents, the vesting condition is set at:

- the fourth anniversary of the award if the achievement of the performance condition occurs between the second and fourth anniversary;
- on the day of the achievement of the performance condition, if that day occurs after the fourth anniversary of the award.

This employment condition is waived in the case of the death, invalidity, redundancy or retirement of the beneficiary.

Holding condition

Once the performance condition is achieved, the shares acquired must be kept. French residents may sell the shares acquired no sooner than six and no later than eight years after their initial award. For non-French residents, half of the shares acquired must be kept for a minimum period of two years and the other half may be sold immediately for payment of taxes.

Specific conditions for corporate directors and officers

Remember that share awards to corporate directors or officers are governed by the following cap rules:

- the value (under IFRS) of stock options and/or performance shares granted to each corporate directors and officers may not exceed the sum of his or her contractual annual compensation (fixed + bonus);
- a corporate director or officer may not receive an allocation exceeding 7% of the total allocation (options + performance shares) granted each year.

Specific additional conditions applicable to corporate directors and officers

A second performance condition based on the average objective achievement rates for their annual variable compensation during the vesting period (from two to six years) is also stipulated. This coefficient is capped at one and can therefore only reduce the percentage of shares awarded to corporate directors or officers compared to the shares awarded to beneficiaries who are not corporate directors or officers.

For their entire term of office, corporate directors and officers are required to keep one third of the shares acquired, insofar

(1) *Calculation formula: (Average Price / Initial Price) ^ (1/P) -1 where N is the number of years between the award and the performance measurement date. P =2 then, if the performance condition is not achieved, 2.25 and so on up to a maximum of 6.*

as, however, the number of shares kept under the various performance option and share awards does not exceed two times the annual compensation (fixed and variable actually received) for the year ended December 31 preceding the acquisition date.

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

Pursuant to the Directors' Charter, corporate directors and officers are required to respect blackout periods of 30 days before the publication of privileged information and the annual, semi-annual and as the case may be, quarterly financial statements and of 15 days before financial information meetings; the publication date of the relevant information is also part of the blackout periods. The calendar for these black-out periods is prepared annually.

TABLE 4 – PERFORMANCE SHARES AWARDED TO CORPORATE DIRECTORS AND OFFICERS

Rights to performance shares awarded to corporate directors and officers in 2012	Total number	Price In €	Value (Method applied in the consolidated financial statements) In Euros	Vesting date	Plan
Hubert Sagnières	45,000	71.35	26.95	between Nov. 27, 2014 and Nov. 27, 2018	Nov. 27, 2012

Under the Essilor group France collective grant of December 14, 2012, Hubert Sagnières also received a maximum grant of 20 performance share rights.

TABLE 5 – PERFORMANCE SHARES THAT BECAME AVAILABLE IN 2012

Rights to performance shares that became available to corporate directors and officers	Total number	Vesting date	Plan	Vesting conditions
Hubert Sagnières	15	Dec. 20, 2012	Dec. 20, 2010	Plan performance conditions + employment conditions

TABLE 6 – STOCK OPTIONS FOR NEW OR EXISTING SHARES AWARDED TO CORPORATE DIRECTORS AND OFFICERS

No stock options were awarded during the fiscal year.

TABLE 7 – STOCK OPTIONS EXERCISED IN 2012

Options exercised in 2012 by each corporate director or officer	Total number	Price In €	Value (Method applied in the consolidated financial statements) In €	Expiration date	Plan
Hubert Sagnières	100,000	34.70	6.63	Nov. 23, 2012	Nov. 23, 2005

2.2.3 Supplementary defined benefit loyalty-based retirement plan

Hubert Sagnières is eligible for the same defined-benefit supplementary pension plan (Article 39 of the French General Tax Code) as all other category IIIC and HC executives as defined in the metalworking industry collective bargaining agreement.

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

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

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

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

It is further stated that the amount of the pensions acquired since the beginning of employment, for mandatory and optional plans (including the income from the defined benefit retirement plan), may not under any circumstances exceed 65% of the executive's reference salary.

The supplementary benefit retirement plan may guarantee category IIIC and HC executives with at least 20 years of seniority in the Group and additional maximum pension of 25% of their reference salary.

2.2.4 Termination benefits

Former Chief Operating Officer Hubert Sagnières was appointed Chief Executive Officer effective January 1, 2010 and Chairman and Chief Executive Officer effective January 2, 2012. He still serves in that position and continues to benefit under the terms of the employment contract, which is currently suspended, that he concluded with the Company prior to the exercise of his term of corporate office, from a clause that guarantees him an amount equivalent to two years of compensation in the event that his contract is terminated by the Company, other than for serious or gross misconduct or when he reaches normal retirement age.

At its meeting of March 3, 2010, the Board of Directors reiterated the performance conditions set by the Board at its meeting of March 4, 2009 and upon which the potential payment of this benefit was contingent, namely:

Performance measurement

Performance continues to be measured by the rate of achievement of the annual objectives set by the Board of Directors for Hubert Sagnières and used to calculate the variable portion of the compensation of Hubert Sagnières. It is equivalent to the average performance achieved by the corporate directors and officers during the three-year period prior to his departure.

Performance conditions

If actual results average between 100% (and over) and 50% of the target, the termination benefit will be determined on a strictly proportionate basis (for example, if actual results represent 90% of the target, 90% of the termination benefit is paid).

For a performance rate below 50%, no benefit shall be paid.

Nonetheless, it is noted that in the event that the employment contract of Hubert Sagnières is terminated, public policy provisions will be strictly applied.

The Shareholders' Meeting of May 5, 2011, on the occasion of the renewal of term of Hubert Sagnières for a period of three years expiring at the conclusion of the Shareholders' Meeting called to approve the 2013 financial statements, approved this agreement under the terms of a specific resolution.

TABLE 8 – CORPORATE DIRECTORS AND OFFICERS – DETAILED TABLE

HUBERT SAGNIÈRES Chief Operating Officer until December 31, 2009 then Chief Executive Officer from January 1, 2010, then Chairman and Chief Executive Officer from January 2, 2012.	
Term of office start date:	2008
Term of office end date:	2014
Employment contract	Yes – Suspended as from January 1, 2010
Non-compete clause compensation	No
Supplementary pension plan	Yes
Compensation or benefits due or that may become due as a result of termination or change of position	No[(a)] Termination benefits (except for serious or gross misconduct) Two years' salary per the employment contract subject to performance conditions
Restrictions on the sale of shares acquired on exercise of stock options or performance shares	As from 2007 grants: 1/3rd of vested performance shares or 1/3rd of the shares acquired on exercise of stock options (excluding those shares sold immediately to finance the acquisition of the shares and the payment of tax due on the capital gain) may not be sold.
Hedging instruments	No hedging instruments may be used for stock option or performance share.
Length-of-service award payable on retirement (actuarial value)	€585,246
Supplementary retirement benefit obligations (actuarial value)	€9,119,091

(a) No termination benefits are provided for the term of office. The termination benefits provided for the suspended employment contract are detailed under 2.2.4.

2.3 Chairman's Report on corporate governance and internal control

Dear Shareholders,

In accordance with Article 117 of the French Financial Security Act (Act 2003-706), Article 62 III of the French Employee Stock Ownership Act (Act 2006-1770 of December 30, 2006), Article 621-18-3 of the French Monetary and Financial Code and Article 26 of Act 2008-649 of July 3, 2008 adapting various provisions of French company law to comply with European Union legislation and in application of Article L.225-37, Paragraphs 6 to 10, of the French Commercial Code, I present below my report regarding:

- Board membership and application of the principle of equal representation of men and women on it;
- the membership of the Board of Directors and the preparation and organization of Board meetings during the fiscal year ended December 31, 2012;
- the Company's internal control and risk management procedures;
- any restrictions on the powers of the Chief Executive Officer decided by the Board of Directors;
- the Corporate Governance Code adopted by the Company, any provisions of that Code not applied by the Company and the reasons for not applying them;
- specific procedures for shareholder participation in General Meetings;
- the principles and rules applied by the Board of Directors to determine the senior corporate officer's compensation and benefits;
- contracts containing a change of control clause;

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

This report was prepared after certain procedures had been performed, in particular by the Corporate Senior Vice President, Legal Affairs. Section 2 was prepared in close collaboration with the Internal Audit Department, based on written consultations and discussions with the heads of the various departments involved in internal control at the corporate level. It was presented to the Audit Committee (on February 25, 2013) before being presented to the Board of Directors. This makes it possible for priorities and works in progress to be validated and for awareness of the importance of internal controls to the Company to be raised. We also relied on the principles of the AMF reference framework for risk management and internal control procedures for listed companies for the preparation of this report. Finally, the contents of this report were approved by the Board of Directors on February 27, 2013.

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

2.3.1 Preparation and organization of meetings of the Board of Directors

2.3.1.1 Corporate Governance Code

In application of the Law of July 3, 2008 adapting various provisions of French company law to comply with European Union legislation and which transposed European directive 2006/46/EC of June 14, 2006 into French law, at its meeting on March 4, 2009 the Board of Directors formally decided to adopt the December 2010 AFEP-MEDEF "Corporate Governance Code for Listed Corporations." The Code is based on the 2003 AFEP-MEDEF consolidated report and the AFEP-MEDEF recommendations of January 2007 and October 2008 on the compensation of senior corporate officers of listed companies. It may be consulted at the MEDEF website at the following address: http://www.medef.fr/main/core.php.

2.3.1.2 Directors' Charter

The Directors' Charter adopted for the first time by the Board on November 18, 2003 describes the rights and obligations of the members of the Essilor Board.

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

The charter also stipulates that each Board member:

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

The Directors' Charter was updated by the Board on January 27, 2005 to reflect the provisions of the Market Abuse Directive (2003/6/EC) of January 28, 2003 on insider dealing and market manipulation. In relation to this the charter states that each Board member who has access to inside information may not trade in the Company's shares, directly or through a third party or cause any other person to trade in the Company's shares on the strength of that information for as long as this information has not been made public. In compliance with the AMF's recommendation of November 3, 2010 on preventing insider trading by senior managers of listed companies, new requirements building on the stock market Code of Ethics already in place at Essilor were added to the charter on November 25, 2010. As for Company employees who may have access to privileged information, the charter specifies that Board members may not trade in the Company's shares during the period preceding the publication of privileged information of which they are aware and also during the 30-day period that precedes the publication of the annual, half-year and where applicable, quarterly earnings. The day of publication of such information is part of the black-out period.

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

2.3.1.3 Board of Directors' internal rules

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

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

Purview of the Board of Directors

The Company's Board members contribute their experience and expertise. They have a duty of vigilance and exercise their judgment freely and independently when participating in the decisions or work of the Board and, where applicable, the special Committees of the Board.

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

- decide the criteria to be applied to determine whether directors are independent and review these criteria each year;
- Identify the directors who meet the independence criteria;
- review and if appropriate, approve major strategic choices;
- review and if appropriate, approve acquisitions and disposals representing over €100 million in the case of strategic investments in new business segments or new geographic markets or over €150 million for all other acquisitions;
- approve material restructuring and investment projects that do not form part of the stated strategy;
- monitor implementation of the Board's decisions;
- review and approve the financial statements;
- assess the performance of Board members (collectively and individually) and of members of senior management;
- ensure that Essilor's tradition of managerial excellence is maintained;
- discuss and if appropriate, approve the choice of candidates for election as corporate directors or officers and their compensation recommended the Appointments and Compensation Committee;
- discuss and if appropriate, approve the appointment of the members of the special Board committees on the recommendation of the Appointments Committee ;
- discuss and if appropriate, approve senior management succession plans and major organizational changes ;
- examine the procedures for identifying, evaluating, auditing and monitoring the Company's commitments and risks.

Information made available to Board members

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

Each Board member is required to ensure that he or she has all the information they deem essential to the proper operation of the Board or the special Committees of the Board. If any information is not made available or if the director believes that information may have been withheld, he or she shall ask for it to be supplied. Board members' requests are made to the Chairman of the Board (or the Chief Executive Officer if the two positions are separated), who is under the obligation to ensure that Board members are able to fulfill their duties.

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

Board meetings

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

Special Committees of the Board

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

Annual self-assessment of the operations of the Board

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

Amendments to the internal rules

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

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

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

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

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

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

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

The main internal rules governing the Board's practices are set out in Section 16.1.2 of the Registration Document and those governing the Committees of the Board are presented in Section 2.1 of that document.

The internal rules also stipulate that:

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

2.3.1.4 Members of the Board of Directors

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

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

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

Independent directors

At its meeting on November 27, 2012, after examining the situation of each Director in relation to the independence criteria set out in the Bouton Corporate Governance Report (as reproduced in the AFEP-MEDEF Corporate Governance Code), the Board decided that of the 15 members of the Board, nine were independent, as follows:

- Benoît Bazin
- Antoine Bernard de Saint-Affrique
- Yves Chevillotte
- Mireille Faugère
- Louise Fréchette
- Bernard Hours
- Maurice Marchand-Tonel
- Olivier Pécoux
- Michel Rose

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

Board members representing employee shareholders

- Aïcha Mokdahi
- Maureen Cavanagh, coopted to replace Yves Gillet
- Yi He

2.3.1.5 Calls to meeting

In accordance with the Board's internal rules, calls to meeting were sent to directors by email, confirmed by letter sent by regular mail, at least seven days before each meeting. The Auditors were asked to attend the Board meetings called to review the interim and annual financial statements, as provided for in Article L.823-17 of the French Commercial Code.

2.3.1.6 Frequency of Board meetings

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

2.3.1.7 Attendance at Board and Committee meetings

The Company's bylaws state that directors may participate in certain meetings by videoconference or other telecommunications link, with the exception of those cases explicitly stipulated, such as the approval of the financial statements and preparation of the Management Report. Under the Board's internal rules, directors who participate in meetings in this way are included in the calculation of the quorum and voting majority for the meeting. The Company's Auditors attended the two Board meetings to which they were invited. As in prior years, the Labor-Management Committee representatives on the Board attended all Board meetings held in 2012.

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

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

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

2.3.1.8 Information made available to Board members

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

2.3.1.9 Minutes of Board meetings

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

2.3.1.10 Committees of the Board

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

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

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

All four committees are tasked with making recommendations to the Board in their respective areas of competence. The rules governing their membership and terms of reference are set out in the internal rules.

The Audit and Risk Committee

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

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

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

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

The following topics were discussed at these various meetings:

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

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

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

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

Appointments Committee

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

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

Corporate Directors and Officers and Compensation Committee

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

Compensation of corporate directors and officers

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

- conduct the evaluation of the Chief Executive Officer's financial and personal goals for 2011 and determine the amount of the variable portion of his compensation to pay him for that year; set the structure, goals and terms for evaluating the Chief Executive Officer's variable portion for 2012;
- set the compensation of the Chairman and Chief Executive Officer. In accordance with Article 21.1 of the AFEP-MEDEF Corporate Governance Code, the components of management compensation were disclosed on the Company's website following the Board Meeting of November 27, 2012, at which they were decided;
- approve the 2012 capped performance share and stock option grants to key managers and talents in the Group, as well as the collective grant of 20 performance shares to employees of the Group's French companies en pursuant to Law 2008-1528 of December 3, 2008.

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

At the August 30, 2012 Board Meeting, the directors were each given a questionnaire to help them review their status based on the independence criteria stipulated in the Bouton Corporate Governance Report and taken up in the 2003 AFEP-MEDEF consolidated report, which continues to serve as the French reference on this subject as it was folded into the AFEP-MEDEF Corporate Governance Code. The Corporate Directors and Officers Committee then prepared an executive summary of the survey results.

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

Principles and rules for determining senior management compensation in 2011

For any developments regarding the principles and rules established by the Board of Directors to determine compensation and benefits of all kinds granted to corporate directors and officers, please refer to Section 2.2 ("Compensation and Benefits") of the Registration Document.

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

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

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

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

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

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

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

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

- one third of vested performance shares acquired;
- one third of the balance of shares acquired on exercise of stock options, excluding those shares sold immediately to finance the exercise price and the tax due on the capital gain;

to the extent, however, that the number of shares kept from various performance share and stock option grants does not exceed two times the annual monetary compensation (fixed and variable actually received) for the fiscal year ended December 31 preceding the acquisition date of the shares or exercise date of the options.

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

Supplementary defined benefit loyalty-based retirement plans

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

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

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

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

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

The Strategy Committee

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

2.3.2 Report on Essilor International SA internal control procedures

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

2.3.2.1 Company internal control objectives

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

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

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

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

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

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

Additional information on risks that the Company may face is provided in Section 1.7 of this Registration Document.

2.3.2.2 Components of the internal control mechanism

■ Control environment and Group values

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

The "Essilor Principles" document, which was prepared in 2011 by the legal and human resources departments and is the product of a broad consultation and gathering of proposals from around the world, is the basis of this environment and makes it possible to share Essilor's mission, principles and values. It is organized around three major concepts which give all Essilor employees and partners the feeling of sharing the reputation and responsibilities of their Group in the wider sense: a position as a world leader, rapid global expansion and a strong corporate culture. The document is currently available in 28 languages on the Group's intranet site and on its website.

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

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

At the same time, part of the Charter of Valoptec, an association comprised of active and retired Essilor employees, includes a Code of Values. The goal of this association is to "promote the adoption by group companies of sound business practices and human resources management policies." The charter upholds the values of respect and trust among individuals. Members promise to uphold this charter as the foremost condition of their membership and, even though Essilor employees who are not Valoptec members do not sign this charter personally, its spirit infuses the corporate culture in a very real way. The members of Valoptec and other employee shareholders together hold 14.3% of the Company's voting rights. The association's bylaws are regularly updated and reviewed to ensure they are aligned with its development.

Organization of internal controls

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

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

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

2.3.2.3 Presentation of the principal control procedures

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

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

Internal Audit and Internal Control

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

The Vice President, Internal Audit is in turn under the authority of one of the Chief Operating Officers and holds discussions at regular intervals with Senior Management (Chairman and Chief Operating Officers). He has no authority over, nor responsibility for, the audited operations. He also reports on his department's activities to the Audit and Risk Committee. The department is organized around teams located at the corporate headquarters in Charenton (for auditing Corporate, Europe and Africa corporate units and operations), Dallas (for auditing North America corporate units and operations), Singapore (for auditing Asia-Pacific and Middle East corporate units and operations) and Rio de Janeiro (for auditing Central America and South America corporate units and operations).

In 2011, under the leadership of its Vice President, the Internal Audit Department defined and began to implement a roadmap for the next three years. This roadmap was created based on a study which combined various benchmarks and best practices in these areas. The roadmap was then presented to the core and enlarged Management team (Executive Committee), to the Audit and Risk Committee, as well as to various internal audit and internal control partners (including the Statutory Auditors). It was discussed and commented on and resulted in various action plans intended to help the department keep pace with the challenges inherent to a high-growth company. In 2012, progress was generally in line with the roadmap.

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

Consolidation

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

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

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

Business Analysis

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

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

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

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

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

■ Sustainable Development

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

■ Health, Safety and Environment (HSE)

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

■ Legal Affairs

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

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

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

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

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

Our compliance policy for preventing legal risk is structured around major legal topics related to the Group's business activity, especially antitrust law, confidentiality management, and prevention of corruption. Its main purpose is to inform and educate managers about legal risks, communicate and formalize good practices and guarantee that this policy is truly effective by gradually building a culture of compliance within the Group.

To this end, a roadmap was developed and approved by senior management, the Executive Committee and the Audit and Risk Committee. It covers the main points to be considered – risk identification, assessment of existing risks, individual accountability, capacity and effectiveness of compliance and the necessary support of senior management – and continues to be rolled out gradually.

In this context, actions to raise awareness of competition law are still being pursued within the head office departments and all of the subsidiary and area managers in Europe and their management committees, which comprise major account, business, financial, marketing, production and computer managers. In 2012, briefings and awareness-raising sessions on specific topics related to competition law and trade practices were adapted to local legislation and presented in the local language to managers of the Belgian, Spanish and Dutch subsidiaries (more than forty people).

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

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

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

The results of these awareness-raising actions and a report of identified legal risks and actions to implement (legal audits, implementation of compliance programs, good practices guide) were presented to the Executive Committee by the Group Legal Director, who may also have topics or reports registered on the Executive Committee agenda in order to raise the appropriate level of awareness.

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

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

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

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

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

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

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

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

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

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

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

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

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

Lastly, compliance procedures are gradually being deployed throughout the Company, relating mainly to Company-wide agreements and charters such as the Charter for the Protection of Personal Data, the updating of the Charter for Information and Communication Technology, the Charter for IT administrators, a computer systems security policy which defines roles and responsibilities and the principles and processes needed for their implementation (such as confidentiality management) in the Group's computer systems.

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

Information memoranda have been available for a number of years on the Legal Affairs intranet site regarding compliance with securities legislation, anti-money laundering and corruption legislation, competition law and other trade practices and principles. To ensure that all employees have access to complete information on securities legislation, the memorandum on this topic is accompanied by an audio kit detailing the legal obligations pertaining to financial information. More generally, a memorandum, also supplemented by an audio kit, is available containing full details of all the criminal risks to which the Company may be exposed and the consequences for the criminal liability of the Company, its directors and its employees. This memorandum, designed to inform and raise awareness among all employees, is available at all times on the Legal Affairs intranet site for the widest possible circulation.

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

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

Quality

Reporting directly to the Corporate Senior Vice President, Global Engineering (a member of the Executive Committee), the Quality and Customer Satisfaction Department is responsible for establishing and upgrading a quality system designed to continuously enhance satisfaction levels for all customer categories. Led and coordinated by a small central team, the department's decentralized organization is closely aligned with the market structure and helps to reduce response times. Its four core aims are to:

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

Mergers and Acquisitions

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

Group Treasury

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Various reporting, reports or controls by external bodies (monthly, quarterly or annually) facilitate the monitoring and control of our subsidiaries' operations, especially in the areas of accounting, financial and logistical performance;

monitoring of commercial activities; workplace accidents; health and safety audits; APAVE inspections; ISO certifications; sustainable development reports; claims and claims prevention, insurance, litigation, etc.

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

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

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

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

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

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

g) The ophthalmic lens mass production plants under the direct control of Essilor have ISO 9001-certified quality management systems (100%), ISO 14001-certified environmental management systems (100%) and OHSAS 18001-certified workplace health and safety systems (100%). They guarantee the regular maintenance of these systems and the renewal of their certifications in subsequent accreditation audits. Some of the ophthalmic lens prescription manufacturing laboratories that essentially play a service role also have these systems, although only when justified by their size.

2.3.2.5 Internal control procedures relating to the production and processing of financial and accounting information

Each operating division draws up its own three-year business plan setting strategic objectives based on the overall strategy decided by the Company's senior management. All of these objectives are included in the GSG, presented to the Company's senior management.

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

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

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

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

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

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

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

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

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

2.3.3 Matters submitted to the Board and related decisions

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

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

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

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

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

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

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

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

The Essilor Board of Directors Essilor will therefore continue to suspend senior managers' employment contracts when they are appointed Chief Executive Officer or Chief Operating Officer, if they have been with the Company for at least 10 years at the time of their appointment. The AMF has recognized the validity of this position.

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

2.3.3.1 Annual review of each Board member with regard to independence criteria

In 2005, the Board reviewed for the first time the situation of each director with regard to the independence criteria established in the AFEP-MEDEF 2003 Corporate Governance Report. Each following year, the Board has examined the situation of each Board member based on the independence criteria set out in the 2008 Corporate Governance Code.

The most recent review took place at its meeting on November 24, 2011. After conducting this thorough review, the Board determined that, of the 15 members of the Board, nine members can be considered "independent", which is over the 50% required by the internal rules and the AFEP-MEDEF Code and one Board member will reach the 12-year limit in office in 2012, which is the conventional definition of the end of independence for an external Board member.

2.3.3.2 Self-assessment of Board operations

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

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

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

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

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

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

2.3.4 Powers of the Chief Executive Officer

The duties of Chairman of the Board and Chief Executive Officer are performed jointly without any formal restrictions on the powers of the Chief Executive Officer. However, the restructurings and significant non-strategic investments announced are still subject to prior approval of the Board, as stated in the original internal rules of November 2003. In addition, the CEO is assisted by two senior vice presidents.

2.3.5 Specific procedures for shareholder participation in General Meetings

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

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

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

Article 24 – General rules

■ 5) Shareholders' right to information

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

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

Article 25 – Ordinary Shareholders' Meetings

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

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

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

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

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

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

Article 26 – Extraordinary Shareholders' Meetings

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

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

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

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

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

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

2.3.6 Contracts containing a change of control clause

In application of Article L.225-37, Paragraph 9, of the French Commercial Code, the information required under Article L.225-25-3 of the Code is presented in the Management Report and in paragraph 5.2.1.4.4 "Arrangements resulting in a change in control of the Company and shareholders' pacts" of this Registration Document.

Charenton, February 27, 2013

The Chairman of the Board of Directors

2.4 Auditors' Report on the Report of the Chairman

Prepared in application of Article L.225-235 of the French Commercial Code on the report of the Chairman of the Board of Directors of Essilor International

Fiscal year ended December 31, 2012

Dear Shareholders,

In our capacity as Statutory Auditors of Essilor International and as required by Article L.225-235 of the French Commercial Code, we present to you our report for the fiscal year ended December 31, 2011 prepared by the Chairman of your Company in accordance with Article L.225-37 of the Commercial Code.

The Chairman is responsible for preparing and submitting to the Board of Directors for approval a report describing the Company's internal control and risk management procedures and setting out the information about the corporate governance system and the other disclosures required by Article L.225-37 of the Commercial Code.

Our responsibility is to:

- report our observations on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information and
- certify that the report contains the other disclosures required by Article L.225-37 of the Commercial Code, without being responsible for verifying their fairness.

We conducted our audit in accordance with professional standards applicable in France.

Information about internal control and risk management procedures relating to the production and processing of financial and accounting information

The standards of our profession applicable in France require us to plan and perform an audit to assess the fairness of the information set out in the Chairman's report on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information. The audit notably consisted of:

- obtaining an understanding of internal control and risk management procedures relating to the preparation and processing of financial and accounting information supporting the information provided in the Chairman's report and reviewing existing documentation;
- obtaining an understanding of the work performed to support the information given in the Chairman's report and the existing documentation;
- determining whether major internal control weaknesses that we would have detected as part of our audit, in relation to the preparation and processing of financial and accounting information, have been appropriately disclosed in the Chairman's report.

On the basis of our audit, we have no matters to report in connection with the information on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information contained in the report of the Chairman of the Board of Directors in accordance with Article L.225-37 of the Commercial Code.

Other information

We hereby certify that the report of the Chairman of the Board of Directors includes the other disclosures required by Article L.225-37 of the Commercial Code.

Neuilly-sur-Seine and Courbevoie – March 15, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Mazars
Christine Bouvry	Pierre Sardet

2.5 Special Report of the Statutory Auditors on related party agreements and commitments

Special report of the Statutory Auditors on related party agreements and commitments for Fiscal year ended December 31, 2012.

Dear Shareholders:

In our capacity as Statutory Auditors of your company, we present below our report on related party agreements and commitments.

Our responsibility is to report to shareholders, based on the information provided to us, about the main terms and conditions of agreements and commitments that have been disclosed to us or of which we have become aware in the performance of our audit, without commenting on their relevance or substance or inquiring about the existence of other agreements or commitments. Under the provisions of Article R.225-31 of the French Commercial Code, it is the responsibility of shareholders to determine whether such agreements and commitments are appropriate and should be approved.

Our responsibility is also, as applicable, to report to shareholders as stipulated in Article R.225-31 of the Commercial Code regarding the performance, during the fiscal year ended, of any agreements and commitments already approved by the Shareholders' Meeting.

We performed our procedures in accordance with professional guidelines issued by the *Compagnie Nationale des Commissaires aux Comptes* for this type of engagement.

Agreements and commitments subject to the approval of the Shareholders' Meeting

We have not been advised of any agreements or commitments that have been approved in the fiscal year ended and would require the approval of the Shareholders' Meeting pursuant to Article L.225-38 of the French Commercial Code.

Agreements and commitments previously approved by the Shareholders' Meeting

We have not been advised of any agreements or commitments previously approved by the Shareholders' Meeting and the performance of which may have continued during the fiscal year ended.

Neuilly-sur-Seine and Courbevoie – March 15, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Mazars
Christine Bouvry	Pierre Sardet

3

Financial statements

3.1 Comments on the Company's financial position and earnings

Excerpts from the Management Report of the Board of Directors of February 27, 2013

3.1.1 Operating profit

Income statement

€ millions	2012	2011	Change
Revenue	**4,988.8**	**4,189.5**	**+ 19.1%**
Gross profit	2,783.6	2,321.5	+ 19.9%
as a % of revenue	*55.8%*	*55.4%*	
Contribution from operations[(a)]	**894.1**	**748.2**	**+ 19.5%**
as a % of revenue	*17.9%*	*17.9%*	
Other income (expenses), net	(62.4)	(65.1)	
Operating profit	**831.7**	**683.1**	**+ 21.8%**
Cost of gross debt and other financial income and expenses, net	(18.0)	(13.4)	
Income tax expense	(207.1)	(179.4)	
effective tax rate (%)	*25.5%*	*26.8%*	
Share of profits of associates	23.8	27.9	
Attributable to minority interests	(46.4)	(12.6)	
Profit attributable to Group equity holders	**584.0**	**505.6**	**+ 15.5%**
as a % of revenue	*11.7%*	*12.1%*	
Earnings per share (in €)	2.80	2.44	+ 14.7%

(a) Operating profit before compensation costs for share-based payment plans, restructuring costs, other income and expense, and goodwill impairment.

Significant factors affecting operating profit

Revenue

For more information on revenue, refer to Section 1.3.5 of the Registration Document, "Performances of the Group's businesses in 2012."

Gross profit

In 2012, gross profit (revenue less cost of sales as a percentage of revenue) amounted to €2,783.6 million. The gross profit ratio increased 40 basis points to 55.8% of revenue, versus 55.4% in 2011. The improvement reflected manufacturing productivity gains, generated by the sharp rise in volumes, and the success of new products, particularly the Crizal UV anti-reflective lens.

Operating expenses

Operating expenses in 2012 totaled €1,889.4 million. As a percentage of revenue, they rose 30 basis points, representing 37.9% of revenue, which led to:

- significantly higher marketing, sales and distribution costs;
- an increase in corporate costs, notably to strengthen support structures in fast-growing regions;
- an uplift in research and development spending to €161.9 million (before deducting research tax credits of €12.9 million) from €151.5 million in 2011.

Contribution from operations

In total, the contribution from operations amounted to €894.1 million, up 19.5% and was stable at 17.9% of revenue. Excluding the impact of the purchase price allocation and application of the revised IFRS 3, the contribution from operations stood at 18.6% of revenue.

Contribution from operations [a]	2012	2011	Change
€ millions	**894.1**	**748.2**	**+ 19.5%**
As a % of revenue	*17.9%*	*17.9%*	

(a) Operating income before share-based payments, restructuring costs, other income and other expenses, and before goodwill impairment.

Change in contribution from operations[a] 2012	Reported	Like-for-like	Changes in scope of consolidation	Currency effect
€ millions	145.9	56.8	55.3	33.8
As a %	+ 19.5%	+ 7.6%	+ 7.4%	+ 4.5%

(a) Operating income before share-based payments, restructuring costs, other income and expense, and before goodwill impairment.

The procedures for calculating the changes in this aggregate are explained in Note 2.3 to the consolidated financial statements.

Other income and expenses from operations

This item represented net income of €62.4 million, down €2.7 million from 2011.

The total includes:

- €28.4 million in compensation costs for share-based payment plans (versus €23.2 million in 2011), of which €27.7 million for stock option and performance share plans (including €5 million in employer contributions), with the balance corresponding to the cost of the discount offered to employees participating in the Employee Stock Ownership Plan;
- €25.3 million in restructuring costs, representing slightly more than in 2011. The 2012 figure mainly concerned the rationalization of the prescription laboratory network and the transfer of R&D operations from Florida to the new innovation and technology center opened on the Dallas campus in 2012;
- €21.2 million in legal costs, notably for the agreement with Carl Zeiss Vision, and transaction costs on strategic acquisitions;
- a €15.6 million net gain on asset disposals, arising mainly from the full consolidation of the Nikon-Essilor and Essilor Korea joint ventures that were previously consolidated on a 50% basis.

Operating profit

In 2012, operating profit (corresponding to contribution from operations plus or minus other income and expenses from operations and gains and losses on asset disposals) totaled €831.7 million, representing 16.7% of revenue versus 16.3% in 2011.

Change in operating income 2012	Reported	Like-for-like	Changes in scope of consolidation	Currency effect
€ millions	148.6	47.1	71.5	30.0
As a %	+ 21.8%	+ 6.9%	+ 10.5%	+ 4.4%

The procedures for calculating the changes in this aggregate are explained in Note 2.3 to the consolidated financial statements.

Significant changes to net sales or revenues

There were no significant changes to net sales or revenues.

Policies and other external factors

The Company is not aware of any governmental, economic, fiscal, monetary or political policies or factors that could materially affect, directly or indirectly, its future operations.

3.1.2 Net profit

Profit attributable to equity holders of the parent and earnings per share

Minority interests in profit rose sharply to €46.4 million, reflecting dynamic implementation of Essilor's partnership strategy. The main reasons for the increase were as follows:

- the change of consolidation method applied to Nikon-Essilor and Essilor Korea;
- consolidation of 50%-owned Shamir over the full year in 2012 versus only part of the year in 2011;
- recognition of minority interests in the new partnerships signed in 2011 and 2012;
- growth in the profits of existing partnerships, notably as a result of the implementation of programs to unleash synergies.

Profit attributable to equity holders of the parent rose 15.5% to €584.0 million, representing 11.7% of revenue.

As a result of a small increase in the number of outstanding shares, earnings per share grew at a faster rate, rising 14.7% to €2.80.

Net profit also reflects the following costs and expenses:

Cost of gross debt and other financial income and expenses

Cost of gross debt and other financial income and expenses represented a net expense of €18.0 million, versus €13.4 million in 2011. The increase is mainly explained by the fact that the average maturity of debt was longer in 2012 than in 2011, leading to a rise in interest costs. Unfavorable exchange rates were also a factor.

Income tax expense

Income tax expense rose by 15.5% to €207.1 million. However, the effective tax rate declined to 25.5% of pre-tax profit from 26.8%, due mainly to the non-recurring items included in other operating income and expenses.

Share of profits of associates

This item corresponds to Essilor's share of the profit derived from sales by 49%-owned Transitions to third-party lens casters. The decline to €23.8 million from €27.9 million in 2011 was due to the fall-off in Transitions sales to these external customers.

3.1.3 Financial position

Balance sheet

Goodwill and other intangible assets

Goodwill increased by €204 million to €2,087 million at December 31, 2012, reflecting the acquisitions made during the year.

Investments

Refer to Section 1.5 of the Registration Document.

Inventories

Inventories amounted to €830 million at December 31, 2012, an increase of €77 million over the year-earlier figure that was also mainly due to acquisitions for the year. The underlying increase in inventory was consistent with like-for-like sales growth for the year.

Equity

Consolidated shareholders' equity totaled €3,921 million at year-end 2012, up 13.4% from year-end 2011. Changes in shareholders' equity are detailed in Section 3.3.3 of the Registration Document.

As illustrated by the following graph, the Essilor's business model continued to demonstrate its ability to generate strong cash flow in 2012. Net cash from operating activities (before change in working capital) amounted to €848 million, an increase of 17.3% compared with 2011. This amount more than covered the €241 million growth in capital expenditure, and the more modest €10 million increase in working capital, driving a 28.9% rise in free cash flow to €597 million, that helped to finance:

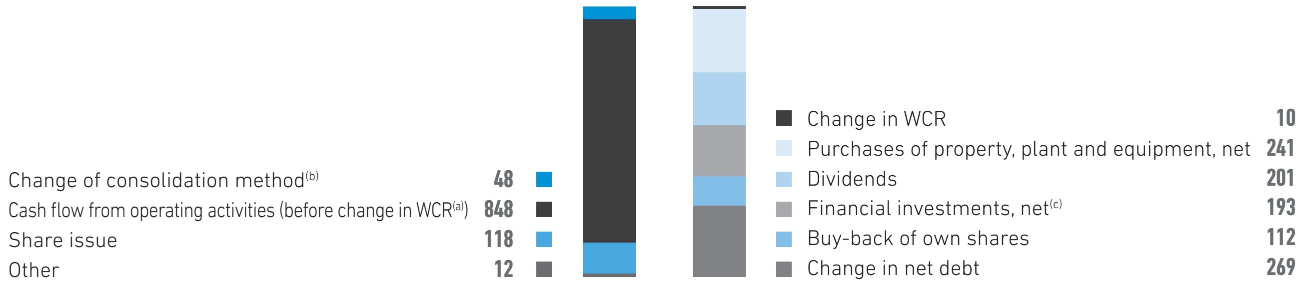
- net financial investments of €193 million[(a)];
- a €201 million increase in dividends paid to Essilor shareholders and the Company's minority partners in joint ventures;
- purchases of treasury stock for a total of €112 million, corresponding to more than two million shares purchased on the market for employee share-based payment plans.

At the end of fiscal year 2012, the Group's net debt was reduced from €506 million to €237 million, a level of net debt below 10% of shareholders' equity which amounted to €3,921 million.

(a) Financial investments net of cash acquired (187 million) plus debt at the consolidation of the companies acquired (€6 million)

SIMPLIFIED STATEMENT OF CASH FLOWS

€ millions



(a) Net working capital.
(b) Full consolidation of the Nikon-Essilor and Essilor Korea joint ventures.
(c) Financial investments net of cash acquired (€187 million) plus debt at the consolidation of the companies acquired (€6 million).

3.2 Trend information

3.2.1 Recent trends

The company is not aware of any trends affecting production, sales, inventory, costs or selling prices since the end of the last fiscal year.

3.2.2 Outlook

The company is not aware of any trends, uncertainties, claims, commitments or events that would be reasonably likely to materially affect its medium-tern outlook.

We believe that the medium and long-term growth outlook in the ophtalmic lens market is good, as a large portion of the population in the world still needs glasses, the world's population is aging and these lenses represent the least expensive option for correcting faulty vision and recent advances have made lenses even more attractive in relation to competing techologies.

3.2.3 Subsequent events

Share buyback

Essilor International is continuing its share buyback policy, the purpose of which is to set off the dilution related to share-based payment programs. As of February 26, 2013, the Group had purchased 309,097 shares on the market for an investment amount of around €22.5 million.

See also in Note 31 of the Appendix to the consolidated financial statements, Chapter 3.5.

3.2.4 2013 Outlook

Excerpts from the management report of the Board of Directors of Febuary 27, 2013.

The ophthalmic optics market is continuing to experience structural growth, led by global demographic trends, changing lifestyles and the rapid growth of middle classes, particularly in fast-growing countries. The market remains highly fragmented and penetration rates are still low – of the 4.2 billion people worldwide with a vision problem, 2.5 billion do not have corrective eyewear yet.

In 2013, despite an uncertain economic environment, these factors will help to sustain demand for vision correction in all regions of the world and will allow the Group to continue its value creation strategy. As a result, Essilor is confident in its ability to deliver another year of revenue growth and high operating margins. It is not Company policy to disclose profit forecasts or estimates and no other Company publication provides forecasts for 2013.

3.3 Consolidated financial statements

3.3.1 Consolidated income statement

€ thousands, excluding per share data	Note	2012	2011
Revenue	3	4,988,845	4,189,541
Cost of goods sold		(2,205,278)	(1,868,086)
GROSS PROFIT		**2,783,567**	**2,321,455**
Research and development costs		(161,877)	(151,490)
Selling and distribution costs		(1,139,856)	(959,692)
Other operating expenses		(587,688)	(462,094)
CONTRIBUTION FROM OPERATIONS		**894,146**	**748,179**
Restructuring costs, net	5	(25,325)	(22,646)
Impairment goodwill	11		
Compensation costs on share-based payments	5	(28,421)	(23,211)
Other income from operations	5	12,006	3,962
Other expenses from operations	5	(36,319)	(20,722)
Gains and losses on asset disposals	5	15,626	(2,470)
OPERATING PROFIT	**3**	**831,713**	**683,092**
Cost of gross debt		(24,063)	(13,904)
Income from cash and cash equivalents		17,037	10,507
Foreign exchange income	6	(6,779)	(85)
Other financial income and expenses	7	(4,173)	(9,917)
Share of profits of associates	15	23,811	27,883
PROFIT BEFORE TAX		**837,546**	**697,576**
Income tax expense	8	(207,122)	(179,396)
PROFIT FOR THE PERIOD		**630,424**	**518,180**
Attributable to Group equity holders		**584,008**	**505,619**
Attributable to minority interests		46,416	12,562
Basic earnings attributable to Group equity holders per share (€)		2.80	2.44
Weighted average number of shares (thousands)	9	208,264	207,246
Diluted earnings attributable to Group equity holders per share (€)	10	2.77	2.41
Diluted weighted average number of shares (thousands)	10	211,015	209,678

Statement of income and expenses recognized directly in equity

€ thousands	2012 Attributable to Group equity holders	2012 Minority interests	2012 Total	2011 Attributable to Group equity holders	2011 Minority interests	2011 Total
PROFIT FOR THE PERIOD (A)	**584,008**	**46,416**	**630,424**	**505,619**	**12,562**	**518,181**
Increase (decrease) in fair value of financial instruments, net of tax, cash flow hedges, effective portion	**(244)**		**(244)**	**(4,466)**		**(4,466)**
- Tax	(94)		(94)	2,494		2,494
- Net of tax	(338)		(338)	(1,972)		(1,972)
Hedges of net investments in foreign operations, effective portion	**836**		**836**	**1,392**		**1,392**
- Tax	(114)		(114)	(479)		(479)
- Net of tax	722		722	913		913
Transfers to profit for the period, net of tax, cash flow hedges, effective portion	**(1,808)**		**(1,808)**	**4,104**		**4,104**
- Tax	239		239	(1,194)		(1,194)
- Net of tax	(1,569)		(1,569)	2,910		2,910
Hedges of net investments in foreign operations, effective portion	**(246)**		**(246)**	**(199)**		**(199)**
- Tax	11		11	68		68
- Net of tax	(235)		(235)	(131)		(131)
Increase (decrease) in fair value of long-term financial investments	**2,289**		**2,289**	**(1,279)**		**(1,279)**
- Tax	(47)		(47)	(131)		(131)
- Net of tax	2,242		2,242	(1,410)		(1,410)
Actuarial gains and losses on defined benefit obligations	**(31,337)**		**(31,337)**	**(10,535)**		**(10,535)**
- Tax	6,376		6,376	2,632		2,632
- Net of tax	(24,961)		(24,961)	(7,903)		(7,903)
Translation difference related to hedging and revaluation reserves	**62**		**62**	**(978)**		**(978)**
Translation difference and other related to other reserves and profit	**(49,868)**	**(6,036)**	**(55,904)**	**35,738**	**812**	**36,550**
Other (Tax)	**(6,126)**		**(6,126)**			
Total income (expense) for the period recognized directly in equity, net of tax (B)	**(80,071)**	**(6,036)**	**(86,107)**	**27,167**	**812**	**27,979**
TOTAL RECOGNIZED INCOME AND EXPENSE, NET OF TAX (A) + (B)	**503,937**	**40,380**	**544,317**	**532,786**	**13,374**	**546,160**

3.3.2 Consolidated balance sheet

Assets

€ thousands	Note	December 31, 2012	December 31, 2011
Goodwill	11	2,086,933	1,883,331
Other intangible assets	12	621,622	581,781
Property, plant and equipment	13	1,000,558	955,280
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, NET		**3,709,113**	**3,420,392**
Investments in associates	15	109,838	109,915
Other long-term financial investments	16	119,583	92,743
Deferred tax assets	8	116,789	101,689
Long-term receivables		25,052	3,891
Other non-current assets	20	674	892
Other non-current assets		**371,936**	**309,130**
TOTAL NON-CURRENT ASSETS		**4,081,049**	**3,729,522**
Inventories	17	830,478	753,416
Prepayments to supplier		15,719	19,671
Short-term receivables	18	1,147,525	1,121,746
Current income tax-assets		55,806	48,355
Other receivables		35,645	30,838
Derivative financial instruments	23	33,611	15,091
Prepaid expenses		40,651	41,777
Other marketable securities	22	5,781	7,450
Cash and cash equivalents	19	660,958	390,320
Current assets		**2,826,174**	**2,428,664**
Non-current assets held for sale			
TOTAL ASSETS		**6,907,223**	**6,158,186**

Equity and liabilities

€ thousands	Note	December 31, 2012	December 31, 2011
Share capital		38,650	38,527
Additional paid-in capital		311,622	307,401
Retained earnings		2,940,952	2,629,367
Treasury stock		(239,044)	(264,110)
Revaluation and other reserves		(79,647)	(49,443)
Translation difference		107,628	157,496
Profit attributable to Group equity holders		584,008	505,619
Equity attributable to Group equity holders		**3,664,169**	**3,324,857**
Minority interests		256,571	132,894
TOTAL CONSOLIDATED EQUITY		**3,920,740**	**3,457,751**
Provisions for pensions and other post-employment benefit obligations	20	204,652	177,693
Long-term borrowings	22	526,237	309,152
Deferred tax liabilities	8	148,339	148,755
Other non-current liabilities	24	232,544	138,168
Non-current liabilities		**1,111,772**	**773,768**
Provisions	21	126,954	141,401
Short-term borrowings	22	390,012	606,581
Customer prepayments		16,944	15,705
Short-term payables	18	1,014,675	913,218
Taxes payable		75,627	62,172
Other current liabilities	24	207,605	161,306
Derivative financial instruments	23	30,115	14,953
Deferred income		12,779	11,331
Current liabilities		**1,874,711**	**1,926,667**
TOTAL EQUITY AND LIABILITIES		**6,907,223**	**6,158,186**

3.3.3 Statement of changes in equity

Fiscal year 2012

€ thousands	Share capital	Additional paid-in capital	Revaluation reserves	Reserves	Translation difference	Treasury stock	Profit attributable to Group equity holders	Equity attributable to Group equity holders	Minority interests	Total equity
EQUITY AT JANUARY 1, 2012	**38,527**	**307,401**	**(49,443)**	**2,629,367**	**157,496**	**(264,110)**	**505,619**	**3,324,857**	**132,894**	**3,457,751**
Capital increases										
■ FCP mutual fund	69	21,927						21,996		21,996
■ Stock subscription options	486	95,417						95,903		95,903
■ Capitalization of reserves										
Capital increases subscribed by minority interests										
Cancellation of treasury stock	(432)	(113,123)				113,555				
Share-based payments				23,444				23,444		23,444
Purchases of treasury stock (net of sales)				(23,299)		(88,489)		(111,788)		(111,788)
Allocation of profit				505,619			(505,619)			
Effect of changes in scope of consolidation				(8,103)				(8,103)	108,134	100,031
Dividends paid				(176,619)				(176,619)	(24,837)	(201,456)
TRANSACTIONS WITH SHAREHOLDERS	**123**	**4,221**		**321,042**		**25,066**	**(505,619)**	**(155,167)**	**83,297**	**(71,870)**
Total income (expense) recognized directly in equity			(30,266)					(30,266)		(30,266)
Profit for the period							584,008	584,008	46,416	630,424
Translation differences and other			62	(9,457)	(49,868)			(59,263)	(6,036)	(65,299)
TOTAL RECOGNIZED INCOME AND EXPENSE			**(30,204)**	**(9,457)**	**(49,868)**		**584,008**	**494,479**	**40,380**	**534,859**
EQUITY AT DECEMBER 31, 2012	**38,650**	**311,622**	**(79,647)**	**2,940,952**	**107,628**	**(239,044)**	**584,008**	**3,664,169**	**256,571**	**3,920,740**

Fiscal year 2011

€ thousands	Share capital	Additional paid-in capital	Revaluation reserves	Reserves	Translation difference	Treasury stock	Profit attributable to Group equity holders	Equity attributable to Group equity holders	Minority interests	Total equity
EQUITY AT JANUARY 1, 2011	**38,098**	**224,697**	**(40,872)**	**2,331,494**	**121,865**	**(136,258)**	**461,969**	**3,000,993**	**43,186**	**3,044,179**
Capital increases										
■ FCP mutual fund	94	21,708						21,802		21,802
■ Stock subscription options	335	60,996						61,331		61,331
■ Capitalization of reserves				1,018				1,018		1,018
Capital increases subscribed by minority interests									4,845	4,845
Cancellation of treasury stock										
Share-based payments				21,577				21,577		21,577
Purchases of treasury stock (net of sales)				(19,650)		(127,852)		(147,502)		(147,502)
Allocation of profit				461,969			(461,969)			
Effect of changes in scope of consolidation				3,941	452			4,393	75,272	79,665
Dividends paid				(171,541)				(171,541)	(3,783)	(175,324)
TRANSACTIONS WITH SHAREHOLDERS	**429**	**82,704**		**297,314**	**452**	**(127,852)**	**(461,969)**	**(208,922)**	**76,334**	**(132,588)**
Total income (expense) recognized directly in equity			(7,593)					(7,593)		(7,593)
Profit for the period							505,619	505,619	12,562	518,181
Translation differences and other			(978)	559	35,179			34,760	812	35,572
TOTAL RECOGNIZED INCOME AND EXPENSE			**(8,571)**	**559**	**35,179**		**505,619**	**532,786**	**13,374**	**546,160**
EQUITY AT DECEMBER 31, 2011	**38,527**	**307,401**	**(49,443)**	**2,629,367**	**157,496**	**(264,110)**	**505,619**	**3,324,857**	**132,894**	**3,457,751**

3.3.4 Consolidated cash flow statement

€ thousands		December 31, 2012	December 31, 2011
NET PROFIT	**(i)**	**630,424**	**518,180**
Share of profits of associates, net of dividends received		44,796	34,433
Depreciation, amortization and other non-cash items		229,629	180,693
Profit before non-cash items and share of profits of associates, net of dividends received		**904,849**	**733,306**
Provision charges (reversals)		(24,325)	(2,745)
(Gains) losses on asset disposals, net		(14,733)	2,470
Cash flow after income tax and finance costs, net		**865,791**	**733,031**
Finance costs, net		7,026	8,988
Income tax expense (current and deferred taxes)	(i)	207,122	179,396
Cash flow after income tax and finance costs, net		**1,079,939**	**921,415**
Income taxes paid		(224,264)	(183,717)
Interest (paid) and received, net		(5,586)	(14,293)
Change in working capital		(10,091)	(55,607)
NET CASH FROM OPERATING ACTIVITIES		**839,998**	**667,798**
Purchases of property, plant and equipment and intangible assets		(241,207)	(204,717)
Acquisitions of subsidiaries, net of the cash acquired		(158,224)	(364,428)
Purchases of available-for-sale financial assets		(12,956)	(15,120)
Other long-term financial investments		(16,077)	(16,688)
Proceeds from the sale of subsidiaries, net of the cash sold		1,368	203
Proceeds from the sale of other non-current assets		10,770	14,412
NET CASH USED IN INVESTING ACTIVITIES		**(416,326)**	**(586,338)**
Proceeds from the issue of share capital	(ii)	117,899	83,133
(Purchases) sales of treasury stock, net	(ii)	(111,788)	(147,502)
Dividends paid to:			
■ Equity holders of Essilor	(ii)	(176,619)	(171,541)
■ Minority shareholders of subsidiaries	(ii)	(24,837)	(3,783)
Increase/(Decrease) in borrowings other than finance lease liabilities		(54,840)	188,590
Purchases of marketable securities[(a)]	19	1,724	2,066
Repayment of finance lease liabilities		(2,614)	(2,866)
Other movements		(1,266)	(6,855)
NET CASH USED IN FINANCING ACTIVITIES		**(252,341)**	**(58,758)**
NET (DECREASE) INCREASED IN CASH AND CASH EQUIVALENTS		**171,331**	**22,702**
Cash and cash equivalents at January 1	19	363,109	345,888
Effect of changes in method of consolidation		49,335	
Effect of changes in exchange rates		(4,244)	(5,481)
NET CASH AND CASH EQUIVALENTS AT DECEMBER 31		**579,531**	**363,109**
Cash and cash equivalents	19	660,958	390,320
Bank credit facilities	22	(81,427)	(27,211)

(a) Units in money market funds not qualified as cash equivalents under IAS 7.
(i) See income statement.
(ii) See statement of changes in consolidated equity.

3.4 Notes to the consolidated financial statements

NOTE 1. Accounting policies

1. General information

Essilor International (*Compagnie Générale d'Optique*) is a *société anonyme* (public limited company) with a Board of Directors, governed by the laws of France. Its registered office is at 147, rue de Paris – 94220 Charenton-le-Pont. The Company's main business activities consist of the design, manufacture and sale of ophthalmic lenses and ophthalmic optical instruments.

The consolidated financial statements are prepared under the responsibility of the Board of Directors and presented to the Shareholders' Meeting for approval.

The 2012 consolidated financial statements were approved by the Board of Directors on February 27, 2013.

The financial statements are prepared on a going concern basis.

The Group's functional and presentation currency is the euro. All amounts are presented in thousands of euros, unless otherwise specified.

2. Basis of preparation of the consolidated financial statements

In accordance with European Council Regulation 1606/2002/EC of July 19, 2002, effective from January 1, 2005 the Essilor group has adopted as its primary basis of accounting the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and related interpretations adopted by the European Union and applicable at December 31, 2012. These standards and interpretations are available for consultation on the European Commission's website[(1)].

3. Change in accounting methods and presentation

No changes to the accounting method in the Group consolidated financial statements were made for 2012.

4. IFRS, amendments to IFRS and interpretations applicable from January 1, 2012

- Amendment to IFRS 7 – Disclosures Related to Transfers of Financial Assets

The Group is not affected by this interpretation.

5. IFRS, amendments to IFRS and interpretations applicable in future periods

The Group has decided not to early-adopt the following standards, amendments or interpretations, applicable from January 1, 2013 or later:

- IAS 12 – Income Tax – Deferred Taxes: Recovery of Underlying Assets;
- IAS 19 amended – Employee Benefits;
- IFRS 10 – Consolidated Financial Statements;
- IFRS 11 – Joint Arrangements;
- IFRS 12 – Disclosure of Interests in Other Entities;
- IFRS 13 – Fair Value Measurement;
- IAS 27 amended – Separate Financial Statements;
- IAS 28 amended – Investments in Associates and Joint Ventures;
- IFRS 9 – Financial Instruments: Classification and Measurement;
- Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
- Amendments to IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income;
- Amendments to IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.

The impact of these standards on the consolidated financial statements is currently being assessed.

6. Use of estimates

The preparation of financial statements requires Management's use of estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses in the financial statements as well as the disclosures in the notes concerning contingent assets and liabilities at the balance sheet date. These estimates and assumptions, which were determined based on the information available when the financial statements were drawn up, mainly concern provisions for returned goods and trade receivables, product life cycles, pension and other post-employment benefit obligations, restructuring provisions, provisions for tax risks, claims and litigation, the measurement of goodwill, the measurement of purchased intangible assets and their estimated useful life, put options granted to minority shareholders, the fair value of derivative financial instruments,

(1) http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission

deferred tax assets and share-based payments. The final amounts may be different from these estimates. The estimates used by the Group are described in the corresponding notes to these consolidated financial statements.

7. Basis of consolidation

Companies over which the Group has direct or indirect exclusive control are fully consolidated.

Jointly-controlled companies are consolidated by the proportionate method.

Associates, defined as companies over which the Group exercises significant influence, are accounted for by the equity method.

The Transitions group is accounted for by the equity method. Based on an economic analysis of the flows between Essilor and Transitions, between Transitions and Essilor, and of sales of Transitions products by Essilor to third parties:

- revenue from transactions between Essilor and Transitions has been cancelled from Essilor consolidated revenue and cost of sales, in accordance with IAS 18;
- the cost of subcontracting services provided by Transitions to Essilor has been reallocated between cost of sales and Transitions brand selling and distribution costs.

The criteria applied to determine the scope of consolidation are described in Note 2.2, "Changes in the scope of consolidation."

The results of subsidiaries acquired or sold during the year are included in the consolidated income statement as from the date of acquisition or up to the date of disposal. In the case of a change in percent interest during the year, the Group's share of profit is calculated by applying:

- the former percentage to income earned up to the date on which the Group's interest changes; and
- the new percentage to income earned between that date and the year-end.

If the Group does not take up its share of a capital increase by a subsidiary, leading to a dilution of its percent interest, the operation is treated as a sale and the change in the share of the subsidiary's equity is recorded in equity in accordance with the revised IAS 27 if there has been no loss of control, and in profit if there has been a loss of control.

All intragroup profits and transactions are eliminated in consolidation.

8. Information by operating segment

Since the adoption of IFRS 8 with effect from January 1, 2009, the Group's segment information is presented in accordance with the information provided internally to management for the purpose of managing operations, making decisions and analyzing operational performance.

The information provided to management for internal management purposes is prepared in accordance with the IFRS used by the Group in its consolidated financial statements.

The Group has three operating segments: Lenses & Optical Instruments, Equipment, and Readers.

The Lenses & Optical Instruments business segment comprises the Group's Lens business (production, finishing, distribution and trading) and the Instruments business (small equipment used by opticians and related to the sale of lenses). The end customers for this business are eye care professionals (opticians and optometrists).

The business is managed by region. The regions are as follows:

- Europe;
- North America;
- Rest of World.

The Equipment business segment comprises the production, distribution and sale of high capacity equipment, such as digital surfacing machines and lens polishing machines, used in manufacturing plants and prescription laboratories for finishing operations on semi-finished lenses. The end customers for this business segment are optical lens manufacturers.

The Readers business segment comprises the production, distribution and sale of non-prescription reading glasses. The end customers for this segment are retailers that sell non-prescription reading glasses to consumers.

Indicators per operating segment are presented in Note 3 "Information by operating segment" appended to these financial statements.

The subsidiaries of the Nikon Essilor and Chemiglas subgroups are presented in the Lenses – Rest of World segment. Equipment subsidiaries are presented in the Equipment segment rather than in the appropriate geographical segment. The Puerto Rican plant, which is a branch of the French company Essilor International, has been moved from the Lenses – Europe segment to the Lenses – North America segment.

9. Consolidated cash flow statement

The cash flow statement has been prepared by the indirect method, whereby net profit is adjusted for the effects of non-cash transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Profit before non-cash items and share of profits of associates, net of dividends received, is defined as profit of fully-consolidated companies before depreciation, amortization and provisions (other than provisions for impairment of current assets) and other non-cash items (mainly the costs of stock option plans, share grants and employee stock ownership plans), plus dividends received from associates.

Working capital comprises inventories, receivables and payables, other receivables and payables, deferred income and prepaid expenses. Changes in working capital are stated before the effect of changes in scope of consolidation and exchange rates.

Cash flows of foreign subsidiaries are translated at the average exchange rate for the period.

The effect of changes in exchange rates on cash and cash equivalents corresponds to the effect of (i) changes in exchange rates between the beginning and end of the period and (ii) differences between the closing exchange rate and the average rate for the period on movements for the period.

The amounts reported for acquisitions (sales) of subsidiaries correspond to the purchase price (sale proceeds) less the cash and cash equivalents of the acquired (sold) subsidiary at the transaction date.

Cash corresponds to cash and marketable securities qualifying as cash equivalents less short-term bank loans and overdrafts.

- Marketable securities, consisting mainly of units in money market funds, are qualified as cash equivalents when the fund's management objectives fulfill the criteria specified in IAS 7.
- Marketable securities that do not fulfill these criteria are not classified as cash equivalents. Purchases and sales of these securities are treated as cash flows from financing activities.

10. Foreign currency translation

The financial statements of foreign subsidiaries are drawn up in the subsidiary's functional currency, defined as the currency of the primary economic environment in which the subsidiary operates.

Financial statement items measured in the functional currency are translated into euros as follows:

- balance sheet items are translated at the closing rate;
- income statement items and cash flows are translated at the average exchange rate for the period.

The difference between equity translated at the closing rate and the historical rate, and that resulting from the translation of net profit at the average rate for the period are recorded in equity, under "Translations difference," and reclassified to profit when the foreign subsidiary is sold or wound up.

11. Revenue

Revenue corresponds to revenue from the sale of products and the provision of services. It is stated net of volume discounts, cash discounts, returned goods and certain revenue-based commissions and deferred revenue associated with awards granted under customer loyalty programs.

Revenue from lens sales and Readers (non-prescription reading glasses) is recognized when the product has been delivered to and accepted by the customer and the related receivable is reasonably certain of being collected.

Revenue from laboratory equipment sales is recognized when the risks and rewards of ownership of the equipment have been transferred to the buyer, generally corresponding to the date of physical and technical acceptance by the buyer.

12. Cost of sales

Cost of sales corresponds mainly to the cost of goods sold, less any cash discounts received from suppliers.

13. Contribution from operations and operating profit

Contribution from operations corresponds to revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs, other operating expenses).

Equity-settled share-based payments, restructuring costs, gains and losses on asset disposals, and strategic acquisition costs are not included in contribution from operations but in the Group's operating profit. These items are non-recurring and not considered to contribute to the Group's current operations.

14. Share-based payments

Stock subscription options and performance share grants

The fair value of stock options and performance shares is determined as follows:

- performance-based stock subscription options granted since 2006, which are subject to vesting conditions based on the share performance, are measured using the Monte Carlo model;
- performance shares granted since 2006, which are subject to vesting conditions based on the change in the share price compared with the reference price on the grant date, are measured using the Monte Carlo model.

The fair value of stock subscription options on the grant date is recognized as an expense over the option acquisition period, taking into account the probability of the option being exercised early, with a corresponding adjustment to equity.

For performance shares, the acquisition period is considered as being the most probable period over which the performance conditions will be fulfilled, determined using the Monte Carlo model.

For the November 2011 and November 2012 performance share plans, a lock-up discount was applied to the portion of shares that will be granted after the plan's performance conditions have been fulfilled. This portion will be unavailable to grantees for an estimated five years.

The model parameters, as determined at the grant date, are as follows:

- share price volatility is determined by reference to historical volatilities;
- the risk-free interest rate corresponds to the government bond rate;
- the impact of dividends is taken into account in the model by applying a yield assumption determined by reference to the dividend paid in the previous year;
- the options' expected life is determined based on the vesting period and the exercise period;
- in line with CNC guidelines dated December 21, 2004, the lock-up discount applied to the November 2011 and November 2012 performance share plans was determined based on the cost for the employee of a two-step strategy consisting of selling the shares forward for delivery at the end of the lock-up period and purchasing the same number of shares for immediate delivery, with the purchase financed by a loan.

At each period-end, the probability of options or performance shares being forfeited is assessed by the Group. The impact of any adjustments to these estimates is recognized in profit, with a corresponding adjustment to equity.

Employee share issues

For employee share issues, the difference between the market price of the shares on the transaction date and the price at which the shares are offered to employees is recognized directly in profit and loss when the shares are issued.

IFRS 2 allows for the effect of any post-vesting transfer restrictions to be taken into account, but does not provide any guidance on measuring the corresponding discount. On December 21, 2004, the French accounting authorities (*Conseil National de la Comptabilité*) issued a press release containing measurement guidelines.

A discount has been taken into account since second-half 2007.

In line with CNC guidelines, the discount was determined based on the cost for the employee of a two-step strategy consisting of selling the shares forward for delivery at the end of the lock-up period and purchasing the same number of shares for immediate delivery, with the purchase financed by a loan.

15. Net interest income

Dividend income is recognized when the amount has been approved by the Annual Shareholders' Meeting of the company making the distribution.

Interest receivable or payable is recognized on an accruals basis in the period in which it is earned or due, by the effective interest method.

Cost of gross debt consists of interest on financing, realized gains or accrued interest on interest rate derivatives, and non-utilization fees on credit facilities.

Income from cash and cash equivalents includes interest received and accrued on investments made by Group companies: bank deposits, investments in marketable securities, etc.

16. Foreign exchange transactions

On initial recognition of foreign currency transactions, the receivable or payable is translated into the entity's functional currency at the exchange rate on the transaction date. At the period-end, they are re-translated at the closing rate. The resulting gains and losses are recognized in "Other financial income and expenses."

Foreign currency income and expenses are measured at the exchange rate on the transaction date. When the foreign currency transaction is part of a hedging relationship qualifying as a cash flow hedge under IAS 39, the income or expense is adjusted for the effective portion of the gain or loss from remeasurement at fair value of the currency hedging instrument at the transaction date.

17. Derivative financial instruments and financial instruments

In accordance with IAS 39, derivative instruments (including forward purchases and sales of foreign currencies) are initially recognized at cost and subsequently measured at fair value at each period-end.

Changes in fair value of derivative financial instruments are accounted for as follows:

- cash flow hedges: the effective portion of the gain or loss from remeasurement at fair value is recognized directly in equity under "Hedging reserves" until the effective completion of the scheduled transaction. When the scheduled transaction is completed, the amount recognized in equity is reclassified to profit: the income or expense is adjusted for the effective portion of the gain or loss from remeasurement at fair value of the hedging instrument. The ineffective portion of the gain or loss is recognized in "Other financial income and expenses";
- hedge of the net investment in a foreign operation: the effective portion of the gain or loss from remeasurement at fair value is recognized directly in equity under "Hedging reserves" and transferred to the "Translation difference" when the hedging instrument expires. The amount transferred to the "Translation difference" is reclassified to profit when the investment in the foreign operation is sold or the entity is wound up. The ineffective portion of the gain or loss is recognized in "Other financial income and expenses";

- fair value hedges: the gain or loss from remeasurement at fair value is recognized in profit on a symmetrical basis with the gain or loss from remeasurement at fair value of the hedged asset or liability;
- financial instruments that do not form part of a hedging relationship: certain derivatives that in substance represent hedges do not qualify for hedge accounting under IAS 39. Gains and losses from the fair value measurement of these derivative instruments are recognized directly in financial income and expenses, in accordance with the criteria of IAS39.

In accordance with IFRS 7, financial instruments at fair value are classified according to the following hierarchy:

- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

The fair values of the main financial assets and liabilities recorded in the consolidated balance sheet are determined according to the methods summarized below.

				Fair value measurement methods			
					Market data		
Type of instrument	**Method for balance sheet recognition**	**Fair value hierarchy level under IFRS 7**	**Note**	**Measurement model**	**Exchange rate**	**Interest rate**	**Volatility**
Available for sale financial asset (active market)	Fair value	1	16	Stock market price	N/A		
Long-term loan or advance	Amortized cost	N/A	16	N/A			
Forward exchange contract	Fair value	2	23	Discounted cash flows	ECB rate	< 1 year: Money Market > 1 year: Zero Coupon	N/A
Currency option	Fair value	2	23	Black and Scholes	ECB rate	< 1 year: Money Market > 1 year: Zero Coupon	At the money
Interest rate swap	Fair value	2	23	Discounted cash flows	N/A	< 1 year: Money Market > 1 year: Zero Coupon	N/A
Cross-currency swap	Fair value	2	23	Discounted cash flows	ECB rate	< 1 year: Money Market > 1 year: Zero Coupon	N/A
Money-market fund unit	Fair value	1	22	Market price (net asset value)	N/A		
Debt	Amortized cost	N/A	22	N/A			

18. Income tax expense

Deferred taxes are recognized by the liability method for temporary differences between the carrying amount of assets and liabilities in the consolidated balance sheet and their tax base.

They are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Adjustments to deferred taxes resulting from changes in tax rates are recognized in profit. However, when the deferred tax relates to items recognized in equity, the adjustment is also recognized in equity.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred taxes are charged or credited directly to equity when the tax relates to items that are recognized directly in equity, such as gains and losses on cash flow hedges and hedges of certain financial assets, and actuarial gains and losses on defined benefit plan obligations.

Deferred tax assets and liabilities are set off when they are levied on the same taxable entity (legal entity or tax group) by the same taxation authority and the entity has a legally enforceable right of set off.

Deferred taxes are recognized for all temporary differences associated with investments in subsidiaries and associates, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group is subject to taxation on earnings in several countries under various tax regulations. Calculation of taxes on a global scale requires the use of estimates and assumptions developed based on the information available at the balance sheet date.

19. Earnings per share

Basic earnings per share

Basic earnings per share correspond to profit attributable to Group equity holders divided by the weighted average number of shares outstanding during the year, excluding treasury stock.

Performance-based bonus share grants are taken into account to the extent that the performance criteria have been met before the balance sheet date.

Diluted earnings per share

Diluted earnings per share are calculated by taking into account dilutive potential shares, as follows:

- stock subscription options: the dilution arising from stock subscription options is calculated based on the weighted average number of shares plus the number of shares that would be issued or sold if the options were issued at market price instead of at the adjusted exercise price. The adjusted exercise price corresponds to the exercise price as adjusted for the cost to be recognized in future periods for options that have not yet vested at the period-end;
- performance grant of shares: the number of shares used for the calculation is determined based on the number of shares that would have been granted if the performance criterion had been applied at the balance sheet date.

20. Research and development costs

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

Research and development costs recognized in operating expense include the operating costs of the Group's research centers and engineering costs for the development of new production processes.

Development costs are recognized as an intangible asset if the following can be demonstrated:

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

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

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

21. Goodwill

Recognition of acquisitions made after January 1, 2010

Business combinations recorded after January 1, 2010 are recognized by the acquisition method, in accordance with the revised IFRS 3 – Business Combinations – applicable to periods starting on or after July 1, 2009.

The revised IFRS 3 defines the method for recognizing business combinations according to the acquisition method, and introduces the possibility of measuring non-controlling interests (minority interests) either at the full fair value (full goodwill method) or at the fair value of the proportion of identifiable net assets of the acquired entity (partial goodwill method). This option applies on an individual transaction basis.

Costs that are directly attributable to the acquisition are recognized as expenses for the period. Costs related to major strategic acquisitions (i.e. that represent highly significant amounts or correspond to a new area of business) are included in operating profit, under «Other operating expenses.» Costs related to lower-value acquisitions are included in «Other operating expenses» as part of «Contribution from operations.»

Acquisitions of non-controlling interests or sales without loss of controlling interests are considered to be transactions between shareholders and are recognized directly in equity without impacting goodwill.

For step acquisitions, the difference between the carrying amount of the investment held before the acquisition and its fair value at the acquisition date is recognized in operating profit ("Other expenses from operations" and "Other income from operations"), along with the recyclable components of other comprehensive income.

When put options have been granted to minority shareholders of subsidiaries, the amount recognized in liabilities is measured at the present value of the option exercise price. This liability is reclassified from "Minority interests" to "Other non-current liabilities" or "Other current liabilities" in the consolidated balance sheet according to its due date. The balance is allocated to Goodwill (full goodwill method) or equity (partial goodwill method).

Discounting adjustments to reflect the passage of time are recorded in the income statement.

Subsequent changes in the liability's fair value are recognized through Group equity.

Recognition of acquisitions made before January 1, 2010

Business combinations recorded after the IFRS transition date (January 1, 2004), and before January 1, 2010, are recognized by the acquisition method in accordance with IFRS 3 – Business Combinations.

Goodwill is the excess of:

- the acquisition cost, including any directly attributable costs of the business combination;
- over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date.

Under this method, the acquiree's identifiable assets, liabilities and contingent liabilities meeting the recognition criteria of IFRS 3 are recognized at fair value at the acquisition date, with the exception of non-current assets classified as held-for-sale which are measured at fair value less costs to sell. Only identifiable liabilities that meet the criteria for recognition as a liability in the acquiree's accounts are recognized in the business combination. In line with this principle, a liability for terminating or reducing the activities of the acquiree is recognized as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring.

In certain cases, the fair values used for the assets and liabilities of acquisitions for the period may be temporary and changed at a later date, after a final expert assessment or additional analyses. Any discrepancies resulting from the final valuation shall be recognized as a retrospective adjustment to goodwill if they take place within twelve months from the acquisition date. Any adjustments made more than twelve months after the acquisition date will be recognized directly in profit and loss, unless they correspond to corrections of errors.

Goodwill arising on acquisition of associates is included in the carrying amount of the investment.

When put options have been granted to minority shareholders of subsidiaries, their interest in the equity of the subsidiaries concerned is reclassified from «Minority interests» to «Non-current liabilities» or «Other current liabilities» in the consolidated balance sheet.

The amount recognized in liabilities is measured at the present value of the option exercise price. Discounting adjustments to reflect the passage of time are recorded in the income statement.

With regard to the accounting treatment in the consolidated balance sheet of the difference between the present value of the option exercise price and minority interests in the equity of the subsidiaries concerned, Essilor has elected to record this difference in "Goodwill." Future changes in the recognized liability will be reported as an adjustment to goodwill.

Impairment of goodwill

Goodwill subject to impairment tests is grouped into cash-generating units (CGUs) that correspond to the analytical focus of senior management.

The Group has defined 13 CGUs that correspond to like-for-like asset groups and generate identifiable cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is based on forecast cash flows less a pretax discount rate.

Plants that conduct manufacturing operations for several CGUs are grouped in a separate CGU whose cash flows are reallocated to the other CGUs based on unit sales. In line with this principle, the Asian plants are considered as a shared resource allocated to the other CGUs for impairment testing purposes.

Future cash flows are estimated as follows:

- the last fiscal year for the reference year (Y);
- annual budget for the year Y+1;
- cash flows for the years Y+2 to Y+5 are estimated by applying to Y+1 data growth rates that are consistent with the Company's projections and with the budgeted Y+1 growth rate.

These data are approved in advance by Management and take account of past experience.

The discount rate applied in all cases is the Company's weighted average cost of capital (WACC). A risk premium is added to the WACC for some CGUs, to reflect local conditions and the CGU's specific risk exposures. Note 11 summarizes the assumptions used.

Impairment tests are routinely performed on each CGU once a year at the time of the interim closing at the end of June. However, all sensitive items are tested again at the year end and any impairment losses are increased if necessary.

22. Other intangible assets

Other intangible assets consist mainly of trademarks, contractual customer relationships, technologies, concessions, patents and licenses. Trademarks, contractual customer relationships and certain technologies constitute purchase accounting adjustments recognized in connection with business combinations (see Note 1.21).

Other intangible assets are recognized at cost or fair value at the date of the business combination, net of accumulated amortization and impairment losses.

They are amortized on a straight-line basis over the assets' useful lives, as follows:

- software is amortized over periods ranging from 1 to 5 years;
- patents are amortized over the period of legal protection;
- trademarks with a finite life are amortized over periods ranging from 10 to 20 years;
- contractual customer relationships are amortized over periods ranging from 5 to 20 years;
- technologies are amortized over periods ranging from 5 to 15 years.

Trademarks with an indefinite life are not amortized. They are considered as having an indefinite life when:

- it can be demonstrated, based on an analysis of the life of the underlying products, the market and the competition, that there is no foreseeable limit to the period over which the products sold under the trademark are expected to generate net cash inflows;
- the Group has the intention and ability to support the trademark.

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

Trademarks with an indefinite life are tested for impairment annually, along with goodwill (see Note 1.21).

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

The directly attributable costs of producing identifiable and separable intangible assets are recognized as an intangible asset when they are controlled by the Group and it is probable that they will generate future economic benefits in excess of their cost over a period of more than one year. They are reported under "Intangible assets in progress" until the asset is completed.

23. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Finance leases, defined as leases that transfer to the Group substantially all of the risks and rewards of ownership of the asset, are recognized in assets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The leased assets are depreciated by the methods described below. The finance lease liability is included in debt.

Lease payments under operating leases, defined as leases where substantially all of the risks and rewards of ownership of the asset are retained by the lessor, are recognized as an expense on a straight-line basis over the lease term.

The directly attributable costs of producing identifiable and separable items of property, plant and equipment are recognized as property, plant and equipment when they are controlled by the Group and it is probable that they will generate future economic benefits in excess of their cost over a period of more than one year.

Depreciation

Depreciation is calculated on a straight-line basis so as to write off the cost of the assets less any residual value over the assets' useful life.

The main useful lives are as follows:

Buildings	20 to 33 years
Building improvements	7 to 10 years
Machinery, equipment and tooling	3 to 10 years
Other property, plant and equipment	3 to 10 years

When an item of property, plant and equipment comprises several parts with different useful lives, each part is recognized as a separate item and depreciated over its useful life.

Useful life and residual value of property, plant and equipment are reviewed at each period-end. As necessary, the occurrence of changes to the useful life or residual value is recognized prospectively as a change in accounting estimates.

When there are any internal or external indications that the value of an item of property, plant and equipment may be impaired, the recoverable amount of the CGU to which it belongs is calculated. If the recoverable amount is less than the CGU's carrying amount, a provision for impairment is recorded. A review is carried out at each period-end to determine whether any such indications exist.

24. Other long-term financial investments

Available-for-sale financial assets

In accordance with IAS 39, investments in non-consolidated companies and other long-term financial investments qualifying as "available-for-sale financial assets" under IAS 39 are measured at fair value, with changes in fair value recognized directly in equity.

The change in fair value of such assets is recognized in equity. The amount recorded in equity is restated when the asset is disposed of or liquidated, or if there exists objective evidence of lasting impairment of such asset.

Whenever unrecognized losses are deemed to be significant or lasting, they are recognized directly in income.

The fair value of financial assets traded in an active market corresponds to their market price. The fair value of assets not traded in an active market is determined by reference to the market value of similar securities or the prices of recent arm's length transactions, or by the discounted cash flows method.

Other assets measured using the cost model

Loans and receivables are measured at amortized cost.

A provision is recorded for any other-than-temporary impairment in value or any collection risk.

25. Non-current assets held for sale

Non-current assets held for sale are assets that the Group has undertaken to sell. When they are being classified, non-current assets held for sale are measured at the lower of carrying amount and fair value net of selling costs, with an impairment charge recorded as necessary. Assets classified as held-for-sale are not depreciated or amortized.

26. Inventories

Inventories are measured at the lower of weighted average cost and net realizable value.

Net realizable value takes into account market prices, the probability of the items being sold and the risk of obsolescence, assessed by reference to objective inventory levels.

27. Trade receivables

Trade receivables due within one year are classified as current assets. Trade receivables due beyond one year are classified as non-current assets.

Provisions are recorded to cover any collection risk. Risk of recovery is determined based on the various types of Group clients, most often on a statistical basis but also by taking into account specific situations if necessary.

28. Cash and cash equivalents

Cash and cash equivalents correspond to cash and marketable securities qualified as cash equivalents under IAS 7.

Marketable securities held by the Group that do not qualify as cash equivalents under IAS 7 are reported under "Other marketable securities" and are taken into account by the Group for the calculation of net debt (see Note 22, "Net Debt and Borrowings" appended to these financial statements").

In accordance with IAS 39, investment securities are recognized at market value at the balance sheet date. Changes in market value are recorded as financial profit or losses.

29. Equity

Additional paid-in capital

Additional paid-in capital corresponds to the excess of the issue price of shares over their par value.

Treasury stock

Treasury stock is deducted from equity at cost, including directly attributable transaction expenses.

Capital gains and losses on sales of treasury stock are recorded directly in equity, for their amount net of tax.

Hedging and revaluation reserves

Hedging and revaluation reserves comprise:

- the effective portion of the gain or loss arising from remeasurement at fair value of financial instruments acquired as cash flow hedges or hedges of the net investment in foreign operations, net of deferred tax;
- the difference between the cost of available-for-sale financial assets and their fair value, which is recognized directly in equity in accordance with IAS 39, net of deferred tax;
- actuarial gains and losses on defined benefit pension plans, net of deferred tax.

Dividends

Dividends are deducted from equity when they are approved by shareholders.

Negative equity

If a consolidated company has negative equity, minority interests are treated as being attributable to the Group unless the minority shareholders are liable for their share of the losses and are capable of fulfilling this obligation.

Minority interests

Minority interests represent the portion of the net assets and net profit of a consolidated entity that is not attributable to the Group, directly or indirectly.

When minority shareholders of consolidated companies acquired before or after January 1, 2010 have been granted put options, their amount is valued at the fair value of the put option. That amount is reclassified in the consolidated balance sheet from "Minority interests" to "Other non-current liabilities" or "Other current liabilities" based on their expiration date.

30. Borrowings

Borrowings are initially recognized at an amount corresponding to the issue proceeds net of directly attributable transaction costs.

Any difference between this amount and the redemption price is recognized in profit and loss over the life of the debt by the effective interest method.

31. Pension and other post-employment benefit obligations

The Essilor group companies may have obligations for the payment of pensions, early-retirement benefits, length-of-service awards, jubilees and other post-employment benefits under the laws and practices applicable in their host country.

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

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

- the projected benefit obligation, corresponding to the vested rights of active and retired employees, is determined by the projected unit credit method, based on estimated final salaries. The actuarial assumptions used differ depending on the country (discount rate, inflation rate) and the Company (staff turnover rates, rate of future salary increases);
- the discount rate corresponds to the prime interest rate in the country concerned for periods corresponding to the estimated average duration of the benefit obligation. Discounting adjustments are recognized in operating expense;
- in cases where all or part of the obligation is funded under an external plan, a provision is recorded for the difference between the projected benefit obligation and the fair value of the plan assets;
- actuarial gains and losses resulting from changes in assumptions and experience-based adjustments are recognized in equity, under "Hedging and revaluation reserves";
- when a company introduces a defined benefit plan or changes the benefit formula under an existing defined benefit plan and rights under the new or modified plan are unvested, the related change in the Company's obligation ("past service cost") is recognized in profit on a straight-line basis over the expected average remaining service lives of the plan participants. When rights under the new or modified plan vest immediately, the resulting change in the Company's obligation is recognized in profit immediately;
- provisions recorded in the balance sheet correspond to the projected benefit obligation less the fair value of any plan assets and unrecognized past service cost.

32. Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the balance sheet – except in connection with business combinations (see Note 1.21) – but are disclosed in the notes to the financial statements unless the probability of an outflow of resources embodying economic benefits is very remote.

Provisions are determined based on facts and circumstances, historical risk data and the information available at the balance sheet date.

Restructuring provisions are recognized when the Group has a detailed formal plan for the restructuring and has announced its main features to those affected by it.

No provision is recognized for future operating losses.

Provisions for warranty costs are recognized when the products are sold. The corresponding charge is recognized in cost of sales.

33. Other non-current and current liabilities

When put options have been granted to minority shareholders of subsidiaries, their interest in the equity of the subsidiaries concerned is reclassified from "Minority interests" to other liabilities in the consolidated balance sheet. Depending on maturity, the liabilities are divided between «Other current liabilities» and «Other non-current liabilities.»

The amount recognized in liabilities is measured at the present value of the option exercise price. Discounting adjustments to reflect the accretion of discount are recorded in the income statement.

The accounting treatment in the consolidated balance sheet of the difference between the present value of the option exercise price and minority interests in the equity of the subsidiaries concerned is presented in «Goodwill». Future changes in the recognized liability are reported in goodwill for companies acquired before January 1, 2010.

Following the application of the revised IFRS 3, future changes in the recognized liability are recorded through equity for companies acquired after January 1, 2010.

Contingent consideration must be recognized at its acquisition-date fair value as part of the consideration transferred in exchange for the acquiree, whether or not its payment is considered probable. For companies acquired before January 1, 2010, future changes in the additional price are recognized in goodwill. Following the application of the revised IFRS 3, future changes in the additional price are recorded in income and other expenses from operations for companies acquired after January 1, 2010.

NOTE 2. Exchange rates and scope of consolidation

1. Exchange rates of the main functional currencies

For €1	Closing rate		Average rate	
	2012	2011	2012	2011
CAD	1.31	1.32	1.28	1.38
GBP	0.82	0.84	0.81	0.87
CNY	8.22	8.16	8.11	9.00
JPY	113.61	100.20	102.49	110.99
INR	72.56	68.71	68.60	64.87
BRL	2.70	2.42	2.51	2.33
CHF	1.21	1.22	1.21	1.23
USD	1.32	1.29	1.28	1.39

2. Changes in the scope of consolidation

The consolidated financial statements include the financial statements of holding companies, asset management companies and entities meeting one of the following two criteria:

- annual revenue in excess of €3 million; or
- tangible assets in excess of €9 million.

Entities that do not fulfill these criteria may also be consolidated, if their consolidation has a material impact on the Company's financial statements.

Moreover, companies acquired at the very end of the year that do not have the resources to produce financial statements according to Group standards within the time allotted shall be entered into the scope of consolidation the following January 1, if the impact of their consolidation is not material for the Group.

Newly consolidated companies

The following companies were consolidated for the first time in 2012:

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
Imperial[a]	Canada	January 1, 2012	Full	60.00	100.00
Essilor Colombia	Colombia	January 1, 2012	Full	100.00	100.00
Reize[a]	Switzerland	January 1, 2012	Full	65.00	100.00
Optiben[a]	Morocco	January 1, 2012	Full	65.00	100.00
VST Lab[a]	Morocco	January 1, 2012	Full	65.00	100.00
Amico Qatar	Qatar	January 1, 2012	Full	49.00	100.00
Osme	United Arab Emirates	January 1, 2012	Full	100.00	100.00
Opti Express[a]	Dominican Republic	January 1, 2012	Full	51.00	100.00
Seeworld Optical Co. Ltd.[a]	China	January 1, 2012	Full	51.00	100.00
Essilor Cambodia[a]	Cambodia	January 1, 2012	Full	51.00	100.00
Seeworld Holding PTE Ltd.[a]	Singapore	January 1, 2012	Full	51.00	100.00
Essilor Philippines Holding[a]	Singapore	January 1, 2012	Full	51.00	100.00
Wallace Everett Lens Technology[a]	Australia	January 1, 2012	Full	66.00	100.00
Incheon Optics	South Korea	February 22, 2012	Full	40.00	100.00
Blue Optics	United States	February 29, 2012	Full	80.00	100.00

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
Cristal y Plastico S.A. de CV	Mexico	March 12, 2012	Full	51.00	100.00
Central Optical	United States	April 2, 2012	Full	60.00	100.00
Essilor Optica International Holding S.L.	Spain	June 1, 2012	Full	100.00	100.00
Yeda Tora	Turkey	June 1, 2012	Full	70.00	100.00
Ipek	Turkey	June 1, 2012	Full	70.00	100.00
Optovision S.A.	Argentina	July 2, 2012	Full	51.00	100.00
Opak	Turkey	August 1, 2012	Full	51.00	100.00
Shamir Brasil Comercial Ltda.	Brazil	August 1, 2012	Full	50.00	100.00
Riachuelo	Brazil	August 10, 2012	Full	70.00	100.00
Balester Optical	United States	September 1, 2012	Full	100.00	100.00
Carskadden Optical	United States	October 1, 2012	Full	100.00	100.00
Hirsch Optical	United States	October 1, 2012	Full	100.00	100.00
Shamir Russia LLC	Russia	October 1, 2012	Full	50.00	100.00
Essiholding	France	November 1, 2012	Full	100.00	100.00
Essilor – Sivo	Tunisia	November 1, 2012	Full	55.00	100.00
Sicom	Tunisia	November 1, 2012	Full	55.00	100.00
Essilor Distribution Thailand Co. Ltd.	Thailand	November 1, 2012	Full	100.00	100.00
Sivo Togo	Togolese Republic	November 1, 2012	Full	28.00	100.00
Laboratoires Sivo Abidjan	Côte d'Ivoire	November 1, 2012	Full	50.00	100.00
Codi – Sivo	Cameroon	November 1, 2012	Full	28.00	100.00
Sivom	Morocco	November 1, 2012	Full	28.00	100.00
Eye Buy Direct US	United States	November 1, 2012	Full	60.83	100.00
Eye Buy Direct HK	Hong Kong	November 1, 2012	Full	60.83	100.00
Eye Buy Direct China	China	November 1, 2012	Full	60.83	100.00
Eyewear LLC	United States	November 1, 2012	Full	60.83	100.00
Tian Hong	China	November 28, 2012	Full	50.00	100.00
X-Cell	United States	December 7, 2012	Full	80.00	100.00
Interactif Visual System	France	December 21, 2012	Full	68.29	100.00
IVS Technical Center	France	December 21, 2012	Full	68.29	100.00
Activ Screen	France	December 21, 2012	Full	68.29	100.00
Lenstech Optical Lab	United States	December 31, 2012	Full	80.00	100.00

(a) Companies acquired or set up in prior years, consolidated for the first time in 2012.

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The 2012 income statement also includes the contribution over the full year of the following companies that were consolidated for the first time in 2011:

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
Precision Optics Pty Ltd.	Australia	February 13, 2011	Full	60.00	100.00
Polinelli SRL	Italy	February 28, 2011	Full	100.00	100.00
Framed Vision	United Kingdom	March 1, 2011	Full	100.00	100.00
L'N Optics	Morocco	March 15, 2011	Full	51.00	100.00
Repro	Brazil	April 1, 2011	Full	70.00	100.00
Trend Optical Singapore	Singapore	April 1, 2011	Full	70.00	100.00
Trend Optical Taiwan Branch	Taiwan	April 1, 2011	Full	70.00	100.00
Orgalent	Brazil	May 1, 2011	Full	51.00	100.00
Essilor Israel Holding	Israel	July 1, 2011	Full	100.00	100.00
Spherical Optics (Pty) Ltd.	South Africa	July 1, 2011	Full	25.50	100.00
Shamir Optic GmbH	Germany	July 1, 2011	Full	50.00	100.00
Essilor Australia (Pty) Ltd.	Australia	July 1, 2011	Full	33.00	100.00
Shamir Optical Espana, SL	Spain	July 1, 2011	Full	50.00	100.00
Shamir Insight, Inc.	United States	July 1, 2011	Full	50.00	100.00
Shamir USA	United States	July 1, 2011	Full	50.00	100.00
Shamir France SARL	France	July 1, 2011	Full	50.00	100.00
Shamir UK Limited	United Kingdom	July 1, 2011	Full	50.00	100.00
Shamir Holding Optical	Israel	July 1, 2011	Full	50.00	100.00
Shamir Optical Industry	Israel	July 1, 2011	Full	50.00	100.00
Shamir Special Optical Products Ltd.	Israel	July 1, 2011	Full	50.00	100.00
Shamir Eyal Ltd.	Israel	July 1, 2011	Full	50.00	100.00
Shamir Israel Optical Marketing Ltd.	Israel	July 1, 2011	Full	50.00	100.00
Shamir Or Ltd.	Israel	July 1, 2011	Full	50.00	100.00
Inray Ltd.	Israel	July 1, 2011	Full	25.00	100.00
Shamir RX Italia SRL	Italy	July 1, 2011	Full	50.00	100.00
Centro Integral Optico S.A de C.V	Mexico	July 1, 2011	Full	25.50	100.00
Shalens S.A C.V	Mexico	July 1, 2011	Full	25.50	100.00
Shamir Nederland B.V	Netherlands	July 1, 2011	Full	50.00	100.00
Shamir Polska Sp. zo.o	Poland	July 1, 2011	Full	42.50	100.00
Shamir Portugal, LDA	Portugal	July 1, 2011	Full	50.00	100.00
ShamirLens Thailand Co., Ltd.	Thailand	July 1, 2011	Full	24.50	100.00
Shamir Optispeed	South Africa	July 1, 2011	EM	13.00	25.00
Shamir Emerald	South Africa	July 1, 2011	EM	14.00	28.00
K-T Optic Co., Ltd.	Thailand	July 1, 2011	Full	24.50	100.00
Altra Optik Sanayi ve Ticaret A.S	Turkey	July 1, 2011	Full	50.00	100.00
Fundy Vision	Canada	August 1, 2011	Full	80.00	100.00
Grown	Brazil	August 16, 2011	Full	51.00	100.00
Mult Block	Brazil	August 16, 2011	Full	51.00	100.00
Mult Optical	Brazil	August 16, 2011	Full	51.00	100.00
Styll	Brazil	August 16, 2011	Full	51.00	100.00
YTT Holding	Brazil	August 16, 2011	Full	51.00	100.00
Comopticos	Brazil	September 1, 2011	Full	70.00	100.00
Optics East	United States	November 1, 2011	Full	80.00	100.00

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
GKB Emirates	United Arab Emirates	December 1, 2011	Full	50.25	100.00
GKB HI Tech	India	December 1, 2011	Full	50.25	100.00
Professional Opthalmic Lab	United States	December 1, 2011	Full	80.00	100.00
Youli Optics Co Ltd.	China	December 1, 2011	Full	51.00	100.00
Stylemark	United States	December 14, 2011	Full	100.00	100.00
Stylemark Canada	Canada	December 14, 2011	Full	100.00	100.00
Canto e Mello	Brazil	December 15, 2011	Full	70.00	100.00

Other movements

As part of their shared desire to accelerate the development of their joint venture "Nikon-Essilor" which is based in Japan, Nikon and Essilor decided to improve its method of governance without changing its capital structure and to entrust its operational management to Essilor employees. Consequently, Essilor will consolidate 100% of the Company's sales into its financial statements at January 1, 2012.

The same reasoning with the same accounting consequences was applied to "Essilor Korea", a joint venture between Essilor and Samyung Trading based in South Korea, and a shareholder in Chemiglas, effective February 1, 2012.

The full consolidation of Nikon-Essilor and Essilor Korea added €101.3 million to 2012 revenue.

In addition, the Group's holding in the following companies has been changed:

- Vision Pointe Optical Inc, from 80% to 100% on January 1, 2012;
- United Optical Laboratories Ltd., from 80% to 100% on February 15, 2012;
- Athlone, from 80% to 100% on February 15, 2012;
- MGM, from 80% to 85% on March 1, 2012;
- Laboratoire d'Optique SDL, from 95% to 96% on March 1, 2012;
- Vision & Value Optical Labs, from 51% to 60% on April 23, 2012, then to 80% on December 29, 2012;
- Omax, from 75% to 85% on April 26, 2012;
- OOGP, from 80% to 100% on May 23, 2012;
- Opti-Matrix, from 80% to 100% on May 23, 2012, then from 100% to 80% on December 31, 2012;
- Unilab, from 51% to 63.33% on May 31, 2012, then to 71.33% on December 27, 2012;
- Sutherlin, from 85% to 100% on June 26, 2012;
- Optisource, from 80% to 90% on July 3, 2012;
- Personal Eyes, from 80% to 100% on July 31, 2012;
- Encore LLC, from 39.83% to 49.83% on October 1, 2012;
- 21st Century Road, from 80% to 100% on October 17, 2012;
- Frames For America, from 70% to 43% on November 1, 2012;
- Inray, from 25% to 50% on November 7, 2012;
- MOC Acquisition Corp, from 80% to 84% on December 15, 2012;
- Collard Rose, from 80% to 95% on December 26, 2012;
- Vision Craft, from 80% to 100% on December 26, 2012;
- Tecnolens, from 70% to 71% on December 27, 2012;
- Dibok-Aspen, from 80% to 100% on December 28, 2012;
- Pech Optical, from 80% to 90% on December 28, 2012.

Tech-Cite Laboratories Co Ltd. was absorbed by par Nikon Optical Canada Inc on January 1, 2012.

Vision Pointe was merged into Deschutes on August 10, 2012.

Optique Lison Inc (Canada) was liquidated on August 1, 2012.

3. Impact of changes in scope of consolidation and exchange rates

Balance sheet

The impact of changes in the scope of consolidation on the consolidated balance sheet is analyzed below:

€ thousands	Newly consolidated companies 2012
Intangible assets	15,574
Property, plant and equipment	21,776
Investments in associates	0
Non-current financial assets	92,405
Other non-current assets	373
Current assets	67,534
Cash and cash equivalents	30,257
TOTAL ASSETS ACQUIRED AT FAIR VALUE	**227,919**
Minority interests in equity	11,094
Long-term borrowings	5,658
Other non-current liabilities	8,810
Short-term borrowings	3,942
Other current liabilities	53,187
TOTAL LIABILITIES ASSUMED AT FAIR VALUE	**82,691**
NET ASSETS ACQUIRED[a]	**145,228**
Acquisition cost	252,449
Fair value of net assets acquired[a]	145,228
Liabilities arising from put options granted to minority shareholders	(90,802)
Post-acquisition retained earnings	0
Recognized goodwill	**198,023**

(a) Or consolidated during the period.

The amount recognized as goodwill is supported by projected synergistic benefits and the growth outlook of the acquired companies within Essilor.

The fair value used for the assets and liabilities of acquisitions for the period is temporary and may be changed at a later date, after a final expert assessment or additional analyses. Any discrepancies resulting from the final valuation shall be recognized as a retrospective adjustment to goodwill if they take place within twelve months from the acquisition date.

Due to the change in consolidation of joint ventures, goodwill of €17 million was recognized at December 31, 2012.

Income statement

The methods for determining the impact of changes in scope of consolidation and exchange rates on the income statement are explained below.

Changes in performance indicators (revenues, contribution from operations, and operating profit) are apparent when broken down by their impact on the Group's acquisitions (scope of consolidation impact), on currency changes (foreign exchange impact) and on intrinsic operations, or growth on a like-for-like basis.

Impact of changes in consolidation scope:

- impact of changes in the scope of consolidation arising from acquisitions during the year is recorded in the subsidiaries' income statements, from their consolidation date, until December 31 of the current fiscal year;
- impact of changes in scope for companies acquired during the previous year consist of the subsidiaries' income statements for the year, since January 1 of the current fiscal year until the anniversary date of their consolidation;
- divested companies do not impact the change in scope of consolidation since no subsidiaries consolidated in full consolidation or proportionate consolidation were sold by the Group;
- major strategic acquisitions, i.e., those that represent highly significant amounts or correspond to a new area of business, are distinguished from "organic" acquisitions related to lower-value acquisitions within the Group's core businesses (prescription laboratories or factories).

Impact of foreign exchange changes:

- this is determined on a per-subsidiary basis by applying the average conversion rate from the previous year to the income statement for the current year for non-euro subsidiaries, restated for scope of consolidation impacts as above, and by calculating the change in this value relative to the income statement of the previous year for each subsidiary;
- as a result, the effects on the financial statements of subsidiaries stem from the currency conversion, rather than the currency itself.

Like-for-like growth is determined as the residual difference in apparent growth, less the impact of changes in the scope of consolidation and changes in exchange rates. Organic growth is growth on a like-for-like consolidation and exchange rate basis.

The overall effect of changes in scope of consolidation and exchange rates on revenue, contribution from operations and operating profit was as follows:

As a %	Reported growth	Impact of changes in exchange rates	Impact of changes in consolidation scope: o/w organic acquisitions	Impact of changes in consolidation scope: o/w strategic acquisitions[(a)]	Like-for-like growth
Revenue	19.1	4.6	2.8	6.5	5.2
Contribution from operations	19.5	4.5	1.7	5.7	7.6
Operating profit	21.8	4.4	2.1	8.4	6.9

(a) And change in consolidation method for "Nikon-Essilor" and "Essilor Korea".

The impact of consolidating strategic acquisitions only applies until June 2012 for the Shamir group, consolidated at July 1, 2011, and until December 2012 for the Stylemark group, consolidated at December 14, 2011.

If the companies consolidated during the year (see Note 2.2 – Newly consolidated companies) were consolidated at January 1, 2012, the Group's 2012 revenue and profit attributable to Group equity holders could be estimated to have been as follows:

€ millions	2012 pro-forma
Revenue	5,064
Profit attributable to Group equity holders	586

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NOTE 3. Segment information

2012 € millions	Lenses Europe	Lenses North America	Lenses Rest of World	Equipment	Readers	Eliminations	Group Total
Revenue	1,559	1,736	1,151	199	344		4,989
Intra-segment sales	221	86	435	61		(803)	
TOTAL REVENUE	**1,780**	**1,822**	**1,586**	**260**	**344**	**(803)**	**4,989**
Operating profit	169	234	351	36	42		832
Depreciation, amortization and other non-cash items	(28)						(28)
Interest income	5	5	7				17
Interest expense	(6)	(9)	(8)	(1)			(24)
Income tax expense	(55)	(60)	(70)	(11)	(11)		(207)
Share of profit of associates	4	12	8				24
Depreciation and amortization of intangible and tangible assets	(65)	(64)	(75)	(10)	(35)		(249)
Purchases of property, plant and equipment and intangible assets	59	47	88	8	39		241
Non-current assets	629	1,070	1,001	346	663		3,709
Total assets	1,827	1,646	2,156	480	798		6,907
Provisions	231	40	30	24	7		332
Borrowings and payables	1,167	622	642	65	159		2,655

2011 € millions	Lenses Europe	Lenses North America	Lenses Rest of World	Equipment	Readers	Eliminations	Group Total
External revenue	1,471	1,503	821	185	210		4,190
Intra-segment revenue	188	73	315	49		(625)	
TOTAL REVENUE	**1,659**	**1,576**	**1,136**	**234**	**210**	**(625)**	**4,190**
Operating profit	164	219	236	28	36		683
Depreciation, amortization and other non-cash items	(23)						(23)
Interest income	3	2	5				10
Interest expense	(8)	(13)	(5)				(26)
Income tax expense	(48)	(59)	(47)	(10)	(15)		(179)
Share of profit of associates	8	12	8				28
Depreciation and amortization of intangible and tangible assets	(66)	(51)	(54)	(9)	(13)		(194)
Purchases of property, plant and equipment and intangible assets	50	44	90	6	15		205
Non-current assets	604	1,014	799	347	656		3,420
Total assets	1,671	1,539	1,685	472	791		6,158
Provisions	232	41	18	20	8		319
Borrowings and payables	1,151	521	442	73	194		2,381

The Group's top 20 customers accounted for 21.1% of revenue in 2012, and 21.1% in 2011.

No single customer accounts for more than 10% of the Group's revenue.

NOTE 4. Personnel costs, depreciation and amortization

Personnel costs totaled €1,550 million in 2012 compared with €1,287 million in 2011 (see Note 29, "Number of employees and personnel costs").

Depreciation and amortization expenses amounted to €244 million in 2012 compared with €192 million in 2011.

NOTE 5. Other income (expenses), net

1. Restructuring costs and other income and expenses from operations

Net restructuring costs for 2012, in the amount of €25.3 million, resulted from the rationalization of plants in the United States and in Europe, and were accounted for either as provisions for contingencies or as impairment losses, or as scrapping of non-current assets.

Net restructuring costs for 2011, in the amount of €22.6 million, concerned rationalization costs for plants in the United States and in Europe, and were accounted for either as provisions for contingencies or as impairment losses, or as scrapping of non-current assets.

For 2012, other operating income and expenses representing a net profit of €24.3 million included fees related to disputes amounting to €19.6 million and strategic acquisition costs of €1.6 million.

For 2011, other operating income and expenses representing a net profit of €16.8 million included strategic acquisition costs of €7.5 million. Other charges concerned provisions or charges related to litigation.

For 2012, income from disposals of assets showed a gain of €15.6 million, primarily consisting of the capital gain produced when the "Nikon-Essilor" and "Essilor Korea" joint ventures were fully consolidated, having previously been proportionately consolidated.

In 2011, income from assets disposals showed a loss of €2.5 million.

2. Share-based payments

Compensation costs on share-based payments are measured by the method described in Note 1.14. They break down as follows:

€ thousands	2012	2011
Stock subscription options	3,512	5,939
Performance shares[(a)]	24,200	16,854
Employee share issues	709	418
COMPENSATION COSTS ON SHARE-BASED PAYMENTS	**28,421**	**23,211**

(a) Including the employer contribution.

Stock subscription options

The exercise price of stock subscription options corresponds to the average of the share prices quoted over the 20 trading days preceding the date of the Board Meeting at which the grants are decided.

Gains on options granted since 2004 (corresponding to the difference between the average share price during the three calendar months prior to the month of exercise of the option and the exercise price) are capped at 100% of the exercise price.

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

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

The main assumptions used to measure compensation costs on stock options granted in 2012 are as follows:

- share price volatility: 17.61% (2011 grants: 21.5%);
- risk-free interest rate: 2.14% (2011 grants: 3.64%);
- yield: 1.55% (2011 grants: 1.82%).

Based on these assumptions, the fair value of options granted in 2012 amounted to €11.32 (€8.85 in 2011).

The following table analyzes changes in the number of outstanding options:

	Number of options	Weighted average exercise price (€)
STOCK SUBSCRIPTION OPTIONS AT JANUARY 1, 2012	**5,473,086**	**38.41**
Options exercised	(2,700,390)	35.51
Options canceled and forfeited	(80,171)	40.42
Options granted	81,760	71.35
STOCK SUBSCRIPTION OPTIONS AT DECEMBER 31, 2012	**2,774,285**	**42.15**
Stock subscription options at January 1, 2011	**7,483,640**	**36.56**
Options exercised	(1,972,933)	31.97
Options canceled and forfeited	(123,241)	38.83
Options granted	85,620	52.27
Stock subscription options at December 31, 2011	**5,473,086**	**38.41**

The average remaining life of outstanding options at December 31, 2012 was 3.9 years (2011: 3.5 years).

The weighted average price of the Essilor share in 2012 was €68.9 (2011: €52.7).

Performance shares

Since 2006, the Essilor group has launched performance share grants.

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

The maximum number of performance shares that would vest assuming that the vesting conditions were met is as follows:

- 2012 grants: 1,274,980 shares;
- 2011 grants: 1,267,634 shares.

The following table analyzes changes in the number of performance shares at each period-end:

	Quantity
PERFORMANCE SHARES AT JANUARY 1, 2012	**2,203,447**
Performance shares vested	(578,008)
Performance shares cancelled	(52,145)
Performance shares granted	1,274,980
PERFORMANCE SHARES AT DECEMBER 31, 2012	**2,848,274**
Performance shares at January 1, 2011	**1,558,466**
Performance shares vested	(585,346)
Performance shares cancelled	(37,307)
Performance shares granted	1,267,634
Performance shares at December 31, 2011	**2,203,447**

Plans dated November and December 2010 were granted during 2012 after performance conditions were met.

The main assumptions used to measure compensation costs on performance shares granted in 2012 are as follows:

- share price volatility: 17.61% (2011 grants: 21.5%);
- risk-free interest rate: 2.14% (2011 grants: 3.64%);
- yield: 1.55% (2011 grants: 1.82%).

Based on these assumptions, the fair value of the shares granted in 2012 was €36.33 for non-residents of France (€26.11 in 2011) and €26.95 for French residents (€20.76 in 2011).

Employee share issues

The main parameters used to measure the cost of employee share issues recognized in 2012 are as follows:

Plan date	December 2012
Share subscription price (€)	57.08
Total discount (€)	14.27
Number of shares subscribed	385,354
Discount on the share cash price on grant date represented by the lock-up clause	22.1%
Share cash price on grant date (€)	75.66
Risk-free interest rate on the grant date	0.6%
Refinancing cost	6.0%
Cost recognized in the income statement (€ thousands)	709

Based on these assumptions, the fair value of the shares subscribed in 2012 was €58.92 (€42.62 in 2011).

NOTE 6. Foreign exchange gains & losses

€ thousands	2012	2011
Foreign exchange gains	84,959	82,635
Foreign exchange losses	(92,789)	(86,312)
Change in fair value of exchange rate instruments	1,051	3,592
FOREIGN EXCHANGE INCOME	**(6,779)**	**(85)**

NOTE 7. Other financial income and expenses

€ thousands	2012	2011
By nature		
Change in fair value of financial instruments	367	(3,857)
Provisions for impairment of available-for-sale financial assets	(400)	(787)
Dividends from available-for-sale financial assets	773	474
Other financial income and expenses	(4,913)	(5,747)
OTHER FINANCIAL INCOME AND EXPENSES	**(4,173)**	**(9,917)**

Other financial income and expenses mainly include discounting adjustments to financial expenses related to put options granted to minority shareholders, which amounted to €5,267 thousand in 2012 (versus €5,591 in 2011).

NOTE 8. Income tax

Income tax gain (loss) for the period

€ thousands	2012	2011
Current tax	(221,048)	(185,897)
Deferred taxes	13,926	6,501
TOTAL	**(207,122)**	**(179,396)**

Tax Proof

As a % of pre-tax profit	2012	2011
Standard French income tax rate	34.4	34.4
Differences in foreign tax rate impact	(8.0)	(7.5)
Impact of reduced rates and permanent differences between book and taxable profit	0.1	(1.2)
Other non-deductible/non-taxable items under local tax rules	(1.0)	1.1
EFFECTIVE INCOME TAX RATE	**25.5**	**26.8**

Change in deferred taxes recognized in the balance sheet

The change in net deferred taxes (assets – liabilities) recognized in the balance sheet can be analyzed as follows:

€ thousands	2012	2011
AT JANUARY 1	**(47,066)**	**(31,201)**
Deferred taxes recognized in equity	(186)	3,360
Deferred tax income (expense) for the period, net	13,926	6,501
Effect of changes in scope of consolidation, exchange rate impacts and other movements	1,776	(25,726)
AT DECEMBER 31	**(31,550)**	**(47,066)**

Unrecognized deferred tax assets

€ thousands	2012	2011
Tax loss carryforwards	53,643	37,479
Other unrecognized deferred tax assets	19,326	4,368
UNRECOGNIZED DEFERRED TAX ASSETS	**72,969**	**41,847**

Since most of the deferred tax bases for French companies were for a term of over two years, the tax rate was not changed with regard to the exceptional contribution defined by the 2012 Supplementary Budget Act.

Deferred taxes by type

€ thousands	2012	2011
Elimination of intercompany profits	37,631	33,688
Differences in depreciation periods	(5,942)	(12,167)
Temporarily non-deductible provisions	24,720	36,313
Actuarial gains and losses	8,368	11,309
Assets and liabilities recognized on an acquisition	(125,725)	(142,976)
Other	29,398	26,767
TOTAL	**(31,550)**	**(47,066)**

Other deferred taxes include miscellaneous timing differences related to income and expenses not taxable or deductible in the current period, various adjustments to local financial statements to comply with Group accounting policies (mainly concerning finance leases and untaxed provisions) and deferred tax assets related to tax loss.

Deferred taxes on share-based payments

On July 17, 2008, the French auditing authorities (*Compagnie Nationale des Commissaires aux Comptes* – CNCC) issued guidance requiring companies to recognize in income any tax savings realized on share-based payment plans, whether cash or equity-settled.

The deferred tax asset recognized as from 2008 is limited to the tax saving that the Company expects to realize on current share grant plans.

Tax consolidation

In France, Essilor, Tikai Vision (formerly Barbara), BBGR, BNL, Delamare, Essidev, Invoptic, Novisia, OMI, Optim, FGX Holding France, OSE (not consolidated) and Varilux University (not consolidated) form a single group for tax purposes. The tax is paid by the parent company of the tax group. In 2012, the companies in the tax group generated a tax benefit of €3.6 million (2011: €3 million).

Provision for tax risks

Following various tax audits and proceedings underway within the Group, provisions totaling €29.9 million were recognized at December 31, 2011. These provisions were adjusted to €20.5 million at December 31, 2012.

NOTE 9. Change in number of shares

The shares have a par value of €0.18.

	Actual number of shares	
	2012	2011
ORDINARY SHARES, NET OF TREASURY STOCK, AT JANUARY 1	**208,675,170**	**208,761,230**
Exercise of stock subscription options	2,700,390	1,861,638
Subscription of the Essilor group FCP mutual fund	385,354	521,316
Shares sold out of treasury on exercise of stock purchase options		111,295
Sales of treasury shares held for performance share grants	578,008	585,346
(Purchases) and sales of treasury stock, net	(2,002,359)	(3,165,655)
ORDINARY SHARES, NET OF TREASURY STOCK, AT DECEMBER 31	**210,336,563**	**208,675,170**
Number of treasury shares eliminated at December 31	4,387,477	5,363,126

	Weighted average number	
	2012	**2011**
ORDINARY SHARES, NET OF TREASURY STOCK, AT JANUARY 1	**208,675,170**	**208,761,230**
Exercise of stock subscription options	1,210,098	895,077
Subscription of the Essilor group FCP mutual fund	10,529	9,998
Shares sold out of treasury on exercise of stock purchase options		50,421
Sales of treasury shares held for performance share grants	44,362	45,829
(Purchases) and sales of treasury stock, net	(1,676,004)	(2,516,897)
ORDINARY SHARES, NET OF TREASURY STOCK, AT DECEMBER 31	**208,264,155**	**207,245,658**

In 2012, a total of 2,400,000 treasury shares were cancelled. Essilor did not cancel any treasury shares in 2011.

NOTE 10. Diluted earnings per share

Profit used for the calculation of diluted earnings per share is €584 million (€506 million in 2011).

The weighted average number of shares used to calculate diluted earnings per share is as follows:

	2012	**2011**
Weighted average number of shares	**208,264,155**	**207,245,658**
Dilutive effect of stock subscription options	1,056,070	1,385,174
Dilutive effect of performance share grants	1,695,218	1,046,670
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	**211,015,443**	**209,677,502**

NOTE 11. Goodwill

€ thousands	At the beginning of the year	First consolidation	Other changes in consolidation scope and other movements	Translation difference	Impairment losses recognized in the period	At the end of the year
2012						
Gross amount	1,897,293	198,023	39,902	(34,349)		2,100,869
Impairment losses	13,962		(328)	138	164	13,936
NET AMOUNT	**1,883,331**	**198,023**	**40,230**	**(34,487)**	**(164)**	**2,086,933**
2011						
Gross amount	1,535,140	312,984	25,949	23,220		1,897,293
Impairment losses	13,189		866	(296)	203	13,962
NET AMOUNT	**1,521,951**	**312,984**	**25,083**	**23,516**	**(203)**	**1,883,331**

The main increases in goodwill resulted from:

- in 2012, acquisitions of several laboratories in Latin America, the United States and Asia, distribution companies in China and instrument companies in France;
- in 2011, acquisitions of Shamir and Stylemark, and of various laboratories worldwide (primarily in the United States and latin America) and lens producers in China (Youli Optics Co. Ltd.).

Goodwill for companies acquired during the year is based on the provisional accounting for the business combination and may be adjusted during the 12-month period from the acquisition date.

Since January 1, 2010, the Essilor group has for the most part applied the so-called "full goodwill" method for acquisitions for which there was a commitment to redeem minority interests. The fair value of the minority interests is determined by estimating the future price to be paid for said minority interests.

When there is an acquisition with no option to redeem minority interests, the Group usually applies the so-called "partial goodwill" method.

The carrying amount of goodwill breaks down as follows by geographical segment:

€ thousands	2012	2011
Europe	280,478	249,157
North America	709,781	631,806
Rest of the World	488,590	361,272
Equipment	272,579	270,206
Readers	335,505	370,890
TOTAL	**2,086,933**	**1,883,331**

Goodwill was tested for impairment at June 30, 2012 and the results were reviewed at December 31, 2012, in line with the policies and methods described in Note 1.21.

The weighted average cost of capital used for impairment tests was 7% in 2012 (2011: 7%). Taking into account the risk premiums determined for each item of goodwill, the actual discount rates applied to the thirteen Cash Generating Units were as follows:

As a percentage	2012	2011
Europe	8	7
North America	7	7
South America[a]	16	16
ASEAN	7	7
Japan	7	5
South Korea	9	9
India	14	12
China	9	8
Australia and New Zealand	9	10
Africa and the Middle East	11	10
Equipment	7	7
Readers	7	7
Plants	8	8

(a) Primarily Brazil.

The perpetuity growth rate was estimated at 0% to 2% (2011: 0% to 2.5%), with the highest rates applied to emerging markets.

No impairment losses were recognized on goodwill in 2011 and 2012.

Changes that must be made to parameters of revenue growth and the Group's weighted average cost of capital (WACC) in order to compare the assets' recoverable amount with their carrying amount do not correspond to the definition of reasonable change within the meaning of IAS 36.

A 0.5% increase in the benchmark discount rate would not generate any impairment loss on the net carrying amount of goodwill as of December 31, 2012.

A 0.5% decrease in the growth rate at infinity would not generate any impairment loss on in the carrying amount of goodwill as of December 31, 2012.

NOTE 12. Other intangible assets

€ thousands	At the beginning of the year	Changes in scope of consolidation and other movements	Acquisitions	Disposals	Translation difference	Depreciation and impairment losses for the period	At the end of year
2012							
Trademarks	235,801	119			(4,172)		231,748
Patents and licenses	265,234	34,285	13,878	2,393	(5,331)		305,673
Contractual customer relationships	227,251	62,592		1,091	(3,546)		285,206
Other intangible assets	119,207	(10,326)	28,027	2,944	(2,078)		131,886
GROSS AMOUNT	**847,493**	**86,670**	**41,905**	**6,428**	**(15,127)**		**954,513**
Accumulated depreciation	265,712	8,860		5,433	(5,284)	69,036	332,891
CARRYING AMOUNT	**581,781**	**77,810**	**41,905**	**995**	**(9,843)**	**(69,036)**	**621,622**
2011							
Trademarks	220,381	7,518	3		7,899		235,801
Patents and licenses	242,329	7,409	12,297	1,790	4,989		265,234
Contractual customer relationships	192,121	28,923	289		5,918		227,251
Other intangible assets	61,781	37,607	15,701	1,177	5,295		119,207
GROSS AMOUNT	**716,612**	**81,457**	**28,290**	**2,967**	**24,101**		**847,493**
Accumulated depreciation	215,212	4,088		3,357	5,081	44,688	265,712
CARRYING AMOUNT	**501,400**	**77,369**	**28,290**	**(390)**	**19,020**	**(44,688)**	**581,781**

Intangible assets in progress amounted to €9.1 million at December 31, 2012 (€20.8 million in 2011).

Trademarks with an indefinite useful life are mainly:

- the Lens segment in the United States for a net carrying amount of €34.7 million at December 31, 2012 (2011: €35.4 million);
- the Lens business segment in Africa and the Middle East for a net carrying amount of €12.1 million at December 31, 2012 (2011: €12.4 million);
- the Lens business segment in Asia for a net carrying amount of €3.2 million at December 31, 2012 (2011: €3.2 million);
- the Equipment business segment for a net carrying amount of €8.3 million at December 31, 2012 (2011: €8.3 million);
- the Readers business segment for a net carrying amount of €162.4 million at December 31, 2012 (2011: €165.6 million).

Trademarks with an indefinite useful life are not amortized. They are tested for impairment at least once a year or whenever an adverse event occurs.

The discounted cash flow method is used, generally with a royalty-based approach. This method involves estimating the value of the trademark by applying a royalty rate to forecast revenue that is consistent with the rates usually demanded for the use of similar trademarks. The discount rate and long-term growth rates employed are determined based on the economic environment in which the trademark operates.

Brand evaluation tests during the year did not cause a depreciation of assets.

NOTE 13. Property, plant and equipment

€ thousands	At the beginning of the year	Changes in scope of consolidation and other movements	Acquisitions	Disposals	Translation difference	Depreciation and impairment losses for the period	At the end of the year
2012							
Land	42,372	7,958	590	148	(1,473)		49,299
Buildings	549,132	54,520	23,342	11,188	(9,856)		605,950
Plant and equipment	1,496,996	95,621	79,245	66,914	(13,157)		1,591,791
Other	420,128	(26,461)	97,352	28,693	(5,636)		456,690
GROSS AMOUNT	**2,508,628**	**131,638**	**200,529**	**106,943**	**(30,122)**		**2,703,730**
Accumulated depreciation	1,553,348	83,624		94,477	(19,068)	179,745	1,703,172
CARRYING AMOUNT	**955,280**	**48,014**	**200,529**	**12,466**	**(11,054)**	**(179,745)**	**1,000,558**
2011							
Land	41,927	32	50	306	669		42,372
Buildings	510,865	24,029	18,885	10,248	5,601		549,132
Plant and equipment	1,353,840	123,546	78,834	73,341	14,117		1,496,996
Other	368,949	(10,521)	78,549	19,901	3,052		420,128
GROSS AMOUNT	**2,275,581**	**137,086**	**176,318**	**103,796**	**23,439**		**2,508,628**
Accumulated depreciation	1,399,354	75,016		86,068	15,354	149,692	1,553,348
CARRYING AMOUNT	**876,227**	**62,070**	**176,318**	**17,728**	**8,085**	**(149,692)**	**955,280**

The amounts presented include fixed assets under finance leases.

Assets under construction amounted to €80.1 million at December 31, 2012 (€59.8 million at the end of 2011).

NOTE 14. Property, plant and equipment: finance leases

€ thousands	At the beginning of the year	Changes in scope of consolidation and other movements	Acquisitions	Disposals	Translation difference	Depreciation and impairment losses for the period	At the end of the year
2012							
Land	850						850
Buildings	13,842	87	33		(6)		13,956
Other	21,051	1,980	762	684	(264)		22,845
GROSS AMOUNT	**35,743**	**2,067**	**795**	**684**	**(270)**		**37,651**
Accumulated depreciation	23,779	968		684	(160)	2,195	26,098
CARRYING AMOUNT	**11,964**	**1,099**	**795**		**(110)**	**(2,195)**	**11,553**
2011							
Land	850						850
Buildings	13,739		81		22		13,842
Other	20,335	87	823	292	98		21,051
GROSS AMOUNT	**34,924**	**87**	**904**	**292**	**120**		**35,743**
Accumulated depreciation	21,624	257		246	71	2,073	23,779
CARRYING AMOUNT	**13,300**	**(170)**	**904**	**46**	**49**	**(2,073)**	**11,964**

NOTE 15. Investments in associates

Details of associates are as follows:

Company	Country	2012 % interest	2012 % voting rights	2011 % interest	2011 % voting rights
Transitions Group	[a]	49	49	49	49
Shamir Optispeed	South Africa	13	25	13	25
Shamir Emerald	South Africa	14	28	14	28
VisionWeb	United States	44	44	44	44

(a) See Note 34 for more details.

Essilor's share of these companies' equity – corresponding to the carrying amount of its investment – and of their after-tax profits is as follows:

€ thousands	2012 Share of equity	2012 Share of profit	2011 Share of equity	2011 Share of profit
Transitions group	120,860	23,812	121,152	27,902
Shamir Optispeed & Shamir Emerald	110	(1)	115	(19)
VisionWeb[a]	(11,132)	0	(11,352)	0
TOTAL	**109,838**	**23,811**	**109,915**	**27,883**

(a) In addition to its original investment, the Company holds long-term interests that form an integral part of its net investment in VisionWeb.

In accordance with IAS 28.29 and IAS 28.30, if the Company's share of losses of an associate equals or exceeds its interest in the associate, it discontinues recognizing its share of further losses. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

GROUP'S SHARE OF THE CUMULATIVE BALANCE SHEET OF ASSOCIATES

€ thousands	December 2012	December 2011
Intangible assets and property, plant and equipment, net	48,172	44,313
Other non-current assets	27,016	27,611
Current assets	114,468	117,020
Non-current liabilities	8,195	2,909
Current liabilities	72,868	77,393

NOTE 16. Other long-term financial investments

Long-term financial investments at fair value fulfill the criteria for classification as "available-for-sale financial assets" under IAS 39 (see Note 1.24).

€ thousands	At the beginning of the year	Changes in scope of consolidation and other movementts	Additions, new loans	Disposals, repay-ments	Translation difference	Fair value adjustments	Impairment losses recognized in the period, net	At the end of the year
2012								
Long-term financial investments at fair value	**32,283**	**(5,933)**	**12,719**	**868**	**(261)**	**2,307**	**(570)**	**39,677**
Investments in non-consolidated companies	29,578	(6,399)	12,675	8	(126)	2,122	(413)	37,429
Other available-for-sale financial assets	2,705	466	44	860	(135)	185	(157)	2,248
Long-term financial investments at amortized cost	**60,460**	**4,114**	**17,832**	**1,501**	**(959)**	**0**	**(40)**	**79,906**
Loans, including accrued interest	60,749	4,886	17,832	1,513	(979)	0	0	80,975
Impairment	289	772	0	12	(20)	0	40	1,069
Other long-term financial investments	**92,743**	**(1,819)**	**30,551**	**2,369**	**(1,220)**	**2,307**	**(610)**	**119,583**
2011								
Long-term financial investments at fair value	**22,247**	**(2,151)**	**15,134**	**13,126**	**4**	**(1,184)**	**11,359**	**32,283**
Non-consolidated interests	19,560	(2,149)	15,117	13,035	(41)	(1,313)	11,439	29,578
Other available-for-sale financial assets	2,687	(2)	17	91	45	129	(80)	2,705
Long-term financial investments at amortized cost	**43,241**	**(1,415)**	**20,779**	**4,038**	**1,843**	**0**	**50**	**60,460**
Loans, including accrued interest	43,595	(1,418)	20,779	4,038	1,843	0	(12)	60,749
Impairment	354	(3)	0	0	0	0	(62)	289
Other long-term financial investments	**65,488**	**(3,566)**	**35,913**	**17,164**	**1,847**	**(1,184)**	**11,409**	**92,743**

NOTE 17. Inventories

€ thousands	2012	2011
Raw materials and other supplies	338,760	316,458
Goods for resale	172,354	156,730
Finished and semi-finished products and work in progress	463,645	408,559
GROSS AMOUNT	**974,759**	**881,747**
Valuation allowance	(144,281)	(128,331)
CARRYING AMOUNT	**830,478**	**753,416**

NOTE 18. Short-term receivables and payables

Short-term receivables break down as follows:

€ thousands	2012	2011
Trade receivables		
Gross amount	1,111,659	1,074,243
Valuation allowance	(56,552)	(52,637)
Carrying amount	**1,055,107**	**1,021,606**
Other short-term receivables		
Gross amount	92,874	100,577
Valuation allowance	(456)	(437)
Carrying amount	**92,418**	**100,140**
TOTAL SHORT-TERM RECEIVABLES, NET	**1,147,525**	**1,121,746**

Short-term payables break down as follows:

€ thousands	2012	2011
Trade payables	489,098	469,763
Tax and employee related payables	266,549	236,688
Other short-term payables	259,028	206,767
TOTAL SHORT-TERM PAYABLES	**1,014,675**	**913,218**

NOTE 19. Cash and cash equivalents

Cash and cash equivalents break down as follows:

€ thousands	2012	2011
Cash	380,654	237,576
Money market funds (qualified as cash and equivalent)	134,691	43,200
Bank deposit	100,000	82,000
Other	45,613	27,544
TOTAL	**660,958**	**390,320**

NOTE 20. Pension and other post-retirement benefit obligations

The Group's pension and other post-retirement benefit obligations mainly include:

- supplementary pension plans in France, Germany, the United Kingdom and the United States;
- retirement benefits granted to employees in France and other European countries;
- other long-term benefits, consisting mainly of length-of-service awards granted in France and other countries.

In Sweden, Essilor participates in a multi-employer defined benefit plan. Since the insurer responsible for managing this plan is not in a position to determine Essilor's share in it, the obligation is treated as a defined contribution plan in accordance with IAS 19.

Analysis of changes in net recognized projected benefit obligation

€ thousands	Projected benefit obligation	Fair value of plan assets	Cost of past benefits	Other	Net recognized obligation
AT DECEMBER 31, 2011	**268,236**	**(83,009)**	**(8,426)**		**176,801**
Service cost	9,794				9,794
Interest cost	10,585				10,585
Expected return on plan assets		(3,889)			(3,889)
Amortization of past service cost	661		(182)		479
Employee contributions	545	(545)			
Contributions to plan assets		(26,777)			(26,777)
Benefits paid	(17,212)	17,212			
Actuarial gains and losses	37,993	(7,108)			30,885
Curtailment and settlement	(611)				(611)
Other movements	3,496	(2,807)			689
Changes in scope of consolidation	15,790	(8,314)	651		8,127
Currency translation adjustment	(3,157)	1,190	(138)		(2,105)
AT DECEMBER 31, 2012	**326,120**	**(114,047)**	**(8,095)**		**203,978**
of which cumulative actuarial losses (gains) recorded in equity at the balance sheet date					95,292
Actual returns on plan assets		(10,997)			(10,997)
of which Obligations hedged in whole or in part by a plan assets	167,683				167,683
of which Obligations not hedged by a plan assets	158,437				158,437
of which in provisions for pensions in liabilities					204,652
of which non-current assets (over-hedged plans)					674

€ thousands	Projected benefit obligation	Fair value of plan assets	Cost of past benefits	Other	Net recognized obligation
AT DECEMBER 31, 2010	**243,941**	**(72,858)**	**(9,400)**		**161,683**
Service cost	6,187				6,187
Interest cost	9,688				9,688
Expected return on plan assets		(3,469)			(3,469)
Amortization of past service cost			926		926
Employee contributions	822	(822)			
Contributions to plan assets		(11,511)			(11,511)
Benefits paid	(11,722)	11,722			
Actuarial gains and losses	11,264	(675)			10,589
Curtailment and settlement	(3,081)				(3,081)
Other movements	5,189	(1,731)			3,458
Changes in scope of consolidation	2,945	(1,942)			1,004
Currency translation adjustment	3,003	(1,724)	48		1,328
AT DECEMBER 31, 2011	**268,236**	**(83,009)**	**(8,426)**		**176,801**
of which cumulative actuarial losses (gains) recorded in equity at the balance sheet date					64,273
Actual returns on plan assets		(4,144)			(4,144)
of which Obligations hedged in whole or in part by a plan assets	127,601				127,601
of which Obligations not hedged by a plan assets	140,624				140,636
of which in provisions for pensions in liabilities					177,693
of which non-current assets (over-hedged plans)					892

Actuarial assumptions used to estimate commitments in the main countries concerned

A major assumption taken into account in the valuation of pensions and similar obligations is the discount rate.

In accordance with IAS 19, the rates were determined by monetary zone by referring to the return on premium private bonds with a maturity equal to the term of the plans, or the return on government bonds when the private market has insufficient liquidity.

The return on plan assets is determined based on the allocation of the assets and the discount rates used.

The main rates used by the Group are on follows:

As a %	2012			2011		
	Euro Zone	United States	United Kingdom	Euro Zone	United States	United Kingdom
Discount rate	3.2	3.75	4.1	4.3	4.5	4.7
Expected rate of return on investments	3.2	3.75	4.1	4 to 4.8	7	5.6
Weighted average rate of return on plan assets		4.21			4.53	
Weighted average rate of salary increases		1.93			2.08	

The discount rate used for length-of-service awards in France was 3.2% in 2012 (4.3% in 2011).

Additionally, had the discount rate been by 25 basis points lower than the rate actually applied, the total obligation of the Group as of December 31, 2012 would have been by €11 million higher.

The recognized actuarial gains or losses correspond to experience adjustments (differences between assumptions used and actual data) and changes in assumptions. In 2012, the actuarial gains or losses resulting from experience adjustments were 2.6% of the projected benefit obligation (2011: 0.6%).

Composition by type of plan assets

As a %	2012	2011
Shares	18	19
Bonds	32	38
General insurance funds	80	42
Real estate	0	0
Other	0	0

Analysis of rights

€ thousands	Projected benefit obligation	Plan assets	Deferred items	Provision 2012
Pensions (supplementary and guaranteed income plans)	244,384	(106,225)	(1,826)	136,333
Length-of-service awards	56,600	(7,622)	(6,269)	42,709
Other benefits	25,135	(200)	0	24,935
TOTAL	**326,119**	**(114,047)**	**(8,095)**	**203,977**

€ thousands	Projected benefit obligation	Plan assets	Deferred items	Provision 2011
Pensions (supplementary and guaranteed income plans)	199,477	(81,642)	(1,729)	116,106
Length-of-service awards	45,113	(1,367)	(6,697)	37,049
Other benefits	23,646	0	0	23,646
TOTAL	**268,236**	**(83,009)**	**(8,426)**	**176,801**

Expenses for the fiscal year

Income (Expenses) € thousands	2012	2011
Service cost for the period	(9,794)	(6,187)
Interest cost	(10,585)	(9,688)
Expected return on plan assets	3,889	3,469
Actuarial gains and losses on short-term benefits	(316)	131
Amortization of past service cost	(479)	(926)
Curtailment and settlement	611	3,081
Other	0	0
Expenses for the period	**(16,674)**	**(10,120)**
Contributions to plan assets	19,687	4,534
Benefits paid	7,090	6,977
TOTAL INCREASE (DECREASE) IN PROVISIONS	**10,103**	**1,391**

NOTE 21. Provisions

€ thousands	At the beginning of the year	Charges	Reversals (used)	Reversals (unused)	Translation adjustments	Changes in scope of consoli-dation	Other movements	At the end of the year
2012								
Provisions for losses from subsidiaries and affiliates	300			(206)		643		737
Restructuring provisions	9,209	6,638	(9,103)	(884)	(167)	632	1,297	7,622
Warranty provisions	24,101	2,788	(1,489)	(558)	(425)	911	(68)	25,260
Other	107,791	27,264	(19,304)	(19,617)	(168)	(360)	(2,271)	93,335
TOTAL	**141,401**	**36,690**	**(29,896)**	**(21,265)**	**(760)**	**1,826**	**(1,042)**	**126,954**
2011								
Provisions for losses from subsidiaries and affiliates	300							300
Restructuring provisions	19,323	7,370	(13,030)	(2,763)	185		(1,876)	9,209
Warranty provisions	22,740	5,279	(1,914)	(2,207)	258	350	(405)	24,101
Other	101,792	9,764	(5,667)	(1,053)	293	557	2,105	107,791
TOTAL	**144,155**	**22,413**	**(20,611)**	**(6,023)**	**736**	**907**	**(176)**	**141,401**

Provisions for other risks at December 31, 2012 include in particular provisions for tax audits and litigation affecting income tax and other taxes for a total amount of €21.2 million (€32.6 million at December 31, 2011), and the provision of €50.7 million created for potential violations to the cartel laws in Germany (€50.7 million at December 31, 2011, see Note 28, Litigation).

NOTE 22. Net debt and borrowings

22.1 Net debt

The Group's net debt can be analyzed as follows:

€ thousands[a]	2012	2011
Long-term borrowings	526,237	309,152
Short-term borrowings	305,459	578,500
Short-term bank loans and overdrafts	81,427	26,644
Accrued interest	3,126	1,436
TOTAL BORROWINGS	**916,249**	**915,732**
Marketable securities[b]	(5,781)	(7,450)
Cash equivalents	(280,304)	(152,744)
Cash	(380,654)	(237,576)
TOTAL ASSETS	**(666,739)**	**(397,770)**
CROSS CURRENCY SWAPS[c]	**(12,539)**	**(11,779)**
NET DEBT	**236,971**	**506,183**

(a) Sign convention: + debt / - surplus cash or securities.
(b) Marketable securities are included by the Group in net debt (Note 1.28).
(c) The Cross Currency Swap is valued at fair market value at December 31 of every year (see Note 23.2).

Long-term borrowings

In March 2012 Essilor International issued a US private placement of $300 million. This enabled the Company to strengthen its financial structure by extending the average maturity of its debt. The private placement comprises one five-year tranche of $200 million, one seven-year tranche of $100 million, with interest of 2.65% and 3.10% respectively. This placement is subject to a financial covenant, which was met as at December 31, 2012.

At December 31, 2012, the major portion of long-term financial debt was comprised of this private placement and a bilateral bank loan concluded in 2007 by Essilor of America.

Short-term borrowings

In May 2010, Essilor International launched a commercial paper program whose ceiling was increased to €1 billion in may 2012. The amount outstanding of the issues was €130 million at December 31, 2012 (€174 million at December 31, 2011). The financial presentation outline is available on the Banque de France website under Debt Securities.

At December 31, 2012, short-term financial debt was distributed principally between drawdowns of syndicated facility credit (€148 million) and issues of commercial paper.

At December 31, 2012, the Group's funding structure was as follows:

	Amount € millions	Issue date	Maturity
Bank loan	250	February 2007	February 2014
US private placement	227	March 2012	March 2017/2019
Commercial paper (program)	1,000	May 2012	May 2013
Syndicated credit facility	1,000	June 2007	June 2014
Bilateral bank facilities	227	March 2012	March 2017
Bilateral bank facilities	464	June 2012	June 2015/2017

22.2 Borrowings

Financial debt by maturity

Borrowings can be analyzed as follows by maturity:

€ thousands	2012	2011
Due within one year	390,012	606,581
Due in 1 to 5 years	449,804	305,158
Due beyond 5 years	76,433	3,993
TOTAL	**916,249**	**915,732**

Financial debt by currency

Borrowings break down as follows by currency:

€ thousands	2012	2011
US dollar	643,371	661,479
Euro	172,100	221,247
Other currencies	100,778	33,006
TOTAL	**916,249**	**915,732**

Fair value of debt

The fair value of borrowings is as follows:

€ thousands	2012	2011
Long-term borrowings	513,698	297,373
Short-term borrowings	305,459	578,500
Short-term bank loans, overdrafts and accrued interest	84,553	28,080
TOTAL	**903,710**	**903,953**

Finance lease liabilities

€ thousands	2012		2011	
	Principal	Interest	Principal	Interest
Due within one year	1,861	187	2,115	39
Due in 1 to 5 years	4,039	111	3,837	246
Due beyond 5 years	0	0	358	4
TOTAL FINANCE LEASE LIABILITIES	**5,900**	**298**	**6,310**	**289**

NOTE 23. Financial instruments

23.1 Financial instruments carried in the balance sheet

Financial instruments carried in the consolidated balance sheet at December 31, 2012 and 2011 fall into the following categories:

		Category of instruments				
2012 € thousands	**Carrying amount**	**Fair value through profit or loss**	**Fair value through equity[a]**	**Loans, receivables**	**Liabilities at amortized cost**	**Derivative instruments**
Other long-term financial investments	119,583		39,677	79,906		
Non-current trade receivables	25,052			25,052		
Prepayments to suppliers	15,719			15,719		
Current trade receivables	1,147,525			1,147,525		
Tax receivables	55,806			55,806		
Other receivables	35,645			35,645		
Derivative financial assets	33,611					33,611
Marketable securities	5,781		5,781			
Cash and cash equivalents	660,958	660,958				
FINANCIAL ASSETS	**2,099,680**	**660,958**	**45,458**	**1,359,653**		**33,611**
Long-term borrowings	526,237				526,237	
Other long-term liabilities	232,544				232,544	
Short-term borrowings	390,012				390,012	
Customer prepayments	16,944				16,944	
Current trade payables	1,014,675				1,014,675	
Tax payables	75,627				75,627	
Other current liabilities	207,605				207,605	
Derivative financial liabilities	30,115					30,115
FINANCIAL LIABILITIES	**2,493,759**				**2,463,644**	**30,115**

(a) Assets available for sale as defined by IAS 39.

3

2011 € thousands	Carrying amount	Category of instruments Fair value through profit or loss	Fair value through equity[(a)]	Loans, receivables	Liabilities at amortized cost	Derivative instruments
Other long-term financial investments	92,743		32,283	60,460		
Long-term receivables	3,891			3,891		
Prepayments to suppliers	19,671			19,671		
Short-term receivables	1,121,746			1,121,746		
Tax receivables	48,355			48,355		
Other receivables	30,838			30,838		
Derivative financial assets	15,091					15,091
Marketable securities	7,450	7,450				
Cash and cash equivalents	390,320	390,320				
FINANCIAL ASSETS	**1,730,105**	**397,770**	**32,283**	**1,284,961**		**15,091**
Long-term borrowings	309,152				309,152	
Other long-term liabilities	138,168				138,168	
Short-term borrowings	606,581				606,581	
Customer prepayments	15,705				15,705	
Current trade payables	913,218				913,218	
Tax payables	62,172				62,172	
Other current liabilities	161,306				161,306	
Derivative financial liabilities	14,953					14,953
FINANCIAL LIABILITIES	**2,221,255**				**2,206,302**	**14,953**

(a) Assets available for sale as defined by IAS 39.

23.2 Fair value of derivative financial instruments

Certain derivatives and certain types of transactions that in substance represent hedges do not qualify for hedge accounting under IAS 39. Gains and losses from the fair value measurement of these derivative instruments are recognized directly in financial income and expenses, in accordance with the criteria of IAS 39.

The market value of Group derivatives is presented below:

Market value by instrument type

€ thousands	2012 Nominal	2012 Market value	2011 Nominal	2011 Market value
Forward Currency transactions	550,109	(1,911)	439,566	(4,906)
Currency options	1,394	40	2,595	183
Cross currency swap EUR/USD	250,000	12,539	250,000	11,779
Interest rate swaps USD	113,688	(7,216)	231,857	(7,426)
Interest rate options (caps)	87,896	44	88,643	508
TOTAL DERIVATIVE INSTRUMENTS	**1,003,087**	**3,496**	**1,012,661**	**138**

Market value by hedge type

€ thousands	2012	2011
Cash flow hedges:		
■ Forward exchange contracts	492	600
■ Interest rate swaps	(7,216)	(7,426)
Fair value hedges:		
■ Forward exchange contracts	(304)	(119)
■ Cross currency swaps	12,539	11,779
Net investment hedges:		
■ Forward exchange contracts	(26)	(318)
Instruments not qualifying for hedge accounting:		
■ Forward exchange contracts	(2,073)	(5,069)
■ Currency options	40	183
■ Interest rate options (caps)	44	508
FAIR VALUE OF DERIVATIVE INSTRUMENTS	**3,496**	**138**
Derivative financial instruments recognized in assets	33,611	15,091
Derivative financial instruments recognized in liabilities	(30,115)	(14,953)

In 2007, Essilor of America set up a fixed-rate borrowing of €250 million with maturity in 2014. This transaction is hedged via a cross-currency swap, which converted the initial borrowing into US dollars at a variable rate. This transaction is classified as a fair value hedge.

In 2010 and 2011, the Company subscribed to interest rate swaps for an amount of $300 million and two interest rate caps for amounts of €50 million and $50 million.

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

Forward foreign exchange transaction details at December 31, 2012

	Currency purchased												
€ thousands	USD	EUR	JPY	THB	MXN	PHP	PLN	SGD	CHF	INR	GBP	AUD	Total
Currency sold													
USD		35,163	6,720	27,285	23,382	17,432		7,464		5,457			122,903
EUR	68,812		30,041		1,018		12,735		6,171		2,923		121,700
GBP	31,537	70,630											102,167
AUD	37,473	11,690											49,163
CAD	8,967	40,194											49,161
BRL	33,818												33,818
IDR	13,109												13,109
INR	11,853												11,853
SGD		10,086											10,086
SEK	2,165	4,195											6,360
CHF		5,757											5,757
NOK		5,034											5,034
KRW	4,110												4,110
TRY		2,930											2,930
CZK		2,044											2,044
Other	1,225	7,267										1,422	9,914
TOTAL	**213,069**	**194,990**	**36,761**	**27,285**	**24,400**	**17,432**	**12,735**	**7,464**	**6,171**	**5,457**	**2,923**	**1,422**	**550,109**

23.3 Impact of settling cash flow hedges

The effects on profit of settling cash flow hedges set up at the end of the prior year are as follows:

€ thousands	2012	2011
Revenue		
Cost of sales	1,627	(4,860)
GROSS PROFIT	**1,627**	**(4,860)**
Research and development costs		
Selling and distribution costs		
Other operating expenses		
CONTRIBUTION FROM OPERATIONS	**1,627**	**(4,860)**
Other income (expense) from operations, net		
Gains and losses on asset disposals, net		
OPERATING PROFIT	**1,627**	**(4,860)**

NOTE 24. Other current and non-current liabilities

€ thousands	2012	2011
Liabilities due to suppliers in more than one year	4,305	2,340
Liabilities related to long-term put options granted to minority shareholders	228,239	135,828
TOTAL OTHER NON-CURRENT LIABILITIES	**232,544**	**138,168**
Liabilities to suppliers related to tangible and intangible fixed assets	5,359	11,549
Liabilities related to long-term financial investments	109,402	66,177
Liabilities related to short-term put options granted to minority shareholders	65,149	48,774
Other	27,695	34,806
TOTAL OTHER CURRENT LIABILITIES	**207,605**	**161,306**

NOTE 25. Off-balance sheet commitments

€ thousands	2012	2011
Commitments given		
Guarantees and endorsements	94,670	94,267
Debt secured by collateral:		
■ Debt	49	35
■ net book value of collateral	1,817	6,907
Commitments received		
Guarantees, endorsements and sureties received	6,260	461
Commitments under operating leases and for royalties		
Within one year	22,972	20,312
In 1 to 5 years	68,654	45,927
Beyond 5 years	13,737	6,010
TOTAL OPERATING LEASING COMMITMENTS	**105,363**	**72,249**

NOTE 26. Market risks

Market risks are managed by the Group Treasury Department. The head of this department reports to the Chief Financial Officer, who is a member of the Executive Committee.

26.1 Liquidity risk

The Company's financing strategy is based on security: security over time through long-term financing, security in terms of the amounts available, and security in the diversity of its financing sources.

Generally speaking, the parent company negotiates with its banking partners for the lines necessary for the proper functioning of Group business activity and refinances the great majority of its subsidiaries in the short and medium term through cash pooling and inter-company loans.

The Group has a syndicated credit facility of €1 billion maturing in 2014. As of December 31, 2012, this facility was drawn down by €148 million.

The Group also has bilateral credit facilities of €691 million maturing between 2015 and 2017. As of December 31, 2012, none of these bilateral facilities was drawn down.

Drawing down on these lines is not subject to any particular covenant.

Financial assets and liabilities (including operating receivables and payables) at December 31, 2012 break down as follows by contractual maturity:

€ millions	Within 1 year[a]	1 to 5 years	Beyond 5 years	TOTAL
Financial liabilities other than financial instruments	(1,705)	(696)	(62)	(2,463)
Financial assets other than financial instruments	2,001	65		2,066
Net fair value of financial instruments			3	3
NET POSITION	**296**	**(631)**	**(59)**	**(394)**

(a) Including financial assets with no fixed maturity.

The distribution of the Group's net financial debt and available credit lines by contractual maturity at December 31, 2012 was as follows:

(You can also refer to Note 22 of the consolidated financial statements "Net debt and borrowings")

(€ millions)	2013	2014	2015	2016	2017	Beyond 2018	TOTAL
Commercial paper[a]					130		130
Bank loans[b]	30	266		6	6		308
Private placements					152	76	228
Credit facilities[c]		148					148
Bank overdraft	81						81
Leasing	2	4					6
Other debt			3				3
GROSS DEBT	**113**	**418**	**3**	**6**	**288**	**76**	**904**
Cash and cash equivalent	(662)	(1)		(3)		(1)	(667)
NET DEBT[d]	**(549)**	**417**	**3**	**3**	**288**	**75**	**237**
Available committed credit facilities		852	274	90	327		1,543

(a) Commercial paper is set to mature in 2017 (maturity of credit facilities).
(b) Including cross currency swap.
(c) Draw-downs on syndicated credit facility are set to mature in 2014 (maturity of syndicated credit facility).
(d) >0: net debt; <0: net cash surplus.

26.2 Currency risk

In view of the fact that the Group operates in numerous countries, it is exposed to currency fluctuations. Exposures to currency risk are routinely hedged by the appropriate market instruments: forward currency purchases and sales or currency options. Foreign exchange market transactions are entered into solely to hedge risks arising on business operations. The Company does not carry out any currency trading transactions without any underlying commercial transaction.

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.

All foreign exchange transactions are processed within pre-determined management limits with the purpose of optimizing exchange rate risk hedging.

Commercial transactions, the payment of dividends, royalties and management fees from the subsidiaries are hedged within a range of 80 to 100% of the identified risk position.

Currency risks on financial transactions, such as business acquisitions and disposals and capital increases, are managed on a case-by-case basis according to the probability that the transaction will take place, using the most appropriate financial instruments.

The Group applies hedge accounting to currency transactions. Sometimes, even though the transactions are justified economically, they do not meet the conditions for being recorded as hedge accounting. In this case, the revaluation of currency transactions impacts the income statement.

The Group's total net currency exposure at December 31, 2012 represented an amount equivalent to some €65 million.

Consolidated exposure to currency risk on assets and liabilities at December 31, 2012

(assets and liabilities denominated in a currency other than the functional currency of the entity concerned)

€ millions	Balance sheet amount before hedging[(a)]	Fair value hedges[(b)]	Net exposure after hedging[(c)]	Cash flow hedges[(d)]
Exposed currency				
CAD	1	(4)	(3)	(4)
EUR	(13)	9	(4)	4
JPY	(4)	11	4	33
USD	8	56	65	116
GBP	4	(3)	1	(33)
Other	10	(8)	2	9
TOTAL	**6**	**61**	**65**	**125**

(a) Positive amounts: assets to be hedged. Negative amounts: liabilities to be hedged.
(b) Positive amounts: net purchases of foreign currencies. Negative amounts: Net sales of foreign currencies.
(c) Positive amounts: unhedged assets. Negative amounts: unhedged liabilities.
(d) Positive amounts: hedges of future purchases of foreign currencies. Negative amounts: hedges of future sales of foreign currencies.

Sensitivity of equity and profit to changes in the fair value of derivatives at December 31, 2012

Sensitivity is calculated solely on the valuation of derivatives at the end of the year.

The impact of a change in fair value of the derivatives following a rise or fall in the euro versus all other currencies is presented below:

Impact (€ millions)

On equity		Profit before tax	
5% increase	**5% decrease**	**5% increase**	**5% decrease**
0	0	4	(4)

The impact of the change in equity would be generated by foreign exchange and interest rate instruments eligible to be recorded as cash flow hedges.

The impact of the change in financial income is generated by foreign exchange instruments not eligible to be recorded as hedges and by the change in the ineffective portion of the cash flow hedges.

26.3 Interest rate risk

The objective of the interest rate risk management policy is to minimize financing costs while protecting the Group from an adverse change in interest rates.

Since the great majority of Group financing is concentrated on the parent company, interest rate risk management is also centralized there.

The interest rate position before and after hedging is as follows:

	Before hedging		Hedges[a]			After hedging[a]		
€ millions	Fixed rate	Variable rate	Fixed rate	Variable rate	Cap	Fixed rate	Variable rate	Capped variable
Gross debt	507	410	(136)	35	88	371	445	88
Cash and similar	(6)	(661)				(6)	(661)	
SUB-TOTAL	**501**	**(251)**	**(136)**	**35**	**88**	**365**	**(216)**	**88**
NET DEBT		**250**			**(13)**			**237**

(a) Including fair value of cross currency swap.

As of December 31, 2012, 41% of gross debt after hedging was fixed rate adverse change (versus 26% in 2011).

The actual average weighted interest rate was 1.68% at the end of 2012 (1.08% at the end of 2011).

A parallel shift by 1% of the interest rate curves at December 31, 2012 applied to the components of net debt would have the following impact:

€ millions	Cash effect on income statement
1% increase	1
1% decrease	(1)

Net debt by currency is as follows:

€ millions	Gross debt	Cash and similar	Hedges[a]	Net debt after hedging[a]
EUR	422	(298)	(331)	(207)
USD	393	(68)	240	566
BRL	2	(34)		(32)
KRW		(12)		(12)
JPY		(42)		(42)
GBP		(13)	26	13
CNY	15	(36)	0	(21)
CAD	19	(43)	31	6
SGD	8	(14)	10	4
Autres	58	(107)	12	(38)
SUB-TOTAL	**916**	**(667)**	**(13)**	**237**
NET DEBT		**250**	**(13)**	**237**

(a) Including fair value of cross currency swap.

26.4 Counterparty risk

Available cash is invested in accordance with the two overarching principles of security and liquidity.

The Group sets limits on investment periods and vehicles, as well as on concentrations of counterparty risks.

At December 31, 2012, counterparties for investment and capital markets transactions carried out by the Group Treasury Department were all rated at least A-2 (short-term) and A- (long-term) by Standard & Poor's.

One third of liquidities were invested by the parent company in money market funds, and the rest in short-term bank deposits.

At that date, 77% of investments made by Group subsidiaries had a minimum Standard & Poor's long-term rating of A-.

At December 31, 2012, 82% of the banks participating in the syndicated credit facility were all rated at least A-2 (short-term) and A- (long-term) by Standard & Poor's.

26.5 Credit risk

Non-provisioned outstanding customer accounts receivable due totaled €122.0 million at year-end 2012 (€130.3 million at year-end 2011). This was comprised mostly of receivables due for less than three months (85.9% in 2012; 70.8% in 2011) that were slightly past due.

€ millions	2012	2011
Trade receivables due within one year, net	1,055	1,022
Trade receivables due beyond one year, net	25	4
TRADE RECEIVABLES, NET	**1,080**	**1,025**
Trade receivables not yet due	917	863
Past-due trade receivables, net	163	162
Guarantees received, recoverable VAT	(41)	(37)
Past-due trade receivables, net of provisions and guarantees	122	125

Information relating to the twenty largest Group clients is presented in Note 3, Segment Information.

NOTE 27. Environmental risks

The Company is not exposed to any material environmental risks.

NOTE 28. Litigation

The accounting principales applied to provisions for contingencies is presented in Note 1.32 of the accounting principles in the notes to the consolidated financial statements. Moreover, Note 5.1 to these consolidated financial statements as at December 31, 2012 presents the details of the other operating income and expenses and Note 21 presents activity in provisions.

Germany

At the end of 2008, the German competition authorities, the Bundeskartellamt ("BKA"), launched an investigation into possible breaches of German competition law by major players in the ophthalmic optics market, including two of our subsidiaries, Essilor GmbH and Rupp & Hubrach Optik GmbH.

Following this investigation, on June 10, 2010, the BKA sent formal notification of fines to the main ophthalmic optics players in Germany. Accordingly, our two subsidiaries were officially notified of violations representing an aggregate amount of around €50 million.

Essilor GmbH and Rupp & Hubrach Optik GmbH are contesting both the grounds for the BKA's conclusions and the amount of the fine, which they deem to be disproportionate. Two appeals were therefore lodged against the BKA's decisions on June 15 and 16, 2010. None of the fines will be paid while these appeals are pending. The Group is not currently in a position to forecast their outcome or timetable.

Following the receipt of the notices from the BKA, the Group booked provisions of €50.7 million in its 2010 consolidated financial statements.

Since that date, there have been no further developments in proceedings, other than the appointment of a new prosecutor in charge of the case. The provisions initially created were maintained at December 31, 2012.

United States and Canada

Following the settlement of charges brought by the Federal Trade Commission after an investigation into Transitions Optical Inc's business practices, since late March 2010, around twenty motions for authorization to bring class actions have been filed since late March 2010 against Transitions Optical Inc, Essilor of America and Essilor Laboratories of America in US and Canadian courts. The plaintiffs in these motions are alleging that the companies concerned endeavored to jointly monopolize the market for the development, manufacture and sale of photochromic lenses between 1999 and March 2010.

Joinder of the US cases in a federal court in Florida was authorized in late 2010. The plaintiffs' admissibility proceedings began in the first half of 2011 and the discovery phase was completed in late 2012. A court decision is awaited to confirm or deny the qualification of the motions as class actions and determine the procedure's next steps. The claims received contain no claims for damages. As of December 31, 2012, the Group had not recorded any provisions in relation to the above.

Carl Zeiss Vision

Carl Zeiss Vision and Essilor concluded an agreement on FBS progressive lens technology. This agreement includes the settlement of the patent infringement lawsuit between Carl Zeiss Vision and Signet Armolite, a subsidiary of Essilor.

Under the terms of the agreement, Carl Zeiss Vision International has granted Essilor and its affiliates a royalty-bearing license under US Patent No. 6.089.713 and its foreign counterparts, and Essilor has granted a license to Carl Zeiss Vision for certain other opthalmic technologies, including coatings.

Other litigation

To the knowledge of the Company, there is no other dispute, governmental or legal proceedings, or arbitration that may have or recently had significant impacts on the financial position, earnings, profitability, business activity, and assets of the Company or the Group.

NOTE 29. Number of employees and personnel costs

Number of employees	2012	2011
Management	6,262	5,700
Supervisory and administrative	14,061	12,170
Production	29,889	27,082
TOTAL AVERAGE NUMBER OF EMPLOYEES FOR THE PERIOD	**50,212**	**44,952**

€ thousands	2012	2011
PERSONNEL COSTS	**1,550,080**	**1,287,511**
(Salaries, payroll taxes and compensation costs on share-based payments)		

Number of employees	2012	2011
NUMBER OF EMPLOYEES AT THE END OF THE PERIOD	**50,668**	**48,700**
including employees of proportionately consolidated companies (on a 100%-basis)	14	3,025

NOTE 30. Related party transactions

Senior management compensation

€ thousands	2012	2011
Total compensation and benefits paid to the Executive Committee[(a)]	13,173	12,320
Directors' fees paid to the Executive Committee		21
TOTAL SENIOR MANAGEMENT COMPENSATION	**13,173**	**12,341**

(a) Gross amount before payroll and other taxes paid to current members of the Executive Committee.

The Executive Committee had 23 members at December 31, 2012 compared with 24 at December 31, 2011.

Post-employment benefits for Executive Committee members

- Pension obligations: €29,599 thousand at December 31, 2012 (versus €25,187 thousand at the end of 2011).
- Retirement benefits: €1,684 thousand at December 31, 2012 (versus €1,758 thousand at the end of 2011).

These obligations are payable under Group plans set up by Essilor International for all employees or for certain employee categories. The obligations are funded under insured plans, with any unfunded portion covered by provisions. In addition, these obligations are fully hedged by retirement provisions recorded in the Group financial statements.

Stock options and performance shares granted to Executive Committee members

The cost of these plans shown below reflects the recognition over the acquisition period of the fair value of stock options and performance shares at the grant date (see Note 1.14 for more details).

The costs recognized in 2012 for stock options and performance shares granted to Executive Committee members are as follows:

- €1,148 thousand (2011: €793 thousand) for stock options;
- €5,570 thousand (2011: €4,911 thousand) for performance shares.

Related party transactions

Affiliates are companies accounted for by the equity method:

- Vision Web, 44%-owned by Essilor. Essilor of America laboratories use the Vision Web ordering system;
- the Transitions subgroup, 49%-owned by Essilor. Essilor sells stock lenses to the Transitions group, for transformation into variable-tint lenses. Essilor also distributes Transitions products across its networks.

RELATED PARTY BALANCES AND TRANSACTIONS:

€ thousands	2012	2011
Product sales	102,303	219,577
Product purchases	(398,206)	(480,614)
Trade receivables	15,175	42,391
Trade payables	59,174	76,396

NOTE 31. Subsequent events

Material changes in Essilor's financial or trading position

No material change in Essilor's financial or trading position has occurred since December 31, 2012.

New acquisitions

Since the beginning of 2013, Essilor has continued its international expansion with several new partnerships.

In Colombia, Essilor has signed an agreement to acquire a 51% stake in **Servi Optica**, one of South America's largest prescription laboratories. An Essilor distributor, Servi Optica is the market's leading distributor of ophthalmic lenses and generates revenue of around €29 million.

In Morocco, Essilor completed the acquisition of **Movisia** (annual revenue: approximately €1 million), a distributor of Nikon and Kodak brand lenses. Movisia strengthens the local operations of the Group created by L'N Optic and Optiben and by VST lab.

In Turkey, the Group has signed an agreement to acquire a majority stake in **Isbir Optik**, the market's leading distributor of ophthalmic lenses with full-year revenue of around €15 million.

In Chile, Essilor has signed an agreement for the acquisition of a majority stake in **Megalux**, the country's leading independent prescription laboratory. Based in Santiago, Megalux has five branches and generates annual revenue of €7 million. The partnership marks Essilor's entry into Chile, a country with a population of around 17 million. It is a fast-growing market, with progressive lenses accounting for at least one in 20 lenses sold each year.

In Russia, the Group acquired the majority of the capital of **MOC BBGR**, a joint venture that owns Marketing Optical Company, the long-therm distributor of BBGR lenses in the Russian market. MOC generates annuel revenue of approximately € 3.7 million.

Meanwhile, in Israel, Shamir has acquired the production and distribution assets of Optiplas, its local distributor which has annual revenue of some €5 million. The new company, Essilor Laboratories of Israel, will take over distribution of Essilor brands (Essilor, Varilux, Crizal and Nikon) in Israel. Combined with Shamir's local presence, this partnership will allow Essilor to build a credible multi-network offer in a competitive market where demand for innovations is strong among eye care professionals.

Transitions Optical Inc.

In January, Essilor announced that it was in discussions with PPG Industries relating to the future of their joint subsidiary, Transitions Optical, Inc., which is 49%-owned by Essilor.

Renewal of the Kodak license

Signet Armorlite, a subsidiary of Essilor, has renewed the Kodak lens manufacturing and distribution license signed with Eastman Kodak. The $30.5 million investment will allow Signet Armorlite, the Company's subsidiaries and some of their partners to use the Kodak brand throughout the world until 2029.

NOTE 32. List of fully-consolidated companies

Company	Country	% rights	% interest
FRANCE			
Activ Screen	France	68	68
BBGR	France	100	100
BNL Eurolens	France	100	100
BNL Polyofta	France	100	100
Dac Vision SAS	France	60	60
Delamare Sovra	France	100	100
Domlens	France	65	65
Essidev	France	100	100
Essiholding	France	100	100
Essor	France	65	65
FGX Holding SASU	France	100	100
Fred Management (Holding)	France	100	100
Invoptic	France	100	100
Interactif Visual System	France	68	68
IVS Technical Center	France	68	68
Mega Optic Design	France	75	75
Mont-Royal	France	64	64
Novacel Ophtalmique	France	75	75
Novisia	France	100	100
Omi	France	100	100
Optim	France	100	100
Satisloh SAS	France	100	100
Shamir France SARL	France	50	50
Tikai Vision (formerly Barbara)	France	100	100
EUROPE			
BBGR GmbH	Germany	100	100
Essilor GmbH	Germany	100	100
Infield Safety GmbH	Germany	100	100
Neckarsee GmbH	Germany	100	100
Nika Optics	Germany	100	100
Rupp & Hubrach Optik GmbH	Germany	100	100
Satisloh GmbH	Germany	100	100
Shamir Optic GmbH	Germany	50	50
Signet Armorlite Germany Holding GmbH	Germany	100	100
Signet Armorlite Optic	Germany	100	100
Essilor Austria GmbH	Austria	100	100
De Ceynunck & Co. NV	Belgium	100	100
Essilor Belgium S.A.	Belgium	100	100

Company	Country	% rights	% interest
Essilor Optika doo	Croatia	100	100
Essilor Danmark A.S.	Denmark	100	100
BBGR Lens Iberia S.A.	Spain	100	100
Essilor Espana S.A.	Spain	100	100
Essilor Optica International Holding S.L.	Spain	100	100
Satisloh Iberica	Spain	100	100
Shamir Optical Espana, SL	Spain	50	50
Signet Armorlite Iberica	Spain	100	100
Essilor OY	Finland	100	100
BBGR United Kingdom	United Kingdom	100	100
Crossbows Optical Ltd.	United Kingdom	100	100
Essilor European Shared Service Centre Ltd.	United Kingdom	100	100
Essilor Ltd.	United Kingdom	100	100
FGX Europe Limited	United Kingdom	100	100
Horizon Optical Company Ltd.	United Kingdom	95	95
Infield Safety UK, Ltd.	United Kingdom	100	100
Nikon Optical UK	United Kingdom	50	50
Shamir UK Limited	United Kingdom	50	50
Sight Station Ltd.	United Kingdom	100	100
Signet Armorlite Europe Ltd.	United Kingdom	100	100
Sinclair Optical Laboratories	United Kingdom	100	100
United Optical Laboratories	United Kingdom	100	100
Wholesale Lens Corporation Limited	United Kingdom	100	100
Essilor Optika Kft	Hungary	100	100
Athlone	Ireland	100	100
Essilor Ireland (Sales) Ltd.	Ireland	100	100
Organic Lens Manufacturing (subsidiary)	Ireland	100	100
Essilor Italia S.p.A.	Italy	100	100
Infield Safety Italia, SRL	Italy	100	100

Company	Country	% rights	% interest
LTL S.p.A.	Italy	100	100
Oftalmika Galileo Spa	Italy	100	100
Optilens Italia s.r.l.	Italy	100	100
Polinelli SRL	Italy	100	100
Satisloh Italy Spa	Italy	100	100
Shamir RX Italia SRL	Italy	50	50
Essilor Norge A.S.	Norway	100	100
Sentralslip	Norway	100	100
Essilor Nederland BV	Netherlands	100	100
Essilor Nederland Holding BV	Netherlands	100	100
Holland Optical Corp. BV	Netherlands	100	100
Holland Optical Instruments BV	Netherlands	100	100
Omax	Netherlands	85	85
Shamir Nederland B.V	Netherlands	50	50
Signet Armorlite (Holland) BV	Netherlands	100	100
Essilor Optical laboratory Polska Sp. Z.o.o.	Poland	100	100
Essilor Polonia	Poland	100	100
JZO	Poland	98	98
Shamir Polska Sp. zo.o	Poland	50	43
Essilor Portugal	Portugal	100	100
Shamir Portugal, LDA	Portugal	50	50
Signet Armorlite Portugal – Unipessoal, LDA	Portugal	100	100
Essilor Optika Spol s.r.o.	Czech Republic	100	100
Omega Optix S.R.O. (Czechia)	Czech Republic	100	100
Essilor Romania SRL	Romania	100	100
Essilor Optika OOO	Russia	100	100
Shamir Russia LLC	Russia	50	50
Essilor Slovakia	Slovakia	100	100
Omega Optix S.R.O. (Slovakia)	Slovakia	100	100
Essilor D.O.O Slovenia	Slovenia	100	100
BBGR Skandinaviska	Sweden	100	100
Essilor AB	Sweden	100	100
Essilor (Switzerland) S.A.	Switzerland	100	100
Reize	Switzerland	65	65
Satisloh AG	Switzerland	100	100
Satisloh Holding AG	Switzerland	100	100
Satisloh Photonics AG	Switzerland	100	100
Vaco Holding S.A.	Switzerland	100	100
NORTH AND CENTRAL AMERICA			
Aries Optical Ltd.	Canada	100	100
BBGR Optique Canada Inc.	Canada	100	100
Canoptec Inc.	Canada	100	100
Cascade Optical Ltd.	Canada	60	60
Custom Surface Ltd.	Canada	100	100

Company	Country	% rights	% interest
Eastern Optical Laboratories Ltd.	Canada	100	100
Econo Optics	Canada	60	60
Essilor Canada Ltd.	Canada	100	100
FGX Canada Corp	Canada	100	100
Fundy Vision	Canada	80	80
Groupe Vision Optique	Canada	100	100
Imperial Laboratories Inc.	Canada	60	60
K & W Optical Ltd.	Canada	100	100
Metro Optical Ltd.	Canada	100	100
Morrison Optical	Canada	100	100
Nikon Optical Canada Inc.	Canada	50	50
OMICS Software Inc	Canada	100	100
OPSG Ltd.	Canada	100	100
Optique Cristal	Canada	70	70
Optique de l'Estrie Inc.	Canada	100	100
Perspectics	Canada	100	100
Pioneer Optical Inc.	Canada	100	100
Pro Optic Canada Inc.	Canada	100	100
R & R Optical Laboratory Ltd.	Canada	100	100
SDL	Canada	90	90
Signet Armorlite Canada, Inc	Canada	100	100
Stylemark Canada	Canada	100	100
Westlab	Canada	100	100
21st Century Optics Inc.	United States	100	100
Accu Rx Inc	United States	95	95
Advance Optical	United States	90	90
AG Opticals Inc	United States	100	100
Apex Optical Company Inc.	United States	100	100
Balester Optical	United States	100	100
Barnett & Ramel Optical Co. of Nebr.	United States	80	80
Bazell	United States	70	70
Beitler Mc Kee Company	United States	90	90
Blue Optics	United States	80	80
BSA Industries	United States	100	100
Carskadden Optical	United States	100	100
Central Optical	United States	60	60
Collard Rose	United States	95	95
Custom Optical	United States	100	100
Dac Vision Inc	United States	61	61
Deschutes	United States	80	80
Dibok Aspen Optical	United States	100	100
Dioptics Medical Products	United States	100	100
Eye Buy Direct US	United States	61	61
ELOA California Acquisition Corp.	United States	100	100
Empire	United States	85	85
Encore LLC	United States	50	50

Company	Country	% rights	% interest
Epics Labs Inc	United States	80	80
Essilor Laboratories of America Corporation	United States	100	100
Essilor Laboratories of America Holding Co Inc.	United States	100	100
Essilor Laboratories of America, Inc (includes Laboratoires US)	United States	100	100
Essilor Laboratories of America, LP (includes Avisia, Omega, Duffens)	United States	100	100
Essilor Latin America & Caribbean Inc.	United States	100	100
Essilor of America Holding Co Inc.	United States	100	100
Essilor of America Inc.	United States	100	100
Eye Care Express Lab Inc	United States	95	95
Eyewear LLC	United States	61	61
FGX Direct LLC	United States	100	100
FGX International Holdings Limited	United States	100	100
FGX International II Limited	United States	100	100
FGX International, Inc	United States	100	100
Focus Optical Labs, Inc	United States	90	90
Frames For America	United States	61	43
Future Optics FL Inc	United States	92	92
Future Optics TE Inc	United States	80	80
Gentex Optics Inc.	United States	100	100
Gulfstates Optical Laboratories Inc.	United States	80	80
Hawkins Optical Laboratories Inc.	United States	100	100
Hirsch Optical	United States	100	100
Homer Optical	United States	100	100
Interstate Optical	United States	80	80
Jorgenson Optical Supply Cy.	United States	95	95
Lenstech Optical Lab Inc.	United States	80	80
Mc Leodd Optical Company Inc.	United States	80	52
MGM	United States	85	85
MOC Acquisition Corporation	United States	84	84
Nassau Lens Co Inc.	United States	100	100
NEA Optical LLC	United States	80	80
Next generation	United States	100	100
Nikon Optical US	United States	50	50
NOA	United States	100	100
OOGP	United States	100	100
Optical One	United States	80	80
Optical Suppliers Inc. (Hawaii)	United States	85	85
Optical Venture Inc.	United States	80	80

Company	Country	% rights	% interest
Optics East	United States	80	80
Optimatrix	United States	80	80
Optisource International Inc.	United States	90	90
Opt. Lab. Software Solutions	United States	100	100
Ozarks Optical Laboratories	United States	80	80
Pasch Optical Laboratory Inc.	United States	50	40
Pech Optical	United States	90	90
Peninsula Optical Lab.	United States	80	80
Perferx Optical Co Inc	United States	94	94
Personal Eyes	United States	100	100
Precision Optical Co. (Connecticut)	United States	80	80
Precision Optical Lab. (Tennessee)	United States	95	95
Premier Optics Corp	United States	90	90
Professional Opthalmic Lab	United States	80	80
Satisloh North America	United States	100	100
Shamir Insight, Inc.	United States	50	50
Shamir USA	United States	50	50
Signet Armorlite Inc	United States	100	100
Signet Armorlite USA	United States	100	100
Skaggs and Gruber, Ltd. d.b.a. Trucker Meadows	United States	80	80
Southwest lens	United States	65	65
Specialty Lens Corp.	United States	100	100
Stereo Optical Co. Inc.	United States	100	100
Stylemark	United States	100	100
SunStar Inc.	United States	80	80
Sutherlin Optical Company	United States	100	100
Tri Supreme Optical LLC	United States	100	100
Ultimate Optical Lab	United States	100	100
Vision-Craft Inc.	United States	100	100
Winchester Optical Company	United States	80	80
X-Cell	United States	80	80
Rainbow Optical	Puerto Rico	100	100
OTHER			
Essilor South Africa (Pty) Ltd.	South Africa	100	100
Spherical Optics (Pty) Ltd.	South Africa	50	26
Vision & Value	South Africa	80	80
AR Coating S.A.	Argentina	95	95
Essilor Argentina S.A.	Argentina	100	100
Optovision S.A.	Argentina	51	51
City Optical Pty Ltd.	Australia	100	100
Essilor Australia Pty Ltd.	Australia	100	100

Company	Country	% rights	% interest
Essilor Laboratory South Australia Pty Ltd.	Australia	100	100
Essilor Lens Australia Pty Ltd.	Australia	100	100
Eyebiz	Australia	70	70
Precision Optics Pty Ltd.	Australia	60	60
Prescription Safety Glasses Pty Ltd.	Australia	51	51
Shamir Australia (Pty) Ltd.	Australia	50	33
Sunix Computer Consultants Pty Ltd.	Australia	50	50
Tasmanian Optical Cy Pty Ltd.	Australia	100	100
Wallace Everett Lens Technology	Australia	66	66
Brasilor Participacoes Sc Ltda.	Brazil	100	100
Canto e Mello	Brazil	70	70
Ceditop	Brazil	76	76
Comopticos	Brazil	70	70
Embrapol Sul	Brazil	73	73
Essilor Da Amazonia Industria e Commercio Ltda.	Brazil	100	100
Farol	Brazil	70	70
GBO	Brazil	51	51
Grown	Brazil	51	51
Mult Block	Brazil	51	51
Mult Laboptical	Brazil	51	51
Multi Optica Distribuidora Ltda.	Brazil	100	100
Orgalent	Brazil	51	51
Riachuelo	Brazil	70	70
Repro	Brazil	70	70
Satisloh do Brasil	Brazil	100	100
Shamir Brasil Commercial Ltda.	Brazil	50	50
Styll	Brazil	51	51
Sudop Industria Optica Ltda.	Brazil	100	100
Technopark Comercio de Artigos Opticos S.A.	Brazil	51	51
Tecnolens	Brazil	71	71
Unilab	Brazil	71	71
YTT Holding	Brazil	51	51
Essilor Cambodia	Cambodia	51	51
Codi Sivo	Cameroon	55	28
Chemilens Co. Ltd.	China	50	50
Danyang	China	80	80
Eye Buy Direct China	China	61	61
Essilor China Holding Co Ltd.	China	100	100
FGX International Limited China	China	100	100
Nikon Beijing Co. Ltd.	China	50	50
Satisloh Trading Shenzen	China	100	100

Company	Country	% rights	% interest
Satisloh Zhongshan	China	100	100
Seeworld Optical Co.	China	51	51
Shanghai Essilor Optical Co. Ltd.	China	100	100
Tian Hong	China	50	50
Wanxin	China	50	50
Youli Optics Co Ltd.	China	51	51
Essilor Colombia	Colombia	100	100
Signet Armorlite Colombia S.A	Colombia	96	96
Chemiglas	South Korea	50	50
Dekovision	South Korea	50	50
Essilor Korea	South Korea	50	50
Incheon Optics	South Korea	50	40
Laboratoires Sivo Abidjan	Côte d'Ivoire	55	50
Essilor Amico LLC	United Arab Emirates	50	50
Essilor Amico Middle East FZCO	United Arab Emirates	50	50
Essilor Middle East Limited	United Arab Emirates	100	100
Osme	United Arab Emirates	100	100
Ghanada	United Arab Emirates	50	40
GKB Emirates	United Arab Emirates	50	50
Eye Buy Direct HK	Hong Kong	61	61
Essilor Hong Kong	Hong Kong	100	100
Foster Grant Hong Kong Limited	Hong Kong	100	100
Polylite Hong Kong	Hong Kong	51	51
Satisloh Asia and Trading Ltd.	Hong Kong	100	100
20 20 Optics	India	70	70
Beauty Glass Pvt Ltd.	India	88	88
Delta CNC	India	51	39
Delta Lens Pvt Ltd.	India	51	51
Essilor India Pvt Ltd. (ex-Esssilor SRF Optics Ltd.)	India	100	100
Essilor Manufacturing India Pvt Ltd. (ex-Indian Ophtalmic Lenses Manuf.)	India	100	100
GKB Hi Tech	India	50	50
GKB Optic Tech Private Ltd.	India	51	51
GKB Rx Lens Private Ltd.	India	76	76
Sankar	India	70	70
Satisloh India	India	100	100
Vijay Vision Pvt Ltd.	India	88	88
P.T Optical Support of Indonesia	Indonesia	70	70

Company	Country	% rights	% interest
P.T. Essilor Indonesia	Indonesia	100	100
Essilor Israel Holding	Israel	100	100
Shamir Holding Optical	Israel	50	50
Shamir Optical Industry	Israel	50	50
Shamir Special Optical Products Ltd.	Israel	50	50
Shamir Eyal Ltd.	Israel	50	50
Shamir Israel Optical Marketing Ltd.	Israel	50	50
Shamir Or Ltd.	Israel	50	50
Inray Ltd.	Israel	50	50
Aichi Nikon Co. Ltd.	Japan	50	50
Nasu Nikon Co. Ltd.	Japan	50	50
Nikon – Essilor Co. Ltd.	Japan	50	50
Essilor Amico Kuwait	Kuwait	50	50
Essilor Malaysia Sdn Bhd	Malaysia	100	100
Frames and Lenses	Malaysia	80	80
ILT Malaysia	Malaysia	81	81
L'N Optics	Morocco	51	51
Optiben	Morocco	65	65
Sivom	Morocco	55	28
VST Lab	Morocco	65	65
Aai Joske's S de RL de CV	Mexico	100	100
Centro Integral Optico S.A de C.V	Mexico	50	26
Cristal y Plastico S.A. de CV	Mexico	51	51
Essilor Mexico	Mexico	100	100
Shalens S.A C.V	Mexico	50	26
Signet Armorlite de Mexico, S.A. & CV	Mexico	99	99
Sofi de Chihuahua	Mexico	100	100
Essilor Laboratories New Zealand Ltd. (formerly OHL Lenses Ltd.)	New Zealand	100	100
Essilor New Zealand Ltd.	New Zealand	100	100
Optical Laboratories	New Zealand	100	100
Prolab	New Zealand	100	100
Epodi	Philippines	51	51
Essilor Manufacturing Philippines Inc.	Philippines	100	100
Optodev	Philippines	100	100

Company	Country	% rights	% interest
Amico Qatar	Qatar	50	49
Opti Express	Dominican Republic	51	51
Sivo Togo	Togolese Republic	55	28
Essilor Amera Pte Ltd.	Singapore	100	100
Essilor Philippines Holding	Singapore	51	51
ETC South East Asia Pte Ltd.	Singapore	70	70
ILT To Latin America	Singapore	51	51
Integrated Lens Technology	Singapore	100	100
Kaleido Vision Pte Ltd. (ex-Unique Ophtalmic)	Singapore	100	100
OSA Investments Holdings Pte Ltd.	Singapore	100	100
Polilyte Asia Pacific Pte Ltd.	Singapore	51	51
Seeworld Holding Pte Ltd.	Singapore	51	51
Signet Armorlite Asia (formerly Visitech)	Singapore	100	100
SMJ Holding Pte Ltd.	Singapore	70	70
Trend Optical Singapore	Singapore	70	70
Trend Optical Taiwan Branch	Taiwan	70	70
Polylite Taiwan Optilab	Taiwan	51	51
SMJ Holding Pte Ltd. Taiwan Branch	Taiwan	70	70
Essilor Distribution Thailand Co. Ltd.	Thailand	100	100
Essilor Manufacturing (Thailand) Co Ltd.	Thailand	100	100
Essilor Optical Laboratory Thailand	Thailand	100	100
Eyebiz Laboratory Co Ltd.	Thailand	70	70
K-T Optic Co., Ltd.	Thailand	50	24
ShamirLens Thailand Co., Ltd.	Thailand	50	24
Essilor Sivo	Tunisia	55	55
Sicom	Tunisia	55	55
Altra Optik Sanayi ve Ticaret A.S	Turkey	50	50
Ipek	Turkey	70	70
Opak	Turkey	51	51
Yeda Tora	Turkey	70	70

NOTE 33. List of proportionately-consolidated companies

Company	Country	% rights	% interest
Nikon and Essilor International Joint Research Center Co. Ltd.	Japan	50	50

Combined contribution of proportionately consolidated companies

€ thousands	2012	2011
Intangible assets and property, plant and equipment, net	532	48,589
Other non-current assets	156	8,405
Current assets	847	112,996
Non-current liabilities		8,045
Current liabilities	440	30,867

NOTE 34. List of associates

Company	Country	% rights	% interest
Transitions Group			
■ Transitions Optical Pty Ltd.	Australia	49	49
■ Transitions Optical Do Brasil Limitada	Brazil	49	49
■ Transitions Optical Inc.	United States	49	49
■ Transitions Optical India	India	49	49
■ Transitions Optical Limited	Ireland	49	49
■ Transitions Optical Japan	Japan	49	49
■ Transitions Optical Holdings BV	Netherlands	49	49

Company	Country	% rights	% interest
Transitions Optical Philippines Inc.	Philippines	49	49
■ Transitions Optical Singapore	Singapore	49	49
■ Transitions Optical Thailand	Thailand	49	49
Shamir Optispeed	South Africa	25	13
Shamir Emerald	South Africa	28	14
Vision Web	United States	44	44

NOTE 35. List of non-consolidated companies

Combined financial data for non-consolidated companies

Combined financial data for the main non-consolidated companies held by consolidated companies are as follows (based on a theoretical 100% holding):

				Carrying amount of the shares	
€ thousands	Equity	Revenue	Net profit	Gross	Net
Total non-consolidated companies	50,892	112,090	3,931	40,145	35,162

Note: As allowed under Article 24(11) of French Decree 83.1020 of November 29, 1983, detailed information by subsidiary is not provided as its disclosure would be prejudicial to the Company's interests.

List of non-consolidated companies

Companies	Country	rights
FRANCE		
Distrilens	France	100
Optical Supply of Europe	France	100
Varilux University	France	100
EUROPE		
Essilor Logistik GmbH	Germany	100
Essilor Bulgaria	Bulgaria	100
AVS	Spain	25
ANFAO (association)	Spain	14
OHO	Estonia	70
Leicester	United Kingdom	80
Itallenti	Italy	5
Armgol holding BV	Netherlands	20
Rhein Vision BV	Netherlands	33
Mec & Ciesse Optical	Italy	70
UAB JZP Optika Lituania	Lithuania	98
Optika JZO Zoo	Poland	98
Optikos SP Zoo	Poland	94
Neolens SP Zoo	Poland	100
Essilor Optics d.o.o	Serbia	100
JZO Optika Ukraina	Ukraine	98
AFRICA		
Evolution Optical	Africa	51
Easy Vision	Africa	100
NORTH AMERICA		
Cherry Optical	United States	48
American Optical Services (AOS)	United States	18
Superior Optical Lab.	United States	45
e-vision LLC	United States	17

Companies	Country	rights
REST OF WORLD		
Tianjing vx Technical School	China	100
Polylite Shanghai	China	15
Shandong Xin Yi Trading Ltd. Co	China	30
Shanghai ILT	China	100
Zheng Zhou Fang Yuan	China	51
ILT Costa Rica	Costa Rica	100
Dac Vision	Hong Kong	100
CP Services PVT Ltd.	India	100
Essilor Lens & Spects P Ltd.	India	60
Enterprise Ophtalmics	India	50
Optics India Equipments	India	50
Xtra Vision	India	51
Essilor Laos	Laos	100
Essilab Philippines Inc	Philippines	40
Eyeland	Philippines	39
Optoland	Philippines	40
Global Lens Lanka	Sri Lanka	50
Essilor South Thailand	Thailand	49
Lab. South Thailand	Thailand	87
Polylite Taiwan Co Ltd.	Taiwan	11
Chemilens Vietnam	Vietnam	100
OSA Ltd. Liability Co.	Vietnam	33

3.5 Report of the Auditors on the consolidated financial statements

Fiscal year ended December 31, 2012

Dear Shareholders,

In the performance of the engagement entrusted to us by the Shareholders' Meeting, we hereby report to you, for the fiscal year ended December 31, 2012, on:

- the audit of the consolidated financial statements of Essilor International, as appended to this report;
- the justification of our assessments;
- the specific verification required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with auditing standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis or by selection, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We hereby certify that, with respect to IFRS as adopted by the European Union, the consolidated financial statements for the fiscal year present fairly the assets, financial position, and the results of operations of the group formed by the persons and entities included in the consolidation.

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we draw to your attention the following matters:

Goodwill is tested for impairment in accordance with the principles described in Note 1.21 to the consolidated financial statements. We examined the approach and assumptions used to perform these tests and checked that the disclosures in Note 11 to the consolidated financial statements were adequate.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

III. Specific verification

We have also performed specific verifications of the information given in the management report, in accordance with the professional standards applicable in France.

We have no comments to make concerning the fair presentation of this information and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Courbevoie – March 15, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Mazars
Christine Bouvry	Pierre Sardet

3.6 Fees paid to the Auditors and the members of their networks

Fiscal years covered: 2012 and 2011.

	PriceWaterhouseCoopers				Mazars			
	Amount (net of VAT)		As a %		Amount (net of VAT)		As a %	
In € thousands, except for percentages	Fiscal year 2012	Fiscal year 2011	Fiscal year 2012	Fiscal year 2011	Fiscal year 2012	Fiscal year 2011	Fiscal year 2012	Fiscal year 2011
AUDIT								
Statutory and contractual audit services:								
■ Parent company	447	462	14%	17%	282	281	11%	9%
■ Consolidated subsidiaries[(a)]	2,257	1,684	69%	63%	1,776	1,427	66%	45%
Other procedures and services directly related to the Auditors' duties								
■ Parent company	325	281	10%	11%	171	138	6%	4%
■ Consolidated subsidiaries	170	164	5%	6%	404	1,298	15%	41%
SUB-TOTAL	**3,199**	**2,591**	**98%**	**98%**	**2,633**	**3,144**	**98%**	**99%**
OTHER SERVICES PROVIDED TO CONSOLIDATED SUBSIDIARIES								
Legal and tax advice	75	61	2%	2%	41	32	2%	1%
Other	0	0	0%	0%		0	0%	0%
SUB-TOTAL	**75**	**61**	**2%**	**2%**	**41**	**32**	**2%**	**1%**
TOTAL	**3,274**	**2,652**	**100%**	**100%**	**2,673**	**3,176**	**100%**	**100%**

(a) Increase in 2012 due in part to the full consolidation (instead of proportionate consolidation) of the Nikon-Essilor and Essilor Korea sub-groups in 2012.

The other work and services directly linked to the duties of the Statutory Auditor correspond principally to the work conducted within the context of acquisition transactions of companies to be included in the scope of consolidation.

3

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

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

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

3.7.1 Key data at December 31, 2012

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

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

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

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

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

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

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

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

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

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

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

3.7.2 Income statement at December 31, 2012

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

3.7.3 Balance sheet at December 31, 2012

Assets

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

Equity and liabilities

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

3.7.4 Cash flow statement at December 31, 2012

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

(a) Changes in working capital are as follows:

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

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

3.8 Notes to the 2012 Parent Company Financial Statements

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

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

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

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

Significant events of the year

Commercial revenue

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

Financial transactions

■ Treasury stock transactions

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

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

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

Acquisitions

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

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

New financing

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

Human resources

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

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

Income tax

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

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

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

NOTE 1. Accounting policies

1.1 General

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

1.2 Intangible assets

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

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

Software	1 to 10 years
Patents	Period of legal protection

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

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

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

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

1.3 Research and development costs

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

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

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

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

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

1.4 Property, plant and equipment

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

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

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

Land is not depreciated.

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

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

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

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

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

1.5 Long-term investments

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

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

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

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

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

1.6 Inventories

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

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

1.7 Receivables and payables

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

1.8 Marketable securities

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

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

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

1.9 Financial instruments

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

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

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

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

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

1.10 Foreign currency transactions

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

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

A provision is booked for conversion losses.

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

1.11 Pension, length-of-service and other obligations

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

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

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

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

1.12 Foreign currency translation

The Essilor Industries financial statements are prepared in US dollars.

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

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

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

1.13 Corporate income tax (Group relief)

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

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

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

1.14 Recognition and measurement of provisions

Untaxed provisions

These mainly comprise provisions for excess tax depreciation.

Provisions for contingencies and charges

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

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

Provisions for customer warranties

The provision is calculated:

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

Provisions for treasury shares

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

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

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

Provisions for losses from subsidiaries and affiliates

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

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

1.15 Loan issuance charges

Loan issuance charges may be:

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

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

NOTE 2. Revenue

2.1 Net revenue by business segment

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

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

2.2 Breakdown between intercompany and external sales, France and export

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

NOTE 3. Other income

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

NOTE 4. Other external purchases and expenses

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

NOTE 5. Net interest income

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

NOTE 6. Non-operating items

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

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

NOTE 7. Income tax expense

7.1 Profit excluding overriding tax assessments

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

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

7.2 Analysis of income tax expense

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

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

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

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

7.3 Unrecognized deferred tax assets and liabilities

Assets

No deferred tax assets are recognized in the balance sheet.

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

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

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

Equity and liabilities

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

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

NOTE 8. Intangible assets

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

NOTE 9. Property, plant and equipment

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

NOTE 10. Investments and other non-current assets

10.1 Analysis

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

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

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

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

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

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

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

10.2 Subsidiaries and affiliates

INVESTMENTS WITH A GROSS AMOUNT REPRESENTING

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

10.3 Analysis of long-term loans and receivables by maturity

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

NOTE 11. Current assets

11.1 Inventories

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

11.2 Analysis of operating receivables by maturity

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

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

11.3 Marketable securities

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

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

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

11.4 Prepaid expenses

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

11.5 Accrued income

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

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

NOTE 12. Equity

12.1 Share capital

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

Of which own shares:

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

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

12.2 Statement of changes in equity

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

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

2012

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

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

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

2011

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

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

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

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

Stock subscription and purchase options

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

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

Performance shares

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

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

Employee share issues

The main features of the employee share issues are:

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

NOTE 13. Provisions

13.1 Provisions for contingencies and charges

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

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

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

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

13.2 Provisions for impairment

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

NOTE 14. Liabilities

14.1 Maturities of liabilities

Analysis of total liabilities by maturity and by category

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

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

Analysis by maturity (total liabilities)

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

Analysis by currency (borrowings)

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

Covenants

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

14.2 Accrued charges

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

14.3 Related party transactions

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

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

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

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

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

NOTE 15. Off-balance sheet commitments

15.1 Financial commitments

Commitments given and received

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

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

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

Forward foreign exchange contracts

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

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

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

Currency options

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

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

Cross-currency swap

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

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

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

15.2 Finance lease commitments

There have been no commitments under finance leases since 2006.

15.3 Commitments under non-cancelable operating leases and other contracts

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

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

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

NOTE 16. Employee data

16.1 Pension, length-of-service and other obligations

Supplementary pensions

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

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

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

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

Length-of-service awards

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

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

Retirement benefits

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

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

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

Expenses for the year

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

16.2 Average workforce

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

16.3 Management compensation

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

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

16.4 Other employee information

"Individual Training Entitlement ("DIF")

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

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

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

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

NOTE 18. Events after the balance-sheet date

Acquisitions made in early 2013

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

Share buyback

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

Liquidity contract

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

NOTE 19. Five-year financial summary

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

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

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

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

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

3.9 Report of the Auditors on the parent company financial statements

Fiscal year ended December 31, 2012

Dear Shareholders,

In the performance of the engagement entrusted to us by the Shareholders' Meeting, we hereby report to you, for the fiscal year ended December 31, 2012, on:

- the audit of the annual financial statements of Essilor International, as appended to this report;
- the justification of our assessments;
- the specific verifications and information required by law.

The annual financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

I. Opinion on twal financial statements

We conducted our audit in accordance with auditing standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis or by other methods of selection, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We hereby certify that, with respect to the accounting rules and principles applicable in France, the financial statements present fairly the results of the Company's operations for the fiscal year ended as well as its financial position and assets as of the end of that year.

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we draw to your attention the following matters:

- Note 1.5 to the financial statements describes the accounting treatment of investments.

As part of our assessment of the Company's accounting principles and policies, we verified the appropriateness of the policies and methods applied to investments and of the information disclosed in the notes to the financial statements. We also obtained assurance that these policies and methods had been properly applied.

These assessments were made in the context of our audit of the financial statements taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

III. Specific verifications and information

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no comments concerning the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the Shareholders with respect to the financial position and the annual financial statements.

Concerning the disclosures made in application of Article L.225-102-1 of the French Commercial Code on the compensation and benefits paid and commitments given to corporate officers, we checked the consistency of these disclosures with the accounts or with the underlying data as well as with any relevant information obtained by your Company from entities that control it or that it controls. Based on the audit conducted, we hereby certify that the disclosures made are accurate and presented fairly.

As required by law, we have obtained assurance that disclosures about the acquisition of controlling and other interests and about the identity of shareholders were made in the Management Report.

Neuilly-sur-Seine and Courbevoie – March 15, 2013

The Statutory Auditors

PricewaterhouseCoopers Audit	Mazars
Christine Bouvry	Pierre Sardet

3.10 Appended information

Latest financial information

The latest audited financial information corresponds to fiscal years 2011 and 2012 (from January 1 to December 31, 2011 and from January 1 to December 31, 2012).

Dividend policy

The Company has not established a dividend policy. Every year, the dividend is recommended by the Board for approval by vote of the Annual Shareholders' Meeting.

2012 dividend payable in 2013

For fiscal year 2012, the Board will recommend to the Annual Shareholders' Meeting of May 16, 2013, a 3.5% increase in the net dividend to €0.88 per share for 2012 from €0.85 per share for 2011.

The recommended dividend represents almost one third of consolidated net profit attributable to equity holders of Essilor International. It reflects the Company's solid performance in 2012.

The dividend will be paid as from June 4, 2013, in cash only.

Historical payout rates and changes in dividends

Total dividends for 2012 and the previous five years were as follows:

€ millions	Profit attributable to equityholders of Essilor International	Total dividend	Payout ratio	Net dividend (€)	Date of payment
2012	584	185[(a)]	32%	0.88[(a)]	June 4, 2013
2011	506	177	35%	0.85	May 29, 2012
2010	462	172	37%	0.83	May 19, 2011
2009	391	146	37%	0.70	May 28, 2010
2008	382	136	36%	0.66	May 26, 2009
2007	367	128	35%	0.62	May 28, 2008

(a) Based on treasury shares at February 28, 2013 and subject to the decision of the Shareholders' Meeting of May 16, 2013.

Dividends not claimed within five years are time-barred, in accordance with the law.

Paying agent

CACEIS Corporate Trust – 14, rue Rouget-de-Lisle – 92862 Issy-les-Moulineaux – France – Phone: +33 (1) 57 78 00 00.

4

Social, environmental and societal reporting

4.1 Introduction: profile

4.1.1 Introduction

As this is the first year of formal introduction of Law **2010-788 of July 12, 2010, better known as the "Grenelle 2 Law"**, and its implementing Decree **2012-557 of April 24, 2012, Article L.225105-2**, it seemed appropriate to provide a brief overview of the Group's CSR reporting in the past.

2002 to 2012: from the French NRE law to Grenelle 2

Essilor International has been reporting on its social, environmental and societal performance for ten years (since fiscal year 2002). At the very beginning, this was done in the Annual Report. Then, in 2003, it was published in a separate report entitled "Seeing the world better/2003. Our contribution to sustainable development." That report was distributed at the Essilor International Shareholders' Meeting and was made available to all stakeholders; it was primarily intended for internal use as a means to make employees aware of the newest developments with regard to sustainable development and corporate social responsibility.

In 2004 and 2005, reporting on these matters was included in the Annual Reports for those years. In 2006, the Group published another separate report entitled "Seeing the world better/2006. Our contribution to sustainable development." The purpose of that document was to take stock of the progress achieved in the three years since the initiative was formally implemented and review the Group's sustainable development actions. The report was mainly targeted at an external audience and distributed in large quantity to stakeholders worldwide following distribution at the Shareholders' Meeting.

Since the 2007 fiscal year, reporting on these matters has been included in the annual Registration Document in an effort to produce an integrated report.

2002 to 2012: from double reporting to integrated reporting

Before the publication of **Law 2010-788 of July 12, 2010, better known as the "Grenelle 2" Law**, and its implementing Decree **2012-557 of April 24, 2012, Article L.225-105-2**, Essilor International reported on its corporate, social and environmental performance in two complementary formats, corresponding respectively to Appendices 2 and 3 of the 2007, 2008, 2009, 2010 and 2011 Registration Documents.

The first, Appendix 2, related to the application within a limited scope of the formal requirements of the French NRE law to Grenelle 2, which applied to the French company listed on the Paris Stock Exchange, Essilor International SA, Compagnie Générale d'Optique, located at 147 rue de Paris, F 94227 Charenton-le-Pont Cedex, France. It was designed so that the social information reported would exactly match the information that was the subject of the Group's Responsibility Corporate Report for France. Essilor reported on this portion of its social and environmental policies in compliance with Paragraph 5 of Article 225-102.1 of the French Commercial Code, with the scope corresponding essentially to the parent company.

The second report, Appendix 3, related to the application of the successive versions of the Global Reporting Initiative (GRI) guidelines up to the most recent, G3, which have been applied since fiscal year 2006. The information disclosed in Appendix 3 generally corresponded to what is included in a sustainable development report. The goal was to extend the reporting perimeter to the entire Group by taking the French data from Appendix 2 and incorporating it in Appendix 3 to combine France and the rest of the world.

From 2012 onwards: from reporting that covered operations directly conducted on a daily basis by Essilor, to reporting that will gradually cover all legal entities financially consolidated by Essilor

Today there is no longer a need to use these two separate formats. Essilor International will continue to use the Global Reporting Intitiative (GRI) guidelines and gradually extend the reporting perimeter that covers the majority of legal entities under Essilor's direct operational control to those financially consolidated by Essilor.

The Group's 2012 Registration Document therefore has decided to merge the formal requirements of the Grenelle 2 Law with those of the GRI.

When reporting started being formalized in 2002, the Corporate Sustainability Department set itself the goal of achieving coverage of at least 85% within five years, based on the number of employees working in legal entities whose operations were managed day-to-day directly by Essilor. This goal was attained in 2007.

The goal of the Corporate Sustainability Department now is to achieve coverage in the order of 85% within five years based on the number of employees working in legal entities financially consolidated by Essilor. This goal should be attained by 2017.

The Group cannot commit to 100% coverage and wishes to maintain a reserve of 15% to anticipate a situation where one or more companies with large workforces are acquired within a single fiscal year but are unable to report their non-financial information within the same period as their financial information for first-time inclusion in Essilor's financial statements.

4.1.2 Profile

4.1.2.1 Strategy and analysis

§ 1.1	**Statement from the most senior decision-maker of the organization.**	Refer to the corresponding pages of the 2012 Registration Document and/or the 2012 Annual Report. See also the Chairman's report.

Renewal of Essilor International's commitment to integrate the 10 principles of the Global Compact in its strategy and operations

In March 2003, we received the letter signed by Georg Kell, Executive Head, Global Compact, thanking us for our commitment to the Global Compact.

Ten years later, Essilor International is proud to continue to support this UN initiative, and I am pleased to renew this annual commitment of Essilor International, which is included with our Communication on Progress (COP).

Hubert Sagnières
Chairman and Chief Executive Officer

Essilor International is included in the six major social responsibility indices: ASPI Eurozone®, ECPI® Ethical EMU Equity, ECPI® Ethical Europe Equity, FTSE4Good, Ethibel Excellence and STOXX® Global ESG Leaders Indices.

§ 1.2	**Description of key impacts, risks and opportunities.**	Key impacts, risks and opportunities are described in several sections of the 2012 Registration Document. Please consult those sections. The main sustainable development challenge for Essilor International is one of access, a social challenge that will allow an ever increasing number of people finally to have access to "Better life through better sight℠," to quote the motto of the Essilor Foundation, and appreciate "Seeing the world better®," to quote the motto of the Group. The Company's mission is therefore to help give more and more people access to its products and services.

4.1.2.2 Organizational profile

§ 2.1	**Name of the organization.**	Essilor International.
§ 2.2	**Primary brands, products and/or services.**	Refer to the corresponding pages of the 2012 Registration Document and/or the 2012 Annual Report. Essilor is the global leader in ophthalmic optics. From design to manufacture, the Group develops broad ranges of lenses to correct and protect sight. Its goal is to enable anyone in the world to enjoy good sight by having lenses tailored to their specific requirements. The Group devotes approximately €150 million each year to research and development so that it can offer increasingly efficient products. Its flagship brands are Varilux®, Crizal®, Definity®, Xperio®, Optifog™ and Foster Grant®. Essilor also develops and sells equipment, instruments and services for eye care professionals. Lenses from the Airwear® range of products are made from thermoplastic material which can be recycled at the end of its life cycle to produce items other than corrective lenses.
§ 2.3	**Operational structure of the organization.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 2.4	**Location of the organization's headquarters.**	147, rue de Paris – F 94227 Charenton-le-Pont – Cedex – France
§ 2.5	**Number of countries where the organization operates.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 2.6	**Nature of ownership and legal form.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 2.7	**Markets served.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 2.8	**Scale of the reporting organization.**	Refer to the corresponding pages of the 2012 Registration Document.

§ 2.9	**Significant changes during the reporting period [...].**	Refer to the corresponding pages of the 2012 Registration Document and the Note on Methodology in Section 4.5 below.
§ 2.10	**Awards received during the reporting period.**	In 2012, Essilor International was ranked twenty-eighth of the top one hundred most innovative companies *in* the world by Forbes magazine (twenty-fifth in 2011). The "Better life through better sight℠" Essilor Vision Foundation stepped up its actions in 2012 by expanding the reach of its Adopt-a-School and Kids Vision *for* Life programs. For the Adopt-a-School program, new teams were created across the United States with a growing number of volunteers among Essilor of America employees and customers plus other company stakeholders. The Kids Vision for Life program, already very solidly established in the Dallas-Fort Worth area, continued in 2012 to benefit from the much appreciated contribution of Alcon and its staff, which helped transform these two Texan cities into Vision capitals and led to similar initiatives in other cities in the state. Furthermore, through a long-established agreement, the "Better life through better sight℠" Essilor Vision Foundation supports all charitable initiatives led by Group entities around the world. Refer to the world map of these initiatives. On March 20, 2012, the French production unit in Dijon was awarded the regional Bourgogne Performance Quality prize by the French Movement for Quality (MFQ) in the presence of the plant's managers and the management team. This annual award recognizes companies that have developed a management strategy in line with the criteria of the EFQM Excellence Model.Optodev, a major production plant in the Philippines, received the Level 1 Philippines Quality Award (PQA). It was presented in December 2012 by President Benigno Simeon Cojuangco Aquino III. The award recognized the Company's commitment to quality management. Since its introduction in 1998 only 45 companies have received it.

4.1.2.3 Report parameters

■ Report profile

§ 3.1	**Reporting period for information provided.**	In Chapter 4, the relevant period is the 12 months from October 1, 2011 to September 30, 2012 unless otherwise indicated by the "at" symbol in superscript ($^{@}$) after a figure. In such cases it coincides with the annual period running from January 1, 2012 to December 31, 2012. Refer to the sections on "Reporting standards used" and "Report boundary" in the Note on Methodology in Section 4.5 below.
§ 3.2	**Date of the most recent previous report (if applicable).**	Appendices 2, 3 and 4 of the 2011 Registration Document. A substantial amount of information on Essilor International's contribution to sustainable development and reports of several recent fiscal years can be found on the Company's website: www.essilor.com.
§ 3.3	**Reporting cycle.**	Twelve months from October 1, 2011 to September 30, 2012 or January 1 to December 31, 2012, if indicated by an "at" symbol in superscript ($^{@}$).
§ 3.4	**Person to contact.**	Claude Darnault, Chief Sustainability Officer.

Report scope and boundary

§ 3.5	**Process for defining report content [...]**	Responsibility of the Corporate Sustainability Department, which is supported by the network of the Group's legal entities and uses the in-house "Hyperion® Sustainability" reporting system. Refer to "Selection and Relevance of Indicators" in the Note on Methodology, Section 4.5 below.
§ 3.6	**Boundary of the report.**	Refer to "Report boundary" in the Note on Methodology, Section 4.5 below.
§ 3.7	**State any specific limitations on the scope [...]**	Until fiscal year 2011, the affiliated companies were not included in the non-financial reporting. Only companies whose operations were managed day-to-day directly by Essilor reported their non-financial data. The Group is continuing to pursue a process initiated in 2011 to gradually include existing or future financially consolidated companies in its non-financial reporting.
§ 3.8	**Basis for reporting on joint ventures [...]**	Previously not applicable for these situations. Joint ventures were not included in the scope of non-financial reporting. They will now be progressively included. Refer to the sections on "reporting standards used" and "Report boundary" in the Note of Methodology Section 4.5 below.
§ 3.9	**Data measurement techniques and the bases of calculations [...]**	Until fiscal year 2011, affiliated companies were not included in the non-financial reporting. Only the companies whose operations were managed day-to-day directly by Essilor reported their non-financial data. The Group continues to apply the process initiated in 2011 consisting of gradually adding the financially consolidated companies to the non-financial reporting. Refer to the Note on Methodology in Section 4.5 below.
§ 3.10	**Explanation of the effects of any re-statements [...]**	Provided as needed.
§ 3.11	**Significant changes [...]**	For fiscal year 2012, the number of sites reporting their data in the non-financial reporting tool has increased slightly compared with fiscal year 2011. Several major facilities recently acquired by the Group have begun their reporting process but it is good practice to wait at least a full fiscal year before publication. The 2012 Report boundary includes Rupp und Hubrach plus several other entities.

GRI content index

§ 3.12	**Table identifying the location of the Standard Disclosures [...]**	This section and qualitative uses GRI guidelines for sustainable development reporting. In particular, it includes quantitative elements that comply with the "Grenelle 2" Law. It does not contain tables identifying the location of the required information. For that information, Refer to the general index of the Registration Document.

Third-party assurance

§ 3.13	**Policy and current practice with regard to seeking external assurance for the report [...].**	Refer to Section 4.5 of this Registration Document, where you will find the Assurance Report prepared on the basis of the 2012 audit of non-financial information.

4.1.2.4 Governance, commitment and dialogue

Governance

§ 4.1	**Governance structure of the organization [...]**	Refer to the corresponding pages of the 2012 Registration Document.
§ 4.2	**Indicate whether the Chairman of the Board of Directors is also an executive officer.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 4.3	**[...] indicate the number of independent and/or non-executive board members.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 4.4	**Mechanisms [...] to provide recommendations or direction to the Board of Directors.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 4.5	**Linkage between compensation [...] and the organization's performance.**	Refer to the corresponding pages of the 2012 Registration Document.
§ 4.6	**Processes implemented by the Board of Directors to avoid conflicts of interest.**	Refer to the corresponding pages of the 2012 Registration Document. A policy prohibiting trading during fixed periods and communicated every year is applied to Group Board members, executives and other senior managers, and more generally to any person in the chain of command listed as an "insider."
§ 4.7	**Process for determining the [...] qualifications and expertise [...]**	Refer to the corresponding pages of the 2012 Registration Document.
§ 4.8	**[...] statements of mission or values, codes of conduct and principles [...]**	Essilor Principles; Minimum Control Standards; Guide to Group Standards; details of regulations and policies at the local regional and Group level; administration and finance handbook.
§ 4.9	**Procedures of the Board of Directors for overseeing [...]**	The Corporate Sustainability Department regularly reports its actions to the Group Executive Committee and to the Audit Committee of the Board of Directors.
§ 4.10	**Processes for evaluating the Board of Directors' own performance [...]**	Refer to the corresponding pages of the 2012 Registration Document.

Commitments to external initiatives

§ 4.11	**Explanation regarding the position of the organization [...]**	Continuous improvement in managing and preventing risks is achieved through various quality, environmental and occupational health and safety management systems. An **EFQM** process model is implemented within Worldwide Operations. A Health, Safety and Environment Charter and Guide have been applied to all projects since 2002. The eco-design, eco-efficiency process has been implemented since 2004. Several hundred group researchers and project managers have been trained in this process. Essilor International has signed the UN Global Compact and is included in six major social responsibility indices: **ASPI Eurozone®, ECPI® Ethical EMU Equity, ECPI® Ethical Europe Equity, FTSE4Good, Ethibel Excellence and STOXX® Global ESG Leaders Indices**.

§ 4.12	**Externally developed [...] charters, principles or other initiatives [...]**	Essilor International has been a signatory to the Global Compact since 2003. As such, the Group supports and promotes the four texts underpinning the Compact's 10 principles: the Universal Declaration of Human Rights (first and second principles), ILO Conventions relating to the Freedom of Association and Right to Organise and Bargain Collectively (third principle), the Abolition of Forced Labour (fourth principle), the Effective Abolition of Child Labour (fifth principle), the Elimination of Discrimination in Respect of Employment and Occupation (sixth principle), the Rio Declaration on Environment and Development (seventh, eighth and ninth principles) and the UN conventio^{n} against corruption (tenth and last principle). Essilor is part of Transparency International®. Information on Essilor International's many other initiatives in support of sustainable development can be found on the Company's website: www.essilor.com. Refer to the above.
§ 4.13	**Memberships in associations [...]**	Not applicable.

Stakeholder engagement

§ 4.14	**List of stakeholder groups engaged by the organization**	The Group has established numerous initiatives with its stakeholders. Besides its customers, employees, shareholders, suppliers and the communities where its employees live and work, the Group has relations with numerous non-governmental organizations (NGOs) such as Helen Keller International, Lions Clubs International and Special Olympics. The Group naturally works closely with NGOs operating in the visual health sector. Essilor has invested in the company "Investisseur et Partenaire pour le Développement," an entity with two main activities, one dedicated to financing microfinance institutions and the other dedicated to the assistance and financing of local entrepreneurs in French-speaking West Africa.
§ 4.15	**Basis for identification and selection of stakeholders with whom to engage.**	Actions are generally undertaken with stakeholders that are interested in the Group's operations or can develop synergies with the Group.
§ 4.16	**Approaches to stakeholder engagement, including frequency of engagement [...]**	Wherever and whenever necessary.
§ 4.17	**Key topics and concerns that have been raised through stakeholder engagement [...]**	Developing networks of eye care professionals worldwide, accessing their services, promoting early detection of eye problems in children, raising awareness about the importance of good sight and the relationship between vision and development. As a member of the UN Global Compact, Essilor International has formed relationships and/or launched programs with organizations such as the World Health Organization (WHO) and UNESCO. In 2012, Essilor International helped set up two eye care centers in Africa (Cameroon and Kenya) as a result of the partnership agreement signed in 2010 with one of its main partners, the Lions Clubs International Foundation, and local Lions Clubs. Many other partnerships are listed on the Company's website: www. essilor.com. Refer to the above. With regard to its customers, Essilor has set up a system of overall quality not only for products and services but also for perception, since this, too, can make a difference when it comes to quality. In fiscal year 2012, a large number of satisfaction surveys were once again conducted among eye care professionals in mature and emerging markets. Each resulted in an action plan that is monitored on a monthly basis by local teams and the Company's quality assurance department. The department focuses on all aspects of quality assurance, and particularly those related to people. The goal of very high customer satisfaction is consistent with the Company's values and is an integral part of its expansion plans.

4.2 Social information

Essilor's policy seeks to contribute to the personal development and fulfillment of its employees by offering them career opportunities in a global, multi-cultural and decentralized organization; providing a working environment that respects their physical and moral integrity, whatever their origins; treating all employees fairly, in all circumstances; enhancing their employability, inside and outside the organization by facilitating their access to training throughout their career, as well as by increasing their empowerment and responsibilities in order to deepen their experience; and helping them become Company shareholders by implementing a responsible employee stock ownership policy.

Essilor's shareholder structure is a key characteristic of the Group's social policy. It is not only of benefit to employees but also shareholders by aligning their common interests regarding the Company's performance and the value created as a result. It brings the Group a particularly positive "affectio societatis" which goes well beyond a simple sense of pride or of belonging.

Essilor's social policies have followed the Group's international orientation. They were implemented in its early decades by expatriate French executives. They then followed, and continue to follow, the Group's ongoing globalization thanks to a more comprehensive approach to human resource management generally applied by local executives who are responsible for running operations in their respective countries.

4.2.1 Employment

Total workforce and breakdown of employees by gender, age and geographical area

As of December 31, 2012, Essilor had 50,668 employees worldwide (including 100% of the workforce of proportionately consolidated companies). The average workforce for 2012 was 50,212 (employees corresponding to the amount reported for consolidated employee benefits expense for the period).

Essilor does not employ many temporary workers (European Regulation 809/2004/EC, Appendix 1, paragraph 17.1).

■ Social, performance indicators

Employment

				2012	2011	2010
LA1	Workforce at the end of the period for the entire year 2012 (@)		☑	50,668(@)	48,700	42,704
LA1	Average workforce(@) for the entire year 2012			50,212(@)	44,952	38,112
LA1	Breakdown of workforce by geographic region (@) (out of average work-force of 50,212 for the entire year in 2012)	North America	☑	12,875(@) (25.6%)	14,481 (32.2%)	13,612 (35.7%)
		Europe	☑	11,613(@) (23.1%)	11,454 (25.5%)	11,136 (29.2%)
		Latin America/Africa/Asia/Australia/Middle East/Russia	☑	25,724(@) (51.3%)	19,017 (42.3%)	13,364 (35.1%)
LA1	Workforce covered by 2012 reporting for the period		☑	34,075	33,530	24,946
	Coverage		☑	(67.3%)	(68.9%)	(58.4%)
LA1	Breakdown of workforce by gender (out of 34,075 reported for the period)	Women	☑	18,998 (55.8%)	17,809 (53.1%)	13,326 (53.0%)
		Men	☑	15,077 (44.2%)	15,721 (46.9%)	11,620 (47.0%)
LA1	Breakdown of workforce by category (@) (out of an average work-force of 50,212 for the entire year in 2012)	Production workers		29,888(@) (59.5%)	27,082 (60.2%)	22,716 (59.6%)
		Skilled workers and administrative staff		14,062(@) (28.0%)	12,170 (27.1%)	10,748 (28.2%)
		Managerial personnel		6,262(@) (12.5%)	5,700 (12.7%)	4,648 (12.2%)

☑ *Data verified by KPMG Audit.*

				2012	2011	2010
LA1	Breakdown of workforce by age group (out of 34,075 reported for the period)	Under 18 years	☑	50	N/A	N/A
		18 to 24 years	☑	3,451	N/A	N/A
		25 to 34 years	☑	10,265	N/A	N/A
		35 to 44 years	☑	8,907	N/A	N/A
		45 to 54 years	☑	6,651	N/A	N/A
		55 to 59 years	☑	2,572	N/A	N/A
		60 years and over	☑	2,179	N/A	N/A

☑ *Data verified by KPMG Audit.*

New hires and layoffs

Workforce at the end of the period for the entire year 2012: 50,668(@)

Change 2012/2011: + 4%(@)

Workforce at the end of the period for the entire year 2011: 48,700

Workforce at the end of the period for the entire year 2010: 42,704

The staff turnover calculation is known and measured in each legal entity but is currently not consolidated. That would not be relevant at the global level since too many factors come into play and vary from year to year, one of the most important being the Group's growth. For the same reasons, just comparing total workforce year on year does not provide sufficiently detailed information with regard to the number of new hires and layoffs.

This is why one of the ways for Essilor International to resolve this complex issue and better assess the number of new hires and layoffs worldwide is to refer to staff turnover.

Social, performance indicators

Employment

			2012	2011	2010
LA2	**Staff turnover**	☑	8.5%	8.3%	8.8%

☑ *Data verified by KPMG Audit.*

Salary changes

Total salaries in 2012: €1,550 million(@)

Change 2012/2011: + 20%(@)

Total salaries in 2011: €1,288 million

Total 2010 compensation: €1,202 million

Average weighted salary changes could be calculated but this would not be relevant globally since there are too many variants from one year to the next (the Group's growth being one of the major variants).

4.2.2 Organization of labor

Working hours

Working hours are extremely flexible at Essilor. Each legal entity has the autonomy to decide the most appropriate working hours. Essilor International does not prepare a comprehensive document listing the working hours at each establishment.

When it comes to working hours, decisions are made locally based on at least the following main principles, which are just four of many others either existing or possible:

- meeting customer requirements;
- discussion with employees either via their representatives through any possible means, or directly, for smaller entities;
- compliance with all local laws relating to the organization of working hours;
- optimization of operating efficiency.

Absenteeism

■ Social, performance indicators

Occupational health and safety

				2012	2011	2010
LA7	**Rates of injury, occupational illnesses, lost days, absenteeism and total number of work-related fatalities.**	Rate of absenteeism	☑	4.8%	4.7%	4.8%

☑ *Data verified by KPMG Audit.*

4.2.3 Labor/management relations

Organization of dialogue between management and employees, especially procedures for providing information to employees and the consulting and negotiation process

Dialogue between management and employees varies widely at Essilor. Each legal entity has complete autonomy to decide on the most appropriate labor-related dialogue. Essilor International does not prepare a comprehensive document listing labor-related dialogue at each establishment.

When it comes to dialogue between management and employees, Essilor promotes listening, discussion and transparency in local decision-making. It also encourages open communication with employees and strives to ensure that everyone can participate without hierarchical boundaries.

Labor-related dialogue is generally organized by employee representatives through any possible means or directly for the smallest entities or those not wishing to be represented by one or more third parties. Such dialogue covers more than 90% of the Group's total workforce.

Representative bodies include: Optical Union in Brazil; Shanghai Essilor Optical Company Limited Trade Union in China; Essilor European Committee for Information and Dialogue in Europe; Karmika Sangha in India; Confederation of Filipino Workers, Essilor Manufacturing Philippines Incorporated Chapter in the Philippines; Essilor Workers' Union of Thailand in Thailand; and numerous activity committees, communication committees, employee committees, factory committees, safety committees, welfare committees and similar bodies.

In Europe, for example, 2012 was an important year for the Essilor European Dialogue and Information Committee (EEDIC). At a plenary session held at the end of May in Prague, Czech Republic, members were warmly welcomed by the latest country to join this body.

This plenary session featured presentations by local managers, the Vice President for Eastern Europe, and the head of development for the region, which includes Bulgaria, the Czech Republic, Romania and Slovakia. EEDIC members were invited to visit Omega, on the outskirts of Prague, for a better insight into the role of partners regularly joining the Group. In Omega's case, it joined the Group fairly recently.

The President of the Europe Region commented on the region's results and reiterated its key goals. The presentation elicited numerous questions from EEDIC members.

For his part, the Group's Corporate Senior Vice President of Human Resources described the policies adopted and their implications for Europe. He presented the action plans implemented following the opinion surveys conducted Group-wide in 2011.

Also in 2012, five officers from the EEDIC and the Europe Region, represented by the Senior Vice President of Human Resources for the Europe Region, worked closely together to bring the initial EEDIC agreement into compliance with the new European directive on European works councils and its transcription into French law at the end of 2011.

This task was the subject of three special meetings of EEDIC officers and led to a plan that will be presented and submitted to the vote of EEDIC members at the next plenary session in 2013.

In order to ensure that discussions are held on an ongoing and direct basis with the Europe Department, EEDIC officers also met on two other occasions, in March and September. EEDIC members were thus informed in real time of the major changes that occurred during the year. The Europe Department once again emphasized its determination to pursue positive and constructive dialogue with this important body to maintain a climate of trust across the companies of this important region.

Social, performance indicators

Labor/management relations

LA4	**Percentage of employees covered by collective bargaining agreements**	Essilor's management style is deeply rooted in the Group's history and its twofold economic and humanitarian objective, and underpinned in particular by the distribution, understanding and application of the rules contained in a document translated into 27 languages and entitled, *Essilor Principles.* It encourages dialogue between management and employees, whether or not the employees are covered by a collective bargaining agreement. All Group employees have access to health and social security cover, which varies according to local characteristics and is the result of communication between employees and management. The Group's well-developed employee shareholder structure fosters an understanding of subjects linking economic and employee-related issues, and aligns the interests of salaried associates with those of shareholders.

Reporting procedures can vary from one legal entity to another depending on the nature of the information, but Essilor consistently promotes these procedures throughout the world as a key factor in operating success and strategic alignment.

One of the many examples is the reporting procedure relating to the minimum notification period required in the event of a substantial change to operating activity. See GRI Indicator LA5.

Social, performance indicators

Labor/management relations

LA5	**Minimum notice period(s) regarding significant operational changes, including whether specified in collective agreements.**	Notice is generally provided more than six months in advance.

Staff consultation also takes on a wide variety of forms depending on the legal entity, but Essilor consistently promotes this throughout the world as a key factor of success, performance and strategic alignment.

Global opinion polls are regularly organized within the Group.

Similarly, staff negotiations vary from one establishment to another, but Essilor consistently promotes these throughout the world as a key factor in employee satisfaction.

COLLECTIVE BARGAINING AGREEMENTS

There are a vast number of collective bargaining agreements per establishment or group of establishments, or per country. Each legal entity has the autonomy to implement collective bargaining agreements. Essilor International is unable to provide the complete list of collective bargaining agreements in a comprehensive document.

Essilor promotes collective bargaining agreements as a way to attract and retain employees who contribute to the Group's performance by virtue of their expertise and/or talent. The vast majority of collective bargaining agreements pertain to the introduction of both long-term benefits (medical coverage, pensions, health and disability insurance, life insurance, etc.) as well as short-term benefits (performance bonuses, distribution of performance shares, etc.).

Most collective bargaining agreements are renewed at regular intervals, often after being reviewed and improved.

The 2012 collective bargaining agreements generally fit this trend.

4.2.4 Health and Safety

Occupational health and safety

Staffed with experts in occupational health and safety, chemical management, ergonomics and the environment, the Global Environment, Health and Safety (EHS) Department provides the network of EHS correspondents throughout the organization with assistance and support in these areas.

In line with Essilor's decentralized management policy, which focuses on empowering local front-line managers, the individual entities have their own health, safety and environment experts.

Occupational health and safety management systems that address local objectives have been set up and are maintained at Essilor's 13 upstream plants. Production facilities in Brazil (1), China (1), France (3), Ireland (1), Mexico (1), the Philippines (2), Puerto Rico (1), Thailand (1) and the United States (2) were OHSAS 18001-certified as of December 31, 2012 and, in fact, have been since December 31, 2008. The certification ratio of the occupational health and safety management systems of the Group's upstream production facilities remains at its maximum level of 100% (13/13).

In 2012, inspection audits were carried out.

In addition to the mass production sites mentioned above, some of the larger prescription and service laboratories in terms of volume handled have set up and maintained occupational health and safety systems. They are OHSAS 18001-certified whenever relevant.

Other prescription and service laboratories and smaller entities for which the formal installation of an occupational health and safety management system is not justified ensure that occupational health and safety and working conditions are handled in similar fashion. This is done by their ad hoc committees, typically a local version of France's committee for hygiene, safety and working conditions (CHSCT), as part of a continuous improvement process, much like the Plan-Do-Check-Act (PDCA) cycle.

Action plans have been implemented with specific objectives and targets for better prevention and reduction of occupational health and safety risks.

OHSAS 18001 guidelines represent an entry point to occupational health and safety policies at all facilities. One of the goals of these policies is to improve occupational health and safety awareness, training and communication.

The Global EHS Department also uses a change management tool for globally managing safety data sheets. The tool applies the directives of the Globally Harmonized System (GHS), which again helps improve EHS risk management.

Occupational health and safety agreements signed with trade unions or employee representatives

To our knowledge, there are strictly speaking no agreements to date signed with trade unions or employee representatives limited solely to occupational health and safety issues.

Agreements signed on such issues typically have a broader framework in respect of general working conditions and therefore include occupational health and safety.

WORKPLACE ACCIDENTS, PARTICULARLY FREQUENCY AND SERIOUSNESS, AND OCCUPATIONAL ILLNESSES

■ Social, performance indicators

Occupational health and safety

				2012	2011	2010
LA7	**Rates of injury, occupational illnesses, lost days, absenteeism and total number of work-related fatalities.**	Accidents with lost work time		216	156	172
		Accidents without lost work time		638	387	339
		Fatal accidents		0	0	0
		Lost work days		2,735	3,772	3,205
		Rate of absenteeism		4.8%	4.7%	4.8%
	Frequency rate for 2012(@)		☑	3.5(@)	3.8	N/C
	Severity rate for 2012(@)		☑	0.08(@)	0.11	N/C

☑ *Data verified by KPMG Audit.*

Occupational illnesses

Identifying and monitoring the possible occurrence of occupational illnesses is the task of each establishment but to date their quantification is not consolidated. It is therefore not included in GRI indicator LA7. The vast majority of reported occupational illnesses fall within the category of musculoskeletal disorders (MSDs). An ergonomics position has been created within the Global EHS Department to initiate and monitor programs set up to reduce the existing number of cases and prevent the occurrence of new ones.

Social, performance indicators

Occupational health and safety

LA8	**Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious illness.**	The Group takes action in this area whenever necessary. In 2005, it formed a health watch unit charged with monitoring avian flu. In 2009, the unit established an action plan to monitor changes in influenza type A (H1N1) and provide support as necessary. Still on the alert in 2012, the watch unit continues to work closely with contracted health experts who follow the recommendations of the World Health Organization. The watch unit can be activated immediately in the event of a new crisis.

4.2.5 Training

Training policies

Essilor entities worldwide invest in training. Such investment underpins the Group's operational excellence, ensures ongoing employee training and increases employee knowledge. Training policies vary enormously from one establishment to another, depending on the main business activity. However, they have many elements in common, the three key elements being:

- training tailored to the activity of the facility (mass production, prescription and service laboratories, distribution centers, distribution subsidiaries, etc.), with a focus on the facility's operating strategies, and then translated by human resource departments into new skills;
- individual support provided to employees to improve their performance within their business area; and
- development of talent and employability.

The main goal of training policies is to help staff successfully perform their daily work in the short and medium term. These policies follow changes in the Company and are tailored to its strategies. Particular attention is paid to offering training programs that use all methods of learning. The use of independent trainers, or courses and exchange programs with other companies help acquire new know-how and offer openings beyond the boundaries of the Company. In-house programs are adapted according to local need. Programs where employees take responsibility for their own development are also offered. Communication with line management is fully transparent and new skills are approved so that progress can be recorded.

In 2012 a substantial number of training courses were held on quality control management, the environment and occupational health and safety.

Also this year, Essilor launched several training programs to support the momentum of the Group's growth. These were targeted at Group managers who are key to its success and whose professional development is important.

The programs are designed to improve the management of talent and optimize career development. Programs have been constructed for several management levels:

- the General Management Program (GMP) is aimed at those who primarily work with their teams to perform strategy-related operational tasks. It offers a selection of business topics (strategy, marketing, operations and finance) as part of the continuous learning program underpinned by Harvard ManageMentor®. Organized in three major regions, the program is run in partnership with three management schools and has a common curriculum to which is added an appropriate local component. Leadership is an integral part of the program which prepares managers to constantly steer change in a more effective manner.
- the Advanced Management Program (AMP) is aimed at those who are primarily involved in transforming key strategic objectives and then sharing them with their operating teams. This program has a double purpose. Firstly, it develops a strategic approach for steering change, and secondly, it develops the qualities needed to lead teams in this context of change. A portion of the program is designed specifically for staff working in fast-growing markets.
- lastly, the Senior Management Program (SMP), currently being developed, will be aimed at managers with a direct role in strategic development.

In 2012, four groups took part in the GMP and one group in the AMP for a total of 180 managers.

A leadership program has also been established to complement the GMP and AMP and better prepare future leaders. Based on the principles of self-evaluation and joint development, this program has got off to a very promising start according to feedback from the 30 managers who participated.

Meanwhile, Vision Essilor, the orientation program for new managers, proved a success with more than 120 men and women from around the world and different business. An entire week is dedicated to direct discussions with general management to identify challenges and seize opportunities, share good practices, and instill awareness of the Group's culture and values, which are regularly enriched by new partners joining the Group. Essilor's principles are widely communicated at these sessions.

Total number of training hours

The number of training hours was down considerably (-25%) compared with the previous fiscal year. This was primarily due to the fact that there was a significant amount of training in 2011 to help the growth of several large laboratories.

■ Social, performance indicators

Training and education

				2012	2011	2010
LA10	**Average number of training hours per year, per employee**	Number of employee hours		399,438	506,762	479,050
		Number of management hours		138,083	209,526	217,034
		TOTAL	☑	**537,521**	**716,288**	**696,084**

☑ *Data verified by KPMG Audit.*

4.2.6 Equal opportunities

Measures taken to promote gender equality

Essilor entities have introduced various measures to preserve gender equality. Aware of the value that diversity brings to the Company's performance, Essilor offers the same promotional opportunities to men and women. Job-related decisions are based on merit, qualifications and individual ability. Essilor does not engage in any discrimination based on a person's gender in respect of employment, the job itself or promotional opportunities.

Measures taken to promote the employment and integration of people with disabilities

Similarly, Essilor entities have introduced measures to promote the employment and integration of people with disabilities. Recruitment procedures allow such individuals real and interesting job opportunities. All reasonable efforts are made to adjust work stations so that they are accessible to persons with disabilities whose performance might otherwise be affected.

Anti-discrimination policy

■ Social, performance indicators

Non-discrimination

			2012	2011	2010
HR4	**Total number of incidents of discrimination and corrective actions taken.**	☑	0	0	0

☑ *Data verified by KPMG Audit.*

In the case of indicator HR4, Essilor complies in particular with Fundamental Conventions Nos. 100, covering equal pay, and 111, covering discrimination (employment and occupation). The few allegations brought to us each year and which have triggered a procedure to classify incidents of discrimination (on average two to five a year Group-wide) have not been proven. There was no procedure leading to sanctions in 2012.

Essilor entities fight all forms of discrimination. Aware of the value that diversity brings to the Company's performance, Essilor offers everyone the same promotional opportunities. Job-related decisions are based on merit, qualifications and individual ability. Essilor does not engage in any discrimination based, for example, on a person's color, religion, gender, disability, nationality, age or sexual orientation, in respect of employment, the job itself or promotion opportunities.

Social, performance indicators

Diversity and equal opportunity

LA13	**Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.**	As of this date, this diversity indicator is known and measured locally when the laws permit, but is not consolidated as a whole. The Essilor International Board of Directors is composed of three women and 12 men (20% and 80% respectively.)
LA14	**Ratio of basic salary of women to men by employee category.**	As of this date, this diversity indicator is known and measured locally but is not consolidated as a whole.

4.2.7 Promotion and upholding of the Fundamental Conventions of the International Labour Organization

As a signatory to the Global Compact, Essilor supports, promotes and complies with the Universal Declaration of the Human Rights corresponding to the 1st and 2nd of its ten principles, the eight conventions of the ILO, corresponding to the third, fourth, fifth and sixth of the Global Compact's ten principles.

In the case of GRI indicators HR5 and LA4, Essilor complies in particular with Article 20 of the Universal Declaration of Human Rights:

- everyone has the right to freedom of peaceful assembly and association;
- no one may be compelled to belong to an association.

Compliance with the freedom of association and the right to collective bargaining

Social, performance indicators

Freedom of association and collective bargaining

		2012	2011	2010
HR5	**Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.**	0	0	0

In the case of GRI indicators HR5 and LA4, Essilor complies in particular with Fundamental Conventions Nos. 87, covering union freedom and the protection of union rights, and 98, covering the right to organize and collective bargaining. As of this date, no activity has been identified as presenting a compliance risk in this area.

The elimination of discrimination in respect of employment and occupation

Social, performance indicators

Non-discrimination

		2012	2011	2010
HR4	**Total number of incidents of discrimination and corrective actions taken.**	0	0	0

In the case of indicator HR4, Essilor complies in particular with Fundamental Conventions Nos. 100, covering equal pay, and 111, covering discrimination (employment and occupation). The few allegations brought to us each year and which have triggered a procedure to classify incidents of discrimination (on average two to five a year Group-wide) have not been proven. There was no procedure leading to sanctions in 2012.

See also the paragraph entitled "Anti-discrimination policy" in the section "Equal opportunities" above.

Elimination of forced or compulsory labor

Social, performance indicators

Abolition of forced or compulsory labor

		2012	2011	2010
HR7	**Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of all forms of forced or compulsory labor.**	0	0	0

In the case of indicator HR7, Essilor complies in particular with Fundamental Conventions Nos. 29, covering forced labor, and 105, covering the abolition of forced labor. As of this date, no activity has been identified as presenting a compliance risk in this area.

The effective abolition of child labor

Social, performance indicators

Abolition of child labor

		2012	2011	2010
HR6	**Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.**	0	0	0

In the case of indicator HR6, Essilor complies in particular with Fundamental Conventions Nos. 138, covering minimum age, and 182, covering the worst forms of child labor. As of this date, no activity has been identified as presenting a compliance risk in this area.

4.3 Environmental information

As a signatory to the Global Compact, and in its desire to comply with, support and promote within its sphere of influence the seventh, eighth and ninth of the Compact's 10 principles in particular (although not restricted to those), Essilor adopts a precautionary approach vis-à-vis the environment, researching initiatives to promote environmental responsibility and encouraging the development and dissemination of environmentally-friendly technologies.

The Group is committed to participating in sustainable development initiatives by helping to protect the environment and promoting recyclable products, and to complying fully with all applicable environmental regulations in all host countries throughout the world. By its very nature, Essilor's business has only a limited impact on the environment. Nevertheless, a voluntary process has long been in place to accurately determine the environmental impact, however slight, of its activities. Essilor manages several hundred thousand stock-keeping units and its products must be kept immaculately clean throughout the production process. By optimizing the use of natural resources (water and energy, for example) on an ongoing basis, and by keeping premises clean and orderly, the Group's environmental management systems contribute significantly to plant efficiency.

Essilor's "green revolution" began in the middle of last century with the introduction of the famous ORMA® (ORganic MAterial) lens as a replacement for mineral lenses. This technological breakthrough paved the way to the abandonment of traditional manufacturing methods which consisted of extracting silica, treating it with heavy minerals (potash, soda, metal oxides, etc.) and melting it in high-temperature furnaces. Today this substitution is almost complete in mature markets but requires further encouragement in most emerging markets if the same levels of success are to be achieved. To convince eyeglass wearers of the benefits of this single procedure to the integrity, health and safety of the eye, Essilor is now promoting only the lightest, most resistant and most environmentally-friendly corrective lenses made of thermoset resins or thermoplastics.

In this context, the Group is still steadily reducing its energy consumption per corrective lens produced and delivered, and working hard to make even further improvement in this area.

4.3.1 General environmental policy

Organization of the Company to take into account environmental issues and, where appropriate, processes for environmental assessment or certification

Staffed with experts in occupational health and safety, chemical management, ergonomics and the environment, the Global Environment, Health and Safety (EHS) Department provides the network of EHS correspondents throughout the organization with assistance and support in these areas.

It uses software for managing safety data sheets in the new Globally Harmonized System (GHS) and continually improves EHS risk management through the use of a change management tool.

In line with Essilor's decentralized management policy, which focuses on empowering local front-line managers, the individual entities have their own health, safety and environment experts.

ISO 14001-certified management systems addressing local targets and objectives have been set up and are maintained at Essilor's 13 upstream plants. All of the production facilities worldwide, i.e. in Brazil (1), China (1), France (3), Ireland (1), Mexico (1), the Philippines (2), Puerto Rico (1), Thailand (1) and the United States (2) were OHSAS 14001-certified as of December 31, 2012 and, in fact, have been since December 31, 2005. The certification ratio of the Environmental Management Systems of the Group's upstream production facilities remains at its maximum level of 100% (13/13).

In 2012, inspection audits were carried out.

In addition to the mass production sites mentioned above, and whenever relevant, some of the largest prescription and service laboratories in terms of volume handled have set up environmental management systems that are ISO 14001-certified. Other prescription and service laboratories, as well as smaller entities for which the formal installation of an environmental management system is not justified, ensure that preventative environmental impact management is handled in similar fashion by their ad hoc committees, composed of general service or maintenance experts, as part of a continuous improvement process, much like the Plan-Do-Check-Act (PDCA) cycle.

Employee training and information on environmental protection

The ISO 14001 program provides for the introduction of an environmental policy at each site. One of the recurring aims of this policy is to improve training and internal communication on environmental issues.

In 2012 numerous training courses were held on aspects of environmental management in the various entities.

Also in 2012, the Global EHS Department developed a program to raise awareness of the EHS Policy and tools for managing EHS risks. It was divided into five modules:

- "When everyone plays their part, we all win";
- "Dealing with the problem at its source";
- "Observe and understand";
- "Taking action";
- "EHS Management: an essential referential".

The goal is to help the employees of a site implement both locally and practically the principles of the Group's EHS policy. This teaching is usually done in the presence of a team or site manager who uses these modules to support training and interaction on local specificities. The modules can also be used individually as part of an online training course.

Available in English, they were distributed to the entire EHS network for on-site use and made available to new entities joining the Group during their first meeting with the Global EHS Department.

In 2012 the Essilor Academy to Save Energy (EASE) website offered three online training sessions while continuing to provide a flow of information on good practices and monitor energy-saving technological developments. The website is run by the Global Engineering Department within Worldwide Operations and also provides access to helpful documents that are often the result of meetings on controlling water and energy consumption.

Means employed to prevent environmental and pollution risk

For the 12-month reporting period from October 1, 2011 to September 30, 2012, **€1,460,000** was spent or invested to help prevent environmental risk and pollution.

Annual target-based action plans are drawn up to help prevent and reduce environmental risks. Lastly, despite the very low risk, each site has set up a structure to deal with pollution incidents that could have consequences – however small – on the environment beyond the Company's facilities.

In 2012, a working group continued to implement action plans that successfully brought Essilor into compliance with REACH. Made up of managers and/or experts in purchasing, legal affairs, sustainable development, the environment, workplace health and safety and R&D, the group was assisted by an external consultant. It will continue to monitor REACH compliance over the long term, undertaking upgrade programs as required. Working group members include representatives of the Instruments Division and other Essilor subsidiaries and legal entities.

Amount of provisions and guarantees for environmental risk, except in cases where such information is likely to cause serious damage to the Company in an ongoing dispute

Essilor made no provision® for environmental risk in 2012. Such risks are self-insured.

4.3.2 Pollution and waste management

Measures to prevent, reduce or repair air, water and soil discharges that seriously impact the environment

Environmental performance indicators

EN21	**Total water discharges by quality and destination.**	The Group controls the quality of its water discharges. Suspended materials, COD, five-day BOD, heavy metals and other general criteria like pH or more specific ones depending on the requirements of local water agencies are monitored through the environmental management systems. The consolidation of the local data reported in EN21 is not considered relevant information. The Group's water discharges are treated in compliance with local regulations.

Environmental impact assessments of Essilor's operations are the basis for the environmental management systems that use ISO 14001. They help identify the risk of air, water and soil discharge. To date, no risk of air, water or soil discharge has been identified as likely to have significant impact on the environment.

The prevention and reduction of air discharges are taken into account whenever relevant. For example, the Group's entities invest in devices to treat volatile organic compound (VOC) emissions, ranging from simple on-site extractors to computer-controlled biofilters and activated carbon filters or similar devices adapted as needed. They set reduction objectives and targets for existing discharges and indirect greenhouse gas emissions, essentially CO_2, by controlling energy consumption and streamlining logistics and shipping.

The prevention and reduction of water discharges are taken into account whenever relevant. This involves investment in waste water treatment systems, ranging from simple filtering, neutralization, settling and degreasing or a combination of these processes, to complete processing units, purification plants or similar treatment facilities. These measures are designed to reduce loads in existing effluent, essentially suspended solids in the case of prescription laboratories, which are filtered at the job site and sent to a dump as solid waste.

The possibility of soil discharges likely to impact the environment, even slightly, has been assessed and has led to the implementation of appropriate prevention measures, such as retention devices to deal with accidental spills or the outfitting and special management of chemical storage premises.

Measures to prevent, recycle and dispose of waste

Environmental performance indicators

Emissions, effluents and waste

				2012	2011
EN22	**Total weight of waste by type and disposal method**	Total quantity of solid waste	☑	22,676 t	24,268 t
EN23	**Total number and volume of significant spills**		☑	0	1

☑ *Data verified by KPMG Audit.*

Products and services

EN26	**Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation**	The wide range of Airwear® ophthalmic lenses includes corrective lenses made from thermoplastic recyclable material. For reasons of quality, the use of this recycle material is not possible in the manufacture of new lenses. Such materials are used for other products. The objectives and targets regularly defined in the environmental management systems are essentially designed to reduce the environmental impacts, particularly to reduce, recycle and reuse resources as much as possible.
EN27	**Percentage of products sold and their packaging materials that are reclaimed by category**	In 2007 Essilor Worldwide Operations launched an excellence initiative called the Change Accelerating Program (CAP) based on the fundamentals of the EFQM model. A key strategic initiative, CAP makes it possible to structure economic, customer, supplier, human (social and societal) and environmental targets over three years and to develop systems to achieve them. The results are shared with all employees through meetings and other communications tools, such as booklets, which are distributed to all employees in all languages. The program has led to solid strategies, especially concerning the development of human capital, relationships and partnerships with customers, and environmental safeguarding. In relation to this, in 2012 the plant in Dijon received the CAP in-house award for the largest reductions in electricity and water consumption over recent years. The Group has initiated permanent measures to reduce, reuse and recycle its packaging materials. All of Essilor's ranges of ophthalmic lenses are delivered to eye care professionals in cardboard boxes or envelopes made of recycled paper. Some Essilor customers have established systems to collect used eyewear. The elimination of eyewear at the end of the life cycle is not a significant environmental nuisance.

Compliance

		2012	2011
EN28	**Monetary value of significant fines**	0(@)	0
EN28	**Total number of non-monetary sanctions for non-compliance with environmental laws and regulations**	0(@)	0

Preventing waste generation starts with consistently good results from quality-control management systems, which significantly limits the potential occurrence of manufacturing defects. This is followed by reclaiming materials and/or components whenever appropriate. Two good examples of this are:

- the recycling of more than 95% of elastomer joints used in large-scale manufacturing and which are cleaned, ground and finally mixed with 5% new material to produce new joints; and
- the use of Cupless boxes, an innovation in cardboard packaging that offers a number of benefits, including dispensing with the plastic cup previously used to protect the lens inside without altering the level of protection.

Essilor entities have a waste sorting system to manage their ordinary and special industrial waste. This waste is recorded and taken away by certified specialist companies.

Consideration of noise pollution and any other form of pollution specific to an activity

No complaints about noise, odor or any other form of specific pollution were received in 2012.

4.3.3 Sustainable use of resources

Water used

■ Environmental performance indicators

Water

				2012	2011
EN8	**Total water withdrawal**	Total water use	☑	2,993,065 m^3	2,800,399 m^3

☑ *Data verified by KPMG Audit.*

One of the three online training sessions available on the Essilor Academy to Save Energy (EASE) website is designed to provide training and a continuous flow of information on good practices, and monitor water-saving technological developments.

The targets set for 2014 by the environmental management systems apply worldwide and are part of the Worldwide Operations Change Accelerating Program (CAP) which aims to further reduce water consumption by approximately 10%.

Water supply based on local restrictions

Most Essilor sites are generally located in industrial or urban areas where access to water is provided by local authorities.

As part of its Environment, Health and Security medium-term rolling action plan, the Group has incorporated the reduction of water and energy consumption into its Change Accelerating Program (CAP) and made this a priority. Within the Group's global scope, targets have been set regarding the overall reduction in the amount of water used per lens produced. This reduction corresponds to an ongoing improvement under the "three Rs program," introduced to reduce, reuse and recycle this resource.

Consumption of raw materials and measures taken to improve the efficiency of their use

The reduction in tonnage of raw materials other than substrate used in 2012 compared with 2011 was for the most part due to inventory changes.

Environmental performance indicators

Materials

				2012	2011
EN1	**Materials used**	Raw materials – standard substrates	☑	7,188 t[(@)]	6,040 t
		Raw materials – other substrates	☑	7,602 t[(@)]	7,716 t
EN2	**Percentage of materials used that are recycled input materials**		The Group does not use recycled material for the production of its corrective lenses. It recycles all input materials that can be realistically recycled, sometimes in very significant proportions (95% for elastomer joints, for example). For reasons of quality, the use of recycled organic materials cannot be considered in the manufacture of ophthalmic lenses. Such materials are used for other products.		

☑ *Data verified by KPMG Audit.*

One of the key measures employed by Essilor on a daily basis for more efficient use of raw materials is the quality-control management systems set up and maintained at the Group's upstream production facilities, prescription and service laboratories and distribution centers. Where appropriate, these systems are ISO 9001-certified, such as those at the Group's upstream production facilities. They operate in a number of different ways, depending on the activity. Groupwide Essilor operates a more general EFQM model.

The constant improvements in the management of total quality-assurance help streamline output and minimize factory waste.

The quality of Essilor's logistics operations is also particularly crucial: every day the Group delivers around a million corrective lenses to eye care professionals (its customers) around the world. These lenses are then passed on to some half-million customers, who not only have different names but also different prescriptions. Thanks to the vast array of methods used by Essilor to manage the quality of its products and services, the Group delivers products to its customers that have the correct name and are medically exact, thus limiting the risk of dissatisfaction, returns and re-manufacture.

Lastly, Essilor uses all methods to streamline the use of its consumable goods, reduce factory waste, and recover, recyle or reuse materials whenever possible.

Energy consumption and measures taken to improve energy efficiency and the use of renewable energies

■ Environmental performance indicators

Energy

				2012	2011
EN3	**Direct energy consumption by primary energy source.**	Electricity	☑	461.5 GWh	436.4 GWh
		Gas	☑	65.5 GWh	69.2 GWh
		Liquid fuel	☑	7.7 GWh	7.5 GWh
		TOTAL	☑	**534.7 GWh**	**513.1 GWh**
EN4	**Indirect energy consumption by primary energy source.**		Transportation is assessed for energy consumption in four separate categories: primary (from manufacturing unit to distribution center), secondary (from distribution center to subsidiary), tertiary (from subsidiary to customer) and professional travel. In 2012, the first two categories were calculated and translated into tonnes of CO_2 equivalent emitted, which are provided under EN17. A second assessment of emissions of CO_2 equivalent from tertiary transportation, of the order of a thousand tonnes, was performed in 2012. Its reporting perimeter included measuring flows directly to the end customers of six high-volume global prescription laboratories plus the flows from the last kilometer of prescription laboratories in France and the United States. Emissions related to professional travel recorded for a population group of 1,385, of whom 800 are considered "major travelers," are also reported in EN17. Because of geographical and infrastructure differences between countries and continents, partial results thus obtained cannot be extrapolated over a broader perimeter with sufficient reliability. This type of measurement will therefore be extended to other categories. The use of corrective lenses does not require any energy source. Their end-of-life impact is negligible.		

☑ *Data verified by KPMG Audit.*

Essilor has been steadily improving energy efficiency at its sites for many years, consistently introducing objectives and targets as part of programs to control energy consumption related to the medium-term rolling action plan, which is reviewed annually by the Global EHS Department. The first nine sections of this plan are devoted to energy.

Gains have been made in the most traditional areas and the general need now is to continue to make strides in at least two directions that are less immediately practical and feasible, namely:

- improving energy efficiency in existing buildings with a view to possibly rebuilding them; and
- producing detailed energy studies of proven production processes in view of making changes in the future while continuing to adhere to strict manufacturing quality criteria.

To date it is still difficult for most sites to use renewable energies, except in countries where these are available and offered as an option to industrial customers by energy providers.

One of the three online training sessions available on the Essilor Academy to Save Energy (EASE) website is designed to provide training and a continuous flow of information on good practices, and monitor energy-saving technological developments.

The targets set for 2014 by the environmental management systems apply worldwide and are part of the Worldwide Operations Change Accelerating Program (CAP) which aims to further reduce energy consumption by approximately 10%.

This Worldwide Operations strategy is built on the fundamental concepts of the EFQM excellence model. It makes it possible to organize three-year program targets into areas of economics and finance, customers, people (employees and the community) and the environment, and to develop strategies to achieve them.

The results are shared with all employees, particularly through the distribution of 12 report sheets assembled in the form of a pocket notebook and produced in all Group languages.

In 2012 the Dijon production unit received the regional Bourgogne Performance Quality prize awarded by the French Movement for Quality, and the production facility in the Philippines received the Level 1 Philippines Quality Award. The latter was initiated in 1998 and has to date awarded only 45 prizes of this type. It also recognizes the clear commitment to managing quality.

Use of soil

Essilor carries out its business in industrial buildings, usually located in existing industrial zones or commercial premises. Soil is therefore not used in the Group's operations per se, but rather is associated with the buildings the Group occupies.

4.3.4 Climate change

Greenhouse gas emissions

Environmental performance indicators

Emissions, effluents and waste

			2012	2011
EN16	**Total direct and indirect greenhouse gas emissions by weight (t CO2 eq.)**	☑	55,100 t(@)	53,640 t
EN17	**Other relevant indirect greenhouse gas emissions by weight (t CO2 eq.)**	☑	23,900 t(@)	20,960 t

Note: For fiscal year 2012, Essilor uses the following conversion factors:
- *86 grams of CO_2 equivalent per kilowatt-hour of electricity;*
- *200 grams of CO_2 equivalent per kilowatt-hour of gas;*
- *300 grams of CO_2 equivalent per kilowatt-hour of fuel oil.*

They have been applied to the total consumption of the entities that report it. The same factors were applied for fiscal year 2011, which makes the comparison easier.

☑ *Data verified by KPMG Audit.*

Equivalent CO_2 emissions linked to primary transportation (from a production unit to a distribution center) in 2012 was 4,680 t (2011: 4,390 t).

Emissions of CO_2 equivalent related to secondary transportation (from a distribution center to a subsidiary) in 2012 amounted to 11,230 t (2011: 10,850 t).

The valuation of CO_2 emissions related to a significant portion of professional travel for 2012 was 7,990 t (2011: 5,720 t).

			2012	2011
EN16 + EN17	**Total emissions related to EN16 and EN17**		79,000 t	74,600 t
EN19	**Emissions of ozone-depleting substances by weight**	☑	0 t	0 t
EN20	**NOx, SOx, and other significant air emissions by type and weight**		ε t(@)	ε t

Note: The Group's NOx and SOx emissions are negligible and therefore a negligible amount is reported in the table with the EN20 indicator table.

☑ *Data verified by KPMG Audit.*

Listed in the Low Carbon 100 Europe® Index, Essilor International is already in the low carbon economy thanks to the light environmental footprint of its products and services, particularly with regard to greenhouse gases.

The Group's greenhouse gas emissions are largely indirect emissions of carbon dioxide (CO_2) generated by the manufacture and distribution of corrective lenses and the Group's peripheral activities. However, they are limited to a few hundred grams per lens produced. In most countries, the service life of a lens far exceeds one year.

In terms of an analysis of the ecological life cycle, a corrective lens delivered to a customer by an eye care professional requires no energy to "function." An old pair of spectacles is only rarely thrown away when a new pair is received. In general, it is kept. When it is finally thrown away, the end-of-life impact is negligible.

Lenses from the Airwear ® range of products are made from thermoplastic material that can be recycled at the end of its life cycle to produce items other than corrective lenses. The logistics involved in the recovery of this material are complicated and the economic and ecological tally remains negative. Recovery initiatives are currently being developed by the recycling centers with which the Group works. These initiatives to recycle old spectacles for re-use are gradually being discontinued because of their complexity, ineffectiveness and limits in terms of acceptance.

Adapting to the consequences of climate change

As a signatory to the United Nations Caring for Climate initiative, Essilor International is aware of the challenges related to climate change in general.

From the first stages preceding a potential acquisition to the implementation of specific action plans in environmental management systems, the Group strives to identify all possible risks, including those related to climate change. Essilor wants to protect against such risks as much as possible and react early and optimally should they occur.

The Group pays particular attention to the locations of its manufacturing plants.

4.3.5 Safeguarding biodiversity

Measures taken to safeguard or develop biodiversity

■ Environmental performance indicators

Biodiversity

			2012	2011
EN11	**Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas**	☑	0 m²	0 m²
EN12	**Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity outside protected areas**		See note below	See note below

Note: Finding potential significant impacts on biodiversity is one of the aims of the environmental management systems. No such significant impact has been identified at this time. Should a potential significant impact come to be identified following a change in existing conditions, the environmental management systems making such a discovery will also be used immediately to conduct analyses and then to implement target and objective-based action plans; the new situation will be automatically incorporated into the continuous system improvement process aimed at finding effective solutions.

Essilor uses biodiversity mapping at all of its sites around the world. This method supplements the Group's traditional reporting procedures and provides information on Indicator EN11 in particular. The mapping is updated at regular intervals and is extremely useful for characterizing a location's biodiversity during the due diligence process.

☑ *Data verified by KPMG Audit.*

4.4 Information on societal engagement to promote sustainable development

Essilor's products and services have great social utility and a light environmental footprint. The Group's mission therefore fits very naturally with the economic, human and environmental objectives of sustainable development and several of the Millennium Development Goals.

Giving everyone access to visual health is Essilor's main sustainable development challenge. It is a challenge that combines the Group's economic operations and its contribution to society, since the principle of good sight for a better life has a very strong positive impact and is a major societal challenge.

This mission, summed up in the Group's motto ("Seeing the World better®") and in that of its Foundation ("Better life through better sight℠"), is geared toward eye care professionals and is what drives the Group to serve an ever increasing number of countries, given that equal sight for all is still not guaranteed around the world for those who were not born with perfect eyes and perfect sight.

The Group's strategy and the commitment of its employees are therefore entirely dedicated to this goal, which is both economic and human.

4.4.1 Regional, economic and social impact of the Company's activities

Impact on employment and regional development

The production and distribution of corrective lenses, which are a useful product by their very nature, has only a light environmental footprint. As a rule, it does not bother local populations, who greatly welcome these products.

The Group's activities generate direct and indirect jobs. On average, local suppliers and sub-contractors represent around 50% of a production site's purchasing, a percentage that is often a lot higher for a prescription laboratory or distribution subsidiary.

The Group's global purchasing guidelines pertain to materials, components or equipment used directly in the manufacture of corrective lenses. This controlled, sound approach ensures compliance with the international quality criteria established by the Group, their reproducibility and the ease with which sites can diversify their production as needed.

In addition to the development generated by the Group's activities, products are often distributed regionally.

Economic performance indicators

Economic performance

EC1	**Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments.**	The Group's economic value breaks down into many components (revenue, operating expenses, employee expenses, donations, income and payroll taxes, dividends, etc.) that are itemized in the 2012 Registration Document. Refer to the corresponding pages. Essilor's socio-economic footprint for fiscal year 2012 can be summarized by the following items in descending order of importance: ▪ revenue: **€4,989 million**; ▪ trade payables: **€2,306 million**; ▪ employees: **€1,550 million**; ▪ income and payroll taxes: **€207 million**; ▪ shareholders: **€201 million**; and ▪ financial expenses: **€7 million**.
EC2	**Financial implications and other risks and opportunities for the organization's activities due to climate change.**	The Group is not usually exposed to natural risks. It is not concerned by emission permits. Nevertheless, the Group is participating in the "Carbon Disclosure Project" and "Water Disclosure Project" initiatives and is signatory to the "Caring for Climate" initiative. Opportunities relating to the protection of eyes through corrective lenses in a context where climate change may influence the quantity and/or the nature of harmful rays have not yet been evaluated with enough precision.
EC3	**Coverage of the organization's defined benefit plan obligations.**	The Group offers employees a wide variety of benefit, pension and savings and investment plans worldwide. Refer to the corresponding pages of the 2012 Registration Document.
EC4	**Significant financial assistance received from government.**	The Group enjoys total operational independence.

Impact on local and neighboring populations

Essilor's activities generate employment directly and indirectly. These activities benefit employees and their families, and extend to the entire community.

By providing training, the Group helps raise the skill levels and employability of local workers. The association and close correlation between Vision and Development allows Essilor to undertake initiatives that link education professionals with eye care professionals. For Essilor, most of these initiatives consist of conducting screening campaigns (mostly in schools) under the control of its customers and prescribers, followed by eyesight tests and the manufacturing of equipment.

Alongside these initiatives, which focus on Essilor's core business and the skills of its employees, the Group spearheads other charitable actions usually related to solving problems and seeking opportunities related to what is most needed in the community.

Economic performance indicators

Market presence

EC6	**Policy, practices, and proportion of spending on locally based suppliers at significant locations of operation.**	Essilor has a centralized purchasing policy to ensure consistency of supplies, high quality throughout the world and compliance with universal good manufacturing practices. This policy is generally applied to raw materials and key products or services used in the composition or manufacture of corrective lenses. The Group also generates significant business flows with its suppliers of generally consumable products and local services on a quasi exclusive basis for all purchases outside the scope of this central referencing. Local distributors of centrally referenced products also benefit from the Group's proximity, which results in a balanced situation. The Group has a responsible purchasing policy which includes items featured in a Responsible Purchasing Charter based essentially on the goal of complying with the 10 principles of the Global Compact. It is used to assess, review and potentially audit suppliers.

EC7	**Procedures for local hiring and proportion of senior management hired at significant locations of operation.**	The Group encourages the local recruitment of management teams in its subsidiaries and, more generally, enforces the principle of local decision-making. The proportion of senior management hired locally at the main operational sites is greater than 80%.

Indirect economic impacts

EC8	**Development and impact of infrastructure investments and services provided primarily for public benefit through a commercial, in-kind, or pro bono engagement.**	The global indicator EC8 is not relevant to the Group's industry segment. It is therefore not reported.

4.4.2 Relationships with persons or organizations interested in the Company's business activities, particularly inclusion associations, educational establishments, environmental protection associations, consumer associations, and neighboring populations

Conditions for interacting with the above

The Group's key stakeholders are its employees, customers, prescribers, shareholders, suppliers and authorities in the countries in which it operates. Relationships with these and other stakeholders are handled by all facilities, departments, services and individuals concerned, under the supervision of senior management.

Inclusion associations are managed by local departments as part of their relationships with stakeholders. When a program is initiated or developed and has global scope, it is managed at the Group or Essilor Foundation level. One such example would be Special Olympics, an international charitable association operating in 170 countries and which supports some 200 million mentally-disabled people, both adults and children, offering them sporting activities and educational and health programs, including visual health. Essilor supports all Special Olympics events and provides athletes with corrective lenses.

Relationships with **educational establishments** also fall under the responsibility of local departments. These logically pertain to establishments teaching topics related to jobs in the eye care industry but are not solely limited to this field. Again, when a program aimed at an educational establishment is initiated or developed and has global scope, it is managed at the Group or Essilor Foundation level.

An example of a program managed at the Group level is the Vision and Development International Forum, which was organized in partnership with UNESCO in 2004, 2005 and 2006 for World Sight Day. It brought together educational professionals and sight professionals. There is in fact a close correlation between good sight and an individual's development when they have access to education, science and culture. To the extent possible, Essilor makes a modest contribution to UNESCO's Education for All movement and to achieving the second Millennium Development Goal: achieving universal primary education. In addition to helping individuals, this support fosters the harmonious development of societies as a whole.

A good example of a program managed by Group employees at the Foundation level is the Adopt-A-School program.

Relationships with **environmental protection** associations are also handled locally by senior management and the Group's environmental experts. These relationships are part of local environmental management systems. The Group's Corporate Sustainability Department represents Essilor International on official bodies and associations or in global initiatives, particularly, although not limited to, those related to United Nations environmental actions. To the extent possible, Essilor makes a modest contribution to achieving the seventh Millennium Development Goal: ensuring environmental sustainability.

In general, Essilor does not have a direct relationship with the end consumer. Its products and services require a prescription, set-up and adjustment by an eye care professional. Therefore, it is to eye care professionals that **consumer associations** turn. However, if Essilor customers or prescribers have insufficient information to answer questions from consumer associations about corrective lenses, Essilor will provide these eye care professionals with additional details on its products and services.

It is also essentially these professionals who manage relationships with corrective lens wearers, relationships that lead to innovation and improvements or additions to the Group's range of products and services. Essilor's consumer relations departments typically refer consumer questions to the professionals who have helped them individually.

Relationships with **neighboring populations** are handled locally, usually through resident associations. A number of the Group's plants organize open days where local residents can visit the site to see how it operates. The visits are arranged so that circulation within workshops is limited, intellectual property is protected and safety and security are maintained.

Partnership or sponsorship initiatives

Social performance indicators

Community

SO1	**Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations in communities, including entering, operating and exiting.**	The Group is aware of its role in the communities in which its employees live and work. Its presence generates business for local entrepreneurs and jobs for local populations. Environmental commitments and impacts are assessed in the context of the Group's environmental management systems. The many examples of the Group's contributions to communities are provided on the Company's website (www.essilor.com) and on the website of the Essilor Foundation (www.essilorvisionfoundation.org). Refer to the above.

Partnership or skills sponsorship initiatives at Essilor take on a variety of forms and may be local or global. When a partnership is initiated or developed and has global scope, it is managed at the Group level.

One such partnership is that set up by Essilor with the Lions Clubs International Foundation. The partnership has a number of targeted actions, the key one being the long-term establishment of self-sufficient, long-lasting optics and eyewear dispensaries in ophthalmic hospitals, whose activity had previously been largely limited to cataract operations.

The program began in 2005 in one country, Madagascar, at the Antananarivo Ophthalmology Hospital. It was co-financed by the Sight First program and the Madagascan Lions Clubs, which teamed up with Sight First Madagascar. The pilot project had all the elements for success, from training eye care professionals to managing the optics and eyewear center. Support was provided in large part by the Group's retired specialists, who provided training for a career as an optician. The center became self-sufficient within five years.

For the Lions Clubs International Foundation and Essilor, the experience was mutually beneficial and demonstrated how a traditional charitable, humanitarian approach can gradually be transformed into an inclusive-economy model in which local responsibility consists of spawning an economy based on building entrepreneurial skills. This success led the two partners to extend their collaboration by signing a long-term agreement aimed at developing this model in other countries. To the extent possible, Essilor makes a modest contribution to achieving the eighth Millennium Development Goal: instituting a global partnership for development.

The traditional charitable approach is represented in the Essilor group by all of the actions undertaken throughout the world under the aegis of its Foundation.

Created in 2007 in the United States to focus on two programs, Adopt-A-School and Kids Vision for Life, the Foundation's mission is to eliminate poor sight and its consequences during an entire lifetime. The Foundation takes its expertise to Essilor entities to supervise projects that fall within its selection standards. Among other things, it also consistently studies the impact of actions undertaken.

A map of Essilor International's initiatives around the world, carried out under the auspices of its Foundation, is provided in the 2012 Annual Report.

4.4.3 Sub-contractors and suppliers

Social and environmental challenges incorporated into the Company's purchasing policy

Since 2003, Essilor has included environmental and social criteria in its general purchasing conditions.

Essilor's purchasing and supply policy is aligned with the Essilor Principles and contains a Responsible Purchasing Charter based on the principles of the Global Compact signed by Essilor in 2003.

The policy is based on compliance of its suppliers and the quality of their products and services. Adherence to the Responsible Purchasing Charter and compliance with its principles are an integral part of supplier evaluation, on a par with the assessment of their competitiveness and control over the quality of their products or services. The purpose behind supplier dialogue is to achieve continuous improvement.

This strategy is communicated to suppliers and to Group employees involved in purchasing and supply. Specific educational modules have been created which contain methods enabling the employees concerned to use elements of the Responsible Purchasing Charter when evaluating a supplier.

Importance of sub-contracting and taking account of the social and environmental responsibility of suppliers and sub-contractors

Sub-contracting is largely limited to activities outside the core business of manufacturing and distributing corrective lenses. These range from building maintenance to contracts with local or international shippers. Like suppliers, sub-contractors are subject to Essilor's purchasing and supply policy, its Responsible Purchasing Charter and its general purchasing conditions.

4.4.4 Maintaining fair practices

To promote fair practices in its business, one of the many steps taken by Essilor International is the dissemination, understanding and use of various documents based on its existing Guide to Group Standards. For example, the document entitled Minimum Control Standards serves as a point of reference for internal control. It is part of the following series of documents:

- Essilor Principles;
- *Minimum Control Standards;*
- *Guide to Group Standards;*
- *Detailed Rules and Policies (local, regional and/or Group level).*

The Minimum Control Standards document is divided into 19 sections as follows:

- Group requirements – general guidelines;
- Information systems;
- Roles and responsibilities;
- Business continuity plan;
- Purchasing and supplies;
- Fixed assets;
- Inventories;
- Sales and receivables;
- Cash and financing;
- Reporting and consolidation;
- Legal affairs and tax laws;
- Tax policy;
- Insurance policy;
- Intellectual property policy;
- Legal compliance;
- Personnel management and human resources;
- Health, safety and the environment;
- Acquisitions;
- Capital transactions.

Soon to be translated into more than 30 languages, it is available on the Group's Finance portal.

The Compliance section of the Group's Legal Affairs and Development Department provides documents and educational modules on all aspects of legal compliance to local legal teams for distribution worldwide as part of its contribution to maintaining fair practices in all areas of the Company's day-to-day life.

Anti-corruption initiatives

The sector in which Essilor operates is not considered a sector in which corruption is a characteristic challenge. This does not prevent the Group from taking action within its sphere of influence against all forms of corruption, including extortion and bribery. As a signatory to the Global Compact and member of Transparency International®, Essilor complies with, supports and promotes the UN convention against corruption.

One of the documents on the list of Rules and Policies specified at local, regional and/or Group level is dedicated to corruption issues.

Translated into local languages, it is formally presented to staff, usually by managers and/or local and global experts. Awareness-raising modules, called "audio-video kits," have been developed to adapt the document to the local culture and legal environment of each country. For example, the standard Mandarin version of this document was presented and launched jointly to local entities by the President of Essilor China and the Corporate Vice President, Group Legal Affairs and Development.

Social performance indicators

Corruption

		2012	2011
SO2	**Percentage and total number of business units analyzed for risks related to corruption.**	ε%	ε%
SO3	**Percentage of employees trained in the organization's anti-corruption policies and procedures.**	To date, this percentage of number of employees trained is not reported. Training in the local language follows educational programs rolled out gradually by the Group's Executive Committee. The percentage of managers educated about corruption exceeds 80%.	
SO4	**Actions taken in response to incidents of corruption.**	Termination for cause. Sanctions are listed in the internal regulations and/or other relevant documents.	

Note: As needed, certain areas of strategic activities, including but not limited to acquisitions, are analyzed for corruption risks, hence the negligible percentage in the table for Indicator SO2.

Public policies

SO5	**Public policy positions and participation in public policy development and lobbying.**	The Group is not involved in political activities. It collaborates with public sector stakeholders as and when necessary. It participates in the compilation of international standards and in other global activities of interest to its business.

Compliance

			2012	2011
SO8	**Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.**	Significant fines	0[@]	0
SO8		Non-monetary sanctions	0[@]	0

Measures taken regarding consumer health and safety

Essilor International prescription ophthalmic lenses are considered a Class 1 medical device. Neither invasive nor in direct contact with human tissue, they are first prescribed and then, after measuring the patient's parameters in order for an exact mount, inserted into spectacle frames that are adjusted to the patient's face by an eye care professional.

Essilor International believes that as a precaution it is important to gather all relevant information concerning the non-toxic and safe nature of each of its new products before they are placed on the market so that the end wearer is assured of safe use even in unpredictable situations.

The Group invests heavily in research and development and its international teams develop new, innovative and sophisticated products that people enjoy wearing and that offer benefits in terms of visual comfort, eye safety and improved vision. In its mission to enable people to "see the world better," Essilor International is constantly concerned about protecting the integrity, health and safety of the eye.

Social performance indicators

Product responsibility performance indicators

Consumer health and safety

PR1	**Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.**	Hygiene, health and safety aspects are taken into consideration both upstream and downstream for all categories of products and services. The HSE Charter for products and the HSE project guide to which it refers have been established on the basis of knowledge of steps in the life cycle.

Products and services labeling

PR3	**Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.**	This information is in multiple forms based on the products and services offered as a whole. Each Group distribution subsidiary has information in the local language and complies with these information requirements.

Marketing communications

PR6	**Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.**	Each of the distribution subsidiaries monitors its own compliance with local applicable laws, standards and voluntary codes.

Compliance

		2012	2011
PR9	**Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.**	0[(@)]	0

4.4.5 Other initiatives undertaken to promote human rights

Other initiatives undertaken to promote human rights

The sector in which Essilor operates is not considered a sector in which human rights are usually a challenge. However, this does not prevent the Group from respecting human rights and ensuring they are respected within its sphere of influence. Essilor pays very close attention to the selection of its local suppliers in countries considered more exposed to human rights challenges.

All charitable activities in which Essilor group entities are involved around the world under the auspices of the Essilor Vision Foundation can be considered to make a modest, indirect contribution to promoting, respecting and enforcing the protection of international law relating to human rights within its sphere of influence.

In addition to promoting good sight, these activities restore a good or better sense of wellbeing in day-to-day living. They are also designed to be accompanied by the respect, recognition and dignity inherent in any relationship with someone with whom one is communicating for the benefit of their health and who is being offered a selection of new products of world-class quality.

Most of these initiatives are designed to facilitate access to good sight through vision screening and examinations and spectacle manufacture. A number of other initiatives are being led outside the world of ophthalmic optics. All benefit populations in need.

More specifically, the success of the long-time partnership with Special Olympics is due to the involvement of Essilor employees, customers, prescribers and suppliers, as well as other stakeholders who are equally generous in offering "Better life through better sight[SM]" to a minority group among the world's most disadvantaged populations which has often been ignored. Discovering or recovering the benefits of good or improved sight has certainly contributed to the life-changing power and joy of sport for mentally-disabled children and adults.

This partnership is helping to change the world's view of this community, enhancing its visibility, and giving it importance and respect.

4.5 Note on methodology

Reference to the Global Compact

Essilor International has been a signatory to the Global Compact since 2003 and assiduously follows its recommendations for providing information about progress (COP).

With the publication of this Registration document 2012, Essilor International renews its commitment to make the 10 principles of the Global Compact an important part of its strategy and its daily operations. This will continue the success of its corporate mission and ensure that one day each and every person on our planet can enjoy "Better life through better sight℠," to quote the motto of the Essilor Foundation, and appreciate "Seeing the World better®," to quote the motto of the Group.

Essilor International summarized its sustainable development policy as one of the key components of its overall performance over time and with transparency on the economic, human (social and societal), and environmental aspects of its businesses. The report on its non-financial information, which has been published since 2002, is therefore one of the important elements of its contribution to sustainable development and its continued progress.

Reference to the Millennium Development Goals

Because of the nature of its products and services, which in addition to daily wellbeing offer evident utility and social benefits, Essilor International contributes indirectly to the achievement of several Millennium Development Goals, particularly the second (universal primary education), sixth (combat diseases [blindness and uncorrected refractive errors in the case of visual health]), seventh (protect the environment) and eighth (institute a global partnership for development).

Reference to the Company's contribution to Sustainable Development

The ultimate goal of this non-financial reporting is therefore to ensure that each and every employee working in the Group takes into consideration the many elements and aspects that constitute sustainable development. Created in 2002, the Group's Corporate Sustainability Department was designed as a simple organizational structure at the corporate level backed by the operational divisions, corporate support functions and management teams of Business Units around the world. These have all learned the issues and conveyed them to their staff, creating over time sustainable development ambassadors who today act as an example in their daily life and work, in their communities and in the Company's sphere of influence, very often well beyond its conventional boundaries.

A major competition to award sustainable development medals is held on a regular basis and has contributed to the sharing and dissemination of best practices.

The existence of management systems in quality control and environmental and occupational health and safety has led to the establishment of virtuous circles as part of a process of continuous improvement. Anticipating and preventing risks has resulted in innovation and the constant discovery of new areas of opportunity and savings.

The presence of a strong employee shareholder structure encourages this sense of buy-in of sustainable development issues that are frequently forward-looking. This goes well beyond a sense of belonging and is very closely correlated with the Company's economic and human objectives.

Goal and quality of reporting

In addition to an annual publication that marks progress and is useful on a daily basis as an integral part of a continuing improvement process, non-financial reporting provides the reader with information that supplements what is normally provided in financial reporting. In this respect, very careful attention has been paid to the quality of the non-financial reporting, the aim being to put it on a par with financial reporting. This explains Essilor International's decision to:

- rely on the Group's finance departments to produce these two reports;
- duplicate the same reporting tool in two very specific applications but whose common thread, features, activation and control procedures, user-friendliness, tool knowledge, continuous training to keep up with changes, and updates of general shared information are identical or similar;
- include the report of its non-financial information, often called a "Corporate Sustainability Report," in the annual Registration Document, thus making it easier to consolidate data and review all useful information, so that the reader can judge the Company's overall performance in a single document.

Reporting standards used

Until the 2012 fiscal year, Essilor International published its non-financial information in accordance with two very distinct standards. The first complied with the structure in Article 116 of the French NRE law, and the second followed the guidelines of the Global Reporting Initiative (GRI).

Starting in fiscal year 2012, Essilor is complying with the law of July 12, 2010 on "national commitment to the environment," known as the "Grenelle 2 law," and will continue to adhere to the guidelines of the Global Reporting Initiative (GRI).

With the new presentation of the Registration Document, information using these two standards can be coordinated, streamlined and better integrated.

Selection and relevance of the indicators

The core indicators used are those of the GRI. Only certain relevant indicators are published. In some cases, indicators are divided into many sub-categories. For example, the indicator for "materials used" (EN1) collects information on several dozen products selected on the basis of their role in the production process of corrective lenses.

Essilor belongs to one of the specific sub-sectors in the APE/NAF 33 sector, which covers the manufacture of medical, precision and optical instruments, and to sub-sector 4537 "medical supplies" of the "Industry Classification Benchmark" (ICB). In terms of sustainable development, Essilor deals with specific aspects that are directly linked to the nature of its products and services. It is consequently difficult to make a comparative evaluation of the Group.

To overcome this difficulty, Essilor uses the main GRI indicators that are most relevant to its operations.

The main sustainable development challenge for the Company is the challenge of access. We believe that 4 billion or more out of a little over 7 billion people on Earth need visual correction. As of this date, approximately 1.5 billion can see well. In contrast, 2.5 billion cannot.

The Group's mission is summarized in its motto, "Seeing the World better®," and in the motto of its Foundation, "Better life through better sight℠."

The Group's Corporate Sustainability policy is perfectly aligned with its mission, the ideal pairing of its economic, strategic and human objectives, and is the foundation for its position as a responsible business.

Viewed from this standpoint, the economic indicators of sustainable development take on added importance. This is why the Group decided to closely align all the financial and non-financial indicators.

Specific methodologies for the indicators

The calculation methodologies used for certain social indicators may differ widely because of the variation of definitions in France and internationally. For the indicator "Absentee rates" in particular, French sites use the social assessment definition, which is different from the definition recommended by the Group's reporting procedures.

Thus, absenteeism under the social assessment definition (business days not worked/number of business days X average full-time eq. employees) results in absentee data reported in business days and the average number of employees as "full-time equivalent," while the Group procedures recommend reporting absenteeism in calendar days and is based on the average number of employees (calendar days absent / 365 × average number of employees).

The indicators "Frequency rate" and "Gravity rate" published in 2012 are narrower in scope than the reporting perimeter for the other indicators.

Report boundary

The amount of data reported in fiscal year 2012 is only slightly up on that reported in fiscal year 2011. By contrast, the number of sites reporting data in the non-financial reporting tool increased substantially and a pre-audit was carried out to make the reporting of these new entities reliable and reproducible for comparative purposes as quickly as possible. The vast majority of the sites involved are entities financially consolidated in the Group, starting with those with a large workforce. These include in particular the Group's new Chinese partners, Danyang ILT Optics Co. Ltd, Jiangsu Wanxin Optical Co. Ltd and Youli Optics Co. Ltd.

The 2012 perimeter for reported information mainly includes the addition of Rupp und Hubrach.

This minor modification in perimeter from one period to another does not justify establishing three comparisons – the previous year, the current year with constant perimeter and the current year with expanded perimeter, as was the case for fiscal year 2011, for example.

The reporting perimeter for 2012 was 67.3% (68.9% in 2011).

Reporting period

To streamline the organization, coordination and integration of the financial and non-financial reports in the finance departments of Group entities, Essilor collected most of its social, environmental and societal information over a period of 12 months from October 1, 2011 to September 30, 2012. Information collected for the fiscal year from January 1, 2012 to December 31, 2012 is followed in the text or in GRI indicator tables by an "at" symbol in superscript: [(@)].

Interim reporting is done each year at the end of March and aggregates the non-financial results from October 1 of the previous year to March 30 of the current year. This provides an update and allows the Group to identify and perform with enough time any corrective actions that may be necessary in the entities that are reporting their data for the first time, and to prepare them for the first real reporting at the end of the year for the period aggregating non-financial results from October 1 of the previous year to September 30 of the current year.

Reporting tool

Non-financial data is collected and consolidated for reporting purposes through a dedicated reporting application that has been based on the Global Reporting Initiative (GRI) Guidelines since fiscal year 2003 and on the G3 Guidelines since fiscal year 2006.

The application is a twin version of the application used for financial reporting. This is a financial closing application from the Oracle group, known as Hyperion®, which has been copied in Hypérion® Figures for financial reporting and Hyperion® Sustainability for non-financial reporting.

The Group's finance departments are responsible for entering the data that they collect from specialists within each unit. These specialists rely on local reporting systems to process non-financial data, which they measure and monitor as part of their daily operational management duties. The decision to use existing reporting channels, aside from guaranteeing simplicity, reliability and efficiency, presents the following four main advantages:

- each unit's finance and accounting teams are the best equipped to handle non-financial data reporting, due to their familiarity with the Group's reporting systems and procedures;
- the finance and accounting teams have the skill sets and experience to report the necessary data in compliance with standard quality criteria;
- each unit's finance teams, working in close cooperation with senior management, are no longer confined to working solely on financial data. These teams are better informed, involved and aware, and participate in the search for new ways to improve the economic, human (social and societal) and environmental features of sustainable development;
- experts in each unit continue to use the day-to-day operational management tools that are familiar to them and are often designed for and always geared to their specific needs.

Procedures for collecting, consolidating and controlling data

Collection is performed by the Group's finance departments from specialists in each unit, generally the Human Resources Department or the Health, Hygiene and Safety Department for the social information, from Management or the finance departments themselves for societal information, and from the Purchasing Department in collaboration with the Environmental Department or General Services Department for the environmental information. As consolidation and control of the non-financial information is performed using a specific data application and a twin to the one used for financial reporting, the non-financial reporting tool has similar functionalities.

Ultimately, it is the Corporate Sustainability Department that is responsible for the general control and publication of the non-financial reporting.

Independent verification

Independent verification is done through the audit of a selection of environmental and social indicators with a moderate assurance level performed by KPMG Audit.

For fiscal year 2012, the data verified by KPMG Audit are identified by a ☑ symbol next to the data reported by the annual verifications of the Statutory Auditors.

The consistency of the data is verified by the Company's Statutory Auditors.

Conclusion

The non-financial reporting of the Essilor group is part of a process of ongoing improvement anchored in the following objectives:

- to continue to make sustainable development one of the fundamentals that support the Group's development strategy;
- not to isolate its economic aspects from its human (social and societal), environmental or governance aspects;
- to integrate it as a consequence within a single document that provides financial and non-financial information.

Note that for 2003 and 2006, this information was presented in separate documents entitled *Seeing the world better/2003. Our contribution to sustainable development and Seeing the world better/2006. Our contribution to sustainable development.* The corresponding information for 2002, 2004 and 2005 was provided in the annual reports for those years.

Since 2007, it has been part of the annual Registration Document. For future fiscal years, Essilor reserves the right to publish this information in another communications document.

4.6 Reporting certificate and report of assurance

Chapter 4.6 is dedicated to the attestation of disclosure on the social, environmental and societal information and limited assurance report on a selection of social and environmental information published in the management report.

Financial year ended 31 December 2012

To the Senior Management

As requested by Essilor International S.A., we hereby report on the social, environmental and societal information presented in the management report for the year ended 31 December, 2012, in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code.

Company's responsibility

It is the responsibility of the Board of Directors to establish an annual report including social, societal and environmental consolidated information required under Article L.225-102 1 of the French Commercial Code (below the "Information"), established in accordance with the protocol used (the "Protocol") by the company and available upon request to the Sustainability Department. The summary of the reporting methodology provided at the end of Appendix 3 of the 2012 management report specifies the data collection or calculation methodologies used to obtain the published indicators.

Independence and quality control

Our independence is defined by the rules and regulations, the deontological code of the profession, and by the provisions of Article L.822-11 of the French Commercial Code. In addition, we implemented a comprehensive system of quality control including documented policies and procedures aiming at ensuring the compliance with the deontological rules, professional standards and applicable rules and regulations.

Independent third party's responsibility

It is our role, on the basis of our work:

- to attest that the required Information have been disclosed in the annual report or if any has been omitted, that an explanation is provided, in accordance with the third paragraph of Article R. 225 105 of the French Commercial Code and of the Decree 2012-557 of 24 April 2012, without verifying the relevance of such explanations (Attestation of disclosure);
- to provide limited assurance on whether the information(1) selected by the Essilor group (the "Group") and identified by the symbol ☑ (the "Data") is fairly presented, in all material respects, in accordance with the Protocol (Limited Assurance Report on a selection of Data).

1. Attestation of disclosure

Our engagement was performed in accordance with professional standards applicable in France:

- We compared the Information presented in the management report with the list as provided for in Article R. 225-105-1 of the French Commercial Code;
- We verified that the Information covers the consolidation scope, this is to say the company and its subsidiaries within the meaning of Article L. 233-1 and the controlled entities within the meaning of Article L. 233-3 of the French Commercial Code, based on the limits specified in the methodological note in the Appendix 3 of the 2012 management report;

(1) *Social indicators: Total employees (by gender, age & geographical area), Net employment creation, Turnover rate, Absentee rate, Frequency rate of occupational injuries with stoppage, and Severity rate of occupational injuries with stoppage, Total number of training hours.*
Environmental indicators: Materials consumption, Total water consumption , Direct and indirect energy consumption by primary source, CO2 emissions related to direct & indirect energy consumption, Ozone depleting substances emissions, Total quantity of solid waste, Total number of significant accidental spills, Location and area of lands in or nearby protected areas.

- In case some consolidated Information has been omitted, we verified that explanations were provided in accordance with the Decree 2012-557 dated 24 April 2012.

On the basis of our work, we attest that the required Information is disclosed in the management report.

2. Limited assurance report on a selection of Data

Nature and scope of work

We conducted our engagement in accordance with the ISAE 3000 standard (International Standard on Assurance Engagements) and with the professional guidelines applicable in France. We performed the following procedures to obtain a limited assurance that nothing has come to our attention that causes us to believe that the Data identified by the symbol ☑ are not fairly presented, in all material respects, in accordance with the Protocol. A higher level of assurance would have required more extensive work.

We performed the following work:

- We assessed the suitability of the Protocol regarding its relevance, completeness, neutrality, understandability and reliability, by taking into consideration, if need be, the best practices of the sector.
- We verified the implementation in the Group of a process for the collection, compilation, processing and control, aiming at the completeness and the consistency of the Data. We examined the internal control and risk management procedures related to the preparation of the Data. We conducted interviews with those responsible for social and environmental reporting.
- At the consolidated level and on controlled entities, we implemented analytical procedures and, based on sampling, verified the calculations and the consolidation of this information.
- At the level of the entities that we selected based[(1)] on their activity, their contribution to the consolidated Data, their geographical distribution and a risk analysis, we:
  - carried out interviews in order to verify that the procedures were correctly applied;
  - conducted tests of details on a sample-basis, which consisted of verifying calculations and reviewing the associated evidence.

The contribution of the selected sites represents on average 24% of the headcount and between 15% and 35% of the reviewed environmental quantitative information.

Conclusion

Based on the procedures performed, we observed that for the indicators:

- Absentee rate: considering the absence of communicated data by some entities, the absentee rates of these entities were based on standard rates instead of the actual entities' rates.
- Training hours, Turnover rate and Net employment creation: the completeness of consolidated data is not ensured, due to lack of data communicated by some entities.
- Frequency and Gravity rates of workplace injuries: the data used for the calculation comes from an information management system with a scope in expansion. For this year this scope is more limited than the reporting scope of the other indicators.

On the basis of our work, and except for the qualifications on the indicators stated above, nothing has come to our attention that causes us to believe that the Data identified by the symbol ☑, are not fairly presented, in all material respects, in accordance with the Protocol.

Paris La Défense, 7 March 2013

KPMG Audit

Department of KPMG S.A.

Alphonse Delaroque

Partner

Philippe Arnaud

Partner In charge of the Climate Change and Sustainability Services

(1) BBGR Group (social data only), BBGR Sézanne (environmental data only), SEOCL, EMTC, Omega Optical Dallas (environmental data only), Gentex Dudley and SOFI Chihuahua.

5

Information about the Company, its share capital and stock ownership

5.1 Company

5.1.1 Company name and registered office

The Company's name is Essilor International (*Compagnie Générale d'Optique*), hereinafter referred to as "Essilor," "the Company" or "the Group."

The registered office of the Company is located at 147, rue de Paris – 94220 Charenton-le-Pont – France.

The telephone number of the registered office is +33 (0)1 49 77 42 24.

5.1.2 Date of formation and term of the Company

The Company was formed on October 6, 1971 for a 99-year term expiring on October 6, 2070.

Essilor International is registered with the Créteil Trade and Companies Register under No. 712 049 618. The APE business identifier codes are 334 A (Essilor) and 741 J (Headquarters).

5.1.3 Legal form

Essilor is a joint stock company (société anonyme) with a Board of Directors under French law, governed by Book II of the French Commercial Code.

5.1.4 Corporate purpose

In accordance with Article 2 of the bylaws, the Company's corporate purpose, in any and all countries, is to:

- design, manufacture, purchase, sell and trade in any and all eyewear and optical products, including the manufacture, purchase and sale of frames, sunglasses, protective lenses and other protective equipment, and eyeglass and contact lenses;
- design and/or manufacture, purchase, sell and/or market any and all ophthalmic optical instruments and materials as well as any and all material and equipment for the screening, detection, diagnosis, measurement or correction of physiological disabilities, for professional or private use;
- design and/or develop, purchase and/or sell computer software applications and programs and related services;
- perform research, clinical trials, wearer tests, training, technical assistance and engineering services in relation to the above activities;
- provide any and all services and assistance related to the above activities, including consulting, accounting, audit, logistics and cash management services.

More generally, the Company may perform any financial, commercial or industrial transactions or any transactions involving either real estate or securities directly or indirectly related to the above-mentioned purposes or any similar or related purposes, or that would facilitate their extension or development or make them more profitable.

It may perform such transactions for itself, on behalf of third parties or through any and all forms of participation, including creating new companies, acquiring shares in existing companies, forming partnerships, merging companies, advancing funds, purchasing or selling securities and rights to equity instruments, selling or leasing out all or part of its real estate, securities or related rights, or otherwise.

5.1.5 Conditions governing changes in capital

The Company's bylaws do not contain any restrictions over and above the applicable legal provisions in relation to capital increases.

5.1.6 Fiscal year

The Company's fiscal year runs from January 1 to December 31.

5.1.7 Shareholders' Meetings

Notice of meeting

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.

Shareholders' Meetings are called and conduct business in accordance with the applicable laws and regulations.

From the Shareholders' Meeting of May 11, 2012, "pure" or "administered" registered shareholders will have the option of receiving their invitation and/or the Shareholders' Meeting preparatory documents by email.

Right to attend meetings

To attend a Shareholders' Meeting in person or by proxy:

- holders of "pure" registered or "administered" registered shares must be listed as the shareholder of record at midnight, Paris time, on the third business day before the meeting date;
- holders of bearer shares must be listed as the shareholder of record at midnight, Paris time, on the third business day before the meeting date. Ownership of the shares will be evidenced by a certificate of ownership (attestation de participation) issued by the custodian institution that keeps the shareholder's securities account, to be submitted with the postal voting form/proxy or the request for an attendance card issued in the shareholder's name. A certificate of ownership can also be issued to shareholders wishing to attend the meeting who have not received their attendance card by midnight, Paris time, on the third business day before the date of the meeting.

Shareholders may give proxy only to their spouse, to another shareholder or to an individual or legal entity of their choosing in accordance with laws and regulations, particularly those stipulated in Article L.225-106 I of the French Commercial Code. Each shareholder in attendance or represented at the meeting has a number of votes equal to the number of shares represented, directly or by proxy, without limit.

Shareholders who have sent in a postal voting form or proxy or requested an attendance card via their custodian institution can nevertheless sell all or some of their shares before the meeting. In this case, the custodian institution will be required to notify the Company or the Company's registrar of the transaction, including all necessary information.

However, the custodian institution will not be authorized to notify the Company or the registrar of any transactions carried out after midnight, Paris time, on the third business day preceding the meeting, and no such transactions will be taken into account by the Company, regardless of any agreement to the contrary.

Shareholders who are not resident in France, within the meaning of Article 102 of the French Civil Code, may ask their custodian institution to transmit their votes in accordance with the applicable laws and regulations.

2013 Shareholders' Meeting

The Combined Ordinary and Extraordinary Shareholders' Meeting will be called on May 16, 2013.

For information about the financial authorizations to be put to the vote as extraordinary resolutions at the Shareholders' Meeting on May 16, 2013, see Section 5.2.4.

For information about the proposed renewal of the share buyback program, to be put to the vote as ordinary resolutions at the Shareholders' Meeting on May 16, 2013, see Section 5.2.1.4.1, "Share buyback programs."

5.1.8 Disclosure threshold provisions

In addition to the statutory disclosure thresholds, the Company's bylaws state that any acquisition of 1% of the voting rights or any increase in an interest to 1% of the voting rights must be disclosed to the Company within five days, by registered letter sent to the Company's registered office with return receipt requested. The same formalities are required when a shareholder acquires or raises its interest to 2% of the voting rights or any multiple of 2%.

Disclosure is also required, within the same maximum period, of any reduction in the percentage of voting rights held to below any of the above thresholds.

Any undisclosed shares in excess of the above disclosure thresholds will be stripped of voting rights in accordance with the law at the request of one or several shareholders together holding at least 5% of the capital at the time of the meeting.

5.2 Capital

5.2.1 Share capital

5.2.1.1 Subscribed capital, changes in share capital and Essilor shares

■ Amount of share capital

a) Number of shares authorized

On this subject, refer to Section 5.2.1.6 of the Registration Document, "Conditions governing any acquisition right and/or any obligation attached to the capital subscribed, but unpaid, or any undertaking to increase capital."

b) and c) Number of shares issued and fully paid, number of shares issued but not fully paid, and par value per share:

At December 31, 2012, the share capital amounted to €38,650,327.20, represented by 214,724,040 ordinary shares, each with a par value of €0.18 and all fully paid.

Taking into account (i) the double voting rights on shares registered in the name of the same holder for at least two years and (ii) the absence of voting rights on treasury shares, the total number of voting rights attached to the Company's shares at December 31, 2012 amounted to 226,009,144.

d) Reconciliation of the number of shares outstanding at the beginning and end of the fiscal year, and capital paid:

Refer to Note 9 (Section 3.4) to the consolidated financial statements and Note 12 (Section 3.8) to the annual financial statements for the fiscal year.

5.2.1.2 Changes in share capital in 2012

Changes in share capital during the fiscal year were as follows:

- €69,363.72 increase, excluding original issue premium, corresponding to the issue of 385,354 new shares, each with a par value of €0.18 subscribed by the Essilor group five- and seven-year FCPE;
- €486,070.20 increase, excluding original issue premium, corresponding to the issue of 2,700,390 new shares, each with a par value of €0.18 on exercise of stock options;
- cancellation of 2,400,000 shares.

Breakdown of share capital as at December 31, 2012

At December 31, 2012	Number of shares	%	Number of voting rights	%
Employee shareholders (current, former and retired employees)				
FCPE Valoptec International	5,762,620	2.68	11,496,529	5.09
FCPE Essilor group 5- and 7-year	5,014,279	2.34	9,580,964	4.24
Funds for employees outside France	710,944	0.33	720,420	0.32
Registered shares held directly by employees	5,988,153	2.79	10,047,121	4.45
SUB-TOTAL	**17,475,996**	**8.14**	**31,845,034**	**14.09**
Partner shareholders[(a)]				
Registered or administered shares held by partners	343,240	0.16	386,480	0.17
SUB-TOTAL	**17,819,236**	**8.30**	**32,231,514**	**14.26**
Treasury stock				
Own shares	4,387,477	2.04		
Liquidity contract				
SUB-TOTAL	**4,387,477**	**2.04**		
PUBLIC	**192,517,327**	**89.66**	**193,777,630**	**85.74**
TOTAL	**214,724,040**	**100.00**	**226,009,144**	**100.00**

(a) Partner Shareholders refers to the proportion of Essilor International shares held by employees, senior managers and, if applicable, former employees and senior managers of companies in which Essilor International held a stake that have subsequently been sold in full.

Breakdown of share capital at December 31, 2011

At December 31, 2011	Number of shares	%	Number of voting rights	%
Employee shareholders (current, former and retired employees)				
FCPE Valoptec International	6,263,487	2.93	12,515,868	5.59
Essilor group 5- and 7-year FCPE	5,269,233	2.46	9,984,525	4.46
Funds for employees outside France	704,803	0.33	713,506	0.32
Registered shares held directly by employees	5,362,905	2.51	8,412,620	3.76
SUB-TOTAL	**17,600,428**	**8.22**	**31,626,519**	**14.12**
Partner shareholders[(a)]				
Registered or administered Shares held by partners	343,240	0.16	386,480	0.17
SUB-TOTAL	**17,943,668**	**8.38**	**32,012,999**	**14.29**
Treasury stock				
Own shares	5,363,126	2.51		
Liquidity contract				
SUB-TOTAL	**5,363,126**	**2.51**		
PUBLIC	**190,731,502**	**89.11**	**191,934,119**	**85.71**
TOTAL	**214,038,296**	**100.00**	**223,947,118**	**100.00**

(a) Partner Shareholders refers to the proportion of Essilor International shares held by employees, senior managers and, if applicable, former employees and senior managers of companies in which Essilor International held a stake that have subsequently been sold in full.

To the Company's knowledge, no shareholder other than the Valoptec International FCPE (see Section 5.2.3 of the Registration Document, "Discretionary and non-discretionary profit-sharing agreements") holds 5% or more of the voting rights directly, indirectly or in concert with a third party.

A table showing changes in share capital over the last five years is presented in Section 5.2.1.8.

Changes in outstanding stock subscriptions options and performance share rights are presented below (information limited to plans for which options or performance share rights are still outstanding):

Stock subscriptions options

	At December 31, 2012	o/w in 2012
Options granted[(a)]	13,369,650	81,760
Options cancelled[(a)]	750,463	80,171
Options exercised[(a)]	9,844,902	2,700,390
Options outstanding[(a) and (b)]	2,774,285	

(a) Since the November 14, 2001 plan, there have no longer been any subscription options granted under previous plans). See also the history of the plans in Section 5.2.2.2.
(b) 1.29% of the capital at December 31, 2012.

The subscription price is equal to the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the Board of Directors' decision to grant the options.

Performance share rights

	At December 31, 2012	o/w in 2012
Rights granted[(a)]	5,890,923	1,274,980
Rights cancelled[(a)]	791,853	52,145
Rights exercised[(a)]	2,250,796	578,008
Rights outstanding[(a) and (b)]	2,848,274	

(a) Since November 22, 2006, first plan to grant rights to performance shares. See also the history of the plans in Section 5.2.2.2.
(b) 1.33% of the capital at December 31, 2012.

For more information about performance shares, refer to Section 5.2.1.5.2, "Performance shares."

Maximum dilution at the fiscal year-end

Taking into account all shares that could be issued after December 31, 2012 due to the exercise of the existing options, regardless of their strike prices, the maximum dilution would be as follows:

At December 31, 2012	Number of shares	%	Number of voting rights	%
Position at year end	214,724,040		226,009,144	
Outstanding stock subscription options	2,774,285	1.29%	2,774,285	1.23%
Outstanding performance share rights	2,848,274	1.33%	2,848,274	1.26%
TOTAL POTENTIAL DILUTION	**5,622,559**	**2.62%**	**5,622,559**	**2.49%**
Total capital diluted at year end	220,346,599		231,631,703	

5.2.1.3 Essilor shares

The Essilor share trades on Euronext Paris – Euronext – Local stocks – Compartment A, under ISIN and Euronext code FR0000121667.

The shares are eligible for the Deferred Settlement Service (SRD). At December 31, 2012, a total of 214,724,040 fully paid-up ordinary shares, each with a par value of €0.18, were issued and outstanding.

Indices which the Essilor shares are listed under

Stock indices

The Essilor stock is included in the following indices: CAC 40, SBF 120, SBF 250, Euronext 100, EURO STOXX 50, STOXX All Europe 100, and FTSEurofirst 300.

In addition, Essilor has been included in the Low Carbon 100 Europe® Index since it was launched. This index launched by NYSE Euronext on October 24, 2008 measures the performance of the 100 largest European companies that emit the lowest levels of CO2 in their sectors.

SRI indices

The Essilor stock is also included in five socially responsible investment (SRI) indices:

- DJSI World (Dow Jones Sustainability Index), based on cooperation between Dow Jones Indices, STOXX Limited and the Swiss Asset Management Group (SAM Group);
- ASPI Eurozone® (Advanced Sustainable Performance Index), an international stock index composed of the 120 euro zone companies with the best sustainable development ratings;
- FTSE4Good, published by the Financial Times and the London Stock Exchange (FTSE);
- Ethibel Excellence index;
- ECPI® Ethical Index EURO® index.

Employee stock ownership index

Essilor is included in the Euronext FAS IAS® Index launched by Euronext and the *Fédération Française des Associations d'Actionnaires Salariés et d'Anciens Salariés* (FAS). It is composed of all the stocks in the SBF 250 with significant employee shareholding: at least 3% of the capital in shares held by more than one-fourth of the employees.

For more information about employee share ownership, refer to Section 5.2.3.2.

Sales of shares (Article 11 of the bylaws)

The shares are freely transferable and indivisible *vis-à-vis* the Company.

Share prices

(Source: Reuters and Bloomberg)

	Market price, in €			Number of shares outstanding at December 31	Market capitalization at December 31[(a)] € millions
	Session high	Session low	Closing price		
2012	78.240	54.500	76.020	214,724,040	14,578
2011	57.720	46.605	54.550	214,038,296	10,968
2010	51.170	40.840	48.175	211,655,342	9,741
2009	42.000	26.080	41.750	215,509,972	8,395
2008	44.390	26.870	33.570	211,019,922	7,065

(a) Used in the CAC40 index (before capital increase related to the convertible bonds and the Company Savings Plan).

Share prices and trading volume[a]

(Sources: Euronext Paris, Reuters and Bloomberg)

	Trading volume in number of shares	Trading volume in amounts € millions	Market price, in €	
			Session high	Session low
2011				
September	23,491,441	1,273.25	56.20	51.73
October	23,389,142	1,217.10	53.99	50.30
November	16,902,407	877.66	53.32	50.30
December	14,116,125	743.53	54.64	51.49
2012				
January	18,176,904	1,023.95	57.50	54.50
February	15,733,763	910.62	60.17	56.15
March	16,430,405	1,042.57	67.31	58.04
April	17,249,509	1,141.30	68.67	63.62
May	21,289,022	1,457.33	70.66	66.40
June	35,897,966	2,594.19	75.52	67.54
July	21,948,751	1,581.50	75.49	67.51
August	18,459,438	1,275.01	71.46	67.43
September	18,088,287	1,318.31	74.75	69.12
October	18,365,559	1,298.29	73.99	67.94
November	15,344,287	1,106.11	75.61	69.01
December	12,832,576	981.68	78.24	74.08
2013				
January	14,700,629	1,121.98	78.55	74.01
February	18,925,602	1,403.26	80.79	71.90

(a) Stock markets: Euronext Paris, Turquoise, Bats Europe, Chi-x Alternative and Equiduct.

5.2.1.4 Treasury stock

At December 31, 2011, Essilor held 5,363,126 of its own shares. In fiscal year 2012, a total of 2,002,359 shares were acquired by the Company at a net average price of €58.40. In addition, 578,008 shares were delivered under the Company's performance share program.

At December 31, 2012, Essilor held 4,387,477 of its own shares, representing 2.04% of share capital. The nominal value of these shares was €789,745.86 and their book value was €239 million (i.e., an average net cost of €54.47 per share).

5.2.1.4.1 Share buyback programs

Special Report on share buybacks (Article L.225-211, Paragraph 2 of the French Commercial Code) and description of the buyback program (Article 241-2 I of the AMF's General Regulations)

In May 2011, the Shareholders' Meeting authorized the Board of Directors to buy back Essilor International shares representing up to 10% of the Company's capital on the date of purchase, as allowed under Articles L.225-209 et seq. of the French Commercial Code. The authorization was given for a period of 18 months expiring on November 4, 2012. This authorization was renewed by the Shareholders' Meeting in May 2012 for a period of 18 months.

In application of Article L.225-211 of the French Commercial Code, as amended by Order 2009-105 of January 30, 2009, the Board of Directors reports below on the use made during fiscal year 2012 of the authorizations given by the Combined Ordinary and Extraordinary Shareholders' Meetings of May 5, 2011 and May 11, 2012.

The main objectives of the program were:

- to hedge the employee share-based payment programs (delivery of shares on exercise of stock options, allotment of shares, cancellation of shares issued following the exercise of stock subscription options);
- to support the liquidity contract.

Apart from transactions under the liquidity (market-making) contract that was signed and extended during the period, the Company bought 2,002,359 shares between January 1 and December 31, 2012 at an average gross price of €58.38 and did not sell any shares on the market. The related average trading fees (including commissions net of tax) amounted to €0.02 per share, increasing the average net cost per share to €58.40.

5.2.1.4.2 Liquidity contract

On March 8, 2010, the Company assigned to Crédit Agricole Cheuvreux the implementation of a liquidity contract that was harmonized with market practices of *Autorité des Marchés Financiers* (AMF) on March 21, 2011 and is based on the Code of Ethics of the *Association Française des Marchés Financiers* (AMAFI), amended on March 8, 2011.

Under the liquidity contract, the Company bought 503,301 shares between January 1 and December 31, 2012 at an average price of €65.93 and sold 503,301 shares at an average price of €67.56 over the same period. No security under the liquidity contract was held at December 31, 2012.

This liquidity contract was terminated on January 24, 2013, with effect as from January 25, 2013.

Transactions for the year for the above two objectives are presented below (information disclosed in accordance with Article 225–211 of the French Commercial Code as amended by Order 2009-105 dated January 30, 2009):

	2012		
	Treasury shares Employees	**Treasury shares Liquidity contract**	**Total Treasury shares**
Number of shares at beginning of period – January 1	**5,363,126**		**5,363,126**
Stock purchase options exercised			0
Delivery of performance shares	(578,008)		(578,008)
Delivery of shares on conversion of Oceane bonds			0
Cancellation of treasury shares	(2,400,000)		(2,400,000)
Purchase of treasury shares	2,002,359		2,002,359
Change in liquidity contract			0
Number of shares at end of period – December 31	**4,387,477**	**0**	**4,387,477**

No shares were reallocated among these purposes in 2012.

Summary of previous share buyback programs

Transactions conducted between March 1, 2012[(a)] and February 28, 2013	
Percentage of capital held directly and indirectly	2.18%
Number of shares cancelled in the last 24 months	2,400,000
Number of shares held in portfolio	4,694,664
Book value of portfolio (in €)	261,509,582
Market value of portfolio[(b)] (in €)	371,113,189

(a) Day after the date on which the balance sheet for the previous programs were completed.
(b) On the basis of the closing price on February 28, 2013.

Transactions under the liquidity contract and other transactions

	Total gross flows from March 1, 2012 to February 28, 2013			Open positions at February 28, 2013					
	Purchases	**Sales**	**Cancellations**	**Open buy positions**			**Open sell positions**		
				Calls bought	Puts sold	Forward purchases	Puts bought	Calls sold	Forward sales
Number of shares	1,022,602	429,936	0						
Average maximum maturity									
Average transaction price, in €	69.46	70.83							
Total amount, in €	71,027,857	30,456,384							

Renewal of the authorization to implement a share buyback program proposed at the Shareholders' Meeting of May 16, 2013

In accordance with Article 241-2 of the AMF's General Regulations, the Shareholders' Meeting of May 16, 2013 will be asked to renew the authorization to buy back shares solely for the purposes set out below (the actual order in which the buyback authorizations will be used will be need- and opportunity-based).

The main objectives of the program will be:

- to hedge the stock purchase option plans or other allotments of shares intended for employees, notably the grant of bonus shares set forth in by Articles L.225-197-1 et seq. of the French Commercial Code intended for Group senior managers and employees;
- to buy shares for cancellation, notably in order to offset the dilutive impact of stock subscription options granted to Group senior managers and employees;
- to potentially hedge debt securities convertible or exchangeable in Company shares, by buying shares for delivery (in the case of delivery of existing shares as part of the rights conversion operation) or by buying shares for cancellation (in the case of new shares created as part of the rights conversion);
- to ensure the liquidity of the shares under a liquidity contract that complies with the AMAFI Code of Ethics endorsed by the AMF.

The Company may also use the program for the following purpose:

- to buy back shares for delivery or exchange in connection with future external growth transactions up to a maximum of 5% of the capital.

The shares held under the buyback program may not represent more than 10% of the Company's capital at any given time.

Main characteristics of the new buyback program:

- securities: Essilor International ordinary shares (traded on Euronext Paris in Compartment A);
- maximum percentage of shares that may be held according to the resolution tabled at the Ordinary Shareholders' Meeting of May 16, 2013: 10% (equivalent to 21,485,040 shares based on the capital at January 31, 2013, for example);
- maximum percentage of share capital that may be bought back, taking into account the number of own shares held as of January 31, 2013: 7.96%, or for example 21,485,040 - 4,387,372 = 17,097,668 shares based on the capital at January 31, 2013;
- maximum purchase price per share: €105 (as adjusted if necessary to take into account the effects of any corporate actions);
- minimum sale price per share: €29 (as adjusted if necessary to take into account the effects of any corporate actions).

The shares may be purchased, sold or transferred and paid for by any appropriate method on the organized market or over-the-counter (including through straight purchases, the use of financial instruments or derivatives or the implementation of options strategies). The entire share buyback program may be carried out through a block purchase.

The authorization is being sought for a period of 18 months expiring on November 15, 2014.

5.2.1.4.3 Share cancellations and capital reductions

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 11, 2010 authorized the Board of Directors to reduce the capital by canceling all or some of the shares held by the Company, provided that the number of shares cancelled during any 24-month period does not exceed 10% of total share capital. Accordingly, 2,400,000 shares were cancelled in March 2012.

5.2.1.4.4 Shareholders

Shareholders' identifying information

Fully paid-up shares may be held in either registered or bearer form, at the shareholder's discretion.

The Company may, at any time, subject to compliance with the applicable laws and regulations, request information from the clearing organization about the numbers of securities held as well as the name, corporate name, nationality, year of birth or year of formation of holders of shares and securities that are convertible, redeemable, exchangeable or otherwise exercisable now or in the future for shares carrying rights to vote at Shareholders' Meetings.

Different voting rights

Exercise of voting rights

As from June 22, 1974, double voting rights have been attributed to all fully paid-up shares registered in the name of the same holder for at least two years.

The holding period was raised to five years at the Extraordinary Shareholders' Meeting of June 11, 1983 and reduced to two years at the Extraordinary Shareholders' Meeting of March 3, 1997.

In the case of a bonus share issue paid-up by capitalizing reserves, profit or additional paid-in capital, the registered bonus shares allotted in respect of shares with double voting rights also carry double voting rights.

If the Company is merged with and into another company, the double voting rights will be exercisable at Shareholders' Meetings of the surviving company, provided that the bylaws of the latter include double voting right provisions.

If any registered shares are converted to bearer shares or transferred to another shareholder, the double voting right on those shares is forfeited.

However, double voting rights will not be forfeited if registered shares are transferred by way of succession, or liquidation of marital estate, or gift between spouses or to a relative in the direct line of succession, and such change of ownership is not taken into account in determining the two-year minimum holding period referred to above.

In accordance with the law, double voting rights may not be abolished by a Shareholders' Meeting unless this decision is first approved by a special meeting of holders of shares with double voting rights.

Restrictions on voting rights

As of December 31, 2012, the Company's bylaws did not contain any restrictions on the exercise of voting rights.

Arrangements resulting in a change in control of the Company and shareholders' pacts

Contracts that could have an impact in the event of a public offering as set forth in Article L.225-100-3 of the Commercial Code:

- the joint venture agreement with Nikon Corporation contains a clause allowing Nikon to acquire Essilor's 50% stake in the Nikon-Essilor joint venture or to require the joint venture to be wound up following a change of control of Essilor International, subject to certain conditions;
- the agreements covering the Company's bank facilities also include a change of control acceleration clause.

Other items that could have an impact in the event of a public offering as set forth in Article L.225-100-3 of the Commercial Code:

- employees hold 8.3% of the Company's capital and 14.3% of the voting rights. They may exercise these voting rights directly or give proxy to the representatives of the Essilor seven-year FCPE and the Valoptec Association;
- to the Company's knowledge, there are no shareholder pacts, pre-emptive rights agreements or other agreements that may at a subsequent date result in a change in control of the Company.

5.2.1.5 Convertible securities, exchangeable securities, securities with warrants, stock subscription options, stock purchase options and rights to performance shares

5.2.1.5.1 Stock subscription options

Stock subscription options on new shares outstanding at December 31, 2012 and February 28, 2013

Date granted	Number of options granted	Granted to Executive Committee	Subscription price, in €	Number of options outstanding at December 31, 2012	Number of options outstanding at February 28, 2013
November 14, 2001	321,320	60,000	15.620	0	0
November 20, 2002	1,625,160	486,000	20.340	0	0
November 18, 2003	1,609,140	440,000	20.370	0	0
November 17, 2004[a]	1,787,800	537,880	26.500	0	0
January 27, 2005[a]	31,500	24,700	27.290	0	0
November 23, 2005[a]	1,996,880	680,000	34.700	0	0
November 22, 2006[b]	930,740	128,000	41.460	286,332	266,962
November 14, 2007[b]	1,117,770	148,000	43.650	484,555	474,265
November 27, 2008[b]	1,568,080	430,000	33.170	481,919	437,632
November 26, 2009[b]	1,579,120	314,160	38.960	816,054	753,849
November 25, 2010[b]	634,760	0	48.010	541,605	518,390
November 24, 2011[b]	85,620	0	52.270	82,060	79,740
November 27, 2012[b]	81,760	0	71.350	81,760	81,340
TOTAL	**13,369,650**	**3,248,740**		**2,774,285**	**2,612,178**

(a) Capped plans.
(b) Capped performance plan.

The subscription price is equal to the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the Board of Directors' decision to grant the options.

Under capped plans, the maximum profit that can be made by each grantee is capped at 100% of the value of the option grants.

Capped performance plans are, in addition, subject to the share price reaching a certain level (in the same way as the performance shares described in Section 5.2.1.5.2) and can be cancelled if the target is not met.

Stock subscription options as of December 31, 2012 and February 28, 2013

Stock subscription options are presented below (information limited to plans for which options are still outstanding).

	At December 31, 2012	o/w in 2012	At February 28, 2013	o/w in 2013
Options granted[a]	13,369,650	81,760	13,369,650	
Options cancelled[a]	750,463	80,171	760,701	10,238
Options exercised[a]	9,844,902	2,700,390	9,996,771	151,869
Options outstanding[a] and [b]	2,774,285		2,612,178	

(a) Since the November 14, 2001 plan, there have no longer been any subscription options granted under previous plans outstanding). See also the history of the plans in Section 5.2.2.2.
(b) 1.29% of the capital at December 31, 2012.

Exercise of stock subscription options

Stock subscription options, if exercised, trigger the issuance of new ordinary Essilor shares.

As of December 31, 2012, the total number of shares that may be created as a result of the exercise of the stock subscription options was 2,774,285.

5.2.1.5.2 Performance shares

At its meeting on November 22, 2006, the Board of Directors decided to set up the Company's first performance share plan. The decision was preceded by an assessment of the benefits of this type of plan. The conclusions from this assessment were as follows:

- the potential dilutive impact of performance shares is less than half that of stock options offering an equivalent potential gain;
- the grant system makes it easier for grantees to keep their shares, unlike with shares acquired on exercise of stock subscription (or purchase) options, some or all of which are almost always sold by the grantees to finance the exercise price;
- the decision was made to restrict the plan to employees resident in France, with non-residents continuing to receive stock subscription (or purchase) options;
- in light of this restriction, the terms of the performance share grants are designed to ensure that the potential gain for grantees is as close as possible to that for holders of stock options. The performance shares are subject to vesting conditions based on growth in the Company's share price, to ensure that the interests of grantees converge with those of shareholders.

The main terms of the 2006, 2007, 2008, 2009, 2010, 2011 and 2012 performance share plans have changed since 2006. Since 2010 the terms have been as follows:

Vesting conditions for shares and holding obligation

Essilor's long-term compensation plans were designed to encourage the alignment of interests of employee shareholders and external shareholders.

The final award of performance shares is contingent on:

a) a performance condition based on the progress of the trading price of the share measured over several years;

b) an employment condition in order to guarantee the long-term commitment of the beneficiaries and their loyalty to the Company;

c) an obligation to hold vested shares to strengthen the convergence between the interests of employee shareholders and external shareholders;

d) stricter conditions for corporate officers.

a) Performance condition

The vesting of shares and the number of shares vested are subject to a performance condition based on the annualized progress of the Essilor share price over a period of between two and six years (from N+2 to N+6) from their award date:

1) at the time they are awarded, the initial reference price (equal to the average of the 20 opening prices preceding the award date) is determined;

2) two years after the award (N+2), an average price equal to the average of the opening prices for the three months preceding the date of the second anniversary of the award is calculated.

If the increase between the average price and the initial reference price is:

- **greater than 14.5%** (an annualized increase[(1)] of 7%), all shares initially awarded are vested subject to compliance with the employment condition (detailed in Section "Employment condition");
- **greater than or equal to 4.0% and less than 14.5%** (corresponding respectively to an annualized increase[(1)] greater than or equal to 2% and less than 7%), only a portion of the shares initially awarded is vested subject to compliance with the vesting condition (detailed in the Section "Employment condition");
- **less than 4.0%** (for an annualized increase of less than 2%), no shares vest. In this case, another evaluation of performance will be made three months later with annualized share price benchmarks[(1)] between 2% and 7%. This measurement of performance may be repeated until the sixth anniversary date of the award (N+6).

The first time that the annualized increase between the average price and the initial reference price exceeds the 2% threshold (as an annualized increase) is when the number of shares vested is determined once and for all, even if the annualized increase subsequently rises. As time progresses, the minimum threshold (increase of the trading price) to be achieved to receive a minimum number of Essilor shares increases: 4% at N+2, 6.1% at N+3, 8.2% at N+4, etc., and 12.6% at N+6.

(1) Calculation formula: (Average Price / Initial Price)^(1/N) -1 where N is the number of years between the award and the performance measurement date. N =2 then, if the performance condition is not achieved, 2.25 and so on up to a maximum of six.

If, at the end of N+6, the minimum threshold of a 12.6% rise in the trading price has not been achieved, the plan becomes null and void and the employees receive no Essilor shares.

b) Employment condition

For French residents, the award of shares is subject to the beneficiary's employment with the Group on the date the performance condition is achieved, which may occur between the second anniversary and the sixth anniversary of the award (see performance conditions detailed above).

For non-French residents, the employment condition is set at:

- the fourth anniversary of the award if the achievement of the performance condition occurs between the second and fourth anniversary;
- on the day of the achievement of the performance condition if that day occurs after the fourth anniversary of the award.

This employment condition is waived in the case of the death, invalidity, layoff or retirement of the beneficiary.

c) Holding condition

Once the performance condition is achieved, the shares acquired must be kept. French residents may sell the shares acquired no sooner than six and no later than eight years after their initial award. For non-French residents, half of the shares acquired must be kept for a minimum period of two years, and the other half may be sold immediately for payment of taxes.

Refer also to Note 5 to the consolidated financial statements (Section 3.4).

Performance share rights outstanding as of December 31, 2012 and February 28, 2013

Date granted	Number of rights granted	Granted to Executive Committee	Initial reference price (used to assess performance) In €	Number of rights outstanding at December 31, 2012	Number of rights outstanding at February 28, 2013
November 22, 2006	527,112	211,500	41.46	0	0
January 24, 2007	49,152	0	41.46	0	0
November 14, 2007	552,491	260,480	43.65	0	0
January 31, 2008	90,860	40	41.57	0	0
November 27, 2008	513,775	173,890	33.17	0	0
December 18, 2008	45,350	110	33.17	0	0
November 26, 2009	536,116	165,835	38.96	0	0
December 18, 2009	65,640	195	38.96	0	0
November 25, 2010	893,458	341,800	48.01	336,385	335,365
December 20, 2010	74,355	195	48.01	2,850	2,850
November 24, 2011	1,193,189	346,800	52.27	1,163,469	1,158,909
December 21, 2011	74,445	195	52.27	70,590	70,350
November 27, 2012	1,176,340	335,500	71.35	1,176,340	1,173,970
December 14, 2012	98,640	280	71.35	98,640	97,560
TOTAL	**5,890,923**	**1,836,820**		**2,848,274**	**2,839,004**

Performance share rights as of December 31, 2012 and February 28, 2013

Performance share rights are presented below:

	At December 31, 2012	o/w in 2012	At February 28, 2013	o/w in 2013
Rights granted[(a)]	5,890,923	1,274,980	5,890,923	
Rights cancelled[(a)]	791,853	52,145	799,213	7,360
Rights exercised[(a)]	2,250,796	578,008	2,252,706	1,910
Rights outstanding[(a) and (b)]	2,848,274		2,839,004	

(a) From the November 22, 2006 plan, the first plan granting rights to performance shares. See also the history of the plans in Section 5.2.2.2.
(b) 1.33% of the capital at December 31, 2012.

Allocation of performance shares

If the performance shares rights are exercised, grantees will be allocated either existing or new ordinary Essilor shares.

5.2.1.6 Terms governing any acquisition rights and/or obligations in relation to subscribed but unpaid capital or to any undertaking to increase the capital

The following table lists the shareholder authorizations to issue shares, with or without pre-emptive subscription rights, currently in force and use.

Date of the Shareholders' Meeting authorization May 11, 2012	Type of authorization and ceiling	Duration	Expiration date	2012 usage
11th resolution	Issue of shares to members of the Essilor employee stock ownership plan or plans set up by related companies. Maximum: **1.5% of the capital**[(a)]. Art. L.225-129 and L.225-138 of the French Commercial Code and Art. L.3332-18 et seq. of the French Labor Code.	21 months	February 10, 2014	2012 issue of 385,354 shares with a par value of €0.18, a capital increase (excl. premium) of €69,363.72; subscribed by the Essilor group 5- and 7-year FCPE, **0.18% of the capital.**
12th resolution	"Performance share" grants. Maximum 2.5% of the capital for employees and management.[(b)] Art. L.225-197-1 et seq. of the French Commercial Code.	38 months	July 10, 2015	**1,274,980** performance shares granted by the Board on November 27, 2012. (If vested, exercisable for one share with a par value of €0.18 per performance share.)
13th resolution	Stock option grants. Maximum 1% of the capital for employees and management. [(b)] Art. L.225-177 to L.225-186 of the French Commercial Code	38 months	July 10, 2015	81,760 stock options granted to non-resident employees by the Board on November 27, 2012 (exercisable for €0.18 par value share per option).
14th resolution	Overall limit on stock option plans and "Performance" share grants: 3% of the capital.[(b)]	38 months	July 10, 2015	2012 grants: Stock options and performance share grants on a total of **1,356,740** shares, representing **0.63% of the capital.**
15th resolution	Issue of shares and share equivalents with pre-emptive subscription rights. ■ Shares: maximum 1/3 of capital; ■ Debt securities: maximum €1,500 million; ■ Greenshoe option: 15% (Resolution 17). Art. L.225-129-2 and L.228-92 of the French Commercial Code	26 months	July 10, 2014	None

(a) The shares may not be offered at more than a 20% discount to the average of the opening prices quoted over the twenty trading days preceding the Board of Directors' decision to carry out the issue or at a premium to this average.

(b) The stock option exercise price and the reference price for the performance share grants corresponds to the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the Board of Directors' decision to grant the options or shares.

Date of the Shareholders' Meeting authorization May 11, 2012	Type of authorization and ceiling	Duration	Expiration date	2012 usage
16th resolution	Issue of debt securities without pre-emptive subscription rights but with a three-day subscription period, up to €1 billion: ▪ resulting share issues capped at 10% of the capital; ▪ greenshoe option: 15% (Resolution 17). Art. L.225-129-2, L.225-135 and L.228-92 of the French Commercial Code. The issue price of shares and share equivalents comparable to equity securities should be at least equal to the minimum price stipulated by legal and regulatory provisions (currently the weighted average of the price on NYSE Euronext over the three trading days preceding the establishment of the exercise price of the share issue, minus a potential maximum discount of 5% in accordance with Art. L.225-136 and R.225-119 of the French Commercial Code.	26 months	July 10, 2014	None
18th resolution	Issue of shares and share equivalents with pre-emptive subscription rights up to 10% of the capital as payment for a contribution in kind of securities. Art. L.225-147, Paragraph 6 of the French Commercial Code.	26 months	July 10, 2014	None
19th resolution	Overall limit on the issue of shares and share equivalents giving immediate or future rights to capital with elimination of pre-emptive subscription rights, or reserved for a capital contribution in kind (under Resolutions 16, 17, and 18) of up to 15% of the capital.	26 months	July 10, 2014	None
20th resolution	Capital increase to be paid up by capitalizing reserves: maximum €500 million.	26 months	July 10, 2014	None

5.2.1.7 Capital of any member of the Group under option or agreement

Pursuant to the acquisition strategy conducted by the Group and in order to retain the management teams of the companies acquired, Essilor frequently acquires only a majority in the first phase, most frequently between 75 and 90%. Cross options generally expiring in three to five years are then set up with the sellers for the remaining percentage.

As part of its acquisition programs and particularly in countries with strong growth, Essilor may gradually increase its interest in target companies from 10% to 51% over a three- to five-year period or create a 50/50 joint venture.

The liabilities represented by put options granted to minority shareholders are recognized in the consolidated balance sheet at their exercise price (see Section 3.3.2).

5.2.1.8 History of the share capital

Changes in share capital over the last five years € thousands	Number of shares issued	Par value	Premium	New issued capital	New number of shares outstanding
SHARE CAPITAL AT DECEMBER 31, 2007				**38,030**	**211,279,315**
Subscription of shares reserved for the Essilor group FCPE	720,144	130	21,102	38,160	211,999,459
Exercise of subscription options	452,913	82	10,071	38,241	212,452,372
Cancellation of treasury shares	(1,600,000)	(288)	(53,721)	37,953	210,852,372
Issuance of shares on conversion of OCEANE bonds	167,550	30	4,432	37,984	211,019,922
Capital increase paid up by capitalizing reserves				37,984	211,019,922
SHARE CAPITAL AT DECEMBER 31, 2008				**37,984**	**211,019,922**
Subscription of shares reserved for the Essilor group FCPE	662,646	119	18,329	38,103	211,682,568
Exercise of subscription options	778,714	140	18,497	38,243	212,461,282
Cancellation of treasury shares	(1,500,000)	(270)	(54,179)	37,973	210,961,282
Issuance of shares on conversion of OCEANE bonds	4,548,690	819	120,909	38,792	215,509,972
Capital increase paid up by % of capital				38,792	215,509,972
SHARE CAPITAL AT DECEMBER 31, 2009				**38,792**	**215,509,972**
Subscription of shares reserved for the Essilor group FCPE	541,767	98	20,192	38,889	216,051,739
Exercise of subscription options	1,912,549	344	56,201	39,234	217,964,288
Cancellation of treasury shares	(6,312,636)	(1,136)	(267,115)	38,097	211,651,652
Issuance of shares on conversion of OCEANE bonds	3,690	1	98	38,098	211,655,342
Capital increase paid up by capitalizing reserves				38,098	211,655,342
SHARE CAPITAL AT DECEMBER 31, 2010				**38,098**	**211,655,342**
Subscription of shares reserved for the Essilor group FCPE	521,316	94	21,708	38,192	212,176,658
Exercise of subscription options	1,861,638	335	60,996	38,527	214,038,296
Capital increase paid up by capitalizing reserves				38,527	214,038,296
SHARE CAPITAL AT DECEMBER 31, 2011				**38,527**	**214,038,296**
Subscription of shares reserved for the Essilor group FCPE	385,354	69	21,927	38,596	214,423,650
Exercise of subscription options	2,700,390	486	95,417	39,082	217,124,040
Cancellation of treasury shares	(2,400,000)	(432)	(113,122)	38,650	214,724,040
Capital increase paid up by capitalizing reserves				38,650	214,724,040
SHARE CAPITAL AT DECEMBER 31, 2012				**38,650**	**214,724,040**

Details of changes in share capital in 2012 are presented in Section 3.4 Note 9 to the consolidated financial statements.

5.2.2 Ownership interest and Essilor stock subscription (or purchase) options held

5.2.2.1 Shares and subcription (or purchase) options held by members of the Board of Directors as of December 31, 2012

■ Essilor stock subscription (or purchase) options held

	Employees and corporate officers – Members of the Board of Directors			
	Hubert Sagnières	Yi He	Aïcha Mokdahi	Maureen Cavanagh
Essilor shares held	11,080	12,500	10,349	291
Stock purchase options				
■ November 22, 2006	44,000	4,000		
■ November 14, 2007	50,000	5,500		
■ November 27, 2008	100,000	6,000		
■ November 26, 2009	150,000	6,000		

Independent directors

At December 31 2012, independent directors held 9,234 Essilor shares but did not hold any stock subscription (or purchase) options or performance share rights.

■ Rights to Performance Shares – As of December 31, 2012

	Employees and corporate officers – Members of the Board of Directors			
	Hubert SAGNIÈRES	Yi He	Aïcha MOKDAHI	Maureen CAVANAGH
Performance share rights				
■ November 25, 2010	45,000	1,980		1,320
■ November 24, 2011	50,000	2,310	2,505	1,320
■ December 21, 2011			15	
■ November 27, 2012	45,000	2,000	2,300	1,200
■ December 14, 2012	20		20	

For more information about performance shares, refer to Section 5.2.1.5.2, “Performance shares.”

5.2.2.2 Information on stock purchase options, stock subscription options and performance share rights

■ Grant and exercise of stock options and performance share rights during the year

Grant and exercise of: ■ stock options; ■ stock purchase options; ■ performance share rights; granted to employees other than corporate officers.	Total number	Weighted average exercise price In €	Expiration date	Plan
Stock options granted in fiscal year 2012 by the issuer and by any company included in the scope of option grants to the 10 employees of the issuer and any company included in that scope thus holding the greatest number of stock options granted (comprehensive data)	32,900	71.35	Nov. 27, 2019	Nov. 27, 2012
Performance share rights granted in fiscal year 2012 by the issuer and by any company included in the scope of option grants to the 10 employees of the issuer or any company included in that scope thus holding greatest number of rights granted (comprehensive data)	193,870	71.35	Nov. 27, 2018 or 2020 and Dec. 14, 2018 or 2020	Nov. 27, 2012 and Dec. 14, 2012
Stock options of the issuer and the aforementioned companies exercised in fiscal year 2012 by the 10 employees of the issuer and those companies thus having exercised the greatest number of stock options (comprehensive data)	532,781	36.65		Nov. 14, 2001 Nov. 20, 2002 Nov. 18, 2003 Nov. 17, 2004 Jan. 27, 2005 Nov. 23, 2005 Nov. 22, 2006 Nov. 14, 2007 Nov. 27, 2008 Nov. 26, 2009

For more information about performance shares, refer to Section 5.2.1.5.2, “Performance shares.”

History of stock option and performance share right grants

For more information about performance shares, refer to Section 5.2.1.5.2, "Performance shares."

Plan	Nov. 20, 2002	Nov. 23, 2005	Nov. 22, 2006	Nov. 14, 2007	Nov. 27, 2008
Date of Shareholders' Meeting	January 18, 2001	May 13, 2005	May 13, 2005	May 11, 2007	May 11, 2007
Date of Board Meeting	November 20, 2002	November 23, 2005	November 22, 2006	November 14, 2007	November 27, 2008
Type of plan	Stock subscription options	Capped stock subscription options[a]	Capped performance stock options[b]	Capped performance stock options[b]	Capped performance stock options[b]
Total number of shares available for subscription or purchase	1,625,160	1,996,880	930,740	Maximum 1,117,770	Maximum 1,568,080
Granted to corporate officers	202,000	214,000	0	0	320,000
■ Philippe Alfroid	88,000	94,000			100,000
■ Xavier Fontanet	114,000	120,000			120,000
■ Hubert Sagnières					100,000
Granted to top 10 employee grantees	292,000	374,000	195,000	206,000	170,000
Start date of exercise period	November 20, 2003	November 23, 2006	November 22, 2008[c]	November, 14, 2009[d]	November 27, 2010[e]
Expiration date	November 20, 2012	November 23, 2012	November 22, 2013	November 14, 2014	November 27, 2015
Exercise price (in €)	20.340	34.700	41.460	43.650	33.170
Number of grantees	1,348	1,953	1,148	1,800	2,286
Exercise conditions	Non-residents: not exercisable in the first year, then at the rate of 1/3 per year maximum. Residents: exercisable from Nov. 20, 2006.	Non-residents: not exercisable in the first year, then at the rate of 1/3 per year maximum. Residents: exercisable from Nov. 23, 2009.	Non-residents: not exercisable until the performance conditions are met. When conditions are met, up to 50% in the third year and the balance in subsequent years. Cancellation possible. Residents: none.	Non-residents: not exercisable until the performance conditions are met. When conditions are met, up to 50% in the third year and the balance in subsequent years. Cancellation possible. Residents: none.	Non-residents and resident: not exercisable until the performance conditions are met. When conditions are met, up to 50% in the third year and the balance in subsequent years. Cancellation possible.
Shares subscribed as of December 31, 2012	1,582,666	1,919,210	561,748	535,285	942,974
Cancelled stock subscription options or performance share rights	42,494	77,670	82,660	97,930	143,187
Outstanding stock subscription options or performance share rights	0	0	286,332	484,555	481,919

(a) Capped plans. Under capped plans, the maximum profit that can be made by each grantee is capped at 100% of the amount of the option grants.

(b) Capped performance plan. Capped performance plans are, in addition, subject to the share price reaching a certain level (in the same way as the performance shares described in Section 5.2.1.5.2) and can be cancelled if the target is not met.

(c) The options will be exercisable if the average opening price of the shares exceeds €41.46 over a three-month period between November 22, 2008 and November 22, 2010 (see Section 5.2.1.5.2).

(d) The options will be exercisable if the average opening price of the shares exceeds €43.65 over a three-month period between November 14, 2009 and November 14, 2011 (see Section 5.2.1.5.2).

(e) The options will be exercisable if the average opening price of the shares exceeds €33.17 over a three-month period between November 27, 2010 and November 27, 2014 (see Section 5.2.1.5.2).

Plan	Nov. 26, 2009	Nov. 25, 2010	Nov. 25, 2010	Dec. 20, 2010	Nov. 24, 2011
Date of Shareholders' Meeting	May 11, 2007	May 11, 2010	May 11, 2010	May 11, 2010	May 11, 2010
Date of Board Meeting	November 26, 2009	November 25, 2010	November 25, 2010	November 25, 2010	November 24, 2011
Type of plan	Capped performance stock options[a]	Capped performance stock options[a]	Performance share rights	Performance share rights (Group plan in France)	Capped performance stock options[a]
Total number of shares available for subscription or purchase	Maximum 1,579,120	Maximum 634,760	Maximum 893,458	Maximum 74,355	Maximum 85,620
Granted to corporate officers	230,000	0	45,000	15	0
■ Xavier Fontanet	80,000	0		0	0
■ Hubert Sagnières	150,000	0	45,000	15	0
Granted to top 10 employee grantees	194,000	75,000	200,000	150	28,300
Start date of exercise period	November 26, 2011[f]	November 25, 2012[g]	November 25, 2012 or 2014[h]	December 20, 2012[i]	November 24, 2013[j]
Expiration date	Nov. 26, 2016 or 2017	November 25, 2017	Nov. 25, 2016 or 2018	Dec. 20, 2016 or 2018	November 24, 2018
Exercise price (in €)	38.960	48.010	NS[b]	NS[b]	52.270
Number of grantees	2,412	1,362	3,116	4,957	232
Exercise conditions	Non-residents and resident: not exercisable until the performance conditions are met. When conditions are met, up to 50% in the third year and the balance in subsequent years. Cancellation possible.	Non-residents and resident: not exercisable until the performance conditions are met. When conditions are met, up to 50% in the third year and the balance in subsequent years. Cancellation possible.	Non-residents: grant subject to performance. Cancellation possible. 50% of shares may be sold upon grant, 50% are locked-up until November 25, 2016 or 2018 depending on the vesting date. Residents: grant subject to performance. Cancellation possible. Shares may be sold from November 25, 2016 or 2018 depending on the vesting date.	Non-residents: grant subject to performance. Cancellation possible. 50% of shares may be sold upon grant, 50% are locked-up until December 20, 2016 or 2018 depending on the vesting date. Residents: grant subject to performance. Cancellation possible. Shares may be sold from December 20, 2016 or 2018 depending on the vesting date.	Non-residents and resident: not exercisable until the performance conditions are met. When conditions are met, up to 50% in the third year and the balance in subsequent years. Cancellation possible.
Number of shares subscribed as of December 31, 2012	614,136	49,585	513,448	65,985	0
Cancelled stock subscription options or performance share rights	148,930	43,570	43,625	5,520	3,560
Outstanding stock subscription options or performance share rights	816,054	541,605	336,385	2,850	82,060

(a) Capped performance plan. Capped performance plans are, in addition, subject to the share price reaching a certain level (in the same way as the performance shares described in Section 5.2.1.5.2) and can be cancelled if the target is not met.

(b) If performance shares are granted, they will be allocated out of the Company's treasury stock and valued at the opening price on the day of the grant.

(f) The options will be exercisable if the average opening price of the shares exceeds €38.96 over a three-month period between November 26, 2011 and November 26, 2015 (see Section 5.2.1.5.2).

(g) The options will be granted provided that the estimated annualized average price is 2% higher than €48.01 (see Section 5.2.1.5.2).

(h) The shares will be granted to residents provided that the estimated annualized average price is 2% higher than €48.01. Shares may be granted to non-residents on November 25, 2014 at the earliest (see Section 5.2.1.5.2).

(i) The shares will be granted to residents provided that the estimated annualized average price is 2% higher than €48.01. Shares may be granted to non-residents on December 20, 2014 at the earliest (see Section 5.2.1.5.2).

(j) The options will be granted provided that the estimated annualized average price is 2% higher than €52.27 (see Section 5.2.1.5.2).

Plan	Nov. 24, 2011	Dec. 21, 2011	Nov. 27, 2012	Nov. 27, 2012	Dec. 14, 2012
Date of Shareholders' Meeting	May 11, 2010	May 11, 2010	May 11, 2012	May 11, 2012	May 11, 2012
Date of Board Meeting	November 24, 2011	November 24, 2011	November 27, 2012	November 27, 2012	November 27, 2012
Type of plan	Performance share rights	Performance share rights (Group plan, France)	Capped performance stock options[(a)]	Performance share rights	Performance share rights (Group plan, France)
Total number of shares available for subscription or purchase	Maximum 1,193,189	Maximum 74,445	Maximum 81,760	Maximum 1,176,340	Maximum 98,640
Granted to corporate officers	50,000	0	0	45,000	20
■ Xavier Fontanet	0	0	0	0	0
■ Hubert Sagnières	50,000	0	0	45,000	20
Granted to top 10 employee grantees	180,000	150	32,900	193,750	120
Start date of exercise period	Nov. 24, 2013 or 2015[(k)]	December 21, 2013[(l)]	November 27, 2014[(m)]	November 27, 2014[(n)]	December 14, 2014[(o)]
Expiration date	Nov. 25, 2017 or 2019	Dec. 21, 2017 or 2019	November 27, 2019	Nov. 27, 2018 or 2020	Dec. 14, 2018 or 2020
Exercise price (in €)	NS[(b)]	NS[(b)]	71.350	NS[(b)]	NS[(b)]
Number of grantees	5,037	4,963	216	5,035	4,932
Exercise conditions	Non-residents: grant subject to performance. Cancellation possible. 50% of shares may be sold upon grant, 50% are locked-up until November 24, 2017 or 2019 depending on the vesting date. Residents: grant subject to performance. Cancellation possible. Shares may be sold from November 24, 2017 or 2019 depending on the vesting date.	Non-residents: grant subject to performance. Cancellation possible. 50% of shares may be sold upon grant, 50% are locked-up until December 21, 2017 or 2019 depending on the vesting date. Residents: grant subject to performance. Cancellation possible. Shares may be sold from December 21, 2017 or 2019 depending on the vesting date.	Non-residents and resident: not exercisable until the performance conditions are met. When conditions are met, up to 50% in the third year and the balance in subsequent years. Cancellation possible.	Non-residents: grant subject to performance. Cancellation possible. 50% of shares may be sold upon grant, 50% are locked-up until November 27, 2018 or 2020 depending on the vesting date. Residents: grant subject to performance. Cancellation possible. Shares may be sold from November 27, 2018 or 2020 depending on the vesting date.	Non-residents: grant subject to performance. Cancellation possible. 50% of shares may be sold upon grant, 50% are locked-up until December 14, 2018 or 2020 depending on the vesting date. Residents: grant subject to performance. Cancellation possible. Shares may be sold from December 14, 2018 or 2020 depending on the vesting date.
Shares subscribed as of December 31, 2012	420	720	0	0	0
Cancelled stock subscription options or performance share rights	29,300	3,135	0	0	0
Outstanding stock subscription options or performance share rights	1,163,469	70,590	81,760	1,176,340	98,640

(a) Capped performance plan. Capped performance plans are, in addition, subject to the share price reaching a certain level (in the same way as the performance shares described in Section 5.2.1.5.2) and can be cancelled if the target is not met.

(b) If performance shares are granted, they will be allocated out of the Company's treasury stock.

(k) The shares will be granted to residents provided that the estimated annualized average price is 2% higher than €52.27. Shares may be granted to non-residents on November 24, 2015 at the earliest (see Section 5.2.1.5.2).

(l) The shares will be granted to residents provided that the estimated annualized average price is 2% higher than €52.27. Shares may be granted to non-residents on December 21, 2015 at the earliest (see Section 5.2.1.5.2).

(m) The options will be granted provided that the estimated annualized average price is 2% higher than €71.35 (see Section 5.2.1.5.2).

(n) The shares will be granted to residents provided that the estimated annualized average price is 2% higher than €71.35. Shares may be granted to non-residents on November 27, 2016 at the earliest (see Section 5.2.1.5.2).

(o) The shares will be granted to residents provided that the estimated annualized average price is 2% higher than €71.35. Shares may be granted to non-residents on December 14, 2016 at the earliest (see Section 5.2.1.5.2).

5.2.3 Discretionary and non-discretionary profit sharing and employee share ownership

5.2.3.1 Employee profit-sharing plans and profit-sharing agreements

There are three types of special incentives available to employees of the French parent Company.

Discretionary profit-sharing plan

The three-year profit-sharing agreement signed on April 26, 2010 and governed by Articles L 3 311-1 et seq. of the Labor Code is still in force. This agreement expires at the end of fiscal year 2012.

Designed to improve employee information and awareness of the Company's financial results, the agreement represents a means of mobilizing and involving the entire organization and its employees in a concerted drive to meet the Company's performance targets.

Discretionary profit-sharing bonuses are calculated according to three criteria:

- criterion 1: the Group's consolidated revenue growth;
- criterion 2: growth in contribution margin with respect to Group's business;
- criterion 3: ratio between the parent company's actual operating profit and its budgeted operating profit.

All three criteria have the same weighting.

The calculation formula used is geared towards providing employees with an incentive to help improve the Company's results and meet budget objectives.

Under French law, these profit shares are not treated as salary. As a result, they are exempt from payroll taxes but are subject to personal income tax and the CSG-CRDS taxes.

The discretionary profit-sharing system allows the Company to offer additional variable compensation to Essilor employees.

Individual profit shares are calculated as follows:

- 40% prorated to the period of employment with the Company during the fiscal year;
- 60% prorated to the reference salary.

The amount of the discretionary profit-sharing bonus is capped:

- the total amount of profit shares distributed is capped at 20% of the aggregate gross salaries and, if applicable, the annual salary or business income of grantees referred to in Article L.3312-3 of the Labor Code, paid to eligible employees during the fiscal year of calculation;
- independently of the overall ceiling, there is an individual ceiling according to which the discretionary profit-sharing bonus is capped for each employee at half the annual Social Security ceiling.

Discretionary profit shares paid over the last five fiscal years were as follows:

- 2012: €4,474,000 for 2011;
- 2011: €4,154,000 for 2010;
- 2010: €4,304,000 for 2009;
- 2009: €3,681,000 for 2008;
- 2008: €3,667,000 for 2007.

Statutory profit-sharing plan

The profit-sharing reserve for eligible employees is calculated according to a legally-prescribed formula based on profit for the fiscal year, equity at the year-end, gross salaries and the value-added generated by the Company. Under the terms of an agreement signed with employee representatives, the amount determined according to the legally-prescribed formula is increased by 50%.

In view of the level of the parent company's equity, no amounts have been credited to the profit-sharing reserve for eligible employees.

Profit sharing bonus

Article 1 of the Finance Law 2011-894 of July 28, 2011 amending the social security provisions for 2011 provides for a profit sharing bonus arrangement for companies that normally have a workforce of 50 or more in the sense of Article L 3222-2 and L 3222-4 of the Labor Code, when the Company pursuant to article L 232-12 of the Commercial Code grants to its partners or shareholders a dividend per partner interest or per share that is higher than the average dividend per partner interest or per share paid in previous years.

Management has therefore decided to grant a per-person bonus of €600 gross as profit share to all full time employees in service in fiscal year 2011.

This amount is prorated to the length of time the person was employed during that fiscal year, and is exempt from social security contributions but is subject to the CSG and the CRDS as well as to income tax.

In accordance with the provisions of the aforementioned law, all beneficiaries were employees of Essilor International, with a French employment contract and in service in fiscal year 2011.

5.2.3.2 Employee share ownership

Represented and managed independently and autonomously throughout the world by Valoptec Association, a French non-profit association, Essilor's strong network of active employee shareholders provides the Company with major leverage to achieve sustainable performance, strategic alignment and operating excellence.

The Group actively encourages employee share ownership, proposing various options to employees according to the country in which they work.

As a result, 14,138 Group employees currently hold Essilor shares. They represent 8.14% of capital and14.09% of voting rights.

Employees of the Essilor Group may become shareholders in various ways.

Employee stock ownership plans

Employees of the Essilor group may become shareholders by purchasing, through various stock purchase plans, shares held directly, units in FCPE mutual funds or shares held outside of France.

These shares or units are generally purchased with the financial help of the Group subsidiary concerned. They are subject to a lock-up period of two to seven years, depending on the country.

- The FCPE mutual funds include the Valoptec International FCPE, the Essilor group 5-year FCPE, the Essilor group 7-year FCPE and the Essilor International FCPE.
- Shareholdings outside of France include the Essilor Shareholding Plan in the United States, the Australian Shareholding Plan, the Share Incentive Plan in the United Kingdom, the Irish Shareholding Plan and Korean ESPP.
- Direct shareholding is possible with the Spanish Ahorro Plan, the Brazilian Share Purchase Plan, the Essilor and Satisloh Germany direct shareholding plan, the Chinese and Satisloh China direct shareholding plan, the Taiwanese shareholding plan, the South African share purchase plan, the Austrian shareholding plan and the Italian shareholding plan.

Stock subscription (or purchase) options

Employees can also acquire shares by exercising stock subscription (or purchase) options. For French employees, the exercise price may be paid by funds released from the Corporate Savings Plan; in which case the shares are registered in the employee's name and then locked-up for five years in the Plan.

Performance shares

The various performance share plans will also enable employees to receive and hold Essilor shares, provided that the vesting conditions – based on the Essilor share performance – specified in the plans' rules are met.

For more information about performance shares, refer to Section 5.2.1.5.2, "Performance shares."

5.2.4 Financial authorizations to be put to the vote at the Extraordinary Shareholders' Meeting of May 16, 2013

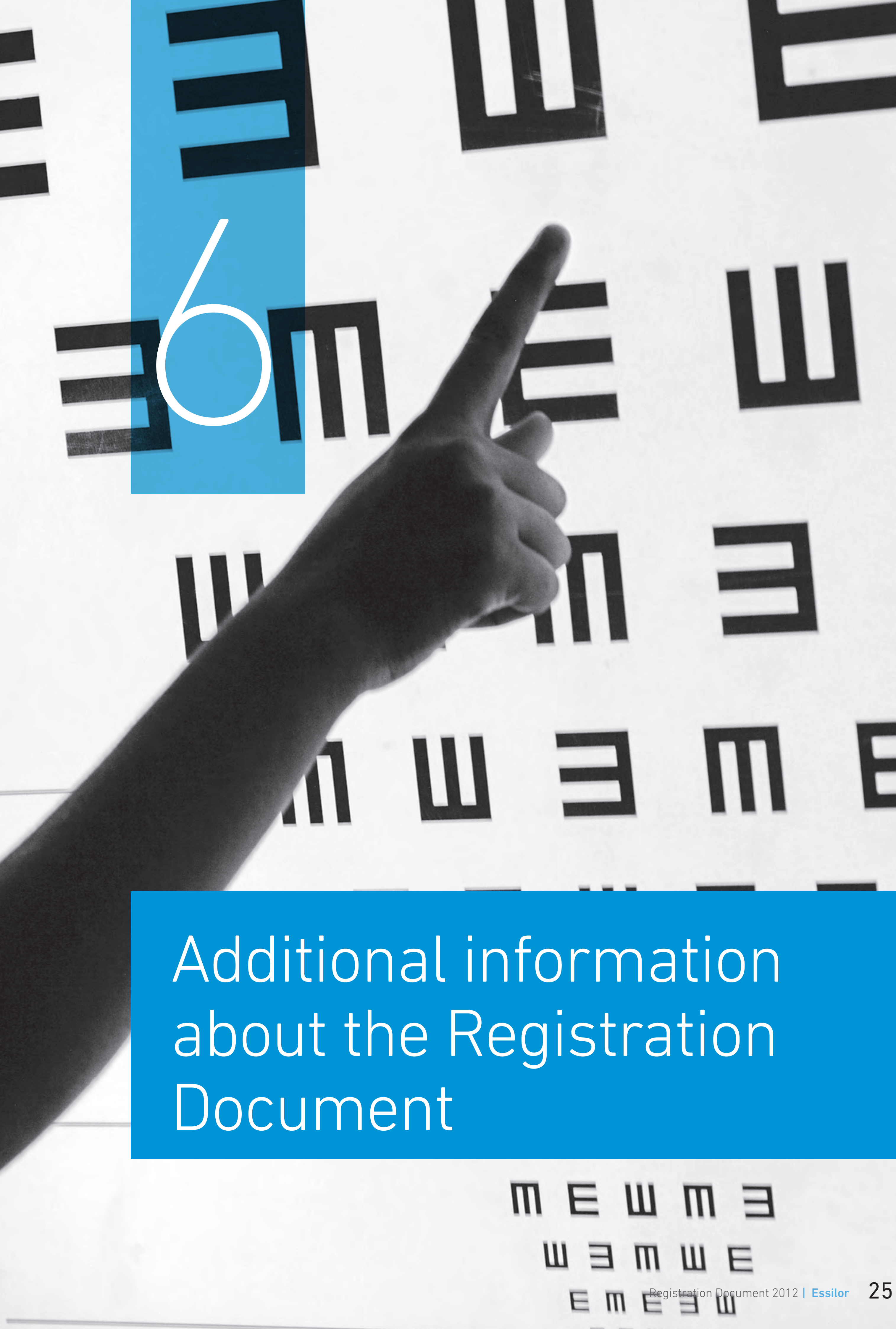
For information about the proposed renewal of the share buyback program, to be put to the vote as ordinary resolutions at the Shareholders' Meeting on May 16, 2013, see Section 5.2.1.4.1, "Share buyback programs."

Details of the use made of the current authorizations to issue shares, with or without pre-emptive subscription rights, are provided in Section 5.2.1.6.

Firstly, the Board of Directors is seeking authorization to issue new shares for cash and to grant newly issued shares or share equivalents to employees, in accordance with the law including Articles L.225-129, L.225-129-6 and L.225-138 of the French Commercial Code and Article L.3332-18 of the French Labor Code. These issues and grants would be made to members of an Employee Stock Ownership Plan set up by Essilor International or a related company, within the meaning of Article L.225-180 of the Commercial Code. Shares issued under this authorization would not exceed the equivalent of 1.5% of the capital at the time of each issue. The duration would be 21 months.

Secondly, to enhance its current financing mechanism, the Board of Directors is seeking authorization to issue shares and share equivalents giving immediate or future rights to up to 10% of the Company's capital without pre-emptive subscription rights for the purpose of reserving this portion for qualified investors or a restricted circle of investors. Primary debt instruments could be issued up to the amount of one billion two-hundred thousand euros (for a duration of 13 months).

Lastly, this new authorization would fall within the overall limit of 15% of capital already issued, which is the limit set for authorizations granted to the Board of Directors for capital increases with elimination of pre-emptive subscription rights as voted at the Shareholders' Meeting of May 11, 2012.



6

Additional information about the Registration Document

6.1 Persons responsible

6.1.1 Person responsible for the Registration Document

Hubert Sagnières, Chairman and Chief Executive Officer, is the person responsible for the information given in the Registration Document.

6.1.2 Statement by the person responsible for the Registration Document

I declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to my knowledge, in accordance with the facts and contains no omission that might affect its import.

I declare that, to my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and present fairly the assets, financial position and results of the Company (as well as those of the companies forming part of the consolidated group). The information pertaining to the Management Report (Section 3 relative to the analysis of results of operations and financial position, Section 1 relative to risk factors, and Section 5 relative to share capital) presents fairly the changes in business, results and financial position of the Company and of the companies forming part of the consolidated group, and includes a description of the principal risks and uncertainties they face.

The consolidated financial statements for the fiscal year ended December 31, 2010 incorporated herein by reference have been audited by the Statutory Auditors. The statements and the report, which contains two observations, may be found on pages 79 to 135 and 164 to 165, respectively, of the 2010 Registration Document filed with the AMF on March 29, 2011 under No. D.11-0193.

The consolidated financial statements for the fiscal year ended December 31, 2011 incorporated herein by reference have been audited by the Statutory Auditors. The statement and the report may be found on pages 88 to 146 and 175 to 176, repectively, of the 2011 Registration Document filed with the AMF on March 28, 2012 under No. D.12-0227.

I have obtained an audit completion letter from the Statutory Auditors in which they state that they have audited the information relating to the financial position and accounts contained in the Registration Document and read said document in its entirety.

Charenton le Pont, March 28, 2013

Hubert Sagnières

6.2 The Statutory Auditors

6.2.1 Incumbent and alternate statutory auditors

Auditors

Statutory Auditors

- **PricewaterhouseCoopers Audit**

63 rue de Villiers

92200 Neuilly-sur-Seine

First appointed: June 14, 1983

(Befec, Mulquin et Associés, merged with Price Waterhouse and was renamed Befec-Pricewaterhouse in 1995, and subsequently merged with Coopers & Lybrand to become PricewaterhouseCoopers Audit in 2002.)

Reappointed by the Shareholders' Meeting on May 11, 2007 for six years.

PricewaterhouseCoopers Audit is represented by Christine Bouvry (registered member of Compagnie Régionale des Commissaires aux Comptes de Versailles).

The alternate auditor for PricewaterhouseCoopers Audit is Étienne Boris (registered member of Compagnie Régionale des Commissaires aux Comptes de Versailles).

- **Mazars**

61 rue Henri Regnault

92075 Paris-La Défense Cedex

First appointed: May 11, 2007

Appointed by the Shareholders' Meeting on May 11, 2007 for six years.

Mazars is represented by Pierre Sardet (registered member of Compagnie Régionale des Commissaires aux Comptes de Versailles).

The alternate auditor for Mazars is Jean-Louis Simon (registered member of Compagnie Régionale des Commissaires aux Comptes de Versailles).

6.2.2 Information about Auditors who resigned or were not reappointed

No auditors resigned in 2012.

6.3 Information from a third party

When information has been sourced from a third party, it has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

6.4 Public documents

The bylaws and other corporate documents are available for consultation at the Company's headquarters (147, rue de Paris, 94220 Charenton-le-Pont, France).

Paper copies of the last three years' Registration Documents and Annual Reports are available on request from the Investor Relations & Financial Communications Department at the Company's headquarters. Paper copies of the 2012 Registration Document and Annual Report will be available as of the date of the Shareholders' Meeting on May 16, 2013

Essilor regularly provides its shareholders with transparent, accessible information about the Group, its activities and its financial results via a large range of resources.

Information published by the Company in the past year

The documents published in the *Bulletin des Annonces Légales et Obligatoires* (BALO) are available (in French only) at the following link: http:balo.journal-officiel.gouv.fr/

Search under the name of the Company (Essilor International) or under its SIREN (registration) number: 712049618.

All periodic and standing information filed with the Autorité des Marchés Financiers can be downloaded (in French) from **the website:** www.info-financiere.fr.

Information available on the **Group's website** www.essilor.com includes:

- regulatory information as defined by the Autorité des Marchés Financiers (AMF);
- AMF filings that are required to be published on the Company website;
- analyst presentations and webcasts of certain analyst meetings, when available;
- financial news releases and, when available, webcasts of analyst conference calls;
- Annual Reports and Registration Documents (containing historical financial information) for the last five years;
- information on Shareholders' Meetings, including notices of meeting, draft resolutions, instructions on how to attend meetings and results of voting on resolutions;
- information on sustainable development.

6.5 Cross-reference tables

6.5.1 Registration Document

In accordance with Article 28 of European Commission Regulation 809/2004/EC, the following information is incorporated by reference in this Registration Document:

- the consolidated financial statements for the fiscal year ended December 31, 2010 and the Auditors' report on the consolidated financial statements for the fiscal year ended December 31, 2010, presented on pages 79 to 135 and 164 to 165 of the 2010 Registration Document filed with the AMF on March 29, 2011 under No. D.11-0193;
- the consolidated financial statements for the fiscal year ended December 31, 2011 and the Auditors' report on the consolidated financial statements for the fiscal year ended December 31, 2011, presented on pages 88 to 146 and 175 to 176, respectively, of the 2011 Registration Document filed with the AMF on March 28, 2012 under No. D.12-0227.

The two aforementioned Registration Documents can be downloaded from the Investors' page on the Company's website at www.essilor.com.

The following regulated information described in Article 221-1 of the AMF's General Regulations is provided in this document:

- the Annual Financial Report;
- Information concerning Auditors' fees;
- a description of the share buyback program;
- the Chairman's report on corporate governance and internal control.

The cross-reference table below identifies the main information provided for in Appendix 1 of European Commission Regulation 809/2004/EC.

1	**Persons Responsible**	page 252	Section 6.1
2	**Statutory Auditors**	page 253	Section 6.2
3	**Selected Financial Information**		
3.1	Selected historical financial information	page 4	§1.1.1
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6.6 Glossary

6.6.1 Name of the Company

The Company's name is Essilor International (Compagnie Générale d'Optique), hereinafter referred to as "Essilor," "the Company" or "the Group."

6.6.2 Market information

Unless otherwise specified:

- information concerning market shares and market positions is based on volumes sold;
- marketing information concerning the ophthalmic market and industry and Essilor's market share and positions is based on internal assessments and studies incorporating external market data where appropriate.

6.6.3 Trademarks

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