



**ESSILOR**

SEEING THE WORLD BETTER

**2016  
REGISTRATION  
DOCUMENT**

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The document is available for viewing and download at [www.essilor.com](http://www.essilor.com)

The information from the Annual Financial Report is clearly identified in the table of contents by the **AFR** symbol

\* Includes the report on the compensation policy of Executive Corporate Officers subject to the approval of shareholders as of May 11, 2017.



ESSILOR

SEEING THE WORLD BETTER

# 2016 REGISTRATION DOCUMENT

& ANNUAL FINANCIAL REPORT

AUTORITÉ  
DES MARCHÉS FINANCIERS  
**AMF**

The French version of this Registration Document was filed with the Autorité des Marchés Financiers (AMF) on March 30, 2017, under number D.17-0264 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.

# 2016 KEY FIGURES



**7,115**

Revenue in €m



**813**

Net profit attributable to Group equity holders in €m



**63,676**

employees across five continents

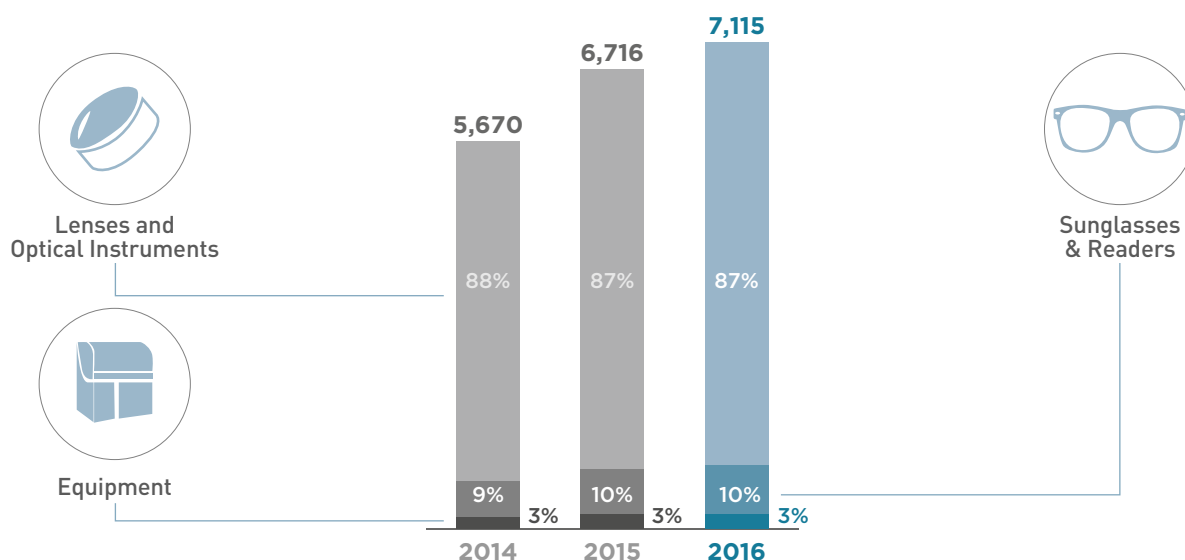


**33**

plants worldwide

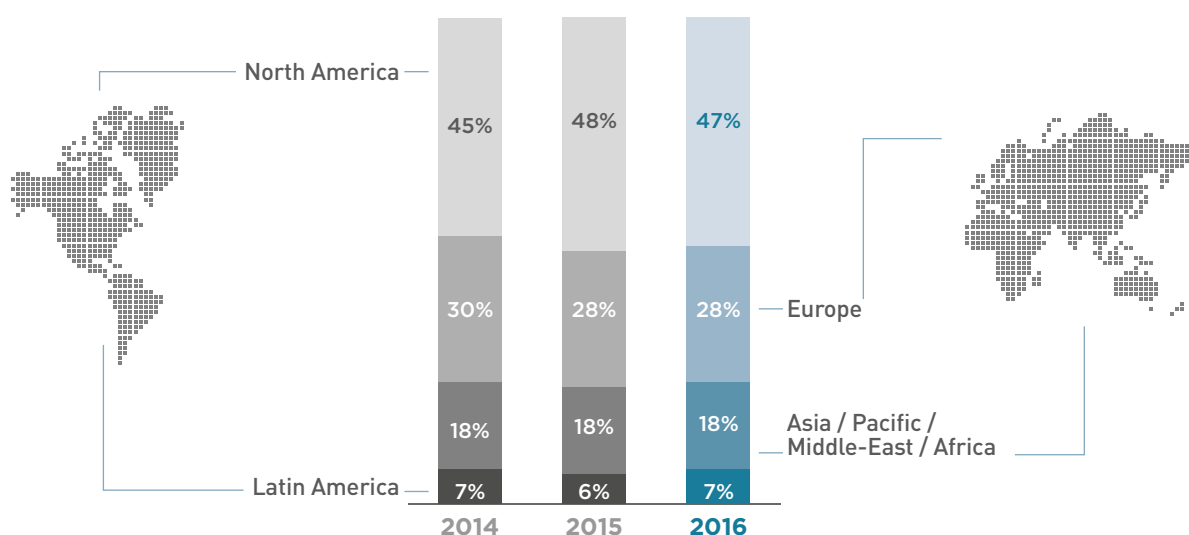
## Revenue by operating segment

€ millions and as a % of total Group revenue



## Revenue by region, across all business divisions

As a % of total Group revenue

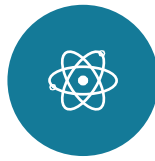




18

new partnerships or acquisitions around the world

(representing a combined full-year revenue of €304m)



490

prescription laboratories, edging facilities and local distribution centers

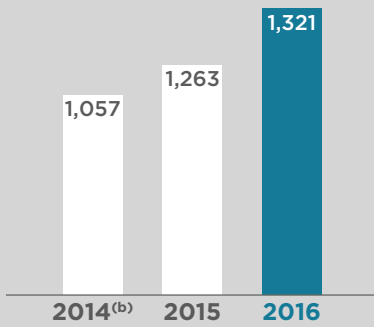


8,065

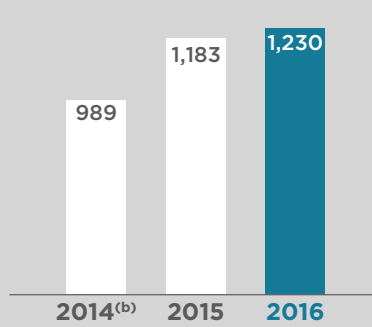
patents and trademarks

7,240

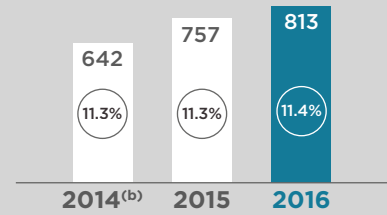
**Contribution from operations** <sup>(a)</sup>  
€ millions



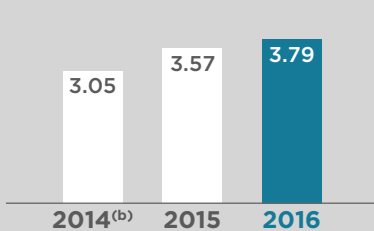
**Operating profit**  
€ millions



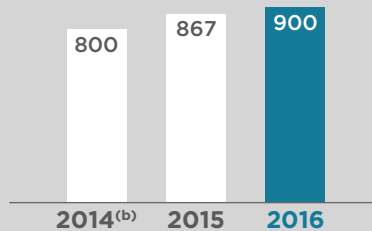
**Net profit attributable to Group equity holders** **+7.4%**  
€ millions and as a % of revenue



**Net earnings per share**  
€ **+6.2%**



**Free cash flow** <sup>(c)</sup>  
€ millions



**STOCK PRICE EVOLUTION OVER THE PAST 10 YEARS**

**+10.2%\***  
for Essilor

**-1.3%\***  
for CAC 40

\* CAGR: Compound Annual Growth Rate.

(a) Contribution from operations corresponds to revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).  
 (b) Adjusted for non-recurring items related mainly to the acquisition of Transitions Optical, Coastal and Costa in 2014.  
 (c) Net cash from operating activities less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.

1

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# ESSILOR AT A GLANCE







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## IN BRIEF

### ESSILOR: THE WORLD'S LEADING OPHTHALMIC OPTICS COMPANY

Essilor designs, manufactures and markets a wide range of lenses to **improve and protect eyesight**. It also develops and markets equipment for prescription laboratories and instruments and services for eye care professionals. Essilor is the North American leader in non-prescription reading glasses and also sells non-prescription sunglasses.

« *Improve lives by improving sight.* »

The Group owes its success to a strategy in which innovation has been the driving force **for almost 170 years**. As such, Essilor allocates more than €200 million to research and **innovation** every year, in a commitment to continuously bringing new, ever more effective products to market.

Essilor's mission is to improve lives by improving sight. Of the 7.4 billion\* people living on the planet, **4.6 billion\*** need visual correction, yet only 2.0 billion\* actually receive it. More than 2.5 billion\* people worldwide receive no correction at all. As a result, the Group strives to provide products tailored to the needs of every person.

Essilor reported consolidated net revenue of **more than €7.1 billion** in 2016. The Group markets its products in more than **100 countries** and employs around **64,000** people.

The Group has **33 plants, 490 prescription laboratories**, edging facilities and local distribution centers and five research and development centers around the world.

The Essilor share trades on the Euronext Paris market and is included in the **Euro Stoxx 50** and **CAC 40** indices.

#### THE GROUP'S FLAGSHIP TRADEMARKS

**VARILUX**<sup>®</sup>

**Crizal**<sup>®</sup>

**Transitions**<sup>®</sup>

**Eyezen**<sup>®</sup>  
DESIGNED FOR A CONNECTED LIFE

**Xperio**<sup>®</sup>  
The polarized experience

**FOSTER GRANT.**

**BOLON** 暴龙

  
**COSTA**

\* 2016 estimates; Source: Essilor, World Bank.



## 1.1 Company history

### 1.1.1 At Essilor's roots lie two innovative companies

Essilor was formed in 1972 from the merger of two technological and marketing pioneers, ESSEL and SILOR, which at the time dominated the French ophthalmic optics industry.

The first can trace its origins to the *Association Fraternelle des Ouvriers Lunetiers*, an eyewear makers' cooperative founded in 1849 in the Marais district of Paris that soon changed its name to *Société des Lunetiers* (SL) and then to ESSEL. In 1953, it filed a patent for the world's first-ever progressive lens, launched under the Varilux® name in 1959. ESSEL's original operating structure, which was inspired by workers' cooperatives and involved employees in corporate governance, is the source of the strong employee shareholding culture that is still present in Essilor today.

The second company dates back to the 1930s and was founded by Georges Lissac. The industrial division of the Lissac group, SILOR, was formed in 1969 from the merger of frame-maker SIL (Société Industrielle de Lunetterie) and lens-maker LOR (*Lentilles Ophthalmiques Rationnelle*), which had launched the first plastic lens, Orma®, in 1954.

With the merger that formed Essilor in 1972, the priority became the building of an outstanding group specializing in ophthalmic optics. Secondary activities such as compasses, drawing equipment, topography, its historical heritage, have gradually been sold off.

### 1.1.2 The 1970s to 1990s: international expansion

In the early 1970s, Essilor was mainly an exporting group, with its international business accounting for 45% of its revenue. It had inherited ESSEL's presence in Japan and SILOR's commercial development in the United States. A distribution network was gradually built up, first in Europe and the United States and then in Asia. After its successful IPO in 1975, it continued its drive for innovation with the launch of the first-ever progressive plastic lens: Varilux® Orma®, a powerful symbol of the synergy between the two founding companies. In 1979, the construction of a large plastic lens manufacturing plant in the Philippines was a turning point in Essilor's transformation into a true international group.

The 1980s were marked by stiffening competition, particularly in the segment for progressive lenses, and the development of opticians organizing themselves into groups. To grow its competitiveness, Essilor set up other mass production sites in Brazil and Thailand. The Group also set up and expanded its local distribution networks by buying up distributors in Europe and strengthening its presence in Asia. In 1986, the American subsidiaries were consolidated under Essilor of America. By the end of the 1980s, Essilor had become the world's leading manufacturer of ophthalmic optics.

### 1.1.3 Essilor, the world's leading manufacturer of ophthalmic optics

In the early 1990s, the ophthalmic optics industry was reshaped by a wave of mergers and acquisitions and an increase in competition. Essilor consolidated its world-leading position through a global strategy based on three key vectors, the first of which was industrial specialization in corrective lenses as well as in instruments for opticians. The second was innovation in lens coatings and their combinations. Launched in 1992, the Crizal® lens with anti-reflective, anti-smudge and anti-scratch properties, and the Transitions® photochromic lenses launched one year later on the back of a new joint venture with PPG, became a major growth segment with high added value. At the same time, Essilor strengthened its positioning in very light and unbreakable

lenses with the takeover of Gentex in 1995, which brought it the polycarbonate lens. The Group also invested in optics design, launching a new progressive lens, Varilux Comfort®, in 1993. Last but not least, Essilor, which until the mid-1990s had earned most of its revenue in Europe, began to create a global network. The Group put down roots in China and India and also acquired more independent prescription laboratories, mainly in the United States and Europe, to ensure that its network reached local customers. Production was also set up in China with the opening of a plant near Shanghai in 1998. This expansion strategy included the consolidation of distribution channels, particularly in Eastern Europe in the latter part of the decade.

### 1.1.4 The 2000s: genuine globalization of high technology and strategic alliances

Technological innovation accelerated at the turn of the 21<sup>st</sup> century with a growing number of innovations beneficial to opticians and consumers. New products targeted both optical quality and wearer comfort thanks to new and increasingly effective designs such as the Varilux® S™ series lenses launched in 2012. In addition to correction, Essilor is also active in UV protection, even in clear lenses. The E-SPF® index was created in 2012 to guarantee a level of protection for consumers on both sides of the lens. Prevention, with lenses selectively protecting against harmful blue light, such as the Crizal® Previncia® lenses, represents a new line of development for the Group. Essilor also set out to provide solutions that would cover the entire range of needs in all circumstances, developing new, more affordable products to offer visual correction to as many consumers as possible as well as products intended for new consumer behaviors and habits, such as the new Eyezen™ lens line for all users of digital devices such as computers, tablets, smartphones, etc. In this respect, the Group is also pushing the limits of science thanks to new technologies that today allow visually impaired people to test eyeglass prototypes under augmented reality conditions.

The Group continues to grow through acquisitions and strategic partnerships that allow Essilor to assert its leading position in fast-growing countries such as India, China and Brazil. This strategy also allows the integration of new technologies and new distribution networks on a group-wide basis.

The decade was marked by major strategic partnerships, in particular the Japanese group Nikon through the joint venture Nikon Essilor Co., Ltd (1999); the South Korean group Samyung Trading Ltd through the joint venture Essilor Korea Ltd with subsidiaries in South Korea and China (2002); GKB Rx in India (2006); Wanxin Optical in China (2010); Signet Armorlite, which has the worldwide production and distribution license for the Kodak® trademark in the United States (2010); and Shamir Optical in Israel (2011). Over the period, Essilor developed its positions in many new countries, particularly in Latin America, Asia and Africa, aided by around twenty new acquisitions and partnerships each year.

At the same time, Essilor broadened its scope of activities in the optics world with the creations of two new divisions. The Equipment Division was created in 2008 following the acquisition of Satisloh, the world leader in prescription laboratory equipment. In 2010, Essilor took over FGX International, the North American leader in non-prescription reading glasses (readers). This acquisition led to the creation of the Sunglasses & 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 trademarks of non-prescription sunglasses and reading glasses.

In 2013, the Group stepped up the development of its sunglasses offer with the acquisition of new companies specializing in mid-range products and high-tech sunglasses, such as Polycore, Xiamen Yarui Optical (owner of the Bolon™ and Molsion™ trademarks), Suntech Optics (which owns and distributes Ryders Eyewear®) and Costa®. The year 2013 was also marked by the creation of a Corporate Social Responsibility (CSR) Committee within Essilor's Board of Directors and the position of Chief Corporate Mission Officer in charge of coordinating and strengthening all of the Group's CSR initiatives. Its aim is to help Essilor reach the goal of providing eyewear to 500 million new people worldwide by 2030, and to do so through new solutions, mainly in terms of products and distribution.

In 2014, Essilor deepened its presence in the photochromic lenses segment by completing the acquisition of the PPG group's 51% stake in Transitions Optical – its largest acquisition to date – and in the online business, with the acquisition of Coastal, a major online retailer of optical products. Also in 2014, the Group significantly increased its investments in consumer marketing.

In 2015, the Group strengthened its ties with independent eye care professionals in the United States with the acquisition of Vision Source, a network providing services to independent optometrists, and PERC / IVA, a group purchasing organization. In 2016, the Group accelerated the development of its online sales, especially through two major acquisitions in Europe: Vision Direct and MyOptique Group.

## 1.2 The ophthalmic optics industry

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

The ophthalmic lens industry is structured into four distinct businesses. These businesses correspond to the processing stages of the product ordered by the consumer: raw materials suppliers, lens manufacturers, prescription laboratories and edging centers, and retailers.

<b>Raw materials suppliers</b>	Chemical companies and glass manufacturers		
<b>Lens manufacturers</b>	Integrated manufacturers with laboratories <b>Essilor</b>	Non-integrated manufacturers – <b>Essilor</b>	
<b>Lens finishers</b>		Independent laboratories	Optical chains with integrated laboratories
<b>Retailers</b>	Independent eye care professionals – Non-integrated chains – Online distribution		Online distribution with integrated laboratories – <b>Essilor</b>
<b>End customers</b>	Consumers		

According to data available to the Group, the world industry for ophthalmic optics represents approximately 1.29 billion lenses

per year, or approximately 645 million consumers per year.

### 1.2.1 Chemical companies and glass manufacturers

Raw materials are developed and produced by glass manufacturers for mineral 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.

### 1.2.2 Lens manufacturers

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

Essilor manufactures both single-vision finished lenses and semi-finished lenses.

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

### 1.2.3 Prescription laboratories and edging facilities

Prescription laboratories transform semi-finished lenses (only the front surface is finished) 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 tinting, anti-UV, anti-scratch, anti-reflective, anti-smudge, anti-static, anti-fog and other coatings.

Essilor operates in this segment and owns 490 prescription laboratories, edging facilities and local distribution centers around the world.

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

### 1.2.4 Retailers and optical chains

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

The primary role of eye care professionals is to advise consumers on the choice of lens, based on the prescription given by the ophthalmologist / optometrist, as well as the choice of frame. Then, they send the prescription data to the lens manufacturers or prescription laboratories.

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

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

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

Essilor is a supplier for optical retailers and chains worldwide and develops online solutions for optical products (contact lenses, prescription eyeglasses and sunglasses).

## 1.3 Core businesses

Essilor operates in the corrective lens, readers and sunglasses segments. The Company estimates its position to be approximately 25%<sup>(1)</sup> in volume terms across these three segments combined.

### 1.3.1 Lenses and Optical Instruments

#### 1.3.1.1 Overview

The Lenses and Optical Instruments Division accounted for 87% of consolidated revenue in 2016.

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

Our extensive lens range corrects myopia, hyperopia, astigmatism and presbyopia to enable people to regain perfect vision, preserve and protect their eyesight and improve their lens wearing experience.

We serve every segment of the ophthalmic lens industry with globally recognized trademarks, the most renowned being:

- ▶ Varilux® and its progressive lens range, including the Varilux® S™ Series lens launched in 2012 and Varilux® E Series™ lens introduced in 2014;
- ▶ Crizal® and its range of anti-reflective, anti-smudge and anti-static lenses, including Crizal® Previncia® lens, available since 2013;
- ▶ Transitions® and its photochromic lens range, including the new generation Transitions® Signature™ (2013) and Transitions® Xtractive® lenses (2015);
- ▶ Eyezen™, a new line of lenses launched in 2015 for users of computers, tablets, smartphones and other connected devices;
- ▶ Xperio® polarized sun lenses.

- ▶ The Nikon® and Kodak® corrective lens trademarks used under licensing agreements with Nikon Corporation and Eastman Kodak.

In addition, within this division, Essilor designs, develops, markets and maintains a range of **optical instruments** in two specialty segments: i) lens edging and mounting instruments for opticians and prescription laboratories, and ii) vision screening instruments for eyecare professionals, schools, occupational medicine centers, the military and other institutions.

Over the last few years, the Company has also developed solutions for online sales of optical products including contact lenses, prescription eyewear and sunglasses to better serve the fast-growing online retail channel. This has been supported by a number of local websites currently covering countries such as:



- ▶ Australia ([clearly.com.au](http://clearly.com.au));
- ▶ Brazil ([e-lens.com.br](http://e-lens.com.br) and [eotica.com.br](http://eotica.com.br));
- ▶ Canada ([clearly.ca](http://clearly.ca));
- ▶ China ([coastalvision.cn](http://coastalvision.cn));
- ▶ the United States ([coastal.com](http://coastal.com), [FramesDirect.com](http://FramesDirect.com) and [EyeBuyDirect.com](http://EyeBuyDirect.com));
- ▶ key European countries ([LensWay](http://LensWay.com), [Vision Direct](http://VisionDirect.com) and [MyOptique Group](http://MyOptiqueGroup.com) websites acquired in 2016);
- ▶ India ([coolwinks.com](http://coolwinks.com));
- ▶ Japan ([coastallens.com](http://coastallens.com) and [contactsan.com](http://contactsan.com));
- ▶ New Zealand ([clearly.co.nz](http://clearly.co.nz)).

<sup>(1)</sup> 2016 estimates; Source: Essilor.

**1.3.1.2 Positioning**

Of the estimated 4.6 billion <sup>(1)</sup> people in need of vision correction around the world, only 2.0 billion <sup>(1)</sup>, or 27% of the world's population, already wear lenses to correct their vision.

The global ophthalmic optics industry represents a total of around 1.29 billion lenses a year, or some 645 million consumers, and production worth more than €11.5 billion.

This industry is highly fragmented and served mainly by small local competitors. Essilor's main international competitors are Hoya (Japan) and Carl Zeiss Vision (Germany).

Its long-term growth trend of 3% to 4% per annum is driven by a number of factors including demand from fast-growing economies where vision correction needs continue to be unmet, the ageing of the world's population and the development of new offerings intended to meet an increasing number of visual needs. In 2016, the global ophthalmic optics industry expanded by close to 3%, according to Essilor's estimates, with volumes driven primarily by Asia.

The online segment is worth around €4.5 billion <sup>(1)</sup> per annum, and Essilor is aiming to generate revenue of between €400 million and €500 million by 2018. In 2016, the Group generated revenue of €325 million <sup>(2)</sup> in this segment, an increase of 47% <sup>(2)</sup> at constant exchange rates, including like-for-like growth of more than 11% <sup>(2)</sup>.

**1.3.1.3 Organization and facilities**

**Business process**

Essilor's business process is designed as a complete network. The Group is involved in every step, from product manufacture to

This revenue is divided as follows: 48% <sup>(2)</sup> in Europe, 44% <sup>(2)</sup> in North America and 8% <sup>(2)</sup> in the rest of the world.

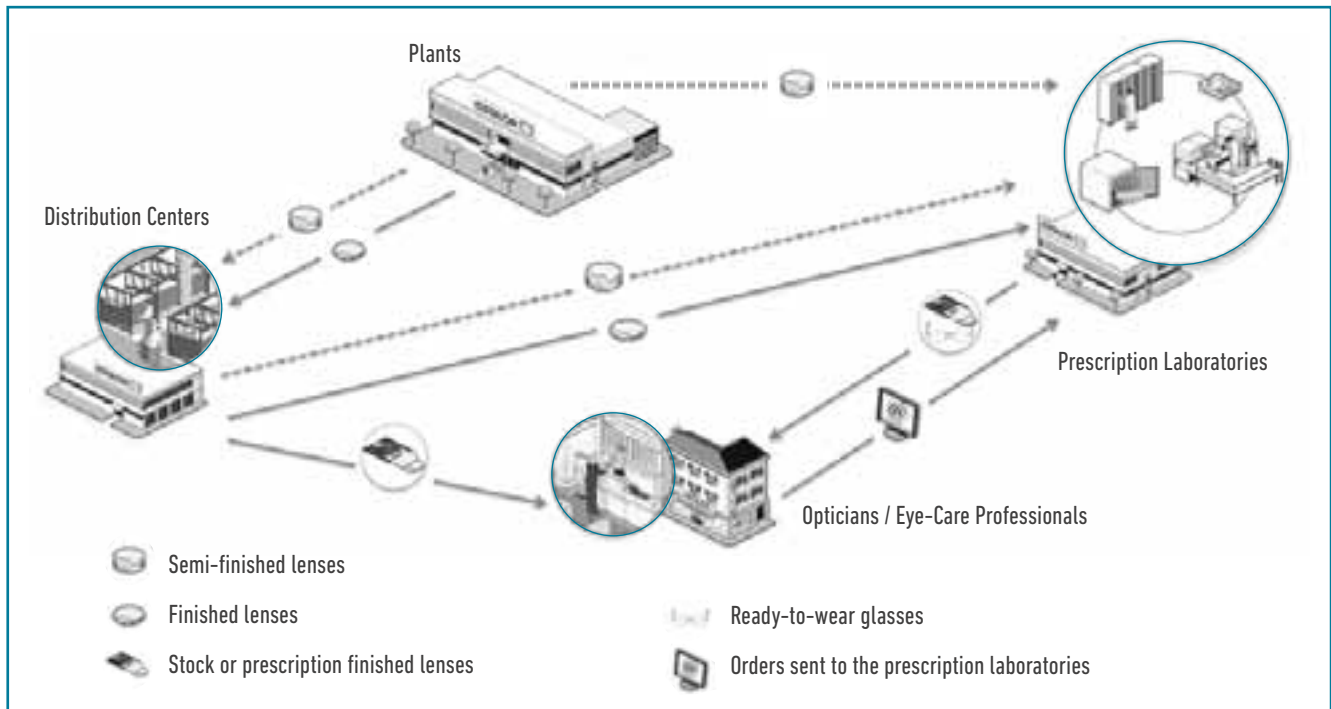
The long-term development of the different industry segments is characterized by:

- ▶ the gradual replacement of mineral lenses with plastic lenses, particularly in the emerging countries;
- ▶ the growth in new organic materials that 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 photochromic lenses;
- ▶ growing demand in the developing countries based on the growth of their middle class.

Essilor's customers are:

- ▶ opticians / optometrists for ophthalmic lenses and edging and mounting instruments directly or indirectly through distributors;
- ▶ prescription laboratories for lenses and edging and mounting instruments;
- ▶ end consumers via the Group's websites that sell optical products.

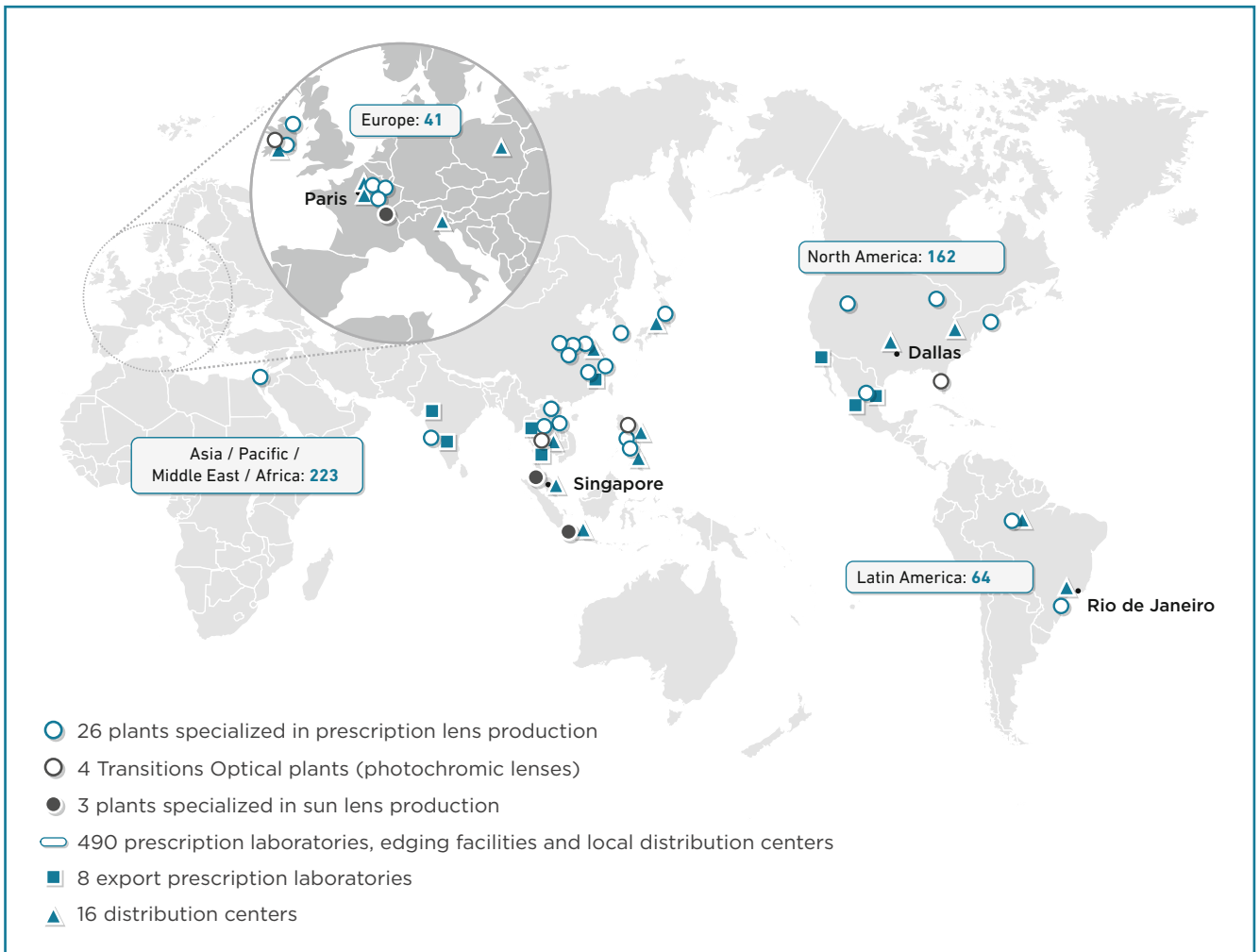
delivery to stores. It has a global network of plants, prescription laboratories, edging facilities and distribution centers serving eye care professionals (optical retailers and chains) worldwide.



(1) 2016 estimates; Source: Essilor.

(2) Unaudited figures compiled from online sales on the Group's BtoC websites and from online sales recorded by the Sunglasses & Readers Division.

A unique global network



Production plants

The role of the plants 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.

The Group had a total of 33 plants at December 31, 2016.



Geographical distribution of the 33 plants owned by the Essilor and its partners at December 31, 2016

(Date of consolidation)

	North America: 5	Latin America: 2	Europe: 7	Asia / Middle East: 19
<b>14 Essilor plants</b>	<b>United States:</b> <ul style="list-style-type: none"> <li>▶ Dudley, Massachusetts (1995)</li> <li>▶ Salt Lake City, Utah (2003)</li> </ul> <b>Mexico:</b> <ul style="list-style-type: none"> <li>▶ Chihuahua (1985)</li> </ul>	<b>Brazil:</b> <ul style="list-style-type: none"> <li>▶ Manaus (1989)</li> </ul>	<b>France:</b> <ul style="list-style-type: none"> <li>▶ Ligny-en-Barrois Les Battants (1959)</li> <li>▶ Dijon (1972)</li> <li>▶ Sézanne (1974)</li> <li>▶ Bellegarde-sur-Valserine (2003)*</li> </ul> <b>Ireland:</b> <ul style="list-style-type: none"> <li>▶ Ennis (1991)</li> </ul>	<b>China:</b> <ul style="list-style-type: none"> <li>▶ Shanghai (1997)</li> </ul> <b>Laos:</b> <ul style="list-style-type: none"> <li>▶ Savannakhet (2013)</li> </ul> <b>Philippines:</b> <ul style="list-style-type: none"> <li>▶ Mariveles (1980)</li> <li>▶ Laguna (1999)</li> </ul> <b>Thailand:</b> <ul style="list-style-type: none"> <li>▶ Bangkok (1990)</li> </ul>
<b>4 Transitions Optical plants</b>	<b>United States:</b> <ul style="list-style-type: none"> <li>▶ Pinellas Park, Florida (2014)</li> </ul>		<b>Ireland:</b> <ul style="list-style-type: none"> <li>▶ Tuam (2014)</li> </ul>	<b>Philippines:</b> <ul style="list-style-type: none"> <li>▶ Laguna (2014)</li> </ul> <b>Thailand:</b> <ul style="list-style-type: none"> <li>▶ Amphoe Phan Thong (2014)</li> </ul>
<b>15 plants operated in partnership or recently acquired by the Company</b>	<b>United States:</b> <ul style="list-style-type: none"> <li>▶ X-Cel Optical, Sauk Rapids, Minnesota (2012)</li> </ul>	<b>Brazil:</b> <ul style="list-style-type: none"> <li>▶ Segment Produtos Oftalmicos, São Paulo (2015)</li> </ul>	<b>United Kingdom:</b> <ul style="list-style-type: none"> <li>▶ Crossbows Optical (2010)</li> </ul>	<b>China:</b> <ul style="list-style-type: none"> <li>▶ Essilor Korea via its subsidiary Chemilens, JiaXing (2006)</li> <li>▶ ILT Danyang, Danyang (2010)</li> <li>▶ Wanxin Optical, Danyang (2010)</li> <li>▶ Youli Optics, Danyang (2011)</li> <li>▶ Seeworld Optical, Danyang (2012)</li> </ul> <b>India:</b> <ul style="list-style-type: none"> <li>▶ GKB Vision, Bardez, Goa (2015)</li> </ul> <b>Indonesia:</b> <ul style="list-style-type: none"> <li>▶ Polycore, Karawang (2013)*</li> </ul> <b>Israel:</b> <ul style="list-style-type: none"> <li>▶ Shamir Optical, Kibbutz Shamir (2011)</li> </ul> <b>Japan:</b> <ul style="list-style-type: none"> <li>▶ Nikon-Essilor, Nasu (2000)</li> </ul> <b>Malaysia:</b> <ul style="list-style-type: none"> <li>▶ Polycore, Johor Baru (2013)*</li> </ul> <b>South Korea:</b> <ul style="list-style-type: none"> <li>▶ Essilor Korea via its subsidiary Chemiglas, Yangsan (2002)</li> </ul> <b>Vietnam:</b> <ul style="list-style-type: none"> <li>▶ Essilor Korea via its subsidiary Chemiglas, Dai An (2013)</li> </ul>

\* Plant specialized in sun lens production.

Prescription laboratories and edging facilities

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

At December 31, 2016, the Company's prescription laboratories, edging facilities and local distribution centers were located as follows:

North America	162
Europe	41
Asia / Pacific / Middle East / Africa	223
Latin America	64

Distribution centers

Distribution centers take delivery of finished and semi-finished lenses and ship them to distribution subsidiaries, prescription laboratories and edging facilities. There are sixteen centers worldwide: seven in Asia, five in Europe, two in North America and two in Latin America.

Products manufactured by Essilor and its subsidiaries are distributed by:

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

1.3.2 Equipment

1.3.2.1 Overview

The Equipment Division accounted for 3% of consolidated revenue in 2016.

It consists primarily of Satisloh, which manufactures and markets equipment and consumables used by prescription laboratories.

1.3.2.2 Positioning

Essilor has valued the global industry for prescription laboratory equipment and consumables at around €600 million.

Satisloh is the world’s leading distributor of surfacing machines and anti-reflective coating units. The company benefits from its globally recognized expertise in the market place. The acquisition of SCL International in 2016 has completed its offer in hard coating machines. The combination of machines and consumables

enables Satisloh to provide a complete solution for prescription laboratories.

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

Its main competitors are OptoTech (Germany) and Schneider (Germany) in surfacing machines, Bühler (Germany) in anti-reflective coating machines, and Optimal (United Kingdom) in hard-coating surfacing machines.

1.3.2.3 Organization and facilities

Satisloh, whose headquarters are in Baar, Switzerland, and its subsidiaries own production units in Brazil (Petropolis), China (Zhongshan), France (Archamps and Mantes-la-Jolie), Germany (Wetzlar), Italy (Milan) and the United States (Charlottesville, Concord, Dallas and Germantown), and has representative offices in many other countries.



**1.3.3 Sunglasses & Readers**

**1.3.3.1 Overview**

The Sunglasses & Readers business accounted for 10% of consolidated revenue in 2016.

The Sunglasses & Readers Division markets non-prescription sunglasses and reading glasses.

It comprises several companies that each own a portfolio of well-known trademarks:

- ▶ FGX International and its subsidiaries, including Fabris Lane, which markets readers and sunglasses under both proprietary and licensed trademarks. Proprietary trademarks include Foster Grant®, Freedom Polarised™, Gargoyles®, Magnivision®, Corinne McCormack®, Monkey Monkey™, Ryders Eyewear™, SolarShield® and Suuna™. Licensed trademarks include Dockers®, French Connection™, Hello Kitty®, Ironman®, Karen Millen®, Levi's®, Nine West®, Reebok® and a variety of Disney® trademarks;
- ▶ Costa and its high-performance sunglasses for water-based activity enthusiasts;
- ▶ Xiamen Yarui Optical, which designs, manufactures and markets mid-tier sunglasses in China under the Bolon™, Molsion™ and Prosun™ trademarks;
- ▶ Merve, which markets sunglasses in Turkey with a portfolio of proprietary trademarks such as Ossé™ and Mustang™;
- ▶ Photosynthesis Group, which markets sunglasses and corrective glasses in China and South East Asia under several trademarks, including MJS.

By 2018, Essilor expects to realize €1.1 billion in revenue from the sun segment. This includes the Sunglasses & Readers Division's sunglasses business and the Lenses and Optical Instruments Division's prescription and non-prescription Sunlens business.

**1.3.3.2 Positioning**

The organized non-prescription sunglasses industry represents 600 to 650 million <sup>(1)</sup> pairs and more than €7 billion <sup>(1)</sup> in sales per year (sell-out value). It is estimated that 1.4 billion people, or only 19% of the world's population, currently wear sunglasses to protect their eyes.

The reading glasses industry represents around 300 million <sup>(1)</sup> pairs and nearly €1.4 billion <sup>(1)</sup> in sales per year (sell-out value).

Among the companies in the Sunglasses & Readers Division, FGX International is the US segment leader in non-prescription reading glasses. In the rest of the world, its competitors are small local producers. Costa is one of the main US players in high-performance sunglasses and Xiamen Yarui Optical is the largest Chinese manufacturer of mid-tier sunglasses.

The Sunglasses & Readers Division sells its products to mass retailers, pharmacies and specialty retailers, including travel retail chains, eyecare professionals and department stores.

**1.3.3.3 Organization and facilities**

The Sunglasses & Readers Division has subsidiaries and representative offices in Canada, China, Great Britain, Italy, Mexico, Turkey and the United States.

The registered office of:

- ▶ FGX International is in Smithfield, Rhode Island, United States;
- ▶ Costa is in Daytona Beach, Florida, United States;
- ▶ Xiamen Yarui Optical is in Xiamen, southeastern China;
- ▶ Merve is in Istanbul, Turkey;
- ▶ Photosynthesis Group is in Hong-Kong.

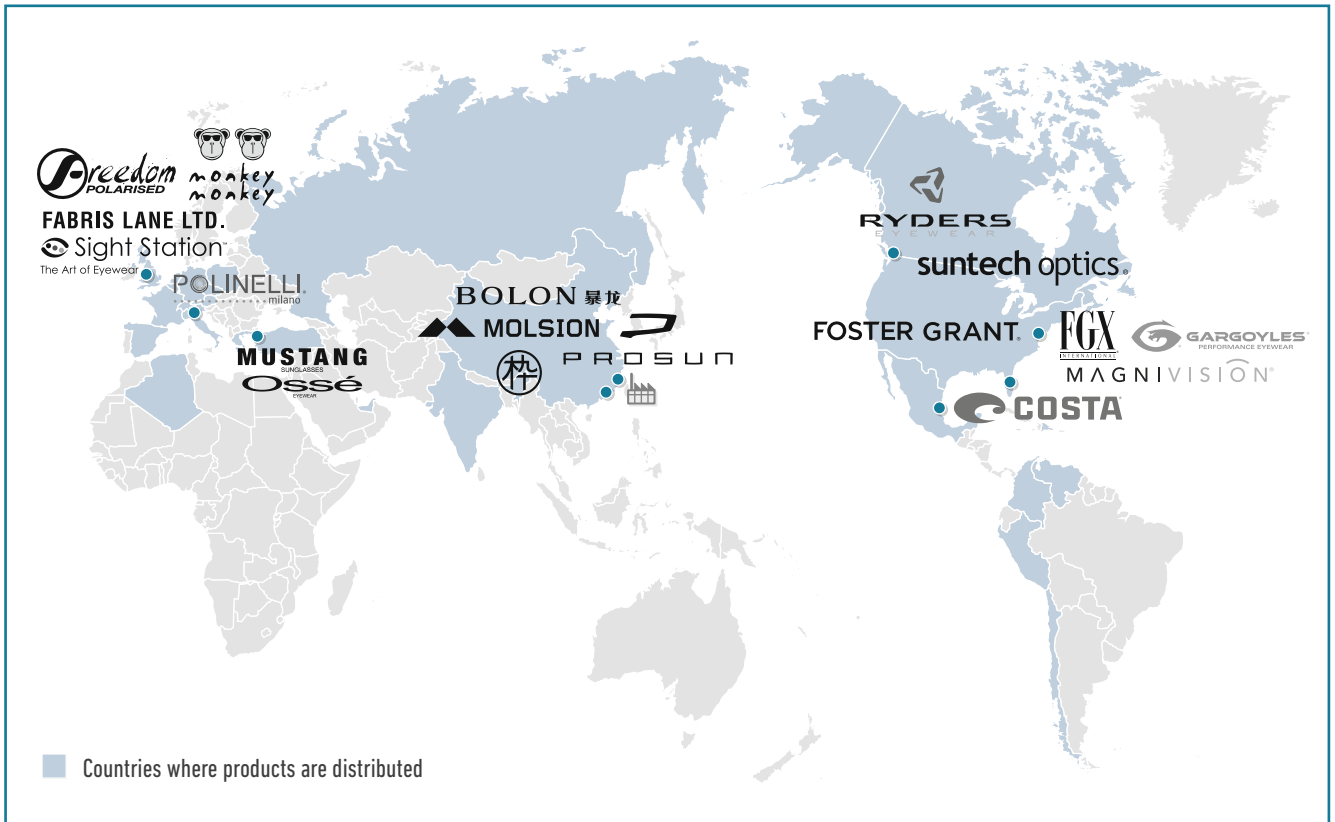
With the 2013 acquisition of 50% of Xiamen Yarui Optical, the owner of the Bolon™, Molsion™ and Prosun™ trademarks, the Sunglasses & Readers Division has a production plant in Xiamen in southeastern China.

(1) 2016 estimates; Source: Essilor.

# 1

## ESSILOR AT A GLANCE

### 1.4 Strategic vision



## 1.4 Strategic vision

In its commitment to improving lives by improving sight, Essilor designs, manufactures and markets a wide range of lenses to correct and protect vision. **The planned strategic combination with Luxottica, announced on January 16, 2017, is entirely in line with this commitment.** The Group's business operations and resources are focused primarily on three main segments:

- ▶ corrective lenses;
- ▶ sunglasses and readers;
- ▶ online retail of optical products.

Across its operating activities, the strategy of the Group rests on four main pillars:

- ▶ innovating in products, services and technology, thereby enabling the introduction every year of products delivering

improved performance and new wearer benefits to resolve unmet vision problems;

- ▶ developing solutions tailored to every segment and every geography in order to meet the diverse needs of eyecare professionals and consumers;
- ▶ actively acquiring new companies and forming partnerships with industry stakeholders, to deepen our local presence or enhance our asset portfolio;
- ▶ stimulating demand by deploying vision awareness programs, screening campaigns and initiatives to make visual correction more widely accessible.

These four pillars are supported by sustainable manufacturing and operational efficiency along with a deep commitment to corporate social responsibility (see Chapter 4).

## 1.5 Essilor in 2016

**Notes:**

**A. Like-for-like growth:** Growth at constant scope and exchange rates. See definition in Note 2.3 to the consolidated financial statements.

**B. Bolt-on acquisitions:** Local acquisitions or partnerships.

The optical industry benefits from structural demand driven by the many unmet visual needs linked to a growing and aging global population, changing lifestyles, increasing urbanization and new technologies. More than 2.5 billion people <sup>(1)</sup> still do not have access to visual correction and 6.0 billion <sup>(1)</sup> still do not have the visual protection that they need.

In 2016, Essilor continued to provide an ever-growing number of solutions for unmet visual needs by pursuing a strategy of expanding its scope of operations in corrective lenses, sunwear and online sales. This strategy, which is based on innovation, consumer marketing and partnerships, led to the launch of many new products and about €209 million of investment in media spend to build greater awareness of the Group's brands among consumers.

In corrective lenses, Essilor continued to expand into new territories. In addition, the growth generated by new products, media campaigns, integrated supply chain services and

acquisitions more than offset market fluctuations in a number of regions (notably the United States, Brazil and the Middle East).

Moreover, the Company continued to strengthen its sunwear and online retail activities by developing innovative product ranges, implementing new information systems and completing additional acquisitions.

The 2016 fiscal year was characterized by several highlights:

- ▶ sales growth of 7.6% (excluding currency effects) which reflected healthy performance in both fast-growing markets and Europe, mixed fortunes in North America and the completion of 18 new partnerships and acquisitions representing cumulative full-year revenues of approximately €304 million;
- ▶ the global roll-out of the new Eyezen™ category of lenses for users of digital devices and the launch in the United States and Europe of Eye Protect System™, the new leading lens in the field of protection against UV rays and harmful blue-violet light;
- ▶ strong growth of online retail activities, bolstered by two significant acquisitions (Vision Direct and MyOptique);
- ▶ subdued full year performance by the Sunglasses & Readers Division, despite improved momentum during the second half;
- ▶ robust performance by the Equipment Division throughout the year, reflecting the appetite of many optical industry players for the latest lens manufacturing technologies.

### 1.5.1 2016 Consolidated Revenue

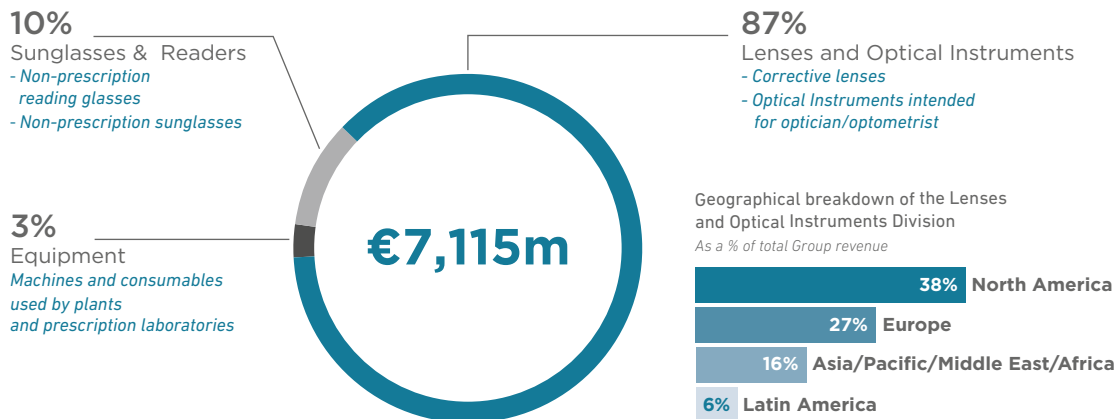
Revenue € millions	2016	2015	% Change (reported)	% Change (like-for-like) (A)	Changes in scope	Currency effect
<b>Lenses and Optical Instruments</b>	<b>6,218</b>	<b>5,840</b>	<b>+6.5%</b>	<b>+3.9%</b>	<b>+4.3%</b>	<b>-1.7%</b>
North America	2,707	2,587	+4.6%	+2.0%	+2.8%	-0.2%
Europe	1,905	1,777	+7.2%	+3.4%	+6.0%	-2.2%
Asia / Pacific / Middle East / Africa	1,138	1,071	+6.2%	+7.5%	+1.0%	-2.2%
Latin America	468	405	+15.6%	+8.0%	+16.1%	-8.4%
<b>Sunglasses &amp; Readers</b>	<b>685</b>	<b>673</b>	<b>+1.7%</b>	<b>+1.0%</b>	<b>+2.5%</b>	<b>-1.8%</b>
<b>Equipment</b>	<b>212</b>	<b>203</b>	<b>+4.8%</b>	<b>+4.7%</b>	<b>+0.2%</b>	<b>-0.1%</b>
<b>TOTAL</b>	<b>7,115</b>	<b>6,716</b>	<b>+5.9%</b>	<b>+3.6%</b>	<b>+4.0%</b>	<b>-1.7%</b>

(1) 2016 estimates; Source: Essilor.

### Change in revenue in fast-growing<sup>(1)</sup> and developed countries

Revenue in € millions	2016	2015	Change (reported)	Like-for-like growth (A)	Growth at constant exchange rates
Fast-growing countries <sup>(1)</sup>	1,641	1,502	+9.3%	+8.1%	+15.1%
Developed countries	5,474	5,214	+4.9%	+2.3%	+5.5%
<b>TOTAL</b>	<b>7,115</b>	<b>6,716</b>	<b>+5.9%</b>	<b>+3.6%</b>	<b>+7.6%</b>

### Breakdown of 2016 revenue by operating segment and by region



Revenue generated by fast-growing countries<sup>(1)</sup> amounted to €1,641 million, or 23.1% of the Company's revenue, while revenue generated in developed countries amounted to €5,474 million.

### Change in revenue from 2015 to 2016

	Reported change	Change (like-for-like) (A)	Changes in scope	Currency effect
€ millions	399.1	241.3	270.4	(112.6)
As a %	+5.9%	+3.6%	+4.0%	-1.7%

**In 2016, consolidated revenue totaled €7,115 million, an increase of 7.6% excluding the currency effect.**

On a like-for-like (A) basis, sales increased 3.6%, representing 4.1% growth over the first half-year and 3.1% over the second against a higher comparison base.

The consolidation scope effect (up 4.0%) was entirely composed of the contribution of bolt-on acquisitions (B) during the year.

The overall exchange rate effect (negative 1.7%) reflected an appreciation of the euro against the Company's major billing currencies, mainly the British pound, Chinese yuan, Brazilian real, Canadian dollar and Mexican peso, partially offset by the strengthening of both the Japanese yen, and at the end of the year, the US dollar against the euro.

## 1.5.2 Revenue by operating segment and by region

### 1.5.2.1 Lenses and Optical Instruments

The Lenses and Optical Instruments Division delivered like-for-like growth (A) of 3.9% in 2016.

#### North America

Like-for-like growth (A) was 2.0% in North America. Essilor continued to strengthen its positioning across all its distribution

channels despite a US optical industry that was characterized by a significant slowdown during the second quarter of 2016, following a particularly robust 2015.

In the **United States**, growth with independent optometrists was primarily due to the rollout of new offers for members of the alliance service platforms – Vision Source, PERC / IVA and Optiport – the market segment which posted the fastest growth in the US. These solutions are aimed among others at accelerating

(1) Fast-growing countries: Africa, ASEAN, China, Hong Kong, India, Latin America, Middle East, Russia, South Korea and Taiwan.



the development of value-added product categories and optimizing the supply chain of member stores of these alliances.

More broadly, further consumer marketing campaigns continued to support Company trademarks, particularly Crizal® lenses.

In addition to the development of integrated supply chain offerings, key account business was driven by the demand for valued-added products and designer lenses from national optical chains as well as by the development of relationships with certain mid-sized chains. The distribution of contact lenses remained buoyant.

This company-wide momentum was dampened by two specific factors. Firstly, there was a marked fall in Transitions Optical sales to other manufacturers contrasted with moderate growth in sales of Transitions® lenses across Essilor's own distribution networks. Secondly, there was a one-off impact of regulatory changes on certain lens supply contracts with government agencies (Department of Veterans Affairs and Medicaid).

In **Canada**, sales were stable with Shamir and Nikon lenses both performing well.

**E-commerce activities** in North America generated like-for-like growth (A) of around 7.3%. This performance encompassed three distinct factors: very high growth by EyeBuyDirect™, continued development of Frames Direct™ at a satisfactory rate, and a fall in sales for Clearly™ in the United States and Canada, mitigated by an improved trend in the fourth quarter.

## Europe

Revenue in Europe was up 3.4% on a like-for-like basis (A). Marketing campaigns early in the year generated momentum for existing value-added lenses and the new Eyezen™ lens. In the second half of the year, however, due to high prior-year comparatives this momentum translated to more modest growth. The Optical Instruments business and online sales made a highly positive contribution to growth over the year. Analyzed by country, sales trends were favorable in **Eastern Europe** and **Russia**. Varilux® and Transitions® lenses drove increased business in **Italy** and **Spain**, while the new Eyezen™ lens was very well received in **France** and Spain. Turning to **Nordic countries**, sales trended upwards for key accounts and online sales. Performance was more mixed in the **United Kingdom** and **Central Europe**.

## Asia/Pacific/Middle East/Africa

Like-for-like revenue growth (A) was 7.5% in the Asia / Pacific / Middle East / Africa region, reflecting double-digit volume growth for several innovative products (Transitions®, Eyezen™) and a strong performance in fast-growing countries. Among these, **India** performed well over the year, due primarily to Varilux® and Transitions® lenses, but suffered in the last quarter from the demonetization of certain bank notes. **Southeast Asia** and **Africa** continued to record strong momentum. Measures to adapt to volatile market conditions in the **Middle East** and **Turkey** paid off with higher growth rates in the fourth quarter. **South Korea** benefited from the success of the Perfect UV range and brisk business with key accounts. Growth in **China** was maintained, led by robust performance in the mid-range and the successful launch of Eyezen™ lens, while the optimization of the

product range and distribution networks continued. Turning to the developed economies in the region, business expanded in **Japan** and accelerated quarter after quarter in **Australia**.

## Latin America

In Latin America, like-for-like revenue (A) grew 8.0% in 2016, reflecting strong momentum across all countries in the region with the exception of Brazil.

Having held up well in the first half-year, **Brazil's** performance was impacted by the recession and the challenging political environment in the country. Sales were slightly down in the second half, resulting from a marked drop in foot traffic in optical stores. Nonetheless, Essilor successfully leveraged its multi-network strategy, and in particular its mid-range products – including Kodak® lenses – to strengthen its position over the year.

**Mexico** posted the highest growth in the region, driven by a dynamic market.

Sales in **Argentina** grew on the back of demand for value added products – Varilux®, Crizal® and Transitions®. **Colombia** benefited from successful consumer marketing campaigns. Lastly, in **Chile**, **Costa Rica** and **Nicaragua**, the Company stepped up the marketing of its premium lenses, including Varilux® and Crizal®, by building on recent partnerships (with Ópticas OPV Ltda in Chile and Grupo Vision in Costa Rica and Nicaragua).

## Instruments

The Instruments business, which markets tools for use by optometrists and opticians and is included within the regions of the Lenses and Optical Instruments Division, maintained the healthy momentum seen in 2015 (up 8.0% on a like-for-like basis (A)). The business performed well both in Europe and across all fast-growing regions.

This performance was based on the rollout of innovation across all the segments covered by this business: edging / mounting, optometry (refraction and diagnostic devices) and measurement instruments used in points of sale. The consolidation of the range of edging / mounting machines, with successes at both entry level (Delta 2™), notably in high-growth countries, and mid-range (Neksia® and I-Tronics™), allowed the Company to post strong growth in the lens finishing segment, the division's leading business line. Within a dynamic market, the optometry business benefited both from sales contracts for refraction devices with certain key accounts in Europe and from the expansion of its distribution network, as seen in particular with the acquisition of Axis Medical. This acquisition will enable the Company to accelerate the distribution of its refraction technologies in Canada. Lastly, sales of measurement instruments, including the M'EyeFit® tablet, were also buoyant.

### 1.5.2.2 Equipment

Like-for-like revenue (A) in the Equipment Division grew 4.7%, primarily driven by a marked rebound in fast-growing countries compared with the prior year. Business in Latin America was spurred by many small labs ordering digital surfacing machines. Asia gained from the increased production capacity in several

laboratories serving both domestic and export markets. The ophthalmic segment in Europe benefited from the modernization of coating and surfacing machines by a number of key accounts. Growth was more moderate in North America, due to optical chains and independent eyecare professionals gradually pulling back on investments during the year.

### 1.5.2.3 Sunglasses & Readers

In 2016, the Sunglasses & Readers Division delivered like-for-like growth (A) of 1%. After a first half that was adversely affected by poor weather and a fall in Xiamen Yarui Optical (Bolon™) sales, like-for-like growth (A) reached 6.7% in the second half.

In North America, FGX International's reading glasses business was impacted by an unfavorable comparison base, with several key account contracts having been renewed the previous year. However, sales of reading glasses to consumers grew almost 4%. For the sunwear business, despite the impact of poor weather on consumer purchases, sales of FGX sunglasses achieved healthy

growth thanks to extensions in product ranges with existing customers and shelf space gains with new customers.

Costa achieved the best growth in the US sunwear Industry in 2016, despite growing at a slower rate than in 2015. 2016 performance was affected by challenges experienced by several specialist sports distributors and the fall in inventories of certain chains.

In China, Xiamen Yarui Optical (Bolon™) posted a slight fall in revenue, the first half-year having seen significant disruption from the introduction of a new inventory management system. In the second half, and over the fourth quarter in particular, growth returned to a level higher than the Chinese sunwear Industry owing to a 2017 collection that was very well received by Chinese retailers.

### 1.5.2.4 Exceptional factors

No exceptional factors influenced the Company's main businesses or markets in 2016.

## 1.5.3 Research and Development

### 1.5.3.1 Innovation at the heart of Essilor's strategy

From its origins, which saw the invention of organic lenses and progressive lenses, innovation has been a strategic focus and competitive advantage for Essilor.

Every year, the Company allocates a significant portion of its revenue to Research and Innovation. This amounted to €214 million in 2016, before the deduction of Research Tax Credits.

Each year brings innovation in terms of materials, coatings and designs (especially for progressive lenses). In addition, Essilor uses technologies from other industries to continually improve its products.

### 1.5.3.2 A consumer-focused approach to innovation

Essilor's R&D work focuses on understanding the needs of consumers in the areas of vision care, eye protection and the prevention of eye diseases.

The R&D teams develop innovative technical solutions, products, processes and services to meet individual vision correction needs around the world. Changes in consumer lifestyles, including trends such as online and connected devices as well as longer life expectancy, represent major R&D challenges for the vision care sector. As a result of these shifts, new needs are emerging for pathologies such as cataracts and age-related macular degeneration.

Faced with these requirements, and to increase the focus on innovation based on consumer needs, Essilor's R&D was restructured in 2016 to reflect a new segmentation of consumers, split into five categories:

- ▶ Children and adolescents (under 18 years old);
- ▶ Young adults (19-45 years);
- ▶ Midlife (45-65 years);
- ▶ Seniors (65 years and above);
- ▶ Next Vision Generation (people with uncorrected vision).

This major change led to the businesses and skills within R&D being restructured into four divisions:

- ▶ Technology and Market Watch;
- ▶ Life and Vision Sciences;
- ▶ Technology and Engineering Solutions;
- ▶ Smart Vision Solutions.

For all these consumer categories, the new products sold on the market result from a process of gradually selecting ideas and concepts (Stage Gate Process) involving a large number of cross-company stakeholders within Essilor (marketing, operations, subsidiaries, etc.).

### 1.5.3.3 A global network based around five R&D Centers

Essilor has more than 500 researchers across its five R&D Centers:

- ▶ three Innovation & Technology Centers located in Europe (Créteil, France), the United States (Dallas) and Asia (Singapore). In addition to the development of new products, these centers aim to identify and forge the best research partnerships;

- ▶ an R&D Center in Ireland (photochromic lenses);
- ▶ a development and testing center in Danyang, China;
- ▶ in Japan, the joint-research center established with Nikon in 2009 is going to be replaced with a project-based scientific collaboration agreement in 2017.

**1.5.3.4 R&D partnerships focusing on innovation**

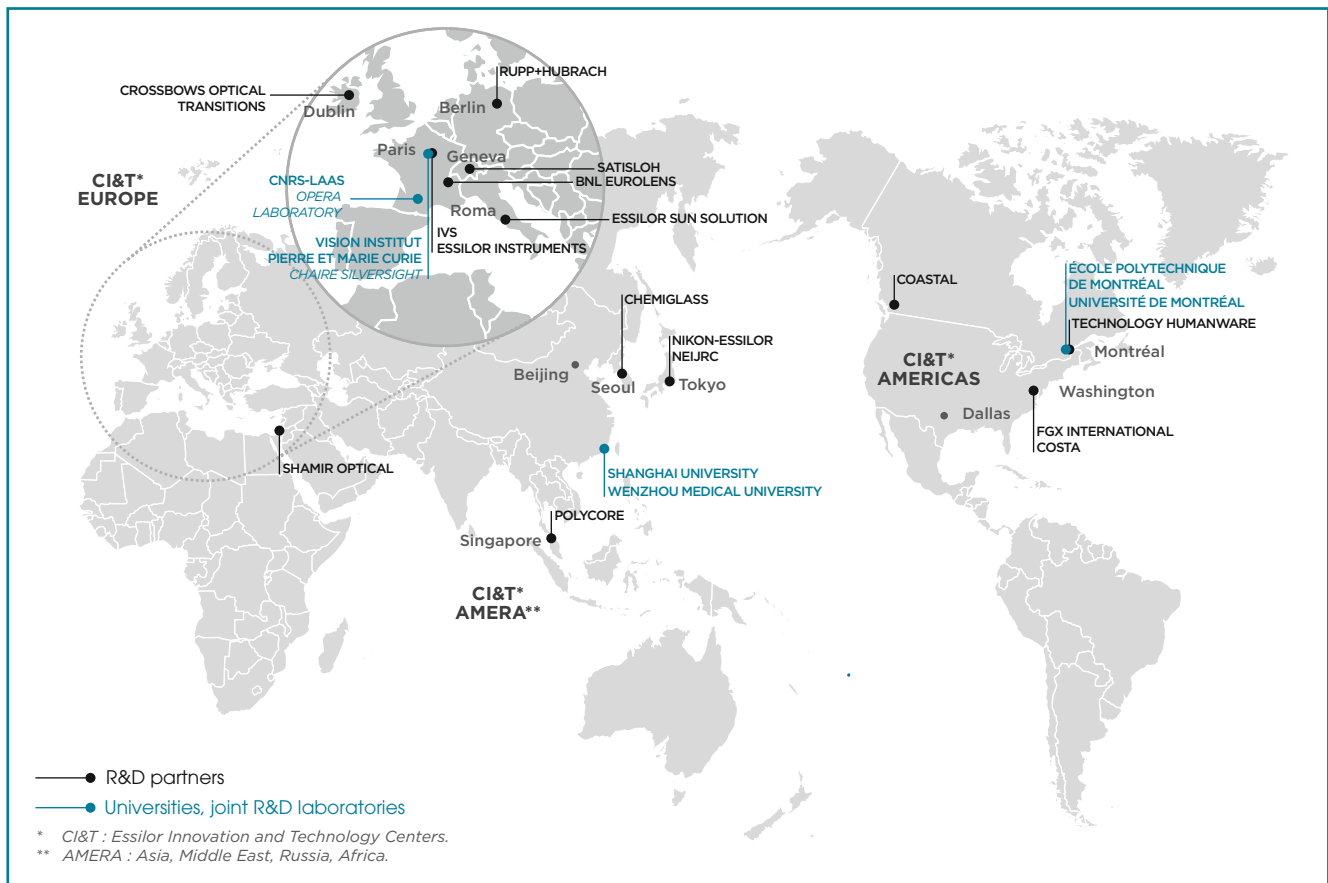
To develop its products, Essilor works alongside many universities, public and private research centers, and R&D teams in other industrial sectors.

Several research partnerships have been set up in recent years, including:

- ▶ a research chair dedicated to non-pathological vision aging, in partnership with the Vision Institute and the Pierre and Marie Curie University in Paris, France;
- ▶ a new area of collaboration with the Vision Institute, focusing on myopia;
- ▶ a laboratory run jointly with Wenzhou University in China to study juvenile myopia;
- ▶ a laboratory run jointly with Shanghai University in China (surface coatings);
- ▶ a research chair on presbyopia set up with the University of Montreal, Canada;
- ▶ a research laboratory run jointly with the CNRS-LAAS focusing on lenses and eyeglasses with active and connected functions in France.



**A global R&D organization supported by scientific, industrial and academic partners**



**1.5.3.5 Patents, trademarks and domain names**

At the end of 2016, Essilor International and its wholly-owned subsidiaries held:

- ▶ close to 1,500 patent families, each representing an invention protected in France and around the world, covering a total of 8,065 individual patents;
- ▶ 1,410 trademark families, each representing a leading trademark, such as Varilux®, Crizal® or Eyezen™... protected in France and around the world, and covering a total of 7,240 trademarks;

- ▶ 2,586 domain names;
- ▶ 543 industrial designs.

During the year, Essilor filed 109 new patent applications worldwide and registered 108 new trademark families and 270 new domain names worldwide.

Essilor's assertive innovation strategy is supported and strengthened by an equally active intellectual property policy, both upstream by using patents to foster innovation and downstream by improving protection across the innovation portfolio, either by patent, trademark, industrial design or copyright.

The Company is also committed to preventing any form of intellectual property infringement, in particular by providing every employee with infringement detection methods and reporting forms. The Intellectual Property Department also leads IP awareness training courses for a wide range of employees, so that they create, protect and defend our intellectual property around the world.

The Company is not dependent on any customer contracts, patents or licenses that currently have a material impact on its operations and that could have a significant impact on expiration.

### 1.5.3.6 New products launched in 2016

Research and development introduced a more rigorous selection procedure, aiming to achieve more effective spending and to focus investments on major consumer needs.

The main launches involved, firstly, the global rollout of innovations launched in 2015, and secondly, the introduction of new products.

In 2016, the Company continued the global rollout of the **Eyezen™** stock lens, a new line of lenses for all users of connected devices (computers, tablets, smartphones, etc.). This range is aimed at people without any visual defects, but who are seeking to relieve and protect their eyes on a daily basis. It was marketed by FGX International under the name Foster Grant® Eyezen™. At the end of the year, Essilor prepared for the launch of **Eyezen™ Lite** lens to be marketed by the Company's partner networks. Eyezen™ product range is now marketed in 45 countries by opticians and optical chains, both online and over the counter without a prescription.

In the United States, and subsequently in Europe, the Company launched **Eye Protect System™**, a clear lens offering the best protection against light related dangers (in particular UV rays and blue-violet light) while improving aesthetics by removing any colored reflection or residual tint. This innovation is based on the principle of light absorption using molecules directly integrated into the lens. It was awarded a Silmo d'Or award in the "Vision" category at the Paris World Optical Fair in September 2016. The Eye Protect System™ innovation, initially available on Varilux® and Crizal® branded lenses, is set to be marketed more widely in 2017.

In Asia, Essilor's partner Chemi marketed **Chemi Perfect UV**, a UV blocking lens that partially filters blue light.

In the range of **Varilux®** progressive lenses, the Company continued to roll out Varilux® Physio® 3.0 and Varilux Comfort®

3.0 lenses, and launched Varilux® Liberty™ 3.0 – the Varilux® trademark's entry level lens which offers a field of vision optimized according to prescriptions. All lenses in the Varilux® 3.0 ranges benefit from the use of digital surfacing technology.

Essilor broadened its range of lenses for driving glasses by supplying several of its distribution networks (BBGR, Rupp & Hubrach, etc.) with lenses incorporating technologies aimed at improving driver comfort and safety. This applies to **EyeDrive™** lenses which incorporate a coating designed to reduce glare by 90% and improve visual clarity by providing wider fields of vision.

In the **Transitions®** photochromic lens range, the Company launched the **Transitions® Style Colors** line, which offers a palette of four new colors (sapphire, amethyst, amber and emerald) applied directly in prescription laboratories. This increases the number of options available to consumers in addition to the traditional shades of gray, brown and graphite green. Initially launched in Italy in 2016, these new colors will be extended to the rest of Europe in 2017. Another launch completed in 2016 was that of the **Flash to Mirror™ activated by Transitions®** lens, whose surface becomes tinted with a mirror effect under exposure to UV rays. Lastly, the Group introduced the **Transitions® Classic** lens targeting mid-range networks in some Asian countries.

In the European **prescription sun lens** segment, the Company broadened its **Varilux® Sport Wrap** progressive lens range, offering an optimized optical surface for wraparound sunglasses frames. In addition, Xiamen Yarui Optical (**Bolon™**) started selling its range of prescription sunglasses. Also launched was the **Kolor Up™** collection of plano sun lenses, which improve color perception.

FGX International launched a new collection of sunglasses, "**Item 8™ by Foster Grant**", whose modern style targets a department store clientele.

In the sales support segment, in addition to the European rollout of **Nautilus™**, a virtual reality educational tool for optical categories, the Company launched **EyePartner**, a version of this tool tailored to countries experiencing fast growth.

To support the new product launches and drive faster growth in brand sales, consumer advertising and marketing initiatives were continued. As a result, consolidated consumer marketing spend ended the year at around €209 million, of which a majority was dedicated to the corrective lens trademarks Crizal®, Kodak®, Transitions®, Varilux® and Xperio®. This expenditure was focused on around 20 countries globally.

## 1.5.4 Production and Supply Chain

### 1.5.4.1 Production and capital expenditure

Essilor and its partners operate 33 lens production facilities around the world including five in North America, two in Latin America, seven in Europe and nineteen in Asia / Middle East <sup>(1)</sup>. This figure takes into account the closure of the Transitions

plant in Sumaré, Brazil, whose production was transferred to the Manaus facility. Meanwhile, two new partner plants – Segment Produtos Oftalmicos (Brazil) and GKB Vision (India) – were added to the scope of consolidation in 2015 and consolidated on a full-year basis in 2016. Of the current facilities, twenty-six produce

(1) As of December 31, 2016.

prescription lenses, four photochromic lenses and three non-prescription sunlenses.

In 2016, their aggregate output, including photochromic lenses produced by Transitions Optical and sold to third-party lenscasters as well as lenses produced by Essilor’s partners, stood at around 508 million prescription lenses and some 32 million non-prescription sunlenses.

The increase in production volume over the year was driven by the growth in worldwide demand, in particular for mid-range products, and the sustained commitment to insourcing a portion of the lenses previously sourced from other lensmakers.

Analyzed by material, production volumes of 1.56 index lenses and high-index lenses continued to increase compared to 2015, driven primarily by demand in Asian markets.

During the year, the Company continued to roll out its Lean Manufacturing program, which was initiated in 2013 and is now deployed in more than twenty production sites including all Essilor prescription lens facilities, two Transitions Optical photochromic lens plants, the two Polycore sunlens plants and all export laboratories in Asia. This helped to deliver continued year-on-year operating performance gains at its production sites and further production cost savings compared with 2015.

In 2016, capital expenditure was primarily committed to:

- ▶ transferring a number of photochromic lens production lines between plants and opening new production lines, including one at the Essilor facility in Manaus, Brazil, and another one specializing in polarized photochromic lenses at the Transitions plant in Tuam, Ireland;
- ▶ expanding production capacity at the Chemiglas plant in Vietnam.

**1.5.4.2 Global engineering and prescription lens laboratories**

Essilor has a network of 490 prescription laboratories, edging-mounting facilities and local distribution centers around the world. This includes 8 large export laboratories (3 in Mexico, 2 in Thailand, 2 in India and 1 in China) that make lenses primarily for the Asian, European and North American markets. These facilities produce custom lenses based on the wearer’s prescription, as ordered by opticians, optometrists and other eyecare professionals. The prescription laboratories and edging centers take the semi-finished lenses manufactured at the various plants and complete the surfacing, polishing, multi-layer coating and edging-mounting processes. In all, around 129 million lenses were surfaced and coated in 2016 (excluding acquisitions completed and partnerships formed in 2016).

2016 saw the opening of a new export laboratory in Tijuana, Mexico – the third in the country – to add to Essilor’s lens production capacity to primarily serve the North American market.

Other highlights of the year included the sustained deployment by the global engineering teams and local units of the Digital Surfacing External Offer (DEO) to independent laboratories. DEO is a partnership opportunity to digitally surface Essilor lenses locally. It encompasses the installation of digital surfacing technologies, the provision of semi-finished lenses, training in process control and technical support. It also includes the patented Digital Surfacing Process Control (DSPC) system that guarantees the quality and performance of the finished lenses. The system is connected to all of Essilor optical calculation platforms, so that it can be used not only with the Varilux® range, but also with other products and trademarks, such as Nikon®, Kodak®, Shamir®, and Crossbows™ Optical. In all, some 200 independent and partner laboratories, primarily in the United States and Latin America, had signed up for the DEO service by year-end, compared with 175 at the end of 2015.

On the product side, one of the highlights of 2016 in prescription laboratories was the launch of Transitions® Style Colors, a collection of four new colors (sapphire, amethyst, amber and emerald) for Transitions® photochromic lenses. A key advantage of these Transitions® Style Colors lenses is that they can be coated directly on a new production line developed and installed by Essilor and Transitions Optical teams in prescription laboratories.

In addition, the Company developed a new range of coating machines in partnership with SCL International, a French company acquired in 2016 that manufactures cleaning and hard coating machines and also engineers and produces coatings suitable for plastic lenses. The Company will leverage this new range of machines designed for small and medium laboratories to accelerate the roll-out of anti-reflective lenses, including Crizal® lenses, in particular in Latin America and Asia.

**1.5.4.3 Supply Chain**

Essilor’s global supply chain covers all of the product and lens flows around the world, from production plants to central logistics hubs, prescription labs and retail eyecare outlets. It offers the unrivaled ability to simultaneously manage the flows of both stock lenses (mainly single-vision finished lenses manufactured in the production plants) and custom-finished prescription lenses (semi-finished lenses made in the production plants that are later surfaced and coated at a prescription laboratory). In all, this totals around 3,000 lens flows a day and more than one million SKUs.

In 2016, despite an increase in output, the Company reduced inventory days<sup>(1)</sup> and inventory in value terms during the year. This strong performance was achieved thanks to a sustained focus

(1) Number of days of consumption the current inventory levels can sustain.



on siting inventory closer to end-markets and developing new inventory optimization processes, at both Company production facilities and regional logistics hubs.

In 2016, the supply chain teams continued to work with key accounts to deploy their range of integrated service solutions, which include the provision of Essilor-produced lenses (in some cases edged-mounted on frames) and frame management services. The Company has four integrated platforms worldwide, located in Bangkok (Thailand), Dallas (United States), Shanghai (China) and Warsaw (Poland) to cover all continents. It also has a dedicated e-tailing unit in Danyang (China).

In 2016, Essilor rolled out these integrated services to several optical chains in Europe and the United States, as well as to independent optometrist service platforms in the United States that joined the Company in 2015, namely Vision Source (with its FrameDream program) and PERC (with its range of prescription glasses for a fashion brand).

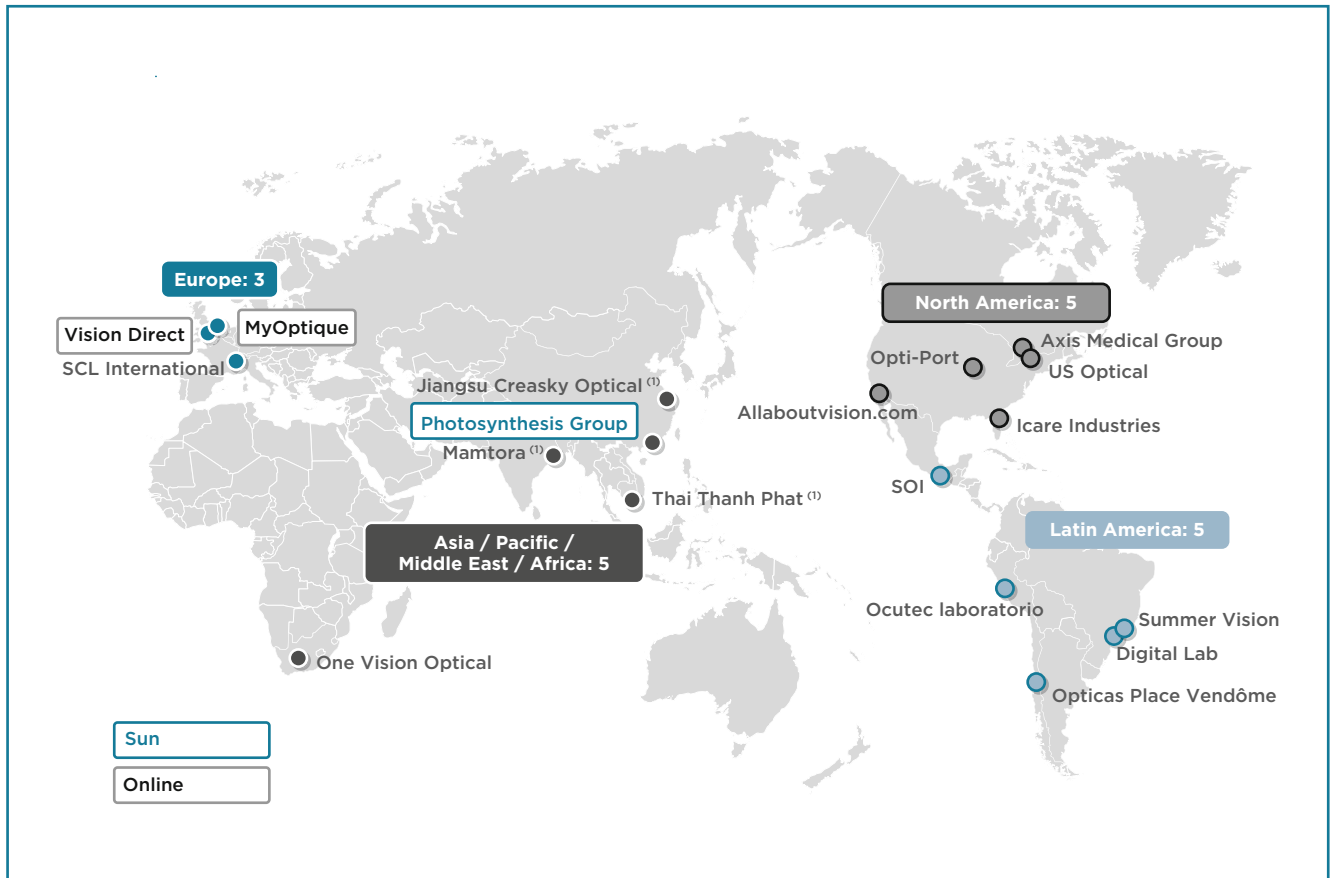
Finally, in 2016, the supply chain teams were also actively involved in a number of product launches, including the new Eye Protect System™ lens. This lens, which protects against harmful UV rays and blue-violet light without compromising on either reflective or tint aesthetics, is partly produced in Transitions Optical plants.

1.5.5 Acquisitions and Partnerships

Essilor pursued its acquisitions and partnerships strategy in 2016, closing 18 transactions that brought in total additional full-year revenue of approximately €304 million and developed the

Company's positions in the corrective lens, sunwear and online retailing segments.

18 acquisitions and partnerships completed in 2016



(1) These companies were not consolidated in 2016.



Name	Country	Business	Full-year revenue	% stake acquired
<b>Lenses &amp; Optical Instruments – North America</b>				
<b>Axis Medical Group</b>	Canada	Optical instruments distributor to eyecare professionals	~CA\$6 million	51%
<b>AllAboutVision.com</b>	United States	Consumer website designed as a source of eye health and vision correction news and information	N.D. <sup>(a)</sup>	100%
<b>ICare Industries, Inc.</b>	United States	Florida-based prescription laboratory	~US\$14 million	80%
<b>Opti-Port L.L.C.</b>	United States	Purchasing alliance of multi-office eyecare practices	N.D. <sup>(a)</sup>	80%
<b>US Optical L.L.C.</b>	United States	New York-based wholesale optical laboratory	~US\$35 million	60%
<b>Lenses &amp; Optical Instruments – Europe</b>				
<b>MyOptique Group Ltd</b>	United Kingdom	Leading European online prescription glasses, contact lenses and sunglasses business	~£57 million	100%
<b>Vision Direct Group Ltd</b>	United Kingdom	Leading online optical products retailer	~£33 million	100%
<b>Lenses &amp; Optical Instruments – Asia/Pacific/Middle East/Africa</b>				
<b>One Vision Optical Pty Ltd</b>	South Africa	Eyewear, readers and sunglasses distributor, which also markets comprehensive vision solutions to independent opticians	~€6 million	65%
<b>Jiangsu Creasky Optical</b>	China	Ophthalmic lens manufacturer and distributor based in Danyang	N.D. <sup>(a)</sup>	55%
<b>Mamtora Lens Technology Private Limited</b>	India	Prescription laboratory and ophthalmic lens distributor based in the Kolkata region	~€2 million	50%
<b>Essilor Distribution Vietnam Company Limited</b> (entity which acquired the assets of <b>Thai Thanh Phat Co., Ltd</b> )	Vietnam	Ophthalmic lens distributor	~€1 million	51%
<b>Lenses &amp; Optical Instruments – Latin America</b>				
<b>Laboratorio Óptica Ltda and Ópticas OPV Ltda</b>	Chile	Integrated laboratory and distributor	~US\$25 million	100%
<b>Digital Lab Industria e comercio de lentes e Óculos Ltda</b>	Brazil	São Paulo-based prescription laboratory	~BRL12 million	42%
<b>Laboratorio Ótico Summer Vision Ltda</b>	Brazil	Rio de Janeiro-based prescription laboratory		49%
<b>Sistemas Ópticos Integrales, S.A. de C.V (SOI)</b>	Mexico	Ophthalmic lens distributor based in Oaxaca state with two prescription laboratories and several distribution centers	~ MXN27 million	51%
<b>Ocutec Laboratorio</b>	Peru	Prescription laboratory	~€3 million	51%
<b>Equipment</b>				
<b>SCL International</b>	France	Manufacturer of cleaning and hard coating machines that also engineers and produces coatings for plastic lenses	~€8 million	80%
<b>Sunglasses &amp; Readers</b>				
<b>Photosynthesis Group</b>	China	Hong Kong-based company that markets sunglasses and corrective lenses under a range of banners including MJS	N.D. <sup>(a)</sup>	50%

(a) Not disclosed.

All the companies mentioned in the previous table are fully consolidated by Essilor according to the date they were added to the scope of consolidation. Jiangsu Creasky Optical, Mamtora Lens Technology and Essilor Distribution Vietnam were not consolidated in 2016.

**Note:**

Pursuant to the acquisition strategy conducted by the Company and in order to retain the management teams of the companies acquired, Essilor frequently acquires only a majority of the share capital 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. These options are recognized in the consolidated balance sheet at their exercise price, which is available in Section 3.3.2.

## 1.5.6 Investments made in 2016 and planned for 2017

### 1.5.6.1 Investments made

€ millions	2016	2015	2014
Property, plant & equipment and intangible assets (gross of disposals)	294	327	232
Depreciation	439	400	413
Financial investments net of cash acquired	706	780	1,840
Purchase of treasury shares	31	0	36

### 1.5.6.2 Capital expenditure

In the industrial sector, capital expenditure net of the proceeds from asset sales were €273 million (4% of revenue), down from €321 million the previous year. This included capital expenditure to supporting the Group's growth, as well as the entry fees (buybacks) associated with FGX International's renewal of contracts with key accounts (Sunglasses & Readers Division).

Investments were distributed between Lenses and Optical Instruments (€198 million, of which €54 million for Europe, €48 million for North America and €96 million for the rest of the world), Sunglasses & Readers (€71 million) and Equipment (€4 million).

### 1.5.6.3 Financial investments

Financial investments net of cash acquired amounted to €706 million in 2016, compared to €780 million in 2015. These investments include, on the one hand, the acquisitions made during the year, in particular Photosynthesis Group in sunwear and optics in China, and the online sales companies Vision Direct and MyOptique in the United Kingdom, and, on the other, price supplements on transactions made prior to 2016.

In addition, the Company bought back €31 million of its own shares in 2016 (no buy back in 2015).

See Section 3.1.3.

### 1.5.6.4 Main outstanding investments

Capital expenditure committed but not completed amounted to €100 million at December 31, 2016, corresponding mainly to pending industrial equipment orders. This amount can be broken down as follows: €19 million for Europe, €31 million for North America and €50 million for the rest of the world (see Section 3.1.3).

### 1.5.6.5 Main future investments

In 2017, the Company will continue its capital expenditure in production and prescription.

In the area of finance, the Company will continue its acquisitions strategy.

## 1.6 Risk factors

The main risk factors to which the Group believes that it is exposed and considers to be actually or potentially significant as of the date of this Registration Document are described below. At that date, there may be other risks of which the Group is not aware

or considers as non-significant based on information currently available, which could have a material adverse effect on the Group's business, earnings and financial position.

### 1.6.1 Risks Relating to Our Business and Industry

#### **Economic downturns in the markets may adversely affect demand for our products.**

Demand for prescription eyeglasses, readers and sunglasses is influenced by the discretionary spending power of consumers in the markets in which we operate. In case of economic downturn or during periods of economic uncertainty, consumers and the businesses they frequent may postpone, reduce or abandon purchases of certain of our products, reducing our revenues. Spending power is affected by many factors, including general economic conditions, inflation, interest rates, unemployment rates, healthcare reimbursement rates, availability of consumer credit, currency exchange rates and other factors that influence consumer confidence. Although our presence in multiple markets around the globe helps limit our exposure to economic conditions in any given market or region, adverse economic developments affecting demand in one or more of our larger markets could have a material adverse effect on our business, results and financial position.

#### **If the Group fails to sufficiently innovate, developments in vision correction therapies and changing customer needs, this could lead to reduced demand for our products.**

We operate in a rapidly evolving industry affected by product innovation, new developments in vision correction therapies and changing consumer preferences. If we fail to adapt to such changes and to continually improve our product offering to meet customer needs and expectations, the attractiveness of our products relative to those offered by our competitors could decline, which could limit our growth or lead to lower revenue. Our success and future growth will depend, in part, on our ability to continue to develop products designed to effectively address the correction, protection and prevention needs of our customers around the world or incorporate the latest technologies into such products. Alternative methods for vision correction may also lead to reduced demand for our products or a shift in the distribution of overall demand between the various methods of correction. For example, our business could be negatively affected by the availability and acceptance of vision correction alternatives to replace prescription eyeglasses and contact lenses, such as refractive optical surgery. Increased use of

vision correction alternatives could result in decreased use of prescription eyewear products, which could have a material adverse impact on the Group's business, results, financial position and outlook. Similarly, increased usage of contact lenses due to changing consumer preferences or improvements in contact lens technology may lead to lower demand for prescription eyeglasses incorporating our lenses and technology or related production equipment. If our competitors introduce new technologies or products and we are unable to effectively and rapidly offer similar technologies or products with similar features, sales of our products may be affected. Some current or potential competitors in certain of our product categories may have greater resources than we do, and may be able to devote more substantial funds to research and development efforts or with a view to influencing customer, eye care practitioner and distributor buying decisions. Similarly, our efforts to develop new technologies and products may entail significant investment yet ultimately fail to meet desired objectives or to achieve customer support. If we are unable to produce and develop products that compete effectively against our competitors' products or alternative treatments for vision correction and to convince a sufficient number of consumers and eye care practitioners to use them, our business, results and financial position could be materially and adversely affected.

#### **If we do not correctly anticipate changes in fashion and retail product trends, our sales of certain products and profitability could be affected.**

Certain markets in which we operate, including the market for non-prescription sunglasses and readers, are subject to rapidly changing fashion and retail product trends. Our growth and financial performance depend in part on our ability to identify, pinpoint and respond to trends in the eyewear industry and to anticipate, gauge and respond to changing trends in a timely manner. Unanticipated shifts in fashion trends or consumer preferences may result in excess inventory and underutilized production capacity. Any sustained failure to identify and respond to such trends could have a material adverse effect on our business, results and financial position.

**Our research and development efforts may fail to lead to successful new products or technologies.**

Our research and development process is expensive, prolonged and entails considerable uncertainty. There is a risk that financial and other resources invested in our research and development programs will not generate financial returns. Because of the complexities and uncertainties associated with healthcare-related research and development in general and ophthalmic research and development in particular, we may be unable to complete the development process for products that we are currently developing, or that we develop in the future, and as a result we may be unable to market such products successfully, potentially after substantial resources have been devoted to their development. Further, we are subject to extensive and evolving government regulation, including inspection of and controls over testing and manufacturing, safety and environmental controls and efficacy. Government regulation substantially increases the cost of developing and manufacturing our products.

Successful development of a product does not mean that it will achieve commercial success. Our development activities are typically carried out in the medium term, so our products may be obsolete by the time we are able to introduce them into the market. In addition, even if we successfully develop a new product, this product may later exhibit adverse effects that limit or prevent its use or that force us to withdraw it from the market. Significant or numerous failures to develop and successfully introduce products into the market could have a material adverse effect on our business, results and financial position.

**If we fail to maintain our relationships with eye care professionals, including ophthalmologists, optometrists, opticians, prescription laboratories and integrated optical chains, customers may not buy our products and our sales and profitability may decline.**

We market our products to numerous healthcare providers, including eye care professionals, ophthalmologists, optometrists, opticians, prescription laboratories and integrated optical chains. We have developed and strive to maintain close relationships with members of each of these groups who assist in product research and development and advise us on how to satisfy the full range of patient and customer needs. We rely on these groups to recommend our products to their patients and customers and to other members of their organizations. The success of our products, particularly our lenses, is dependent upon the choices of eye care professionals. If our products do not retain the support of eye care professionals, this could have a material adverse effect on our business, results and financial position.

**Interruptions in the supply of raw materials or the loss of any of our critical suppliers could disrupt our manufacturing processes or lead to increased costs.**

We depend on our suppliers for raw materials and certain components used in our products. The availability of some raw materials and components is limited to a few suppliers. The loss of such suppliers or their inability to meet our performance and quality specifications, requested quantities or delivery schedules could cause our revenues and profitability to decline and have a negative impact on our customer relations. In addition, a significant price increase from any of our critical suppliers could cause our profitability to decline if we cannot find alternative suppliers or pass on price increases to customers. Further, in order to ensure sufficient supply, we may prepay some of our suppliers, which could increase our financial exposure to these suppliers.

Further, changing national or transnational regulations (such as, for example, the Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH") regulation in the European Union, and the Proposition 65 law on "The Safe Drinking Water and Toxic Enforcement Act of 1986" in the state of California) may require us to find alternatives for certain raw materials, chemicals and consumables. A change in the raw materials, chemicals, or consumables used in our lens manufacturing processes can mean a temporary or permanent inability to produce certain types of products or coatings, which could have a negative impact on our customer relations and a material adverse effect on our business, results and financial position.

**Disruptions in our complex logistics chain could cause our business, results and financial position to suffer.**

Our quality of service relies on a complex logistics chain designed to handle, over very short time cycles, complex flows between mass production plants, laboratories, transporters, distribution centers, and an extremely large number of possible product combinations (over one million references to suit indices, materials, the unique prescription of every glasses wearer, coatings chosen, color, personalization markings, etc.). We utilize a large network of production plants and distribution centers around the world, in addition to almost 500 laboratories throughout the world. Our logistics chain can experience breakdowns, delays or interruptions due to external factors (such as natural disasters and geopolitical events that can result in a blockage of the transportation capacity in a given country) or internal factors (such as risks linked to information systems, *see "—Any material failure, inadequacy, interruption, security failure or breach of our information technology systems may result in remediation costs, reduced sales due to an inability to properly process information and increased costs of operating our business"*). Ultimately, this could result in long delivery delays or even a temporary inability to

supply certain customers or certain products. If we are unable to maintain an efficient logistics network or a significant disruption thereto occurs, our sales may decline, our reputation may be adversely affected due to the inability to make timely product deliveries to customers and our profitability may decline due to an increase in our per unit costs in affected regions, any of which may have a material adverse impact on our business, results and financial position.

**Any material failure, inadequacy, interruption, security failure or breach of our information technology systems may result in remediation costs, reduced sales due to an inability to properly process information and increased costs of operating our business.**

Our business depends heavily on our information systems for managing the proper functioning of our production, distribution, order-taking, billing, reporting and consolidation activities, and for effectively organizing our internal and external communications. Our ability to effectively manage our business and coordinate the production, distribution and sale of our products depends on, among other things, the reliability and capacity of these systems. The failure of these systems to operate effectively (whether due to malfunctions or internal or external malicious actions), network disruptions or a total system shutdown, problems with transitioning to upgraded or replacement systems, or a breach in data security could cause delivery delays, reduced efficiency of operations, loss or corruption of sensitive data, leading to additional costs and possible fines or penalties, legal defense and settlement costs, loss of market share or damage to our reputation. Potentially significant capital investments and other costs could be required to remediate problems encountered, which could have a material adverse effect on our business, results and financial position.

**If we are not successful in completing and integrating acquisitions to expand or complement our business, this could weight down on our future profitability and growth.**

As part of our external growth strategy, the Group acquires interests (generally majority interests) in well-defined target companies, with the objective of helping them grow profitably and to benefit from that growth. Acquisitions expose the Group to a number of potential risks including:

- ▶ difficulty in integrating the newly acquired business and operations in an efficient and effective manner;
- ▶ inability to achieve strategic objectives, cost savings and other benefits from the acquisition;
- ▶ the lack of success by the acquired business in our markets;
- ▶ the loss of key employees of the acquired business;
- ▶ a shift in the focus of our senior management on the Group's operations;
- ▶ difficulty integrating human resources systems, operating systems, stock management systems and assortment planning systems of the acquired business with our systems;

- ▶ cultural differences between the Group and that of the acquired business; and
- ▶ potential exposure to liabilities that were not known at the time of acquisition or the need to address tax or accounting issues.

Additionally, as we make acquisitions in areas that are significantly different from our traditional business, we may be confronted with new risks with which we are less familiar or that we may fail to properly assess. Failure to effectively integrate acquired companies may inhibit our ability to achieve anticipated synergies, cost savings, innovation and operational efficiencies within forecast periods or at all, which could lead to higher costs or impairment charges.

On January 15, 2017, Essilor entered into an agreement with Delfin S.à. r.l. ("Delfin"), the majority shareholder of Luxottica Group ("Luxottica"), a leader in the design, manufacture and distribution of fashion, luxury and sports eyewear. Pursuant to the agreement, Delfin will contribute its entire stake (approximately 62%) in Luxottica to Essilor in return for newly-issued Essilor shares, and Essilor will subsequently make a mandatory public exchange offer in accordance with Italian law to acquire all of the remaining outstanding shares issued by Luxottica pursuant to the same exchange ratio. Our strategic combination with Luxottica is expected to create a key global player operating across all segments of the eyewear industry. The transaction is expected to close in 2017, but remains subject to the satisfaction of various contingent conditions, including shareholder approvals and clearances from relevant competition authorities. No assurance can be given that the transaction will close successfully, that the integration of the two groups will be smooth and successful, or that the expected benefits will be fully achieved.

**The Group may have limited control over activities, results and financial situation of joint ventures in which it is not in a position of control and of companies in which it is the minority shareholder.**

As part of its development strategy, the Group has carried out and may carry out transactions involving the acquisition of minority equity interests in other entities and the creation of joint ventures. In addition to the integration risks inherent in any business combination, mentioned in "If we are not successful in completing and integrating strategic acquisitions to expand or complement our business, this could weight down on our future profitability and growth." joint ventures have other risks based on the Group's partnership interests. Certain of the Group's business activities are conducted, or may in the future be conducted, through joint venture entities in which it has full or shared control or in which it is the minority shareholder. In such situations, the Group may experience a deadlock if the partners are unable to agree, decisions may be taken that are contrary to its interests or the joint venture entity may have exposure to risks that the Group is not in a position to control. This may limit the Group's ability to implement the strategies it has adopted and have an adverse impact on its business, results and financial position.

**Changes in assumptions involving underlying net book values may result in impairment of our goodwill.**

As of December 31, 2016, €6,191 million of goodwill was recorded on our balance sheet. Goodwill represents the excess of the amounts the Group paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is grouped around cash generating units corresponding to the analysis and ROI monitoring areas of the Group's senior management (see Note 1.21 to the consolidated financial statements). Goodwill is tested for impairment at least annually, or more frequently when changes in the circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the cash generating units are determined on the basis of value in use calculations, which depend on certain key assumptions, including assumptions regarding perpetual growth rates, discount rates, and weighted average costs of capital during the period. If management's estimates change – notably in regards of new internal and external economic factors – the estimate of the recoverable amount of goodwill could fall significantly and result in impairment. While impairment does not affect reported cash flows, the decrease of the estimated recoverable amount and the related charge in the income statement could have an adverse effect on our results. No assurance can be given as to the absence of significant impairment charges in the future (see Note 11 to the consolidated financial statements for more information on goodwill).

**Market changes in the optical industry may adversely affect our sales and profitability.**

Market changes in the optical industry may change the competitive environment of the manufacturers of optical lenses, which includes the Group. Our sales, profitability and quarterly growth comparisons may be affected by fluctuations in the buying patterns of major distributors, retail chains and other buyers. These fluctuations may result from seasonality, pricing, excess stocks, buying decisions or other factors. Distributors, retail chains and other trade buyers may take actions that affect us for reasons we cannot always anticipate or control. We are exposed to a concentration of credit risk with respect to these customers. If some of these customers are affected by financial difficulty, this could have a material adverse effect on our business, as we may lose the ability to collect outstanding receivables from these customers.

**The global nature of our operations exposes us to a range of risks.**

The global nature of our business exposes us to a range of risks inherent in conducting business internationally, including the following:

- ▶ exposure to local economic and political conditions;
- ▶ export and import restrictions;
- ▶ currency exchange rate fluctuations and currency controls;
- ▶ cash repatriation restrictions;

- ▶ application of anti-corruption, anti-money laundering laws and regulations and economic sanctions;
- ▶ difficulty in enforcing intellectual property and contract rights;
- ▶ disruptions in capital markets and trade;
- ▶ potential hostilities and changes in diplomatic and trade relationships;
- ▶ local legal or regulatory requirements;
- ▶ withholding and other taxes on remittances and other payments by subsidiaries;
- ▶ local provisions of competition law and other provisions on market abuse;
- ▶ investment restrictions or requirements; and
- ▶ local laws requiring that certain products contain a minimum percentage of domestically produced components.

The likelihood of such occurrences and their potential effect on our business vary from country to country and are unpredictable, but any such occurrence may result in lower revenues or increased costs of doing business and may have a material adverse effect on our business, results, financial position, reputation and outlook.

**Changes to laws or regulations could have a material adverse effect on our business.**

As a result of our international footprint, we are subject to a wide range of laws and regulations in each of the various countries in which we operate. New laws or regulations or unexpected changes in regulatory requirements or the manner in which they are interpreted or enforced in the various countries in which we operate could increase our cost of doing business, reduce demand for our products or reduce our ability to develop on our markets. In particular, our manufacturing activities and services provided to us by third-parties within our supply chain are subject to numerous workplace health and safety laws, environmental laws, labor laws, anti-corruption laws and other similar regulations and restrictions on the sourcing of materials that may vary from country to country and are continuously evolving. Although the Group has implemented policies and procedures designed to facilitate compliance with applicable laws and regulations, no assurance can be given that such policies will prevent all non-compliance. Failure to ensure compliance with applicable regulations could have a material adverse effect on the Group's results, financial position or reputation.

**Changes in health care reimbursement policies may adversely affect demand for our products.**

In many markets, the cost to consumers of certain of our products is reimbursed by health insurance funds, insurance companies or government schemes. Changes in the health care reimbursement policies in such markets may lead to refusal or reduction of reimbursements, which could reduce demand for the affected products. Adverse changes in reimbursement policies in one or more of our markets could have a material adverse effect on our revenues, results and financial position.



**If we are unable to protect our proprietary rights, our sales might suffer, and we may incur significant additional costs to assert such rights.**

The Group relies on legislation on intellectual property (specifically trade names, trademarks, patents and copyrights), trade secrets and unfair competition, to protect the rights it holds on its products and services, including their manufacturing processes or properties and their names, as well as research and development, with each element playing a key role in the success of the Group’s products, services and competitive positioning. However, applications for trademarks and patents may not always be successful, and registered trademarks and patents may prove inefficient to cope with competition or be invalidated in the event of a subsequent dispute. In addition, the actions we take to protect our intellectual property rights may be inadequate, potentially leading to infringement and imitation of our products and services. Our trade secrets may become known to competitors, and we may not be able to meaningfully protect our rights in respect of this confidential information. Furthermore, other companies may independently develop substantially equivalent or better quality products or services that do not infringe on our intellectual property rights or they may assert rights on our intellectual property or dispute our ownership thereof. Moreover, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States or of the member states of the European Union.

In line with the strategy of vigorous defense of our intellectual property rights, our Intellectual Property department devotes significant resources to educating our employees about our patents, trademarks or other intellectual property rights, and the protection of our trade secrets. However, if infringing activities by others were to increase substantially, we may be obliged to significantly increase the resources we devote to protecting our rights. Moreover, third-parties may dispute our patents, copyrights, trademarks or other intellectual property rights which are significant to our business. The resolution or settlement of any litigation to enforce such alleged third-party rights, regardless of the merits, could be costly and divert the efforts and attention of our management. It may happen that we do not win such litigation or other legal proceedings, or we may have to compromise, due to the technical complexity of the issues and uncertainties inherent in proceedings that involve intellectual property rights, and the significant costs entailed by the defense of such claims. An adverse outcome in any dispute involving our proprietary rights could, among other things:

- ▶ require us to coexist in the market with competitors utilizing the same or similar intellectual property;
- ▶ require us to grant licenses to, or obtain licenses from, third-parties;
- ▶ prevent us from manufacturing or selling our products or providing our services;
- ▶ require us to discontinue the use of a particular patent, trademark, copyright or trade secret; or
- ▶ be ordered to pay significant damages.

Each of these possibilities could have a material adverse effect on our business by reducing our future sales or causing us to incur significant costs to defend our rights.

**Our business is subject to various environmental and health and safety laws and regulations, which may increase compliance costs or subject us to costly liabilities.**

Our business operations are subject to extensive regulations relating to the protection of the environment and health and safety matters. In particular, the manufacturing of optical lenses involves the controlled use of hazardous materials. We are subject to local and foreign laws and regulations in the various jurisdictions in which we operate that govern the use, manufacture, storage, handling and disposal of these materials and certain waste products. Although we have environmental, health and safety procedures for handling and disposing of these materials as described in Section 4.5.5, “Waste reduction and recovery”, that are designed to ensure compliance with standards, we cannot eliminate the risk of accidental contamination or injury from these materials. We may also be liable for actions of previous owners on properties we acquire or for properties we previously occupied. Remedial environmental actions or compliance with environmental laws could require us to incur substantial unexpected costs, which could have a material adverse effect on our business, prospects, financial position and results.

We have implemented environmental management systems within the entities that we control operationally on a day-to-day basis, including at upstream production facilities and, where appropriate, at downstream prescription laboratories as described in Section 4.5.1, “Strengthening environmental management”. While these systems minimize the risk of environmental incidents and the environmental impact of our operations, we cannot entirely eliminate the risk of accidents. If we were involved in a major environmental release or accident, or found to be in non-compliance with applicable environmental laws, we could be held liable for clean-up costs, third-party personal injury or property damage claims, or penalized with fines or civil or criminal sanctions. In addition, we cannot predict which environmental laws or regulations will be enacted or amended in the future, or what impact any such requirements may have on our operations.

The combination of insurance coverage, cash flows and reserves may not be adequate to satisfy environmental liabilities that we may incur in the future. Any environmental claims could subject us to adverse publicity, hinder us from securing insurance coverage in the future and/or require us to incur significant legal fees. Successful environmental liability claims brought against us could have a material adverse effect on our results or our financial position.



### 1.6.2 Market risks

**Failure to appropriately manage the Group's exposure to market risk could adversely affect the Group's business, results and financial position.**

The Group's operations expose it to a range of market risks, including:

- ▶ the risk that its sources of liquidity may be insufficient to cover its cash needs;
- ▶ the risk that interest rates may rise, increasing the Group's interest expense under the portion of its debt that bears floating interest rates;
- ▶ foreign currency risks, including the risk of a mismatch between the currencies in which we earn our revenues and the currencies in which we incur our expenses and more generally the risk that changes in the relative value of the euro and other

local currencies may result in a decline in the euro-equivalent value of revenues generated in a local currency or an increase in the euro-equivalent value of costs incurred in such local currency; and

- ▶ credit and counterparty risk, *i.e.*, the risk that a counterparty will default on its contractual obligations, resulting in a financial loss for the Group.

If the Group's risk management strategies for addressing these risks are not successful, the Group may experience lack of liquidity, higher interest rate expense, adverse foreign currency exposure and/or defaults by counterparties, any of which could have a material adverse effect on the Group's financial position or results. For further information on the Group's exposure to these risks, see Note 24 – Market Risks to the Group's consolidated financial statements.

### 1.6.3 Legal risk (material claims and litigation, proceedings, arbitration)

#### Alleged anti-competitive practices

##### Germany

At the end of 2008, the *Bundeskartellamt* ("BKA"), the German competition authority, launched an investigation into possible breaches of German competition law by major players in the ophthalmic optics market, including two of our German 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 optics companies in Germany, including our two subsidiaries.

Essilor GmbH et Rupp & Hubrach Optik GmbH contested the BKA's conclusions and filed an appeal.

However, our two subsidiaries have decided to withdraw their appeal to avoid long and costly proceedings further to ending of all settlement discussions. Accordingly the BKA's decision became final and the amounts due were paid in 2016.

##### France

In July 2014, the French competition authority's inspection department made unannounced visits to selected Group subsidiaries in France and other actors in the ophthalmic lens industry involved in the online sale of ophthalmic lenses. The Group filed an appeal of the ordinance, which was dismissed; the Group entered an appeal to set this aside in the Court of Cassation. The Authority's investigation continues.

#### Group actions

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 were filed in 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 jointly to monopolize the market for the development, manufacture, and sale of photochromic lenses between 1999 and March 2010. A settlement was reached in 2014, closing these class actions, leaving only the action by Vision-Ease with respect to TOI pending. In a July 1, 2016 decision, the court dismissed part of Vision-Ease's action and referred another part of it ruling on the merits.

#### Intellectual property

Hoya filed a court claim in Tokyo, Japan on July 24, 2013, alleging that the sale of products by Nikon-Essilor in Japan fell within the scope of a patent originally registered by Seiko and sold to Hoya on March 15, 2013. Hoya's claim covers Nikon-Essilor sales in Japan for the period from March to July 2013.

In 2014, Nikon-Essilor filed a motion with the Tokyo district court and the Japanese patent office to seek the invalidation of the patent.

In a decision handed down on July 13, 2016, the Tokyo court determined that the patent was invalid and dismissed Hoya's claim; then, in a decision handed down on November 8, 2016, the Japanese Patent Office invalidated the claims of said patent, which had served as a basis for Hoya's action. Hoya appealed both decisions. Furthermore, Hoya gave notice of motion to various Group entities before a Federal court in Virginia, in the United States, claiming that the sale of certain products by Essilor fell within the scope of one of its patents, an equivalent to the Japanese patent that was litigated in Japan. Essilor disputes those claims and requests that the patent be invalidated, but it cannot be certain that its arguments will be taken into account.

As of the date of this Registration Document, other ongoing legal proceedings known to the Group are not at present likely to have significant impacts on the Group's financial position or profitability.

**Investigations**

In 2016, the US Department of Justice and the Insurance Commission of the State of California questioned Essilor of America with regard to certain promotional activities. Essilor of America is working with the authorities to produce the information requested.

**Tax disputes**

Due to its presence in numerous countries, the Group is subject to various national tax regulations. Any failure to observe these

regulations may result in tax adjustments and the payment of fines and penalties.

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

Provisions for risks and claims are described in Notes 19 and 26 to the consolidated financial statements, and the main amounts paid by the Group in fiscal 2016 for legal risks are reported in section 3.1.3.



**1.6.4 Insurance**

Essilor and its subsidiaries have comprehensive 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 their 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 brokers and insurers are consulted about the design and protection of certain construction projects and other major works as necessary. This process is reviewed and adjusted to take into account both the operating needs of the Group and the prevention targets set jointly with its 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 taken out with leading insurers that have no ties with the Group.

Local insurance policies compliant with local insurance requirements are taken out by subsidiaries in areas such as car insurance, workers' compensation, employment practice liability (EPL), etc., to add to the cover provided by the Group's worldwide programs.

The programs cover property and casualty risks (fire, explosion, machine damage, flood, theft, 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 civil liability risks (operating, after-sales, professional, clinical trials, and environmental liability also covering biodiversity and site decontamination costs, 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 coverage may differ from that provided under the programs defined by the Group: in such circumstances, local policies are supplemented by the master policy of the programs, which is issued in France and can be invoked if the local insurance cover is insufficient.

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

Thanks to its low claims record, the Group has maintained a low deductible policy for each type of cover, thereby transferring to the insurance market virtually all of the insured risks.

No major damage was recorded in 2016 and none of the Group's companies was involved in significant insurance disputes.

To determine the required level of cover for its international insurance programs, the Essilor group has 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 level of Group coverage was further improved in 2016 and, despite a constantly growing scope of coverage, the overall cost of insurance programs continued to fall compared with the prior year.

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## CORPORATE GOVERNANCE



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# IN BRIEF

Essilor's unique mode of governance reflects **a strong, atypical business culture** which aims to unite all employees around a single ambition: to cultivate the performance of the Group. Since employees share in Group profits in the same way as shareholders, value distribution is a cornerstone of Essilor International's governance. This stake in the results of business operations goes hand in hand with a presence on the Board of Directors of the Company. The Valoptec Association, which represents the **employee-shareholder base**, is Essilor's largest shareholder. This encourages dialog and ensures employee participation in the Group's major decisions.

The presence on the Board of a large proportion of Independent Directors, and of three representatives of the employee-shareholders and a Director representing employees, ensures that a balance of power in relations with the Senior Management is guaranteed.

Under the authority of the Senior Management, the Management Committee oversees the Group's activities and implements its policies.

## COMPOSITION OF THE BOARD OF DIRECTORS (ON MARCH 22, 2017)

**Hubert SAGNIÈRES** <sup>(a)</sup>,  
Chairman and Chief  
Executive Officer

**Philippe ALFROID** <sup>(a)</sup>,  
Non-Independent Director

**Antoine BERNARD  
DE SAINT-AFFRIQUE**,  
Independent Director

**Maureen CAVANAGH**,  
Director representing  
employee shareholders

**Juliette FAVRE** <sup>(a)</sup>,  
Director representing  
employee shareholders

**Henrietta FORE**  
Independent Director

**Louise FRÉCHETTE**,  
Independent Director

**Franck HENRIONNET**,  
Director representing  
employees

**Yi HE** <sup>(a)</sup>,  
Director representing  
employee shareholders

**Bernard HOURS**,  
Independent Director

**Annette MESSEMER**,  
Independent Director

**Marc ONETTO**,  
Independent Director

**Olivier PÉCOUX**,  
Non-Independent Director

**Jeanette WONG** <sup>(a)</sup>,  
Independent Director



**14**  
Directors

including

**7**  
Independent Directors <sup>(b)</sup>

**4**  
employees  
(3 Directors representing  
employee shareholders and  
1 Director representing employees)

## COMMITTEES OF THE BOARD

- ▶ Audit and Risk Committee
- ▶ Executive Officers and Remuneration Committee
- ▶ Nominations Committee
- ▶ Corporate Social Responsibility (CSR) Committee
- ▶ Strategy Committee



For more information:  
@ Group/Governance  
[www.essilor.com](http://www.essilor.com)

(a) Term of office to be renewed or ratified at the Shareholders' Meeting of May 11, 2017.

(b) The AFEP-MEDEF Code of November 2016 states that Directors representing employee shareholders and the Director representing employees should not be included when calculating the percentages of Independent Directors. As such, the independence ratio (7 out of 10) is 70%, pursuant to the AFEP-MEDEF Code.



## 2.1 Board of Directors

### 2.1.1 Board of Directors

As of December 31, 2016, Essilor's Board of Directors had 14 members, including three members representing employee shareholders and one member representing employees.

The average age of Board members in 2016 was 58.

#### 2.1.1.1 Committees of the Board

On the recommendation of the Chairman, the Board of Directors has five special standing committees composed of members of the Board:

- ▶ the Audit and Risk Committee;
- ▶ the Executive Officers and Remuneration Committee;
- ▶ the Nominations Committee;
- ▶ the Corporate Social Responsibility (CSR) Committee;
- ▶ the 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. By law, this role is the responsibility of the Board, which will continue to directly monitor strategic risk (including reputation risk) and risk associated with governance of the Company.

At its meeting of February 27, 2013, the Board decided to form a Corporate Social Responsibility Committee.

As part of the 2014 self-assessment of the operations of the Board of Directors and its committees, the degree of coordination between them was reviewed in order to streamline the flow of information and improve efficiency.

The role, organization, operations and accomplishments of each committee are described in Section 2.2.2.6.



## 2.1.1.2 List of directorships on December 31, 2016

## HUBERT SAGNIÈRES

**61 years old**  
(Countries of citizenship: France and Canada)

**Number of shares:** 293,115

**Major 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:** 2017

**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 Chief Marketing Officer. 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 of 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 as of December 31, 2016**

**Chairman and Chief Executive Officer, Essilor International\***

**Other Essilor group companies**

**President, Essilor of America, Inc. (USA)**

**Director, Essilor International and subsidiaries**

- Essilor of America, Inc. (USA)
- Essilor Amera Pte Ltd (Singapore)
- Essilor Vision Foundation (USA)

**Past positions and terms of office held over the five past years****Essilor group companies**

**Chief Executive Officer, Essilor International\***

**Director, Essilor International and subsidiaries**

- Transitions Optical Inc. (USA)
- Frames for America, Inc. (USA)
- Essilor Canada Ltée / Ltd (Canada)
- Transitions Optical Holdings B.V. (Netherlands)
- Omics Software Inc. / Logiciels Omics, Inc. (Canada)
- Cascade Optical Ltd (Canada)
- Reseau Essilor in Canada Inc. / Essilor Network in Canada Inc., (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)
- Vision Web Inc. (USA)
- Econo-Optic Ltée (Canada)

\* Listed company.

## LAURENT VACHEROT

**60 years old**  
(Countries of citizenship: France and Canada)

**Number of shares:** 207,316

**Major position held within the Company:** President and Chief Operating Officer (beginning December 6, 2016)

**Business address:** Essilor International – 147, rue de Paris – 94227 Charenton Cedex (France)

### Personal information – Experience and expertise

Laurent Vacherot has been Essilor International's President and Chief Operating Officer since December 6, 2016, after having served as Chief Operating Officer since 2010.

Laurent Vacherot joined Essilor in 1991 as Senior Vice President, Business Analysis. He was President of Essilor Canada (1998-2005) and Essilor of America (2005-2007) before becoming Chief Financial Officer in 2007; during his tenure as Essilor's Chief Operating Officer in 2010, he was responsible for the Information & Technology Department, Investor Relations and the Latin America region. The Equipment and Instruments Divisions have reported to him in 2011. Laurent Vacherot has served as President and Chief Operating Officer since December 2016. Laurent Vacherot graduated from the École Nationale Supérieure des Télécommunications de Paris.

### Positions and terms of office held as of December 31, 2016

**President and Chief Operating Officer, Essilor International\***

#### Other Essilor group companies

##### Director:

- EOA Holding CO., Inc.
- Essilor of America, Inc. (USA)
- Satisloh AG (Switzerland)
- Satisloh Holding (Switzerland)
- Satisloh Photonics AG (Switzerland)

### Past positions and terms of office held over the five past years

**Chief Operating Officer**

- Essilor International\*

\* Listed company.

## PHILIPPE ALFROID

### Non-Independent Director

71 years old

(Country of citizenship: France)

Number of shares: 252,648

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

**First appointment as Director:** May 6, 1996

**Current term ends:** 2017

### 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 (Project Software and Development Inc.) in Boston before joining the Essilor group in 1972. He has held executive positions in various operational departments, including contact lenses and frames. He was appointed Senior Vice President, Business Analysis in 1987 and promoted to Chief Financial Officer in 1991. He was appointed Chief Executive Officer in 1996 (and became Chief Operating Officer in 2001). Philippe Alfroid brings to the Board his very broad knowledge of the Company where he was Chief Financial Officer before becoming a senior manager.

### Positions and terms of office held as of December 31, 2016

#### External companies (non Essilor group)

##### Director

- Eurogerm\*
- Gemalto N.V. (Netherlands)\*
- Wabtec Corporation (USA)\*

### Past positions and terms of office held over the five past years

#### Chairman of the Supervisory Board

- Faiveley Transport\* <sup>(a)</sup>

#### Director

- Essilor of America, Inc. (USA) <sup>(a)</sup>
- Faiveley Transport\*

\* Listed company.

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

## BENOÎT BAZIN

### Independent Director

47 years old

(Country of citizenship: France)

Number of shares: 1,011

**Major position:** Senior Executive Vice President at Compagnie de Saint-Gobain in charge of the Construction Products Division

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

**First appointment as Director:** May 15, 2009

**Current term ends:** 2018

### Personal information – Experience and expertise

Benoît Bazin, Chief Operating Officer at Compagnie de Saint-Gobain, in charge of the Construction Products Division since January 1, 2016. He began his career at Saint-Gobain in 1993 as a project manager. He was subsequently Chief Planning Officer of the Saint-Gobain group (2000-2002), Chief Executive Officer of the abrasives business segment – North America (2002-2005), Chief Financial Officer (2005-2009), then Senior Executive Vice President of Compagnie de Saint-Gobain in charge of the Building Distribution Division (2009-2015). Benoît Bazin brings to the Board his experience as former Chief Financial Officer and as senior manager of a major international industrial group.

### Positions and terms of office held as of December 31, 2016

Senior Executive Vice President at Compagnie de Saint-Gobain in charge of the Construction Products Division

#### Saint-Gobain group companies

##### President

- Saint-Gobain Produits pour la Construction SAS
- Saint-Gobain Matériaux de Construction SAS

##### Chairman of the Supervisory Board

- Saint-Gobain Weber

##### Chairman of the Board of Directors

- Saint-Gobain Isover
- Saint-Gobain Pam

##### Director

- Fondation Saint-Gobain Initiatives

#### External companies (non-Saint-Gobain group)

##### President

- Association Proquartet-Cemc

### Past positions and terms of office held over the five past years

#### Saint-Gobain group companies

##### President

- Saint-Gobain Distribution Bâtiment SAS
- Partidis SAS

##### Chairman of the Supervisory Board

- Point P S.A.
- Lapeyre

##### Chairman of the Board of Directors

- Projéo
- Saint-Gobain Distribution Nordic AB (Scandinavia)

##### Director

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

##### Member of the Supervisory Board

- Saint-Gobain Building Distribution Deutschland GmbH (Germany)
- Saint-Gobain Distribution The Netherlands B.V. (Netherlands)

## ANTOINE BERNARD DE SAINT-AFFRIQUE

### Independent Director

52 years old

(Country of citizenship: France)

Number of shares: 1,011

Major positions: Chief Executive Officer of Barry Callebaut (Switzerland)

Business address: Barry Callebaut, Pfingstweidstrasse 60, 8005 Zürich (Switzerland)

First appointment as Director: May 15, 2009

Current term ends: 2018

### Personal information – Experience and expertise

Antoine Bernard de Saint-Affrique is Chief Executive Officer of Barry Callebaut since October 1, 2015. After serving as Marketing Director of the Amora-Maille company (Danone group, then PAI), he joined the Unilever group in 2000. There he held the positions of Senior 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 Executive 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, then President of Unilever's foods business and member of the group's Executive Committee until September 30, 2015. Bernard de Saint-Affrique brings to the Board his international experience and his skills in marketing and sales.

### Positions and terms of office held as of December 31, 2016

Chief Executive Officer of Barry Callebaut (Switzerland)

#### Barry Callebaut group companies\*

Director

- Barry Callebaut Sourcing AG
- Barry Callebaut Cocoa AG

#### External companies (non-Barry Callebaut group)

Director

- Swiss Chamber of Commerce (AmCham) (Switzerland) <sup>(a)</sup>

### Past positions and terms of office held over the five past years

#### Unilever group companies

President, Unilever's foods business\*

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

Director

- Inmarko (Russian Federation)
- Icosmetics SAS

\* Listed company.

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

## MAUREEN CAVANAGH

### Director representing employee shareholders

53 years old

(Country of citizenship: USA)

Number of shares: 2,704

Major positions: President of Vision Impact Institute (USA)

Business address: 13515 N Stemmons Frwy – Dallas – TX – 75234 (USA)

**First appointment as Director:** November 27, 2012 <sup>(1)</sup> / May 16, 2013

**Current term ends:** 2019

### Personal information – Experience and expertise

Maureen Cavanagh has been President of the Vision Impact Institute (Dallas) since October 1, 2014 and was previously President of Nassau Lens Company and of OOGP since December 2009. After working at Johnson & Johnson, she joined the Essilor group in October 2005. Since May 2012, she has represented the Essilor Employee Shareholders' Association in the USA and has been a member of the Board of Directors. She brings to the Board her 25 years of experience and knowledge of the ophthalmic industry. In addition, she contributes to the broadening of international representation and diversity on the Board.

### Positions and terms of office held as of December 31, 2016

**President of Vision Impact Institute (USA)**

#### Essilor group companies

##### Chairman

- Vision Impact Institute (USA)

##### Member of the Board of Directors

- Valoptec Association

#### External companies (non Essilor group)

##### Chairman

- US Optical Women's Association

### Past positions and terms of office held over the five past years

#### Essilor group companies

##### Chairman

- Nassau Lens Co, Inc. (USA)

- OOGP, Inc. (USA)

##### Director

- Nassau Lens Co, Inc. (USA)

- OOGP, Inc. (USA)

- Shore Lens Co, Inc. (USA)

(1) Co-optation followed by ratification by the Shareholders' Meeting.

## JULIETTE FAVRE

**Director representing employee shareholders**

**44 years old**

**(Country of citizenship: France)**

**Number of shares: 3,309**

**Major positions:** Director of the Global Customer Service for the Instruments Division\*

**Business address:**

64bis avenue Aubert –  
94300 Vincennes (France)

**First appointment as Director:** May 5, 2015 (with effect from May 6, 2015)

**Current term ends:** 2017

**Personal information – Experience and expertise**

Juliette Favre is Director of Global Customer Service for the Instruments Division of the Essilor group and President of Valoptec Association. She began her career at SEITA as engineer in the industrial sector. She joined Essilor in 2000 in the Europe distribution sector to manage organization and support projects. In 2005, she joined the Research and Development Department as project manager in charge of New Products. In 2007, she was sent to Singapore to provide technological advisory to Asia-Pacific zone, then to Bangkok in 2009 in charge of Asia industrial engineering teams.

In 2012, she was appointed Industrial Director and returned to France to ensure industrial development of the Instruments Division and to add new service activities with high added value, based on the customer service and the supply chain.

### Positions and terms of office held as of December 31, 2016

**Director of Global Customer Service for the Instruments Division of the Essilor group**

#### Essilor group companies

**Chairman of the Board of Directors**

- Valoptec Association

**Chairman of the Supervisory Board**

- Valoptec International fund

### Past positions and terms of office held over the five past years

None

\* New position from February 1, 2017: head of the Lab 4.0 program for Satisloh



## HENRIETTA FORE

### Independent Director

68 years old

(Country of citizenship: USA)

Number of shares: 1,000

**Major positions:** Chairman and Chief Executive Officer, Holsman International

**Business address:** Holsman International – 1741 Village Center Circle – Las Vegas, NV 89134 (USA)

**First appointment as Director:** May 11, 2016

**Current term ends:** 2019

### Personal information – Experience and expertise

Henrietta Fore is Chairman of the Board of Directors and Chief Executive Officer of Holsman International. She also serves on the Boards of Directors of General Mills Inc., Exxon Mobil Corporation, and Theravance Biopharma Inc., all three of which are listed companies. From 2007 to 2009, Ms. Fore was Administrator of the United States Agency for International Development (USAID), and Director of United States Foreign Assistance. She was the first woman to hold these positions. From 2005 to 2007, Ms. Fore served as Under Secretary of State for Management (Chief Operating Officer for the Department of State). Ms. Fore served as the 37<sup>th</sup> Director of the United States Mint in the Department of Treasury from 2001 to 2005, a role for which she received the Alexander Hamilton Award in 2005, the Department of Treasury's highest honor. Previously, she had managed private companies specialized in the manufacturing of steel and cement products for use in the construction industry.

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### Positions and terms of office held as of December 31, 2016

**Chairman and Chief Executive Officer, Holsman International**

### Holsman International group companies

**Chairman and Chief Executive Officer**

### External companies (outside Holsman International)

#### Director

- General Mills, Inc. \*
- Exxon Mobil Corporation\*
- Theravance Biopharma Inc.\*
- Seaward International (private company)

#### Worldwide Co-Chair:

- Asia Society

#### Chairman

- Middle East Investment Initiative

#### Trustee

- Aspen Institute
- Center for Strategic and International Studies

### Past positions and terms of office held over the five past years

#### Co-Chair

- Women corporate directors

\* Listed company.

## LOUISE FRÉCHETTE

### Independent Director

70 years old

(Country of citizenship: Canada)

Number of shares: 1,000

Business address: Not applicable

**First appointment as Director:** May 11, 2012

**Current term ends:** 2018

### Personal information – Experience and expertise

Louise Fréchette is a member of the Board 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 knowledge of emerging countries and her experience in sustainable development and governance matters. She is Chairman of the CSR Committee.

### Positions and terms of office held as of December 31, 2016

#### Member of the Board of Directors

- Global Leadership Foundation (United Kingdom)

#### Chairman

- Care International (Switzerland) <sup>(a)</sup>

### Past positions and terms of office held over the five past years

#### Chairman of the Board of Directors

- Centre Pearson pour le Maintien de la Paix (Canada)
- Care Canada (Canada)

#### Member of the Board of Directors

- Centre Pearson pour le Maintien de la Paix (Canada)
- Conseil des relations internationales de Montréal (Canada)
- Care Canada (Canada)
- Care International (Switzerland)

<sup>(a)</sup> Term of office started during the fiscal year.

## YI HE

**Director representing employee shareholders****63 years old****(Country of citizenship: China)****Number of shares: 25,249****Major positions:** Chairman of Essilor (China) Holding Company**Business address:**

Essilor (China) Holding Co., Ltd, 11th Floor, Maxdo Center, no. 8 Xingyi Road – Changning District – Shanghai (China)

**First appointment as Director:** January 27, 2010 <sup>(1)</sup> / May 11, 2010**Current term ends:** 2017**Personal information – Experience and expertise**

Yi He is a Director representing the Valoptec Association. Since September 2010, he has been Chairman of Essilor (China) Holding Company. After studying Management and Strategy at École des Hautes Études Commerciales, in 1991 he joined the 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 as of December 31, 2016****Chairman of Essilor (China) Holding Company****Essilor group companies****Chairman and Director**

- Essilor (China) Holding Company

**Director**

- Shanghai Essilor Optical Company Ltd (China)
- Danyang ILT Optics Co., Ltd (China)
- Jiangsu Wanxin Optical Co., Ltd (China)
- Jiangsu Youli Optical Spectacles Ltd (China)
- Xin Tianhong Optical Co., Ltd (China)
- Shanghai Nvg Optics Co., Ltd (China)
- Xiamen Yarui Optical Company Ltd (China)
- Xiamen Artgri Optical Company Ltd (China)
- Xiamen Prosun Trading Co., Ltd (China)

**Member of the Board of Directors**

- Valoptec Association

**Member of the Supervisory Board**

- Essilor group 7-year French Employee Shareholding Fund (FCPE)

**External companies (non Essilor group)****Director**

- Sun Art Retail Group Ltd (China)\*
- HNA PV Tourism Co., Ltd <sup>(a)</sup>
- Photosynthesis group <sup>(a)</sup>

**Past positions and terms of office held over the five past years****Chief Executive Officer**

- Shanghai Essilor Optical Company Ltd (China)

(1) Co-optation followed by ratification by the Shareholders' Meeting.

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

\* Listed company.

## FRANCK HENRIONNET

**Director representing employees****45 years old****(Country of citizenship: France)****Number of shares: 2,314****Major positions:** European Service Center Manager at the Instrument Division of "La Compasserie" (Meuse – France)**Business address:** 61, rue Bontems – 55500 Ligny-en-Barrois (France)**First appointment as Director:** October 28, 2014 (Works Council appointment)**Current term ends:** 2017**Personal information – Experience and expertise**

Franck Henrionnet has been the head of the European Service Center at the Instrument Division of "La Compasserie" (Meuse – France) since January 2016. He joined Essilor in September 2006 as Quality Manager, Instrument Plant at "La Compasserie" until September 2010 and then was Production Manager at the Instrument Plant in Shanghai (China) until December 2012. From January 2013 to December 2015, he steered the Lean Manufacturing Project in the Instrument Division of "La Compasserie".

**Positions and terms of office held as of December 31, 2016****European Service Center Manager at the Instrument Division of "La Compasserie" (Meuse – France)**

## BERNARD HOURS

**Independent Director**  
**60 years old**  
**(Country of citizenship: France)**  
**Number of shares: 5,661**  
**Business address: Not applicable**

**First appointment as Director:** May 15, 2009

**Current term ends:** 2018

**Personal information – Experience and expertise**

Bernard Hours held the position of Chief Operating Officer of Danone from January 2008 to September 2014 and Vice President of the Board of Directors from April 2011 to October 2014. He had joined Danone in 1985 initially in sales and marketing for Evian and Kronenbourg then as Marketing Director for Danone France in 1990. He was subsequently Chief Executive Officer of Danone Hungary (1994), then of Danone Germany (1996) and lastly Chief Executive Officer of LU France in 1998. In 2001, he joined the Fresh Dairy Products Division as Chief Executive Officer, Business Development and became Vice-Chairman in 2002. Bernard Hours brings to the Board his experience as Director of a major international group and his knowledge of marketing and sales.

### Positions and terms of office held as of December 31, 2016

**Essilor group companies**

**Director**

- Essilor of America, Inc. (USA)

**External companies (non Essilor group)**

**Member of the Supervisory Board**

- Somfy SA\*

**Director**

- Medved Limited (United Kingdom)
- Verlinvest (Belgium)
- Vitacoco (USA)

### Past positions and terms of office held over the five past years

**Danone group companies**

**Chief Operating Officer and Vice-Chairman of the Board of Directors**

- Danone (SA)\*

**Chief Executive Officer**

- Danone Trading B.V. (Netherlands)

**Member of the Supervisory Board**

- Ceprodi

**Director**

- Danone (SA)\*
- Flam's
- Danone Industria (Russia)
- OJSC Unimilk Company (Russia)
- Fondation d'Entreprise Danone (Association)

**Permanent representative**

- Danone (SA) (Spain)

\* Listed company.

## ANNETTE MESSEMER

**Independent Director**

52 years old

**(Country of citizenship: Germany)****Number of shares:** 1,000**Major positions:** Divisional Board Member, Corporate Clients Commerzbank**Business address:** Commerzbank – Mainzer Landst. 153 – 60327 Frankfurt (Germany)**First appointment as Director:** May 11, 2016**Current term ends:** 2019**Personal information – Experience and expertise**

Annette Messemer is a Divisional Board Member, Corporate Clients at Commerzbank AG in Frankfurt am Main (Germany). She served on the Supervisory Board of WestLB AG in Düsseldorf (Germany) until 2011. She began her career as associate at JP Morgan before taking the position as Vice President in 1999 and then as Senior Banker at JP Morgan Chase in 2003. From 2006 to 2009, she served as Managing Director at Merrill Lynch. Annette Messemer is also a member of the Supervisory Board of K+S Aktiengesellschaft (Germany).

**Positions and terms of office held as of December 31, 2016****Divisional Board Member, Corporate Clients Commerzbank (AG)****Commerzbank group companies**

- Divisional Board Member, Corporate Clients

**External companies (non-Commerzbank group)****Member of the Supervisory Board**

- K+S Aktiengesellschaft (Germany)\*

**Past positions and terms of office held over the five past years****Commerzbank group companies****Member of the Supervisory Board**- Commerz Real AG (Germany) <sup>(a)</sup>

\* Listed company.

<sup>(a)</sup> Term of office expired during the fiscal year.



## MARC ONETTO

### Independent Director

66 years old

(Countries of citizenship: France and USA)

Number of shares: 1,009

Business address: Not applicable

**First appointment as Director:** May 05, 2015

**Current term ends:** 2018

### Personal information – Experience and expertise

Marc Onetto was Senior Vice President, Worldwide Operations and Customer Service at Amazon from 2006 to 2013, and Executive Vice President, Worldwide Operations for Soletron, a global leader in electronic manufacturing, from 2003 to 2006. Before joining Soletron, he held numerous positions with General Electric, including Vice President Operations Europe for GE Corporate and Vice President Supply Chain for GE Medical. Mr. Onetto brings to the Board his competency in the area of internet sales and logistics.

### Positions and terms of office held as of December 31, 2016

#### Director

- Flex Ltd (Singapore)\*
- Forward Ventures L.L.C. (United States)
- Coupang L.L.C. (United States)

#### Member of the Advisory Board

- Vidéodesk SA (France)
- Swap.com Services Oy (Finland)

### Past positions and terms of office held over the five past years

#### Senior Vice President Worldwide Operations and Customer Service

- Amazon

#### Chairman of the Board of Directors

- Friends of Alliance EMLyon / Centrale Lyon (USA)<sup>(a)</sup>

\* Listed company.

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

## OLIVIER PÉCOUX

**Non-Independent Director**

58 years old

**(Country of citizenship: France)****Number of shares:** 1,000**Major positions:** Chief Executive Officer, the Rothschild & Co group Managing Partner, Rothschild et Cie Banque**Business address:** Rothschild & Cie – 23bis avenue de Messine – 75008 Paris (France)**First appointment as Director:** January 31, 2001 <sup>(1)</sup> / May 3, 2001**Current term ends:** 2018**Personal information – Experience and expertise**

Olivier Pécoux is Chief Executive Officer of the Rothschild & Co group, which he joined in 1991. Since June 2012, he has been Executive Director of Rothschild & Co Gestion and General Partner of Rothschild & Co SCA. 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 that he has accompanied since 2001.

**Positions and terms of office held as of December 31, 2016**

**Chief Executive Officer, the Rothschild & Co group Managing Partner, Rothschild et Cie Banque**

**Rothschild group companies****Chief Executive Officer**

- the Rothschild & Co group\*

**Managing Partner**

- Rothschild et Cie Banque

**Chief Executive Officer**

- Rothschild & Co Gestion

**Director**

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

**External companies (non-Rothschild group)**

- Extend Capital

**Past positions and terms of office held over the five past years****Rothschild group companies****Member of the Executive Board**

- Paris Orléans

**Member of the Supervisory Board**

- Financière Rabelais

(1) Co-optation followed by ratification by the Shareholders' Meeting.

\* Listed company.

## 2.1.2 The Management Committee

Chaired by Hubert Sagnières and led by Laurent Vacherot, its mission is to deliberate and decide on strategic direction, monitor the Group's activity, promote interconnectivity between businesses, regions and functions, and ensure talent development.

As of January 1, 2017, the Management Committee had 10 members.

Jayanth	BHUVARAGHAN	Chief Mission Officer
Jean	CARRIER-GUILLOMET	Chief Operating Officer
Paul	DU SAILLANT	Chief Operating Officer
Frédéric	MATHIEU	Corporate Senior Vice President, Human Resources
Bernhard	NUESSER	President, Online
Géraldine	PICAUD	Chief Financial Officer
Hubert	SAGNIÈRES	Chairman and Chief Executive Officer
Jérémy	TEO	Chief Strategy Officer
Eric	THOREUX	President Sun, Readers and China
Laurent	VACHEROT	President and Chief Operating Officer

## 2.2 Chairman's Report on corporate governance

### Reference Code: the AFEP-MEDEF Code

Pursuant to Article L.225-37 of the French Commercial Code and in accordance with the decision of the Board of Directors' Meeting of March 4, 2009, the Company declares that it adheres to the AFEP-MEDEF Corporate Governance Code for listed companies of November 2016.

This Code can be viewed online at the following address: <http://www.medef.com>.

In accordance with the provisions of Article L.225-37, this report includes the Chairman's Report on:

- ▶ the composition of the Board and the application of the principle of balanced representation of men and women;
- ▶ the conditions governing the preparation and organization of the work of the Board of Directors during the fiscal year ended December 31, 2016;
- ▶ the internal control and risk management procedures implemented by the Company (see Section 2.2.3);
- ▶ the restrictions on the powers of the Chief Executive Officer decided by the Board of Directors;
- ▶ the specific procedures for shareholder participation in Shareholders' Meetings;
- ▶ the principles and rules applied by the Board of Directors to determine Executive Corporate Officers' compensation and benefits (see Chapter 2.3);

▶ the information that may have an impact in the event of a public offering is described in Chapter 5, Section 5.2.6.2.

In accordance with the recommendations of the AFEP-MEDEF Code and the AMF, this report includes a summary table (Chapter 2.4) which identifies the provisions of the Code that were not implemented and explains the reasons for these choices.

This report was prepared following certain procedures, mostly performed by the Secretary of the Board of Directors and, as regards part 2.2.3 of the report, in close collaboration with the Internal Audit Department, based on written consultation and discussion with the heads (at corporate level) of the various internal control sectors within the Group. It was presented to the Audit and Risk Committee during its meeting of February 14, 2017, before being submitted to the Board of Directors for approval. This makes it possible for priorities and work in progress to be validated and for awareness of the importance of internal controls to the Company to be raised. The drafting of this report was also guided by the principles set out in the AMF's reference framework on the risk management and internal control mechanisms of listed companies. Lastly, the content of this report was approved by the Board of Directors on February 16, 2017 and was updated on March 22 to include a change in the composition of the Board of Directors.

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 special committees of the Board, but also as regards the Company's internal control procedures.

### 2.2.1 Composition of the Board of Directors

Article 12 of Essilor's bylaws stipulates that the Company is administered by a Board of Directors of at least three members and no more than fifteen, excluding the Directors representing employee shareholders (referred to in Article 24.4 of the bylaws) and the Director representing employees.

As of December 31, 2016, the Board of Directors of Essilor was composed of fourteen members, including three Directors representing employee shareholders and one Director representing employees whose term of office began on October 28, 2014. The composition of the Board and the committees is reviewed each year, under the authority of the Nominations Committee, as part of the Board of Directors' self-assessment.

The principles which guide the composition of the Board of Directors are as follows:

- ▶ the search for a balance between experienced Directors with extensive knowledge of the Group on the one hand and, on the other, new Directors who contribute experience which can serve the Group and its future development;
- ▶ diversity of backgrounds and skills. As part of this, in 2015 and in 2016 the Nominations Committee continued its selection work with a view to appointing an increased number of women, Independent Directors and individuals with an international background.

It is in this context that changes in the composition of the Board of Directors have been submitted for approval by the Shareholders' Meetings held in 2015 and 2016 and will be submitted for approval by the Shareholders' Meeting of May 11, 2017.

**Proposals to be submitted for approval by the Shareholders' Meeting of May 11, 2017:**

The Board of Directors, upon Nominations Committee proposals, will submit to the approval of the Shareholders' Meetings on May 11, 2017, the renewal of the term of office of Ms. Juliette FAVRE, Messrs. Philippe ALFROID, Yi HE and Hubert SAGNIÈRES as well as the ratification of the cooptation as Director of Ms. Jeanette WONG appointed on March 22, 2017 by the Board of Directors in replacement of Mr. Benoît BAZIN.

**Jeanette Wong** is a DBS group executive responsible for Institutional Banking, which encompasses Corporate Banking, Global Transactions Services, Strategic Advisory, and Mergers and Acquisitions. From 2003 to 2008, she served as Chief Financial Officer of the DBS group.

Prior to joining DBS Bank, Jeanette Wong was at JP Morgan for 16 years. During her tenure at JP Morgan, she had regional responsibilities for the global markets and emerging markets sales and trading business in Asia and was also JP Morgan's head for Singapore from 1997 to 2002.

Jeanette Wong began her career in 1982 at Banque Paribas and then moved to Citibank from 1984 to 1986 before joining JP Morgan in 1986.

**Jeanette Wong** also served in the following positions and organizations:

- ▶ Chairman: DBS Bank Taiwan;
- ▶ Member of the following Boards of Directors: DBS Bank Limited (China), Singapore International Arbitration Centre;
- ▶ Member of the Advisory Board of the National University of Singapore Business School and member of the Global Advisory Board of the University of Chicago Booth School of Business;
- ▶ Member of the Singapore Capital Markets Committee under the Monetary Authority of Singapore.

Ms. Wong will bring to the Board her financial expertise and her knowledge of international and specifically Asian markets.

The Board also proposes the appointment of Laurent Vacherot as a new Director (see biography on page 39), it being noted that Laurent Vacherot was appointed President and Chief Operating Officer by the Board of Directors on December 6, 2016. This change in the organizational structure addresses the increase in operational demands caused by the change in the size of the

Group and the new strategic and managerial challenges. In fact, over the past few years Essilor has seen sustained growth in its traditional businesses and accelerated development in its new sun wear and online activities. At the same time, the Group's geographic expansion has opened vast new markets in Latin America, the Middle East, Asia and Africa.

**Laurent Vacherot** has been Essilor International's President and Chief Operating Officer since December 6, 2016, after having served as Chief Operating Officer since 2010.

Laurent Vacherot joined Essilor in 1991 as Senior Vice President, Business Analysis. He managed the business in Canada and then the United States before becoming Chief Financial Officer in 2007; during his tenure as Essilor's Chief Operating Officer in 2010, he was responsible for the Information & Technology Department, Investor Relations and the Latin America region. The Equipment and Instruments Divisions have reported to him since 2011. Since his appointment as President and Chief Operating Officer he has been supervising all the operational managers, who report directly to him. Laurent Vacherot graduated from "École Nationale Supérieure des Télécommunications de Paris".

The reappointments and new appointment are proposed for a new three-year period or until the date of completion of the combination with Luxottica, at which point the composition of the Board of Directors will be amended, subject to adoption of the corresponding resolutions by the Shareholders' Meeting of May 11, 2017.

Subject to the approval of the Shareholders' Meeting of May 11, 2017, the Board of Directors would be composed of 15 members:

- ▶ seven Directors would be independent pursuant to the French AFEP-MEDEF Corporate Governance Code to which Essilor refers and the Board's independence ratio would be 63.6% in accordance with the rules of that Code (see Section 2.2.1.5 below);
- ▶ six Directors would be women, i.e. 42.9% in accordance with the rules of the Code (see Section 2.2.1.2 below);
- ▶ six nationalities would be represented (see Section 2.2.1.1 below).

These long-awaited changes form part of the management of the term and turnover of directorships (see Section 2.2.1.3 below).

The complete list of the positions of Directors in office is given, as required by law, in Chapter 2 of the 2016 Registration Document, "Corporate Governance".

**2.2.1.1 Expertise and experience of Directors**

Members of the Board of Directors contribute management expertise and/or experience to the Company in a variety of areas, including general and practical business knowledge, expertise in a specific Essilor International business segment or several years' experience in managing international companies. This diversity and complementarity of backgrounds is also a result of the internationalization of the Board of Directors, which included

individuals of five different nationalities as of December 31, 2016 (German, French, Canadian, American and Chinese) and six since March 22, 2017, date of the cooptation as Director of Ms Jeanette Wong, a Singaporean national.

For more details, see the list of directorships and their respective nationalities in Section 2.1.1.2.

The Company's Directors have a duty to be vigilant and exercise complete freedom of judgment.

Above all, this freedom of judgment allows them to participate independently in the decisions or work of the Board and, if necessary, the special Board committees.

### 2.2.1.2 Representation of women on the Board of Directors

The Board of Directors, which currently includes six women among its 13 Directors (excluding the Director representing employees, who is not counted in accordance with the French Law and the AFEP-MEDEF Code) *i.e.* 46% under the AFEP-MEDEF Code, complies with the provisions of Law No. 2011-103 of January 27, 2011 regarding balanced representation of men and women.

See also "Major accomplishments of the Nominations Committee in 2016" in Section 2.2.2.6.

### 2.2.1.3 Directors' term

Directors are currently appointed for a term of three years, which may be renewed. The Board of Directors is renewed each year during the Ordinary Shareholders' Meeting called to approve the financial statements for the previous fiscal year, so that the entire Board is re-elected over a rolling three-year period. The Shareholders' Meeting of May 7, 2014 approved a revised version of Article 14 of the bylaws, which was intended to facilitate such a harmonious renewal and to prepare for changes in the aforementioned composition of the Board of Directors.

The records pertaining to each Director (Chapter 2.1) mention the start and end dates of their directorships and the table below, which notes the end date for the term of each Director, shows balanced time phasing.

#### End dates of the current directorships (as of March 22, 2017):

Members of the Board of Directors	2016	2017	2018	2019
Hubert Sagnières		X		
Philippe Alfroid		X		
Antoine Bernard de Saint-Affrique			X	
Maureen Cavanagh	X			X
Juliette Favre*	(a)	X		
Henrietta Fore	(b)			X
Louise Fréchette			X	
Yi He		X		
Franck Henrionnet		X		
Bernard Hours			X	
Annette Messemer	(b)			X
Marc Onetto			X	
Olivier Pécoux			X	
Jeanette Wong		(c)	X	
<b>TOTAL RENEWALS</b>	<b>4</b>	<b>6</b>	<b>6</b>	<b>3</b>

(a) Juliette Favre was co-opted by the Board of Directors on May 6, 2015 for the remaining term of the directorship of Aicha Mokdahi, *i.e.*, until the close of the 2017 Annual Shareholders' Meeting; ratification of the co-optation of Juliette Favre was submitted for approval by the 2016 Shareholders' Meeting.

(b) Directors appointed during the Shareholders' Meeting of May 11, 2016.

(c) Jeanette Wong was co-opted by the Board of Directors from March 22, 2017 for the remaining term of the directorship of Benoît Bazin, *i.e.*, until the close of the 2018 Annual Shareholders' Meeting; ratification of the appointment of Jeanette Wong will be submitted for approval by the 2017 Shareholders' Meeting.



#### 2.2.1.4 Obligation of Directors appointed by Shareholders' Meetings to hold shares

In accordance with Article 13 of the bylaws in force as of December 31, 2016, each Director appointed by Shareholders' Meetings must own at least 1,000 shares of the Company. As an exception, the Director representing employees is not required to hold shares, pursuant to Article L.225-25 of the French Commercial Code.

The records relating to each Director (Chapter 2.1) state the number of shares held by each of them.

#### 2.2.1.5 Independence of the members of the Board of Directors

The criteria for determining Board members' independence are set out in the Company's internal rules as adopted by the Board of Directors 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 they have no relationship of any kind whatsoever with the Company, the Group or the management thereof which may color their judgment. In particular, a Board member does not qualify as an Independent Director if:

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

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

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

- ▶ the composition of the share capital of the Company;
- ▶ and whether there exists a potential conflict of interest."

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

At its meeting of December 6, 2016, the Board of Directors, on the recommendation of the Nominations Committee and after having reviewed the situation of each Director with regard to the independence criteria established by the AFEP-MEDEF Code, concluded that out of the 14 Board members, seven could be considered independent, namely:

- ▶ Benoît Bazin, Antoine Bernard de Saint-Affrique, Henrietta Fore, Louise Fréchette, Bernard Hours, Annette Messemer and Marc Onetto.

As of December 31, 2016, the independence ratio of the Board was 70%, pursuant to the recommendations of the AFEP-MEDEF Code (*i.e.*, not including the three Directors representing employee shareholders and the Director representing employees).

The Board is of the opinion that none of these Directors who qualified as independent had any material business relationships with the Company and its Group. In particular, it is especially noted that:

- ▶ the Saint-Gobain group, where Benoît Bazin is an officer, has no significant current business with the Company;
- ▶ the business dealings between Essilor International and Commerzbank AG, where Annette Messemer serves as a Director in the Corporate Clients Division at Commerzbank AG in Frankfurt (Germany) were analyzed. The possibility for Essilor International of having access to a panel of banks, in a competitive environment, excludes any dependent relationship with regard to Commerzbank AG. The remuneration received by the accounts with the bank represents an insignificant amount of its revenue and is not therefore liable to create a dependent relationship vis-à-vis Essilor International.

In addition, in light of the low value of both the credit commitments granted by the bank to Essilor International (or its Group) and the value of the transactions between Essilor International and Commerzbank AG, Annette Messemer is deemed an Independent Director.

However, the following Directors did not qualify as independent:

- ▶ Hubert Sagnières, Chairman and Chief Executive Officer since January 2, 2012;
- ▶ Philippe Alfroid, Chief Operating Officer until June 30, 2009, who remained a Director after his retirement on that date and whose term has exceeded 12 years;
- ▶ Olivier Pécoux, a Director whose term has exceeded 12 years. Mr. Alfroid and Mr. Pécoux, whose respective terms have exceeded 12 years, are not considered as Independent Directors, pursuant to the recommendations of the AFEP-MEDEF Code. That said, the individuals concerned have always demonstrated an independence of mind and the holding of office over time constitutes an assurance of the capacity to act freely;
- ▶ the three Directors representing the employee shareholders: Maureen Cavanagh, Juliette Favre, Yi He;
- ▶ the Director representing employees: Franck Henrionnet.

The proportion of Independent Directors at the close of the Shareholders' Meeting of May 11, 2017 would be equal to 63.6% pursuant to the recommendations of the AFEP-MEDEF Code, subject to approval of the resolutions put to the vote. As part of reviewing the application of Jeanette Wong (see Section 2.2.1), it was noted that there was no financial flow between Essilor International and DBS Bank.

**Summary table detailing each Director's compliance or non-compliance with regard to the independence criteria of the AFEP-MEDEF Code (updated on March 22, 2017)**

The criteria used to rule out the qualification of independence are indicated by the letter "X".

Directors	AFEP-MEDEF independence criteria					
	Employee or Executive Board Director		Cross-directorships	Is a client, supplier, investment banker or financing banker (significant business relationships)	Has a close family tie with a corporate director	Has been a Statutory Auditor of Essilor International over the past five years
	of Essilor International or a Group company	of Essilor International during the previous five years				
<b>Hubert SAGNIÈRES</b>	X					
<b>Philippe ALFROID</b>						X
Antoine BERNARD DE SAINT-AFFRIQUE						
<b>Maureen CAVANAGH</b>	X					
Henrietta FORE						
<b>Juliette FAVRE</b>	X					
Louise FRÉCHETTE						
<b>Yi HE</b>	X					
<b>Franck HENRIONNET</b>	X					
Bernard HOURS						
Annette MESSEMER						
Marc ONETTO						
<b>Olivier PÉCOUX</b>						X
Jeanette WONG						
<i>Independent.</i>						

### 2.2.1.6 Directors' ethical awareness

#### **No potential conflicts of interest**

In accordance with the Directors' Charter (Section 2.2.2.1), Directors have an obligation to inform the Board of any conflict of interest, even potential, and must refrain from participating in votes for corresponding resolutions and in discussions preceding this vote, including the work of special Board committees.

Participation of the Director in a transaction in which the Company, or any other Group company, is directly involved is brought to the attention of the Board of Directors prior to the completion of that transaction.

As part of an annual declaration, the Director informs the Board of Directors of the terms of office and positions they hold in other companies and must request the opinion of the Board prior to accepting any new directorship.

The Director must, more specifically, make an annual declaration of any conflicts of interest, even potential, they have detected. On the basis of these declarations, the Board of Directors has identified no conflicts of interest. The information referred to in Appendix 1 of European Commission Regulation (EC) No 809/2004 of April 29, 2004 below contains additional information.

Based on the information above, to the best of the Company's knowledge:

- ▶ there are no potential conflicts of interest between the duties, with regard to the issuer, and the private interests and/or other duties with regard to third-parties, of any of the members of the Company's Board of Directors. To this end, the Directors' Charter stipulates that Directors have an obligation to inform the Board of any conflict of interest, even potential, and must refrain from participating in the deliberations related thereto;
- ▶ none of the Executive or non-Executive Board Directors has a service contract with Essilor or any of its subsidiaries providing for the award of benefits at the end of such contract;
- ▶ none of the Executive or non-Executive Board Directors has been convicted of a fraudulent offense in the past five years;
- ▶ in the past five years, none of the Executive or non-Executive Board Directors has been involved in a case of bankruptcy, receivership or liquidation as a member of a Board, a management or supervisory body or as a Chief Executive Officer;

- ▶ none of the Executive or non-Executive Board Directors has been publicly charged and/or sanctioned by statutory or regulatory bodies (including designated professional bodies);
- ▶ there are no family ties between the members of the Board of Directors.

### Insider dealing rules

During its meeting of December 6, 2016, the Board of Directors reviewed the applicable regulations regarding the prevention of insider misconduct, especially as regards periods during which transactions involving Essilor International securities are prohibited. Consequently, on December 6, 2016, the Board approved changes to the Directors' Charter, which, above all, included the obligation for anybody with privileged information to refrain from performing, having a third-party perform or allowing another party to perform transactions involving the Company's securities based on this information, during the period in which this information has not yet been made public

(Articles 8, 10 and 14 of European Regulation No. 596/2014 of April 16, 2014 relating to the Market Abuse Regulation (MAR). The charter indicates that Directors must, in addition to the period preceding the publication of any privileged information of which they are aware, refrain from performing any transaction involving securities during the abstention periods set in accordance with **Article 19.11 of the MAR and of the AMF guide on "permanent information and of the management of privileged information of October 26, 2016."**

Lastly, Directors inform the AMF of transactions they performed or transactions performed by individuals with whom they are closely associated involving Essilor International securities, annually. These individual securities transaction reporting obligations are covered in the Directors' Charter, which is reviewed annually by the Board.

The summary statement of transactions involving Essilor International securities carried out in 2016 by the corporate officers is included in Section 2.3.5.

## 2.2.2 Preparation and organization of the work of the Board of Directors

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 and revised several times, and by a Directors' Charter. These documents are reviewed annually by the Board of Directors, as part of the self-assessment of the operations of the Board of Directors, in order to account, above all, for changes in regulations and in the AFEP-MEDEF Code. The main elements of these two documents are reproduced or summarized below. The complete version of these documents is also available, along with the bylaws, under the "Group / A unique governance model" section of the Company's website.

### 2.2.2.1 Internal rules of the Board of Directors and the Directors' Charter

The internal rules of the Board of Directors and the Directors' Charter, whose current versions were updated on December 6, 2016, describe (i) the operating methods for the Board and the committees and (ii) the rights and obligations of each Director of Essilor International respectively.

The charter requires each Board member to commit to regularly attending meetings of the Board of Directors and Shareholders' Meetings, to informing the Board of Directors of any potential or actual conflict of interest, and to refraining from participating in the corresponding proceedings, including the work of special Board committees. Board members must also keep the Board informed of directorships held in other French and foreign companies and, in the case of Executive Board Directors, seek the opinion of the Board before accepting a new corporate office. Directors must consider themselves subject to an obligation of professional secrecy as regards information which is not public and which they have come to know in the course of their duties; this goes further than the obligation of discretion provided for in Article L.225-37-4 of the French Commercial Code.

The main amendments made in 2016 to the internal rules of the Board and the charter mainly concerned the following points:

- ▶ updates in accordance with recommendations in the AFEP-MEDEF Code of November 2016;
- ▶ consecutive updates to changes in regulations regarding audit and market abuse matters.

### 2.2.2.2 Roles and responsibilities of the Board of Directors

The Board of Directors is a collegial body whose roles 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 (i) any acquisition or sale, as part of the new business / new country strategy, which exceeds €100 million and (ii) any acquisition or sale other than those referred to in (i) which exceeds €150 million. These transactions are subject to formal approval by the Board;
- ▶ approve material restructuring and investment projects that do not form part of the stated strategy;
- ▶ monitor the 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 the Company's tradition of managerial excellence is maintained;
- ▶ discuss and, if appropriate, approve the choice of candidates for election as corporate officers and their compensation on the recommendation of the Executive Officers and Remuneration Committee;

- ▶ discuss and, if appropriate, approve the appointment of the members of the special Board committees on the recommendation of the Nominations Committee;
- ▶ discuss and, if appropriate, approve Group Senior Management succession plans and major organizational changes;
- ▶ review the procedures for identifying, evaluating, auditing and monitoring the Group’s commitments and risks;
- ▶ monitor the Group’s financial reporting so as to ensure that investors receive relevant, balanced and strategic information on the Company’s strategy, development model and long-term outlook.

On the recommendation of the Nominations 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. The structure of the tasks allocated to each committee as well as their respective compositions are reviewed by the Board of Directors on an annual basis, as part of the self-assessment of the operation of the Board of Directors.

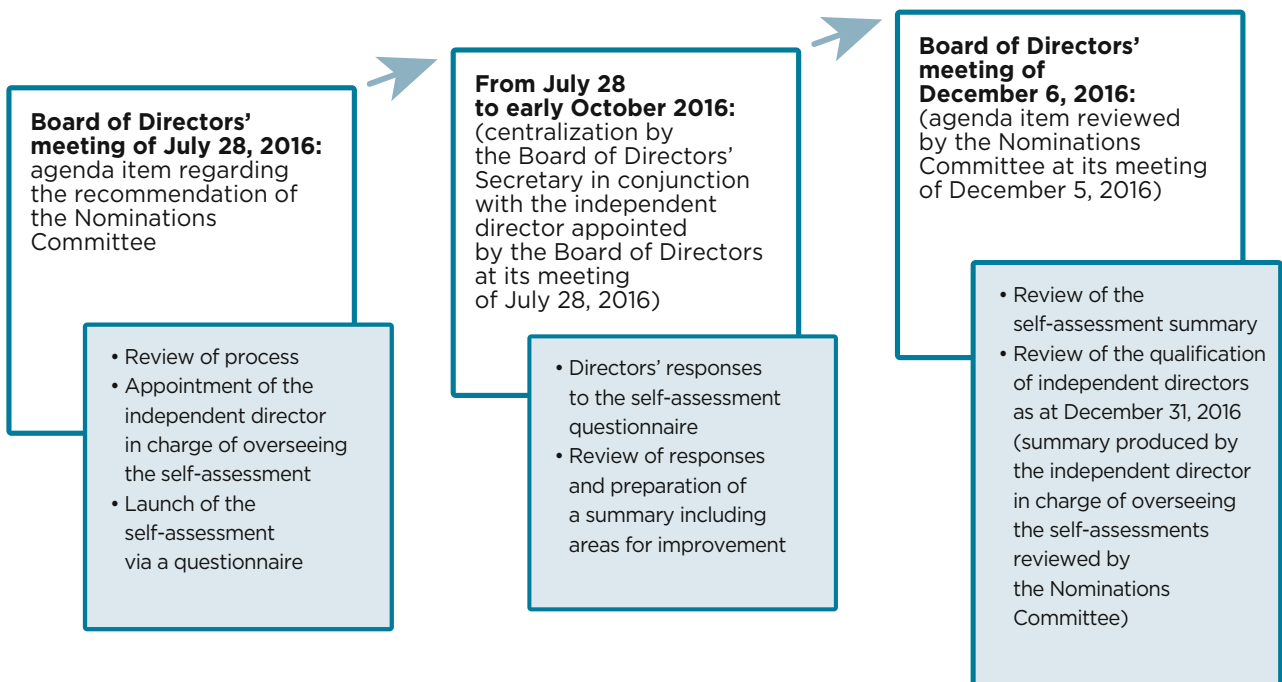
**2.2.2.3 Self-assessment of the operation of the Board**

A formal assessment of the operation of the Board of Directors has been performed on an annual basis since 2004 and its objectives are as follows: review the operating procedures of the Board, ensure that important issues are suitably prepared and discussed, and measure the contribution of each Director to the Board’s accomplishments.

The assessment takes place over several months and is included in two specific items on the agenda for meetings of the Board of Directors:

- ▶ during the launch of the process whereby the Board of Directors approves the methodology and appoints one Independent Director responsible for overseeing it;
- ▶ when the findings of the self-assessment are announced by said Independent Director, after having previously been shared with the Nominations Committee.

In 2016, a new formal self-assessment was entrusted to an Independent Director, assisted by the Secretary of the Board of Directors, under the authority of the Nominations Committee following the process described below:



The Directors meet at least once a year without the Executive Board Directors in attendance, in particular to conduct the performance evaluation of the Chairman and Chief Executive Officer.

The results of the 2016 self-assessment highlight a positive overall assessment of the operation of the Board and committees, a strong involvement of all the Directors and particularly the Directors representing employees and shareholder employees whose accrued contribution was welcomed; this was facilitated specifically by setting up a simultaneous translation to consider the internationalization of the composition of the Board of Directors, which has moreover improved the management of public speaking identified in 2015 as an area for improvement. The quality of the documents, presentations and communication

deadlines, and especially the editing deadline of the minutes comprise the subjects of satisfaction; the Directors particularly noted the respectful atmosphere of the exchanges and their constructive nature conducive to the inclusion of concerns and the freedom of expression.

The Directors welcomed the progress made since 2014 regarding the diversification of the composition of the Board of Directors (the representation of men and women, nationality, international experience, etc.); this movement continues with the candidacy of Jeanette Wong, Director of Singaporean nationality, which will be submitted for approval by the Shareholders' Meeting on May 11, 2017.

The Nominations Committee's long-standing commitment to this process will enable the 40% minimum threshold of Directors of the same gender to be reached in 2017.

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

- ▶ less graphic presentations in the files attached to the meeting notices in order to increase comprehension;
- ▶ increased importance given to the Company's overall strategy and further development of certain subject areas.

At the end of this assessment, the internal rules of the Board of Directors and the Directors' Charter have been updated.

#### 2.2.2.4 Information and training for the Board of Directors

##### Information

All documents that are necessary for informing the Board members about the agenda and any matters to be discussed by the Board are enclosed with the notice of meeting or sent, handed to or otherwise made available to them within a reasonable period in advance of the meeting.

These documents are sent via a secure digital platform within a reasonable time frame prior to the meeting.

Each Board member is required to ensure that they have all the information they deem essential to the proper conduct of the work of the Board or the special Board committees. If any information is not made available or if a Director believes that information may have been withheld, they must ask for it to be supplied. Board members' requests are made to the Chairman of the Board (or the Chief Executive Officer if the two positions are separated), who is obliged to ensure that Board members are able to fulfill their duties.

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

As in prior years, Board members were informed of the blackout periods for 2017, during which they may not trade in Essilor International shares or any instruments that have Essilor International shares as their underlying, either directly or through a third-party. They were also given a copy of the ethics guidelines drawn up by the Company, which state that Board members are considered as insiders because they regularly receive price-sensitive and other confidential information.

##### Training

Directors may receive training upon their appointment or throughout their directorship. These training sessions are organized and provided by the Company, at its expense. Directors may, if they deem it necessary, receive additional training in the specifics of the Company, its business and its industry.

Upon their appointment, the members of the Audit and Risk Committee are provided with specific details about the Company's accounting, financial and operational practices. Thus prior to her first meeting, Annette Messemer, appointed to the Audit and Risk Committee, met with the Chief Operating Officer, Laurent Vacherot, as well as the Chief Financial Officer, Géraldine Picaud. The internal rules of the Board and the Directors' Charter, updated on December 6, 2016, expressly provide that any new Director is given a welcome pack including all documents pertaining to the governance of Essilor International and the option of participating in an integration program.

In 2016, Franck Henrionnet, Director representing employees, underwent internal and external training in finance, governance and compliance. Juliette Favre, Director representing employee shareholders, and Louise Fréchette attended at least one training program given by the French Institute of Directors (*Institut Français des Administrateurs* – IFA), which included "The Director's Day," in October 2016.

#### 2.2.2.5 Meetings of the Board of Directors in 2016

The Board meets as often as necessary in the Company's interest, and at least five times per year. The dates of the Board Meetings for the following year are set by August 31 at the latest, except in the event of an Extraordinary Meeting. The Independent Directors meet without the Executive Directors in attendance, in particular to conduct the performance evaluation of the Chairman and Chief Executive Officer.

In accordance with the internal rules of the Board, Directors are convened at least seven days prior to each meeting. The Statutory Auditors are invited to attend the Board Meetings called to review the interim and annual financial statements, as provided for in Article L.823-17 of the French Commercial Code. As in prior years, the Works Council representatives on the Company's Board of Directors attended all Board Meetings held in 2016.

In 2016, the Board of Directors held five meetings on the dates set out in the schedule established in 2015, including one meeting focused on the Group's strategy. The average duration of the meetings was three hours.

#### Increased commitment from the members of the Board of Directors

In addition to participation in the meetings of the Board and the committees, the organization and preparation of these meetings requires increased availability and commitment from Directors. Between meetings, Directors must spend even more time examining information and documents. More specifically, an Independent Director is appointed in order to supervise the progress of the Board's annual self-assessment and the members of the Nominations Committee are contacted periodically so that they can meet potential candidates for directorships. The Chairmen of the committees make an active contribution in preparing the schedule for the committees' work and in preparing agendas.

In 2016, the members of the Nominations Committee and the Executive Officers and Remuneration Committee worked together on the development of the Essilor International organization leading

to the appointment of Laurent Vacherot as President and Chief Operating Officer beginning December 6, 2016 and to the proposal to appoint him as a Director during the Shareholders' Meeting of May 11, 2017.

### Attendance of the members of the Board of Directors

The Company's bylaws state that Directors may participate in certain meetings by using videoconferencing or other forms of telecommunications, with the exception of those cases explicitly stipulated, such as the approval of the financial statements and preparation of the Management Report. The internal rules state that Directors who participate in this way are considered to be present when calculating the quorum and voting majority for the meeting.

In 2016, the members of the Nominations Committee used videoconferencing or telecommunication during one of their meetings; Directors' fees were not paid for this meeting.

Furthermore, all the Directors were present at the Combined Shareholders' Meeting of May 11, 2016.

The table below shows the number of Board and committee meetings held during the 2016 fiscal year, as well as their members as of December 31, 2016 and the individual attendance at each of these meetings. The average attendance of the Directors at Board Meetings was close to 99% for all meetings of the Board and the committees.

	Board of Directors	Audit and Risk Committee	Executive Officers and Remuneration Committee	Nominations Committee	Strategy Committee	CSR Committee
<b>NUMBER OF MEETINGS IN 2016</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>3</b>
<b>Participation (%)</b>						
Hubert SAGNIÈRES	100%				100%	100%
Philippe ALFROID	100%	100%		100%	100%	
Benoît BAZIN	100%	100%			100%	
Antoine BERNARD						
DE SAINT-AFFRIQUE	80%	100%			75%	
Maureen CAVANAGH	100%				100%	
Yves CHEVILLOTTE <sup>(a)</sup>	100%	100%		100%	100%	
Juliette FAVRE	100%	100%	100%		100%	100%
Xavier FONTANET <sup>(a)</sup>	100%			100%	100%	
Henrietta FORE <sup>(a)</sup>	100%		100%		100%	
Louise FRÉCHETTE	100%				100%	100%
Yi HE	100%				100%	
Franck HENRIONNET	100%					
Bernard HOURS	100%		100%	100%	100%	100%
Maurice MARCHAND-TONEL <sup>(a)</sup>	100%		100%	100%	100%	
Annette MESSEMER	100%	100%			100%	
Marc ONETTO	100%		100%			
Olivier PÉCOUX	80%			100%	75%	
Michel ROSE <sup>(a)</sup>	100%		100%	100%	100%	

<sup>(a)</sup> Incoming or outgoing Directors during the fiscal year (see the Director records in Section 2.1.1.2 for additional information).

### Major accomplishments of the Board of Directors in 2016

The matters discussed by the Board in fiscal year 2016 and the decisions taken covered a wide range of areas, including:

- **business development:** at each meeting planned in the annual schedule (excluding exceptional meetings convened to deliberate on a strategic transaction), the Chairman and Chief Executive Officer presented the Company's general position for the previous period: changes in key financial indicators, "key events" in the commercial and technical fields, state of competition, consolidation of acquired businesses, etc.;
- **2016 budget:** reviewed at one meeting at the beginning of the fiscal year;

- **financial statements:** examination and/or closure of the 2015 annual financial statements and the half-yearly financial statements, and the provisional financial statements, having heard the reports from the Audit and Risk Committee and the Statutory Auditors. On this occasion, the financial position and cash flow statement were reviewed;
- **external growth:** during each planned meeting on the schedule, the Board receives information about and debates acquisition transactions which are underway or are being considered. Furthermore, the Board is informed beforehand of the Company's general external growth policy, based on the reports of the Strategy Committee; the financing arrangements for external growth operations are also reviewed.



- ▶ **financial authorizations:** approval of an authorization to issue bonds and the related delegations of powers to the Chairman and Chief Executive Officer; delegation of powers given to the Chairman and Chief Executive Officer with the effect of formally recording the increase in capital after the dividend payment in shares approved by the Shareholders' Meeting of May 11, 2016, as well as the delegation of powers to implement the share buyback program authorized by the 10<sup>th</sup> resolution of said Shareholders' Meeting; authorization to issue sureties, endorsements and guarantees and to delegate to the Chairman and Chief Executive Officer, with the option to sub-delegate, his power to grant the Company's guarantee within the overall annual limit of €400 million;
- ▶ **notice of Shareholders' Meeting:** review and approval of draft resolutions to be submitted to the Shareholders' Meeting of May 11, 2017;
- ▶ **governance:** amendment of the composition of the committees; update of the internal rules of the Board of Directors and the Directors' Charter; information for Directors on the main changes in regulations (European Regulations on market abuse, Sapin II Law, etc.); completion of the annual self-assessment and examination, based on the recommendations of the Nominations Committee, of its composition and anticipated changes (see Section 2.2.2.3), and annual review of the independence qualification of the members (see Section 2.2.1.5); the Board of Directors has also decided, on recommendation of the Nominations Committee and the Executive Officers and Remuneration Committee, to develop the organization of governance through the appointment of a President and Chief Operating Officer whose position was effective December 6, 2016 and to propose the appointment of the latter as a Director during the next Shareholders' Meeting; with regard to the compensation of corporate officers, the Board has (i) reviewed the amount of Directors' fees to be submitted for approval by the Shareholders' Meeting of May 11, 2017, (ii) set the compensation of the Chairman and Chief Executive Officer and that of the President and Chief Operating Officer on the occasion of the appointment of the latter and authorized the signature of the corresponding related party agreements described in the Statutory Auditors' Report in Section 2.6; the Board has approved the compensation policy applicable to Executive Corporate Officers, which will be submitted for approval by the Shareholders' Meeting of May 11, 2017, and the drafts of the Management Report and this Chairman's Report;
- ▶ **compliance:** in addition to the reports created by the Audit and Risks Committee on its work, the Board of Directors reviewed, under a specific agenda item, the progress made in matters of internal control in order to support the growth of the Group;
- ▶ **corporate social responsibility:** review of the reports with regard to non-financial reporting, and especially Chapter 4 of this Registration Document; presentation of Corporate Mission activities as well as the management policy for suppliers, taking into account environmental, and hygiene and safety issues;
- ▶ **employee-related issues:** information on Company developments in employee-related matters in 2015 (results of the survey taken with employees on a group-wide basis, changes in the number of employees, major trade union negotiations, Company policy regarding equal

employment opportunity and pay, etc.), decision to award capped performance-based stock options and performance shares to employees in France and the major foreign subsidiaries pursuant to the 14<sup>th</sup>, 15<sup>th</sup> and 16<sup>th</sup> resolutions of the Shareholders' Meeting of May 5, 2015, completion of a capital increase reserved for employees who are members of a company savings plan pursuant to the 12<sup>th</sup> resolution of the Shareholders' Meeting of May 11, 2016 (see Section 5.2.1.4); examination of the opinion issued by the Central Works Council regarding strategic direction;

- ▶ **committees' Reports:** the Board heard, for the preparation of its deliberations above in the areas that concern them respectively, reports from the Audit and Risk Committee, the Nominations Committee, the Executive Officers and Remuneration Committee, the Strategy Committee and the Corporate Social Responsibility Committee.

### Minutes

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

### 2.2.2.6 Committees of the Board of Directors

On the recommendation of the Nominations Committee, the Board may create special committees and set the rules governing their remit and composition. The latest update to the composition of the committees was made during the meeting of the Board of Directors of May 11, 2016 and the Board's self-assessment of December 6, 2016 prompted no new changes. These committees act on the authority delegated to them by the Board and make recommendations and proposals to the Board. In fact, the committees must not replace the Board, but are an offshoot which facilitates its work.

### Audit and Risk Committee

#### Composition

The internal rules of the Board of Directors stipulate that the Audit and Risk Committee is to be comprised of at least three members, appointed by the Board of Directors from among the Directors of Essilor. At least two-thirds of the committee's members must be Independent Directors. The members of the Audit Committee cannot hold Senior Management positions, nor can they serve as Executive Board Directors of the Company. They should have specific expertise in accounting and financial matters.

The Audit and Risk Committee is chaired by an Independent Director appointed by the Board of Directors on the recommendation of the Nominations Committee. Their appointment or renewal, which is proposed by the Nominations Committee, is subject to particularly close scrutiny by the Board of Directors.

Effective March 22, 2017, the Audit and Risk Committee was chaired by Annette Messemer.

As of March 22, 2017, the Audit Committee also included Philippe Alfroid (from July 1, 2009), Juliette Favre and Jeanette Wong. All of these individuals have, during the course of their career, undertaken tasks which require financial and accounting skills.



### Role

Under the Board of Directors' internal rules and in accordance with Article L.823-19 of the French Commercial Code, the Audit and Risk Committee, acting under the responsibility of the Board of Directors, follows up on issues related to the preparation and control of accounting and financial information.

Without encroaching upon the responsibilities of Senior Management, the Audit and Risk Committee is tasked with overseeing:

- ▶ the process for the preparation of financial information;
- ▶ the effectiveness of internal control and risk management systems;
- ▶ the statutory audit of the annual financial statements and, if applicable, the consolidated financial statements by the Statutory Auditors;
- ▶ the Statutory Auditors' independence;
- ▶ and, generally speaking, the review of all financial statements presented during the year.

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

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

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

- ▶ the integrity of the financial statements:
  - ▶ presentation of the half-yearly and annual financial statements and elements of the associated Registration Document to the Audit and Risk Committee,
  - ▶ review of the key assumptions impacting the recognition and reporting of any material changes made to the accounting principles;
- ▶ the effectiveness of internal control and major risk management procedures:
  - ▶ understanding of how the Company identifies, evaluates, anticipates and manages its key financial, operational, compliance and reporting risks (on the contrary, the committee is not responsible for investigating issues related to strategic risks or to risks related to governance unless requested otherwise by the Board), assessment of the competence, availability and positioning of the organization in charge of monitoring the Company's risk control,
  - ▶ issuing recommendations, if necessary, for the (i) implementation of corrective actions in the event of material weaknesses or misstatements, (ii) improvement of existing procedures, and (iii), if required, the introduction of new procedures;
- ▶ the Audit and Risk Committee may also be consulted by the Board or by Senior 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 measures 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:
  - ▶ monitoring of the performance of the Statutory Auditors' assignments, review of their intervention program and the conclusions of their procedures,
  - ▶ during the appointment of the Statutory Auditors, performance of the selection procedure by holding a tender offer for various firms (except for reappointments) and issuance of a recommendation to the Board of Directors on the Statutory Auditors,
  - ▶ resolution of potential disagreements between the positions of the Statutory Auditors and Senior Management,
  - ▶ authorization of services other than the auditing of the financial statements, pursuant to the applicable law or regulations, which are likely to be entrusted to the Statutory Auditors and their network,
  - ▶ review and evaluation of the qualifications, performance, fees, independence and compliance with the rules of professional incompatibility of the Statutory Auditors, including the main partner,
  - ▶ review of the rotation regulations applicable to the main partner and evaluation of the need for rotation among the Statutory Auditors,
  - ▶ review of the Statutory Auditors' Reports, information brought to the attention of the Board pursuant to Article L.823-16 of the French Commercial Code and the responses provided by Senior Management, including the quality of internal control procedures and the preparation process for financial information;
- ▶ the performance of internal audits:
  - ▶ review of the Internal Audit Charter, its role and scope of work,
  - ▶ review of the budget, resources and means available to the internal audit team,
  - ▶ review of the proposed audit plan for the year by the Internal Audit Director,
  - ▶ review of the main results presented by the Internal Audit Director,
  - ▶ review of the effectiveness of the Internal Audit Department.

In accordance with the internal rules of the Board of Directors, "the committee is endeavoring to meet at least two days before the Board Meeting, at least for meetings whose agenda involves the review of financial statements (annual and half-yearly financial statements).

In order to successfully complete their mission, the members of the Audit and Risk Committee must have a minimum of five days to familiarize themselves in advance with supporting documents for the discussions and, above all, to examine the financial statements prior to publication".

### Major accomplishments in 2016

The work of this committee is based on the recommendations of the AMF Audit Committee Working Group of June 14, 2010 and the committee's self-assessment performed in December 2016 as part of the Board of Directors' self-assessment.

The Audit and Risk Committee met four times (with a participation rate of 100% for the year) and heard the Group Chief Financial Officer, the Secretary to the Board of Directors, the Group Chief Legal Officer, the Group Internal Audit Director, the Chief Information Officer and the Statutory Auditors.

The committee discussed the following topics at these meetings:

- ▶ financial statements: review of the 2015 annual financial statements, 2016 half-yearly financial statements and the provisional management documents; (this review, which was carried out with sufficient time, at least two days before the relevant meetings of the Board of Directors, was accompanied by a presentation by the Chief Financial Officer on the Company's significant off-balance-sheet commitments); monitoring of the information in the quarterly financial statements; review of changes in the accounting and tax regulation (IFRS standards and in country specific reporting); information on the sureties, endorsements and guarantees granted in 2016 as part of the delegation of authority granted by the Board of Directors at its meeting of December 2, 2015;
- ▶ roles of the Statutory Auditors: review of the changes following the European Regulations in matters of internal audit and specifically the approval of a procedure relating to the authorization of services other than the auditing of the financial statements, which are likely to be entrusted to the Statutory Auditors of Essilor and their network: monitoring of the rotation of signers within PricewaterhouseCoopers Audit;
- ▶ internal audits and internal control: presentation of the development of the organization associated with the creation of an Internal Audit Department and review of its road map; presentation of financial reporting tools, the 2017 internal audit plan as part of the multi-year roadmap with monitoring of internal and external audit assignments, presentation of the internal audit roadmap, the Chairman's Report on corporate governance and internal control, performance indicators, budget and review (productivity measurement) of internal audit activities and the self-assessment process of internal control and related Group risks, referred to as "iCare";
- ▶ finance: review of the share buyback policy, off-balance sheet commitments, financing and rating, post-acquisition review; presentation of the tax structuring and information on the draft regulation concerning the introduction of new country-by-country tax reporting;
- ▶ presentation and review of current regulations: European reform of the audit and the European Regulation on data protection;

- ▶ risk control: presentation of information systems, information security systems, cybercrime, legal compliance program and action plan (particularly in matters of competition law and corruption prevention, personal data protection, economic sanctions etc.); monitoring of the group-wide rollout procedure of whistle blowing mechanism;
- ▶ litigation and fraud;
- ▶ preparation of the 2017 work schedule.

The Audit and Risk Committee also met with the Statutory Auditors without the Group executives in attendance.

On February 14, 2017, the 2016 consolidated financial statements were reviewed by the Audit and Risk Committee.

### **Nominations Committee**

#### Composition

The internal rules of the Board of Directors stipulate that the Nominations Committee is comprised of a maximum of six members, at least half of whom are, in principle, appointed from among the Independent Directors. The Chairman is appointed by the Board after approval by the members of the Nominations Committee.

As at March 22, 2017, the Nominations Committee was chaired by Olivier Pécoux, and comprised of Philippe Alfroid and Bernard Hours, Independent Director within the meaning of the AFEP-MEDEF Code (see table in Section 2.4 relating to the "comply or explain" principle). The Chairman and Chief Executive Officer and a Director representing employee shareholders are involved in the work of the committee.

#### Role

As described in the Board's internal rules, the role of the Nominations 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 recommendations to improve the operations of the Board;
- ▶ identify Independent Directors to be approved by the Board;
- ▶ evaluate Directors' performance;
- ▶ manage the Board's development process and Directors' performance;
- ▶ suggest people to the Board of Directors as members of the special committees;
- ▶ reflect on the composition of the Board of Directors and any possible developments;
- ▶ prepare for a change of Directors, if necessary.

### Major accomplishments in 2016

The committee met five times in 2016 (with a participation rate of 100% for the year), including one meeting held by means of telecommunications.

It reviewed the following matters:

- ▶ review, related to the Executive Officers and Remuneration Committee, of the development of the organization associated with the appointment of Laurent Vacherot as President and Chief Operating Officer and the proposal to present his candidacy as a Director;
- ▶ review of draft resolutions for submission to the Shareholders' Meeting regarding the composition of the Board of Directors;
- ▶ confirmation of the Independent Director classification given to certain Directors, following a review conducted by one of the Independent Directors (see Section 2.2.1.5);
- ▶ consideration of potential candidates for directorships and preparation of the reappointments over the next few years (especially in terms of improving the gender balance) and consideration of the composition of the committees;
- ▶ monitoring of training given to the Director representing employees (2016 training and planned 2017 training);
- ▶ review of the findings of the Board's self-assessment (see Section 2.2.2.3).

### **Executive Officers and Remuneration Committee**

#### Composition

The Board of Directors' internal rules provides that the Executive Officers and Remuneration Committee is to have at least three Independent Directors of Essilor International.

There are no Executive Board Directors on the committee. The committee is chaired by a Director appointed by the Board from among the independent members.

As at March 22, 2017, the Executive Officers and Remuneration Committee was chaired by Bernard Hours, and comprised of Henrietta Fore and Marc Onetto, all three of whom are Independent Directors.

#### Role

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

- ▶ make recommendations regarding the compensation of corporate officers (Executive Corporate Officers and Directors);
- ▶ make recommendations regarding the award of stock options and/or free "performance" shares for these Executive Corporate Officers and regarding the number of shares from options exercised or performance shares that Executive Corporate Officers must retain until their term is over;
- ▶ review the Company's general compensation policies;
- ▶ submit the draft report regarding compensation to the Board on an annual basis. The Shareholders' Meeting must make a decision regarding this report as part of an advisory vote;
- ▶ make recommendations to the Board regarding the selection of Executive Corporate Officers;
- ▶ assist the Chairman and the Board in the Group's Senior Management succession planning and their plans for major organizational changes.

#### Major accomplishments in 2016

The Executive Officers and Remuneration Committee met six times in 2016 (with a participation rate of 100% for the year) to consider the following topics to submit recommendations to the Board:

- ▶ review the 2015 performance of the Chairman and Chief Executive Officer for the final calculation of his variable compensation for the previous fiscal year;
- ▶ rules for determining the variable compensation of the Chairman and Chief Executive Officer for fiscal year 2015;
- ▶ review of a benchmark for the compensation of executives of comparable companies;
- ▶ review of the budget for Directors' fees, in preparation for the Shareholders' Meeting of May 11, 2017;
- ▶ the structure and components of the compensation of the Chairman and Chief Executive Officer for fiscal year 2016;
- ▶ review of the draft 2016 bonus share and stock option plans;
- ▶ review of the consequences inherent in regulatory changes (Macron Law, Sapin II Law) and those related to the amended AFEP-MEDEF Code of November 2016;
- ▶ review, related to the Nominations Committee, of the development of the organization associated with the appointment of Laurent Vacherot as President and Chief Operating Officer and the proposal to present his candidacy as a Director.

### **Strategy Committee**

#### Composition

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

#### Role

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

#### Major accomplishments in 2016

The Strategy Committee met four times in 2016 (with a participation rate of 97.22% for the year).

The committee reviewed the following matters:

- ▶ the acquisitions (review of plans and post-acquisition review);
- ▶ the technological developments and the research and development roadmap;
- ▶ the development of the business in Africa;
- ▶ the presentation of the Essilor Mission.

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

### The Corporate Social Responsibility (CSR) Committee

#### Composition

The CSR Committee was established following the deliberations of the Board during their meeting of February 27, 2013. The internal rules, which were amended for this purpose, provide that the CSR Committee must be comprised of a minimum of four members and a maximum of six members. Among these members, there must be two Independent Directors, as well as the Chairman and Chief Executive Officer and a Non-Independent Director representing the employee shareholders.

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

As at March 22, 2017, the CSR Committee was chaired by Louise Fréchette (Independent Director) and comprised Antoine Bernard de Saint-Affrique (Independent Director), Juliette Favre and Hubert Sagnières.

#### Role

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

Its scope covers all areas of corporate social responsibility relating to the Group's mission and activities.

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

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

- ▶ examine the main opportunities and risks for the Group and for all stakeholders regarding challenges specific to its role and activities;
- ▶ remain informed and help to define and approve the scope of the Group's general CSR policy as required;

- ▶ oversee the implementation and gradual rollout of this policy and its initiatives;
- ▶ guide the Board of Directors on the Group's long-term development, including its economic development, through its CSR initiatives in the field of sight and its improvement;
- ▶ assess the risks, identify new opportunities, take account of the impact of the CSR policy in terms of economic performance and evaluate the impact for the Group of investments with social and societal goals in different businesses and in all countries;
- ▶ ensure that the Group's interests are protected and anticipate potential conflicts of interest regarding CSR investments and other Group activities;
- ▶ once a year, review a summary of the ratings given to the Group and its subsidiaries by rating agencies and via non-financial analyses;
- ▶ issue an opinion regarding the CSR Report to be published pursuant to legal obligations (Article L.225-102-1 of the French Commercial Code).

#### Major accomplishments in 2016

During 2016, the committee met three times (with a participation rate of 100% for the year) and discussed the following topics:

- ▶ review of the progress made in the Mission activities and, in particular, the development of new, innovative, inclusive socio-economic models through the 2.5 New Vision Generation Division (see Chapter 4.3.3);
- ▶ the supplier management policy, with the Supplier Sustainability Program (SSP) (see Chapter 4.6.3);
- ▶ the performance of the Environment, Hygiene and Safety (EHS) Department (see Chapter 4.5);
- ▶ the non-financial reporting and related performance, as well as the review of the reports published regarding CSR and especially pursuant to regulatory obligations under the French Grenelle 2 Law.

### 2.2.3 Internal control procedures implemented by Essilor

Essilor's system of internal control procedures exists pursuant to the legal framework applicable to companies listed on Euronext and is guided by the reference framework for risk management and internal control mechanisms published by the AMF on July 22, 2010.

#### 2.2.3.1 Company internal control objectives

Generally speaking, internal controls at Essilor are a mechanism that is applicable to the parent company and its consolidated subsidiaries in France and abroad ("the Group") (see Section 2.2.3.3). Their aim is to ensure that:

- ▶ the achievement of economic and financial targets 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 its assets, perform properly;
- ▶ the Group's accounting and financial information is reliable and fairly presented.

Internal control contributes to the disciplined management of the business, the effectiveness 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.

More specifically, the purpose of internal control is to:

- ▶ ensure that management actions, executions of transactions, and staff behavior, fall within the scope defined by the guidelines applicable to activities undertaken by the Company's corporate bodies. This includes compliance with applicable

laws and regulations, as well as values, standards and rules internal to the Company;

- ▶ verify the quality and accuracy of all accounting, financial, legal and management information reported to the Company's corporate bodies, the regulatory or supervisory authorities, shareholders or the public;
- ▶ cover all of the Company's implemented policies and procedures that provide reasonable assurance that business is managed efficiently and effectively.

One of the goals of the internal control system is to prevent and limit the risk of error or fraud, particularly of an economic, financial or legal nature, to which the Group may be exposed. However, no control system can provide an absolute guarantee that all such risks have been completely avoided, eliminated or brought under control, or that the Group's objectives will be met. In fact, 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, for example.

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

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

### 2.2.3.2 Components of the internal control mechanism

#### *Control environment and Group values*

The control environment that underlies the internal control mechanism plays an essential role at Essilor. It was built through a long history of commitment and a very strong entrepreneurial culture on the part of employees and executives. This foundation enables 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 launched in 2011 and updated in 2014 by the Legal and Human Resources Departments and is the product of a broad consultation and gathering of proposals from around the world, forms the basis of this environment and makes it possible to share Essilor's mission, principles and values. The document is organized based on three major concepts which give Essilor's employees and partners the feeling of sharing the reputation and responsibilities of their Group in the broadest sense: a position as a world leader, rapid global expansion and a strong corporate culture. The document is currently available in 33 languages on the Group's intranet site and on its website.

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

Sharing and respecting our common principles and values help us, in our day-to-day work, to live out the mission and spirit of our Company, which consists of offering everyone ways to "improve sight to improve life" 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.

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 the Group 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 Group culture in a very real way. The members of Valoptec and other employee shareholders together hold 14.2% of Essilor International's voting rights. The association's bylaws are regularly updated and reviewed to ensure they are aligned with its development.

#### *Organization of internal control*

The internal control is 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 for each individual to fulfill his or her responsibilities;
- ▶ a system that aims to identify and analyze the main identifiable risks with respect to our Company objectives and to ensure 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 system and regular reviews of its operations.

### 2.2.3.3 Key control activities and key players

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

The departments with specific responsibility for monitoring activities are:

#### *Internal audit and internal control*

The ACS (Audit & Consulting Services) Department covers internal audits and the Group's internal control, with a total dedicated staff of 25 people and its Director as of December 31, 2016. Geographically, the ACS staff as of that date included employees located at the registered office in Charenton (seven people for Corporate, Europe and Africa operations), Dallas (six people for



North America operations), Singapore (six people for Asia-Pacific and Middle East operations and the Director of the department) and Rio de Janeiro (four people for Central America and South America operations) and Shanghai (one person). The ACS Director reports to the President and Chief Operating Officer. This Director has no authority over nor responsibility for the operations they control. The internal audit team also reports on its activities to the Audit and Risk Committee.

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

ACS regularly compares itself to the good practices in place within Internal Audit Departments at other companies. The substantial progress made in several fields in recent years – regarding its operating methods and internal efficiency – allowed ACS to win the "Innovation Prize" organized by the IFACI (French Institute of Internal Control) and its partners aiming to better capture and distinguish best practices for businesses and public organizations on innovation in the internal audit and internal control sector. In its area of work, ACS is thus part of Essilor's long tradition of innovation at all levels.

In an effort to continuously improve, ACS has set itself new performance goals in terms of governance, risk management and internal control, mandate, human resources, technology, quality and value creation. The challenges faced by ACS (with the challenges associated with a fast-growing company and a highly decentralized operating model) are also shared with the main partners in the internal audit – including Essilor's Senior Management and Executive Committee, as well as the Audit and Risk Committee.

Since September, 2016, Essilor has also strengthened its organization of internal control by creating a new department reporting to the Group Finance Department whose main role, limited to the means allocated to it, is to establish a specific internal control mechanism with the purpose of strengthening the reliability of the local and consolidated financial reporting, to limit the risk of financial fraud. This department also has a goal to improve the knowledge of Group rules related to financial processes and to support the local Finance teams in setting up action plans identified after the failures revealed during the external and internal audits and as a result of the self-assessment process of internal control related to financial processes.

To this end, this Group department located at the registered office in Charenton created a network of internal controllers at the region, country and business unit level which will, at first, drive the roles and responsibilities as well as the short- and medium-term roadmap.

### Consolidation

The Group's consolidated financial statements are prepared by the Group Consolidation and Reporting Department. The department is responsible for updating consolidation procedures that are first presented to the Audit and Risk Committee. With the support of regional Finance Departments, this department 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 Group Consolidation and Reporting Department receives detailed financial statements according to a set schedule, performs a full review of the financial statements and makes the adjustments required for the preparation of the consolidated financial statements. These are audited by the 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 period-ends on June 30 and December 31, a hard-close procedure is performed as of 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 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 coordinates projection phases (forecasts, budget, based on the strategic plan defined by the Group Strategy Department).

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

### Sustainable development

The Corporate Sustainability Department plays a cross-functional role. This cross-functional unit is primarily responsible for anticipating and influencing changes in the business and analyzing the economic, human and environmental consequences, to enable the Company and its stakeholders to benefit from the opportunities that arise and to take account of and warn

management of possible risks. As such, it defines and coordinates the sustainable development policy and is responsible for the Group's non-financial reporting.

### **Environment, Health and Safety (EHS)**

The Global Environment, Health and Safety (EHS) Department reports directly to the SVP of Operations and Business Equipment with a dotted-line reporting relationship to the Corporate Sustainability Department. It is responsible for applying the Group's common safety policy to protect individuals, facilities and assets, prevent industrial risks, preserve employees' health and protect the environment. The department coordinates the network of EHS representatives and sets up programs and systems to ensure regulatory compliance and continually improve the Group's EHS performance. It also provides technical expertise in the areas of REACH, chemical products management, fire protection, equipment safety, transportation of hazardous materials, ergonomics, reduction of water and energy consumption, etc.) to other Group departments.

### **Legal Affairs**

The Group Legal Department advises and assists all departments of the Group and its subsidiaries in preventing risks and litigation. It is responsible for negotiating and drafting contracts, including those relating to external growth, in order to ensure that the warranties obtained are aligned with the related risks. It is located in North America, South America, China, France, India, Israel, Singapore, Switzerland and Thailand.

As part of its risk management policy, the Group Legal Department includes the use of arbitration in as many contracts as possible. In addition, the department plays a key role in meeting legal and regulatory compliance objectives.

The department advises the Group regarding good corporate governance practices. It regularly attends meetings of the Audit and Risk Committee, the Corporate Social Responsibility Committee and the Strategy Committee. It ensures that executives from the parent company, regions and subsidiaries are aware of potential liability risks for the Company and proposes legal solutions which contribute to strengthening the control environment. It provides answers to all legal questions raised by the various departments of the Group in a French and international legal and regulatory environment that is increasingly complex and burdensome and in an increasingly competitive operating environment.

The Group Legal Department has a contracts database that is constantly updated. It keeps an up-to-date list of claims and lawsuits filed by or against the Group (such as judicial disputes and intellectual property disputes) and hosts information memoranda on its intranet site announcing changes in legal or insurance rules or practices. To help enhance the reliability and quality of legal and financial information on the Group's many subsidiaries, the department has integrated a web-enabled intranet application to manage and update legal and governance information on these subsidiaries.

The Insurance unit, which is part of the Group Legal Department, also 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 (see Section 1.6.5).

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 the prevention of corruption, money laundering, fraud, and economic and international financial sanctions. Its main purpose is to inform and educate senior managers about legal risks, communicate and formalize good practices and ensure that this policy is truly effective by gradually building a culture of compliance within the Group. The legal risk prevention and management system is aimed at raising awareness and informing, auditing, training, controlling and reporting with regard to legal action and risks.

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 across the Group.

The Essilor Principles and Values are one of the formal bases for the risk prevention policy. These Principles were supplemented by the Principles governing relations with partners in connection with external growth, allowing for compliance with the prevention policy when integrating new partners.

Within this framework, central and local legal teams throughout the world continue to take targeted action to sensitize managers (including partners' managers) to, and inform them of, identified risks (e.g., competition and corruption law). This sensitizing and informative action is supplemented by e-learning training programs for which local Human Resources Departments are responsible, in coordination with the Corporate Training Department. The results were presented to Senior Management and to the Audit and Risk Committee.

The results of these awareness-raising actions, the legal risks and the actions to be implemented (legal audits, implementation of compliance programs and a good practices guide) are regularly presented to the Executive Committee by the Group Chief Legal Officer, who may also arrange for inclusion of topics or reports on the Executive Committee agenda in order to raise the appropriate level of awareness. Thus, at a local level, legal experts also regularly report on compliance actions implemented alongside the priorities for improvement at the subsidiary Management Committee Meetings.

As part of the continued improvement of the legal risk prevention and management policy, Essilor performs the following actions:

- ▶ continuation of the rollout of the competition compliance program via the updating of legal audits (Italy and Spain), the organization of awareness training sessions and exchanges with the local teams in Germany, Benelux, Poland, Great Britain (Nikon Optical), India, Malaysia, Latin America (Brazil, Columbia, Argentina and Mexico) and with the Mission teams

(in Singapore), and the new wave of manager training sessions throughout the world using a competition e-learning module available on the Essilor University platform. The program was also enriched with new training tools, notably a search exercise in the United Kingdom and a new competition e-training module in the USA. It was finally rolled out in Satisloh, with the deployment of management training, and in China. The results of this program are regularly presented to the Audit and Risk Committee;

- ▶ setting up of the Competition unit within the Group Legal Department and organization of competition support consistent with the merger-acquisition transactions throughout the world (Turkey, Chili and the United Kingdom for online sales) and with the monitoring of commitments made by the Group before the competition authorities (Costa Rica, Columbia); launching of projects with the Europe Legal Department concerning commercial and distribution practices and setting up of active support for commercial negotiations in the region;
- ▶ dissemination to the top management of e-learning modules on the subject of the prevention of corruption and conflicts of interest for Group employees, and a "manager kit" for new managers worldwide;
- ▶ formalization of a good practice guide and guidelines at Group level to prevent corruption and fraud. This guide serves as the corpus of the Group's fundamental rules and common principles in this field and is applicable to all of its subsidiaries and partners. It will be rolled out to the Group's managers and employees with the Group Human Resources Department and local HR teams. It is available in several languages (French, English, Spanish, Portuguese and Mandarin) and can be accessed on the Essilor University platform;
- ▶ implementation of the Group "gifting" and conflicts of interest policy;
- ▶ updating, in collaboration with the Audit and Internal Control Department, of the conflict of interest declaration monitoring procedure with annual reporting on the status of signatures provided by local Human Resources Departments.

A Compliance unit was established within the Group Legal Department under the authority of a Chief Compliance Officer, who reports to the Group Chief Legal Officer. This unit ensures coordination and consistency of the Group legal risk prevention and management policy, supporting local teams who are responsible for applying this policy. It is responsible for the formalization and rollout of policies in this area. To this end, and in order to ensure effective implementation of the compliance actions, a network of compliance representatives comprised mainly of operational and legal experts has been gradually implemented, with a dotted line reporting to the Chief Compliance Officer. This network is key for the local dissemination of the compliance culture throughout the Group and the rollout of the compliance policy. It ensures the monitoring and reporting of the compliance actions implemented.

A Compliance Committee was also set up. It includes the Chief Compliance Officer, the Chief Legal Officer, the Chief Human Resources Officer and the Internal Audit Director. Meeting every

six months, its mission is to ensure monitoring of the compliance policy and report on potential breaches.

Furthermore, as part of the new European obligations and extra territorial laws on legal compliance regarding personal data protection, a legal manager specializing in this area was appointed to implement group-wide compliance with European Regulation on personal data protection.

For the purposes of promoting insider trading rules and preventing money laundering and corruption, a memorandum has been available to all Group employees for several years on the intranet for the Group Legal Department. This memorandum was supplemented by an audio kit popularizing the legal financial information obligations. 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.

Lastly, compliance measures are communicated regularly in internal publications such as Connection, Essilor, and "Repères" and all documentation, comprised of briefing notes, presentations, good practice sheets and guides, and the list of "dos and don'ts", and multimedia materials are bilingual (French / English) or translated into local languages to ensure that the compliance policy is applied consistently throughout the Group.

A legal book was prepared which includes good legal practices and is widely accessible via a dedicated website, and was the subject of a communication by the Group Chief Legal Officer.

The action plan for 2017 for the rollout of the legal compliance policy was prepared by the Chief Compliance Officer and his team and was presented by the Group Chief Legal Officer to the Audit and Risk Committee. This action plan, concerning the prevention of corruption and the protection of personal data, addresses the legal obligations of the French Law of December 9, 2016 called "Sapin 2" on the transparency of economic life (covering, in particular, the mapping of corruption risks, awareness raising, training and the sanctions and whistle blowing policy) and of European Regulation.

Under this new legal context, an overall whistle blowing policy concerning legal, financial and Human Resources risks will be set up in collaboration with the Human Resources Department.

### Quality

The Quality and Client Satisfaction Department reports hierarchically to the Senior Vice President, Global Engineering (member of the Executive Committee). Its four core aims are to:

- ▶ satisfy clients, in terms of products and services, taking into account the diversity and variation of expectations, in accordance with client segments;
- ▶ improve the efficiency and consistency of internal processes, aligning them with the overall strategic objectives and measuring their efficiency;
- ▶ control the factual nature of decision-making processes (results focus);



- ▶ represent the Essilor group in standardization bodies and promote the interests of consumers on these bodies.

To carry out its tasks, the Quality and Client Satisfaction Department works with local teams to increase familiarity with market realities and boost the Company's responsiveness, especially as regards:

- ▶ defining roles and responsibilities;
- ▶ setting goals;
- ▶ defining and reviewing action plans;
- ▶ developing skills.

2016 saw the creation of Expertise Quality Centers in all locations (Danyang, Bangkok, Rio, Dallas and Créteil). These include expert resources and control and analysis equipment. They are key structural components of the quality system and aim to improve the understanding of local trends and increase the Group's responsiveness as regards quality and customer satisfaction issues.

### **Mergers and acquisitions**

The Mergers and Acquisitions Department reports to the Group Finance Department and defines the Group's external growth policy and coordinates initiatives in subsidiaries to ensure consistency. With the support of local M&A Departments which report functionally to it, the department also analyzes, monitors and validates the financial aspects of the Group's various planned business acquisitions and has the authority to approve the financial terms of such acquisitions or disposals. Group entities can never approve the acquisition of external companies, assets or business segments or the total or partial sale of Group companies, assets or business segments on their own. All external growth operations (including disposals) are submitted to the Board of Directors prior to being implemented. Projects worth 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 approved by the Board of Directors.

### **Group treasury**

The Group Treasury Department is in charge of ensuring 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 Group Finance Department.

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

Cash investments are subject to a policy that encourages safety and liquidity on the return. Cash surpluses are invested only in

short-term instruments (mutual funds, bank deposits, negotiable debt securities), 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 bulk of foreign exchange risk to be concentrated 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, although 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 relating to financial instruments.

### **2.2.3.4 Reference texts, standards, procedures and membership of bodies that structure the internal audits**

#### **Group Standard Guide**

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

The GSG brings together the various elements of internal control covering diverse organizational processes, including fixed assets, inventories, sales / clients, cash, purchasing, on- and off-balance sheet commitments, tax reporting, R&D and production start-up costs, production accounting, fraud prevention, project benefit obligation procedures, insurance, human resources, legal affairs, consolidation, and acquisition of companies, assets and businesses. It also includes ethical criteria that are applicable to the entire Group and focused around four themes: human rights, working conditions, the environment and the fight against corruption.

The GSG is accessible online in French and English on the Group's intranet site and via 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 to the Group's entities. The latest developments in the Group's rules are covered by a specific communication at the time of their inclusion in the manual (newsletter and intranet announcement).

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

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

### **Unified reporting system**

In order to ensure the quality and reliability of its financial information, Essilor has a unified reporting system ("CARS – Consolidation And Reporting System"), which enables both the production of financial statements for the Group as well as the reporting of financial performance indicators and provisional information.

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, cash, inventories, capital expenditure and specification of 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 "CARS" complies with the Group's accounting policies and procedures. The use of this tool guarantees consistent treatment of the information and enables us to exercise regular control over the preparation of the financial statements of the various Group entities.

### **Other reporting systems**

The unified reporting system now includes a twinned application, "Sustainability," which can be used to report economic, human (social and societal) and environmental data as well as produce the statements containing Group non-financial data reported by the Group Sustainability 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.

The Group has numerous information systems to manage, monitor, analyze and secure both upstream activities (production / logistics) and downstream activities (prescription / distribution).

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

Moreover, each function has the responsibility to document (in line with the GSG rules) the specific procedures to follow. An intranet

charter makes it possible to coordinate internationally the various actions related to the circulation and sharing of information via the Essilor intranet.

### **Indices of corporate social responsibility and adherence to international initiatives**

Essilor is included in six "Social Responsibility" indexes, specialized in the evaluation of the Company's commitment to sustainable development: DJSI World & Europe, MSCI World ESG & SRI and World Low Carbon Leader, FTSE4Good, STOXX Global ESG Leaders, Ethibel Sustainability Indexes Excellence Europe & Global and ECPI indexes.

US magazine Forbes also ranked Essilor amongst the World's Most Innovative Companies for the sixth year running.

Essilor has been a signatory to the United Nations Global Compact since 2003 and is committed to enacting its ten principles as far as possible within its sphere of influence. The Company regularly reports on its achievements and progress. Essilor International would like to take this opportunity to renew for the current year its commitment to include the ten principles of the Global Compact in its strategy and operations.

Attentive to and aware of the consequences of climate change, Essilor voluntarily participates in the CDP, an independent international non-profit organization which assesses the efforts led by companies to measure and reduce their greenhouse gas emissions as well as the water footprint. In 2016, the CDP recognized the ongoing progress made by Essilor in these areas, rating it B for carbon footprint management and A- for efficient water use.

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

#### **2.2.3.5 Internal control procedures relating to the production and processing of accounting and financial information**

Each operating division draws up its own three-year business plan, setting strategic objectives based on the overall strategy decided by Senior Management. All of these objectives are included in the medium-term plan presented to Senior Management.

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

The budgets are presented to Senior Management at budget review meetings held at the end of the year. The consolidation of all budgets ends in November or December and is formalized in

December or January of the following year. The budget is then presented to the Board of Directors. The annual budget is subject to a new forecast in the middle of the year, based on the results for the first half of the year. This forecast is updated in October when the new budget is drawn up. This budgeting process, which concerns all Group entities, 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 "CARS" reporting system, which is used not only for business analysis but also for statutory consolidation. All entities are managed by the system to maintain strict control over accounting and financial information.

As regards statutory consolidation, the data in the income statement, the balance sheet and the cash flow statement are reported on a monthly basis. The Consolidation Department checks the figures entered by the entities and ensures that they comply with Group policies. The aims of the consolidation procedures in place are to:

- ▶ guarantee compliance with the applicable rules (IFRS, Group policies, AMF guidelines, etc.), through the implementation of general Group 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 inherent to the system or performed by the various Group Finance units (including business analysis, consolidation and Treasury) within the required time frames;
- ▶ guarantee data integrity through the system's security.

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

The budgeting process and consolidation procedures enable us to monitor the performance of the various entities on an ongoing basis and to swiftly identify any variances from the budget in order to take immediate corrective action.

All procedures included in the GSG are applicable by consolidated Group companies and enforcement is firstly the responsibility of operational management ("first line of control" in the terminology of the French Audit and Internal Control Institute (IFACI)), then the functional departments responsible for areas of expertise (business analysis, human resources, internal control, etc. or "second line of control") and lastly the Internal Audit Department ("third line of control"). Moreover, at each period-end, the financial information deemed most relevant is presented by the Group 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.

Lastly, even though they are not an integral part of the internal control procedures, the Statutory Auditors review the accounting and internal control systems to plan their audits, design their audit strategies and test a certain number of key internal controls. The financial statements of the vast majority of Group subsidiaries are audited by local auditors who are members of the networks of Statutory Auditors that audit the Group's consolidated financial statements.

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

At its meeting of November 24, 2011, the Board of Directors decided to entrust its chairmanship, effective January 2, 2012, to Mr. Hubert Sagnières, Chief Executive Officer, and thus re-combine the offices of Chairman of the Board of Directors and Chief Executive Officer. This structure combining the two functions ensures great responsiveness and efficiency of operations in terms of the governance and strategic management of the Company.

During the December 6, 2016 meeting, the Board of Directors decided to appoint Laurent Vacherot as President and Chief Operating Officer starting on that date. This change in the organizational structure addresses the increase in operational demands caused by the change in the size of the Group and the new strategic and managerial challenges. In fact, over the past few years Essilor has seen sustained growth in its traditional businesses and accelerated development in its new sun wear and online activities. At the same time, the Group's geographic expansion has opened vast new markets in Latin America, the Middle East, Asia and Africa.

The presence on the Board of a high proportion of Independent Directors, three representatives of the employee shareholders and one employee representative (while the important role of employee shareholders is a key feature of the Group's identity) ensures that the Board fully exercises its oversight functions over the executive part of the organization.

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

In addition, the President and Chief Operating Officer is assisted by two Chief Operating Officers.

### 2.2.5 Special procedures for shareholder participation in Shareholders' Meetings

All holders of ordinary shares are entitled to participate in Shareholders' Meetings, regardless of the number of shares they own, provided all payments due for such shares have been met.

The rights of shareholders to be represented by proxy at Shareholders' Meetings 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.

Essilor's bylaws (Section V – Shareholders' Meetings) include the following provisions concerning the functioning of Shareholders' Meetings, their main powers and the rights of shareholders, which are in compliance with the law:

#### 2.2.5.1 Shareholders' right to information (Article 24)

Under the terms and periods defined by law, 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 sent or made available to shareholders are determined according to the relevant laws and regulations.

#### 2.2.5.2 Ordinary Shareholders' Meetings (Article 25)

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

The Ordinary Shareholders' Meeting takes all decisions that exceed the powers of the Board of Directors and that are not intended to change the bylaws.

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

Ordinary Shareholders' Meetings may 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 for meetings held on second call. Resolutions of the Ordinary Shareholders' Meeting are adopted by a majority of the votes cast by the shareholders presented or represented, including postal votes.

#### 2.2.5.3 Extraordinary Shareholders' Meetings (Article 26)

The Extraordinary Shareholders' Meeting has the power to modify all provisions of the bylaws, except to change the Company's nationality, other than in the cases provided 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 term or agree on its early dissolution, or change its legal form. This list is not exhaustive.

The Extraordinary Shareholders' Meeting may validly conduct business provided that the shareholders present or represented, or voting by post, hold at least one-quarter of the voting rights 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.

Notwithstanding the provisions set out above, an Extraordinary Shareholders' Meeting that decides to carry out a capital increase through the capitalization of reserves, profits or issue premiums, rules subject to the conditions of quorum and majority applying to Ordinary Shareholders' Meetings.

The Extraordinary Shareholders' Meeting may also amend the rights of various classes of shares. However, in the event that a decision by the Extraordinary Shareholders' Meeting would affect the rights attached to a class of shares, this decision will only become final after it has been ratified by a special meeting of the shareholders for the relevant class. Regarding the specific capital that it represents, said Special Meeting will be subject to the legal and regulatory provisions governing Extraordinary Shareholders' Meetings. If none of the Company's Directors holds shares in the class giving rise to a Shareholders' Meeting, this Special Meeting elects its own Chairman.

### 2.2.6 Principles and rules applied by the Board of Directors to determine non-executive Board Directors' compensation and benefits

Information regarding the compensation policy as well as the details of all of the elements of Executive Corporate Officers' compensation is included in Chapter 2.3 of the Registration Document.

## 2.3 Compensation and benefits

### 2.3.1 Board of Directors compensation policy

#### Directors' fees

The Combined Shareholders' Meeting of May 5, 2015 voted to award Directors' fees of €750,000. At its meeting of May 5, 2015, the Board of Directors decided to allocate this sum as shown in the table below, giving priority to the variable component.

Directors' fees	Fixed component	Variable component based on attendance
All Board members	€12,000	€3,000 per meeting
Chairman of the Audit and Risk Committee	€22,000	€2,200 per meeting
Chairman of the Executive Officers and Remuneration Committee, Chairman of the Nominations Committee, Chairman of the Corporate Social Responsibility (CSR) Committee	€11,000	€2,200 per meeting
Only for Directors not paid by Essilor, who are members of the Audit and Risk, Executive Officers and Compensation, Nominations and CSR Committees	€4,200	€2,200 per meeting
Members of the Strategy Committee	Not applicable	€2,000 per meeting

### 2.3.2 Report on the Executive Corporate Officers compensation policy: principles and criteria for the determination, distribution and award of the fixed, variable and exceptional components making up total compensation and benefits of any kind attributable to Essilor Executive Corporate Officers (presented pursuant to Article L.225-37-2 of the French Commercial Code)

This report describes the principles and criteria for the determination, distribution and award of the fixed, variable and exceptional components that make up total compensation and benefits of any kind attributable to Essilor Executive Corporate Officers for 2017 which will be submitted, as required by the "Sapin 2" Act, for the approval of the Shareholders' Meeting of May 11, 2017 pursuant to Article L.225-37-2 of the French Commercial Code.

These principles and criteria will apply, where appropriate, to any successor of both the current Chairman and Chief Executive Officer and the President and Chief Operating Officer until the next Shareholders' Meeting. Likewise, these principles and criteria will apply, where appropriate, to any additional Executive Corporate Officer appointed during the 2017 financial year until the next Shareholders' Meeting.

In addition to the items described below, a sign-on premium may be paid in accordance with the principles established for these purposes by the AFEP-MEDEF Code, to an Executive Corporate Officer recruited externally to compensate them for elements of compensation lost as a result of resignation from their previous position.

It is specified that the payment of the variable components and exceptional components, if any, for fiscal 2017, is dependent on approval by the Shareholders' Meeting called to approve the financial statements for the year 2017.

Note: the policy described below applies to Executive Corporate Officers. In the event that the Company has to appoint a

Non-Executive Board Director, then it will comply with the recommendations set out in the AFEP-MEDEF Code.

#### 2.3.2.1 Principles

The compensation of Executive Corporate Officers is set by the Board of Directors on the recommendation of the Executive Officers and Remuneration Committee and in accordance with the following key principles:

- ▶ compensation must be aligned with shareholder interests and foster the creation of long-term shareholder value;
- ▶ the variable portion of the compensation must be closely linked to the Company's performance;
- ▶ compensation must be considered as a whole: all components and the balance of those components must be taken into account;
- ▶ compensation must be competitive with regard to the practices of French and international companies in similar markets;
- ▶ compensation must be aligned with the Company's culture and values;
- ▶ compensation must be governed by simple, clear, transparent rules.



### 2.3.2.2 Fixed compensation

This must be such as to attract talented individuals from within the Company – or, as necessary, from outside the Company – to the most senior management positions. It must also be sufficient to engage their commitment and loyalty toward a long-term project.

It reflects the extent of the holder's role and length of service in the position, and must be consistent with market practice.

The topic of changes to fixed compensation is reviewed annually. The criteria taken into account when deciding on an increase are changes in the scope of responsibility, the holder's level of performance and development in the position, the economic and social environment in the Group's main countries, and the positioning relative to the market for equivalent positions in multinational companies of comparable size.

As part of the proposed combination of Luxottica and the Company, in the event of final completion of this combination and in compliance with the rules and principles set out above, the Board of Directors will increase the fixed compensation of Executive Corporate Officers so as to reflect changes in their scope of responsibility. This increase will become effective on the first day of the month following the closing date of the contribution of all Luxottica shares to Essilor.

### 2.3.2.3 Annual performance compensation (annual variable component)

The annual variable component rewards the achievement of the year's strategic targets.

The variable component accounts for 100% of the fixed compensation if targets are fully achieved. It may reach 200% (absolute cap) of the fixed compensation if the targets are exceeded.

The variable component structure and targets are defined at the start of each fiscal year. The assessment of the achievement of said targets takes place at the start of the following fiscal year, after the Audit Committee has approved the results.

The quantitative indicators must represent a preponderant proportion in the structure of the variable component and are selected from those that best reflect the successful execution of the strategy. The weighting between each indicator is reviewed annually to best take into account the year's priorities.

A target level (corresponding to 100% achievement of target) is set for each indicator. The target level is set such that it represents an ambitious yet achievable goal. A minimum and maximum level are set based on that target level. The minimum level is the threshold that triggers achievement of the target: below this minimum level, no variable compensation is paid. The maximum level corresponds to the cap on the target achievement rate. The philosophy is to encourage Executive Corporate Officers to exceed the target level and aim for outperformance. The indicator levels are set by taking into account the global economic context, forecasts for growth in the optical industry sector, and factors internal to the Company.

To assess the achievement of financial targets, indicators are calculated by neutralizing factors outside the Executive Corporate Officer's control (such as exchange rate fluctuations and changes in Group consolidation).

As part of the planned combination of Essilor and Luxottica, performance criteria of Executive Corporate Officers will change in the event that Luxottica contributes shares to Essilor, in order

to take into account the new group's strategy as well as changes to the scope of responsibilities of Executive Corporate Officers. A distinction should be drawn between objectives of Executive Corporate Officers depending on whether they are placed before or after the final transaction is completed with Luxottica.

The structure and objectives set for 2017 pertaining to the Executive Corporate Officers are summarized below.

#### Objectives before the final completion date of the transaction with Luxottica

The target variable part of Executive Corporate Officers is made up of the following three objectives:

	Chairman and Chief Executive Officer	President and Chief Operating Officer
Organic growth	25%	30%
Restated net EPS	25%	30%
Specific objectives	50%	40%

Each objective will be assessed on a scale from 0% to 200%.

Among the specific objectives are quantifiable objectives, the successful implementation of the proposed combination and the development of long-term growth plans.

#### Objectives after the final completion date of the transaction with Luxottica

The target variable part of Executive Corporate Officers is made up of the following three objectives:

	Executive Chairman and Chief Executive Officer	Executive Vice-Chairman and Deputy Chief Executive Officer
Organic growth	30%	30%
Restated net EPS	30%	30%
Specific objectives	40%	40%

Each objective will be assessed on a scale from 0% to 200%.

Among the specific objectives are quantifiable objectives and the successful implementation of an integration plan.

### 2.3.2.4 Long-term compensation plan

The long-term compensation plans are designed to encourage creation of lasting value for shareholders and to promote an alignment of the interests of the Executive Corporate Officers with those of shareholders.

Since 2010, these plans have primarily taken the form of an award of performance shares pursuant to Articles L.225-197-1. of the Commercial Code and the authorizations approved by the Shareholders' Meeting.

Throughout its history, Essilor has developed an employee shareholding culture that has played a fundamental role in its development and success. Performance share awards are a key component of the Company's compensation policy. In addition, the

“performance shares” component of the compensation structure has a major weighting that increases by level of responsibility. For executives, performance shares must represent the largest portion of total compensation (fixed + performance-based variable + performance shares). This is key to ensuring alignment with shareholder interests.

### **Terms for performance share awards**

These awards occur during the same calendar periods.

Performance shares awarded to Executive Corporate Officers must comply with the following ceilings:

- ▶ valued in accordance with the IFRS applied in preparing the consolidated financial statements, an award may not represent an amount greater than 75% of target total compensation (corresponding to the sum of annual fixed compensation, target variable component for the fiscal year and the long-term incentive valued in accordance with IFRS);
- ▶ an Executive Corporate Officer may not receive an award exceeding 7% of the total awards (stock-options + performance shares) granted each year.

### **Vesting conditions of performance shares**

Unless a sizeable transaction occurs that affects the Company and has a significant impact on the selected performance criteria, the vesting of performance shares is wholly subject to the achievement of performance conditions measured over a period of at least three years and an employment condition:

- ▶ the performance criteria selected are designed to guarantee creation of lasting value for shareholders and align the interests of the beneficiaries with those of the shareholders. For this purpose, the main criterion is linked to the performance of the Company's shares;
- ▶ a condition of employment for a minimum of three years is also stipulated in order to guarantee the long-term commitment of the beneficiaries to serve the Company. In cases of retirement, disability or death, this employment condition is lifted.

The Executive Corporate Officers must meet additional performance conditions in addition to the performance conditions applicable to all plan beneficiaries.

### **Other obligations**

To strengthen alignment with shareholders' interests, the Executive Corporate Officers are required to keep one-third of the shares vested throughout their term of office. This requirement to keep shares is lifted when Executive Corporate Officers permanently hold an aggregate number of shares equivalent to two years' target cash compensation (fixed + variable component), through acquiring shares and exercising of stock-options. The target cash compensation used is that of the year during which an Executive Corporate Officer intends to sell performance shares.

In accordance with the AFEP-MEDEF Code, the Executive Corporate Officers have pledged not to use any hedging strategies, until the expiration of their term of office, to manage the risk related to the shares awarded under long-term incentive plans.

Pursuant to the Directors' Charter, Executive Corporate Officers are required to:

- ▶ refrain from any transactions involving the Company's stock during the period preceding the publication of privileged information of which they have knowledge;
- ▶ abide by the 30-day “blackout periods” through and including the publication date of the annual and half-year financial statements and the 15-day “blackout periods” through and including the publication date of quarterly information. The schedule for these blackout periods is drawn up annually.

### **2.3.2.5 Exceptional compensation**

The Board of Directors has adopted the principle by which the Executive Corporate Officers may receive exceptional compensation under certain circumstances which must be specifically disclosed and justified, bearing in mind that the payment of such compensation can only be made subject to the approval of shareholders pursuant to Article L.225-37-2 of the French Commercial Code.

This exceptional compensation may not exceed 100% of the fixed compensation of the Executive Corporate Officer.

### **2.3.2.6 Supplementary pension**

The supplementary pension plan is designed to reward the loyalty of Executive Corporate Officers who have spent a significant portion of their careers with the Company by entitling them to a retirement pension in line with market practices.

The supplementary pension plan is built around the following principles:

1. a minimum length of service condition of 10 years must be met to benefit from the plan;
2. the pension benefit is proportional to length of service in the Group;
3. the reference compensation on which the calculation of the final pension is based is calculated according to compensation paid over the last three years;
4. pursuant to applicable law, annual potential rights are capped at 3% of annual compensation and subject to the fulfillment of performance conditions;
5. the final pension benefit is capped.

Essilor reserves the right to adjust the supplementary pension plan to take account of legislative developments and market practices.

### **2.3.2.7 Employee benefits: Group death / disability and health insurance plans and the defined contribution pension plan**

Executive Corporate Officers are eligible for the Group death / disability and health insurance plans and the defined contribution pension plan set up by the Company for all its managers and executives.

The defined-contribution pension plan is based on a flat employer-contribution rate, currently set at 1% of gross compensation paid.

### 2.3.2.8 Benefits in kind

Executive Corporate Officers are eligible for:

- ▶ a company car, in accordance with the Company's internal rules;
- ▶ unemployment insurance.

### 2.3.2.9 Suspension of the employment contract for Executive Corporate Officers upon appointment

Developing an effective long-term strategy means not only having a thorough knowledge of the market, customers, competitors and technologies, but also of the Company's culture. For that reason, Essilor prioritizes internal talent development as much as possible.

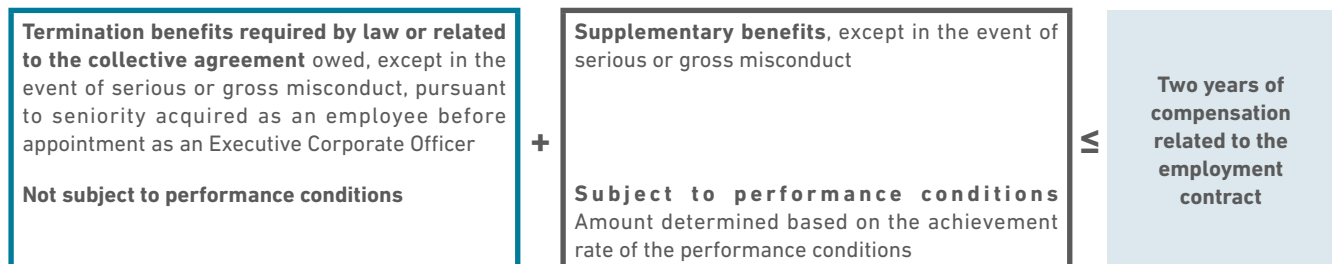
When an employee with at least 10 years' service in the Company is promoted to an Executive Corporate Officer position, the Group's policy is to suspend his/her employment contract. In effect, this solution prevents the resignation of an employee or the initiation of a mutually agreed termination procedure for an employee who has been successful in the Group.

### 2.3.2.10 Termination benefits for an Executive Corporate Officer whose employment contract has been suspended

An Executive Corporate Officer whose employment contract has been suspended is not entitled to any compensation for loss of office in the event that their appointment as Executive Corporate Officer is terminated.

On the other hand, a termination benefit may be paid if, following the termination of the corporate office, the employment contract were terminated at the Company's initiative, except for serious or gross misconduct, subject to the following conditions:

- ▶ a termination benefit was included in the employment contract entered into prior to the appointment as Executive Corporate Officer;
- ▶ the termination benefit is in any event capped at two years of the compensation specified in the employment contract;
- ▶ the portion of the termination benefit that exceeds the legal or collective bargaining agreement limits is subject to performance conditions (see the diagram below).



It should also be noted that the calculation of the termination benefit will be based on the compensation in effect at the time the employment contract was suspended.

### 2.3.2.11 Termination benefits for an Executive Corporate Officer whose employment contract has not been suspended

In this configuration, which currently does not correspond to the situation of any of the Group's Executive Corporate Officers, the Company's policy would be to adhere strictly to the law and recommendations of the AFEP-MEDEF Code. Thus:

- ▶ this compensation would be capped at two years' cash compensation (corresponding to the average of fixed and

variable compensation received in the last three years prior to departure);

- ▶ this may only be paid in the event of a compelled departure conditional upon and fully subject to the achievement of performance conditions.

### 2.3.2.12 Use of external consultants and market practices benchmark

The Executive Officers and Remuneration Committee uses independent specialist firms to measure the competitiveness of its executive compensation.

Compensation surveys cover French and international multinationals comparable to Essilor in terms of revenue, number of employees, market capitalization, business sectors, degree of internationalization, and performance profile.

These surveys provide the Executive Officers and Remuneration Committee with insight into the competitive positioning of the

compensation paid to the Executive Corporate Officers, and into market trends. They are also one of the elements used to determine their compensation.

Without being prescriptive, the positioning sought is roughly the median for fixed compensation and above the median for total compensation (fixed + variable component + long-term incentive). The level of competitiveness of the compensation for Executive Corporate Officers of the Company is directly related to their performance.



2.3.3 2016 compensation of Executive Corporate Officers

2.3.3.1 Situation of the Executive Corporate Officers

**Hubert Sagnières, Chairman and Chief Executive Officer**

Hubert Sagnières was an employee of the Group for 21 years before being appointed Chief Executive Officer of Essilor on January 1, 2010. He was appointed Chairman and Chief Executive Officer of Essilor on January 2, 2012.

His employment contract was suspended on January 1, 2010 when he became Chief Executive Officer, in accordance with the Group's policy (see Section 2.4).

**Laurent Vacherot, President and Chief Operating Officer**

Laurent Vacherot, Chief Operating Officer since 2010, was appointed to the role of President and Chief Operating Officer on December 6, 2016 after being an employee in the Group for 25 years.

His employment contract was suspended on December 6, 2016 when he became President and Chief Operating Officer, in accordance with the Group's policy (see Section 2.4).

2.3.3.2 2016 Compensation structure

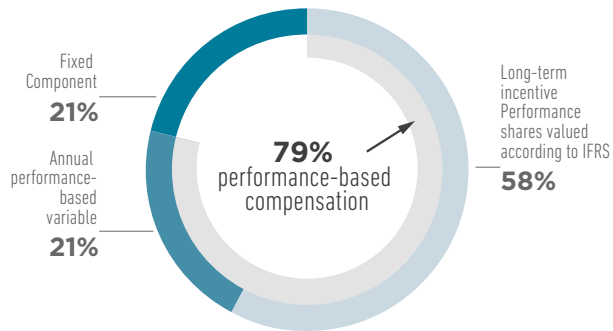
As an illustration, the graphs below outline the structure of compensation for the Chairman and Chief Executive Officer for 2016.

The first graph is based on the target variable compensation and the second on maximum annual variable compensation.

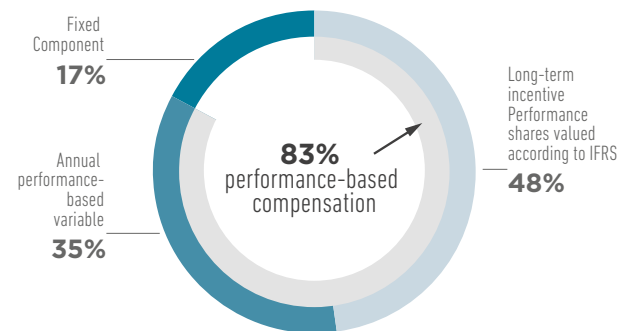
Nearly 80% of overall compensation is directly contingent on performance, with a preponderant portion in long-term incentives.

2016 Compensation structure of Hubert Sagnières, Chairman and Chief Executive Officer

Target compensation



Maximum compensation



## 2.3.3.3 Summary of 2016 compensation

	Hubert Sagnières Chairman and Chief Executive Officer			Laurent Vacherot President and Chief Operating Officer
	2015	2016	Variation	2016 <sup>(a)</sup>
<b>ANNUAL CASH COMPENSATION</b>				
Fixed	€800,000	€800,000	+0.0%	€46,301
Target variable component	€800,000	€800,000		€46,301
<b>Target cash compensation</b>	<b>€1,600,000</b>	<b>€1,600,000</b>	<b>+0.0%</b>	<b>€92,602</b>
Variable component due	€1,350,400	€960,000		€55,561
% achievement of objectives in relation to target	169%	120%		120%
% maximum (for reference)	200%	200%		200%
<b>CASH COMPENSATION DUE</b>	<b>€2,150,400</b>	<b>€1,760,000</b>	<b>-18.2%</b>	<b>€101,862</b>
<b>LONG-TERM INCENTIVE PLAN</b>				
<b>Award of performance shares</b>	<b>35,000</b>	<b>35,000</b>		<b>32,005<sup>(b)</sup></b>
As a % of total number of shares awarded	2.4%	2.2%		2.1%
As a % of share capital at December 31 for the year	0.016%	0.016%		0.015%
IFRS valuation of performance shares	€1,975,400	€2,202,900		€1,914,219
<b>EMPLOYEE BENEFITS</b>				
Benefits in kind	€7,401	€7,514		€610
Type	Unemployment insurance	Unemployment insurance		Company car
Employer contributions to group schemes (health insurance, provident scheme, defined contribution pension plan)	€16,065	€17,042		€899
<b>DEFERRED COMMITMENTS</b>				
Supplementary defined benefit "loyalty-based" pension plan	Yes	Yes		Yes
	In accordance with the suspended employment contract	In accordance with the suspended employment contract		In accordance with the suspended employment contract
Termination benefits				

(a) Laurent Vacherot was appointed President and Chief Operating Officer on December 6, 2016 with fixed annual compensation of €650,000 and variable annual target compensation of €650,000.

The sums outlined in the above table correspond to 2016 compensation due for the period of the corporate office, i.e. from December 6-31, 2016.

For the period from January 1 to December 5, 2016, the compensation due in accordance with Laurent Vacherot's employment contract amounted to €1,035,323, of which:

- fixed compensation: €471,791;

- variable compensation due: €556,818;

- benefits in kind - car: €6,714.

(b) The award of performance shares during 2016 occurred before the appointment of Laurent Vacherot as a corporate officer.

## Notes on Hubert Sagnières' compensation

Hubert Sagnières' fixed compensation and his target performance-based variable component have remained unchanged since 2012.

Hubert Sagnières requested that the Board of Directors no longer award him Directors' fees following his appointment as Chairman and Chief Executive Officer in 2012, a request ratified by the Board in a formal decision.

## 2.3.3.4 2016 compensation appendices

Four explanatory appendices are offered in addition to this summary table. These pertain to:

1. the 2016 variable component;
2. the 2016 performance share plan;
3. the supplementary defined benefit pension plan;
4. employment contract-related severance payment.

**Appendix 1: 2016 variable component****Hubert Sagnières**

Weighting	Target	Performance measurement	% achievement	Weighted % achievement	Achievement (€)
W			A	W x A	W x A x target (€)
40%	Organic growth	0 to 200%	0%	0%	€0
30%	Restated net EPS	0 to 220%	220%	66%	€528,000
10%	Bolt-on acquisition-led growth <sup>(a)</sup>	0 to 180%	180%	18%	€144,000
<b>80%</b>	<b>Financial objectives</b>			<b>84%</b>	<b>€672,000</b>
<b>20%</b>	<b>Specific objectives</b>	<b>0 to 180%</b>	<b>180%</b>	<b>36%</b>	<b>€288,000</b>
<b>100%</b>				<b>120%</b>	<b>€960,000</b>

(a) Local acquisitions or partnerships.

The specific objectives for the 2016 financial year, which account for 20% of the weight of annual targets, were:

- ▶ the organization of the Group's senior management;
- ▶ the cohesion and sound governance of the Board of Directors following changes in composition in 2016;
- ▶ the finalization of a strategic acquisition;
- ▶ the strengthening of internal control to support the Group's growth.

**Laurent Vacherot, for the period December 6-31, 2016**

Weighting	Target	Performance measurement	% achievement	Weighted % achievement	Achievement (€)
W			A	W x A	W x A x target (€)
40%	Organic growth	0 to 200%	0%	0%	€0
30%	Restated net EPS	0 to 200%	200%	60%	€27,781
10%	Bolt-on acquisition-led growth <sup>(a)</sup>	0 to 200%	200%	20%	€9,260
<b>80%</b>	<b>Financial objectives</b>			<b>80%</b>	<b>€37,041</b>
<b>20%</b>	<b>Specific objectives</b>	<b>0 to 200%</b>	<b>200%</b>	<b>40%</b>	<b>€18,520</b>
<b>100%</b>				<b>120%</b>	<b>€55,561</b>

(a) Local acquisitions or partnerships.

**Calculation method**

The EPS is restated:

- ▶ at constant exchange rates;
- ▶ for the impact of non-recurring expenses that cannot be budgeted; and
- ▶ for the total impact from strategic acquisitions for the year that are not taken into account under the "bolt-on acquisition-led growth" criterion.

Restated EPS is calculated by taking the average number of shares entered in the budget of the financial year.

The required level of achievement of these targets was established in a precise, exacting and rigorous fashion but cannot be made public for reasons of confidentiality: as Essilor is a listed company with only one business line (unlike its competitors), namely ophthalmic optics, it considers that such disclosure would be detrimental to the proper execution of its strategy.

In 2016, Essilor achieved:

- ▶ reported (non-restated) net earnings per share of €3.79;
- ▶ organic growth of 3.6%; and
- ▶ 18 bolt-on acquisitions equivalent to additional annual revenue of €304 million.

**Appendix 2: Performance share plan**

In 2016, the granting of performance share benefited more than 12,000 employees.

**General performance condition**

In year N, beneficiaries will be awarded a maximum number of performance shares.

As of N+3, the number of shares vested is determined on the basis of the annualized growth<sup>(1)</sup> in the price of the Essilor share measures as follows:

- ▶ on the award date, the Initial Reference Price is determined (corresponding to the average of the 20 opening prices preceding the award date);
- ▶ three years after the award (N+3), an Average Share Price is calculated, corresponding to the average opening share price for the three months preceding the third anniversary of the award date;
- ▶ if the increase between the Average Share Price and the Initial Reference Share Price is:
  - ▶ greater than 22.5% (i.e., annualized growth of 7%), all shares initially awarded will vest provided that the employment condition is met (see "Employment condition");
  - ▶ between 6.1% and 22.5% (corresponding to annualized growth of between 2% and 7%), some of the shares initially awarded will vest provided that the employment condition is also met (see "Employment condition"). The vesting rates based on annualized growth in the Essilor share price are shown in the table below,

- ▶ less than 6.1% (i.e., annualized growth of less than 2%), no shares will vest on the third anniversary of the award date. In this case, a further performance assessment is carried out three months later using the same method (based on an annualized share price growth target between 2% and 7%). This performance assessment may be repeated every three months and until the sixth anniversary of the award date (N+6). If the minimum annualized growth target of 2% – which corresponds in absolute terms to an increase of 12.6% on the Initial Reference Share Price – is not met at this time, the plan lapses and employees receive no Essilor shares.

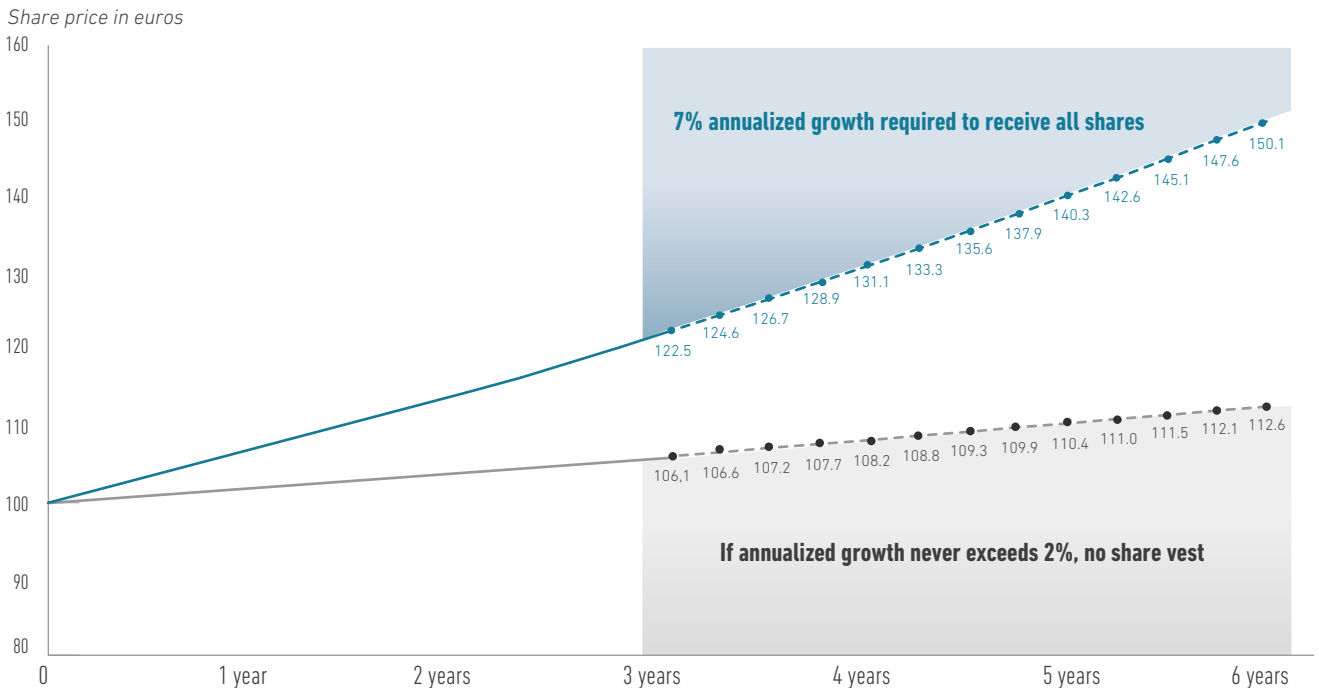
Between N+3 and N+6, the first measurement of the annualized increase in the Average Share Price over the Initial Reference Share Price that exceeds the threshold of 2% definitively determines the number of shares vested, even if a higher annualized increase is subsequently observed. As time goes by, the minimum growth in the Average Share Price required for the minimum number of Essilor shares to vest gets steadily higher: +6.1% in N+3, +8.2% in N+4 and so on, and 12.6% in N+6.

As the general performance condition is based on the performance of the Essilor share price, this system helps to partially mitigate the impact of the volatility inherent in the financial markets by extending the period over which performance is measured. This volatility can, in fact, cause the performance of the share price to differ significantly from the Company's intrinsic performance in the short term. It should also be noted that, in the event of annualized growth equal to or greater than 7%, the percentage of shares vested is capped at 100%.

Annualized growth:	Vesting rate
Less than 2%	0%
Greater than or equal to 2% and less than 3%	60%
Greater than or equal to 3% and less than 4%	68%
Greater than or equal to 4% and less than 5%	76%
Greater than or equal to 5% and less than 6%	84%
Greater than or equal to 6% and less than 7%	92%
Greater than or equal to 7%	100%

(1) Calculation formula:  $(\text{Average Share Price}/\text{Initial Reference Share Price})^{(1/N)-1}$ , where N is the number of years between the award date and the performance measurement date. N = 3 then, if the performance condition is not achieved, 3.25 and so on up to a maximum of 6.

Application of the performance condition is illustrated in the diagram below. In the interest of simplicity, the share price is assumed to be 100 on the award date.



#### Specific additional performance conditions applicable to Executive Corporate Officers

In addition to the performance condition applicable to all grantees, there is a second performance condition for Executive Corporate Officers. It is measured by means of an average ratio which corresponds to the average target achievement rate for their annual variable compensation during the period for measurement of performance (from three to six years). When the average ratio is less than 100%, the number of shares vested under the first performance condition is reduced proportionally. When it is greater than 100%, it is automatically capped at 100% and therefore does not change the number of shares obtained under the first performance condition.

#### Event occurring subsequent to the closing for the year

At its meeting on January 15, 2017 and in line with the Executive Officers and Remuneration Committee's recommendations, the Board of Directors approved the amendment of the rules of the 2015 and 2016 performance share plans for the Executive Corporate Officers Hubert Sagnières and Laurent Vacherot in order to take into account the structural implications for the Company of the proposed combination with Luxottica and the need to adapt the performance conditions of the plans in force.

In view of the major importance of the proposed combination for the Company's future, the Board of Directors decided to modify the Executive Corporate Officers' performance conditions. The performance condition is now the successful completion of the

transaction, i.e., the completion of Delfin's contribution to the Company of its stake in Luxottica (approximately 62%). Therefore, in the event that this contribution is completed, the performance condition for the December 2, 2015 and September 22, 2016 plans will be deemed to have been met on the date of the completion of the contribution.

#### Employment condition

For French tax residents, the vesting of shares is contingent on the grantee still being employed in the Group on the date that the performance condition is achieved, which may occur between the third and the sixth anniversary of the award (see the detailed description of performance conditions above).

For non-French tax residents, the employment condition is set:

- ▶ on the fourth anniversary of the award if the achievement of the performance condition occurs between the third and fourth anniversary;
- ▶ on the date that the performance condition is met, if that day occurs after the fourth anniversary of the award.

This employment condition is waived in the event of the grantee's death, disability or retirement.

#### Lock-up period

If the performance and employment conditions are met, the shares are transferred to the grantees in a registered account. French tax residents must retain the vested shares for a minimum of two years. There is no lock-up period for non-residents.

### Appendix 3: Supplementary defined benefit “loyalty-based” pension plan

The current scheme is based on a supplementary defined benefit pension plan (Article 39 of the French Tax Code) which is open to category IIIC and HC company executives under the Metalworking Industry Collective Bargaining Agreement.

Seniority of at least ten years within the Group, in contrast to the two years recommended by the AFEP-MEDEF Code, is required in order to receive the supplementary defined pension plan benefits. Grantees must also be employees of Essilor (or a member company) at the time they cease their professional activity. In accordance with the applicable regulations, an executive whose employment is terminated after reaching the age of 55 and who does not accept any other paid position is considered as having retired from the Company.

The supplementary pension is based on length of service in the Group and the average gross compensation (fixed and variable) paid for the three years preceding the last day worked (reference compensation).

More specifically, if the eligibility conditions are met, the supplementary pension is determined as follows:

- ▶ 10% of the reference compensation;
- ▶ plus, for each year of service in excess of 10 years and up to and including 20 years:
  - ▶ 1% of the reference compensation,
  - ▶ 1.5% of the portion of the reference compensation that exceeds the “tranche C” ceiling for Social Security contributions or 5% of the reference compensation, whichever is lower.

Accordingly, category IIIC and HC executives with at least 20 years’ service may be eligible for a maximum pension benefit of up to 25% of their reference compensation (versus a maximum of 45%

provided for in the AFEP-MEDEF Code). The increase in potential rights is therefore a maximum of 1.25% per year (versus a maximum of 3% provided by law).

Note:

As Hubert Sagnières and Laurent Vacherot have both recorded 20 years’ of service in the Group, on January 1, 2009 and December 2, 2011 respectively and therefore prior to their appointment as Executive Corporate Officers of the Group, they will acquire no additional rights as of those dates. The pension commitments that are applicable to them are therefore not subject to the procedure stipulated by Article L. 225-42-1 of the Commercial Code, in compliance with the provisions of the Macron law dated August 6, 2015.

The benefit obligation is accrued in the balance sheet during the vesting period (*i.e.*, the period during which the Executive Corporate Officer remains in office) and, upon the grantee’s retirement, the liability will be fully outsourced to an insurance company which is responsible for paying the benefits.

#### Hubert Sagnières, Chairman and Chief Executive Officer

Under this scheme, in view of his seniority in the Group of 28 years at December 31, 2016, the theoretical calculation of the annual benefits due to Hubert Sagnières on that date would be 25% of the compensation actually received in 2014, 2015 and 2016 (around €483,000).

#### Laurent Vacherot, President and Chief Operating Officer

Under this scheme, in view of his seniority in the Group of 25 years at December 31, 2016, the theoretical calculation of the annual benefits due to Laurent Vacherot on that date would be 25% of the compensation actually received in 2014, 2015 and 2016 (around €311,000).

### Appendix 4: Termination benefits

#### Hubert Sagnières, Chairman and Chief Executive Officer

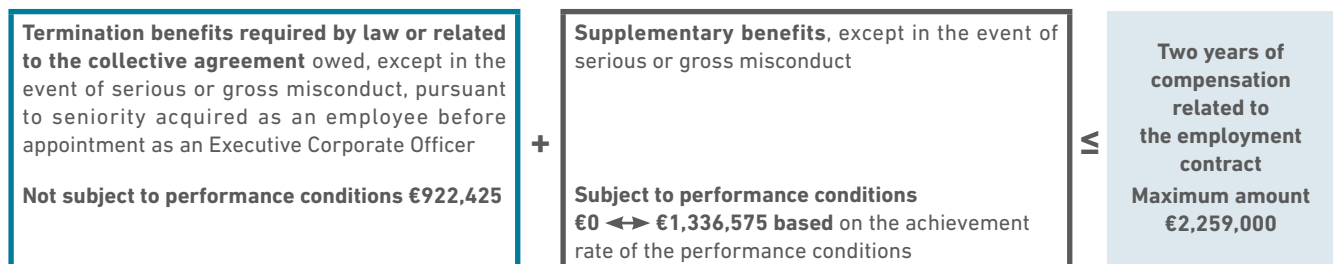
Hubert Sagnières is not entitled to any compensation for loss of office in the event that his appointment as Chairman and Chief Executive Officer is terminated.

Under the employment contract between the Company and Hubert Sagnières, which is currently suspended, a clause stipulates that Mr. Sagnières will receive an amount equivalent to two years of contractual compensation in the event that the contract is terminated by the Company (excluding serious or gross misconduct).

As at December 31, 2016, the gross contractual compensation of Hubert Sagnières was €1,129,500. This amount corresponds to the compensation to which he was entitled as an employee at the time his employment contract was suspended, plus the annual average increase for Essilor group’s category IIIC executives.

The maximum amount of the benefit would total €2,259,000 on the basis of the figures at December 31, 2016 and consists of two components:

- ▶ a legal benefit of €922,425;
- ▶ a supplemental benefit (subject to a performance condition) of between €0 and €1,336,575.



*Performance conditions*

The potential payment of this supplemental benefit is subject to the following performance condition:

Performance will be measured using Mr. Sagnières' average rate of targets achievement over the three years prior to his departure. These annual targets are set by the Board of Directors in respect of Hubert Sagnières' role as an Executive Corporate Officer and

**Laurent Vacherot, President and Chief Operating Officer**

Laurent Vacherot is not entitled to any compensation for loss of office in the event that his appointment as President and Chief Operating Officer is terminated.

Under his employment contract with the Company, which is currently suspended, Laurent Vacherot could benefit from a severance payment in the event his employment contract is terminated.

This benefit would be an amount equivalent to two years of contractual compensation if the contract is terminated by the Company (excluding serious or gross misconduct). The benefit would only be paid if termination of the employment contract were

are used to calculate his variable compensation. For an average performance rate of at least 50%, the termination benefit will be determined on a strictly proportionate basis up to a maximum of 100% (for example, average performance rate reaches 90% of the target, 90% of the termination benefit will be paid).

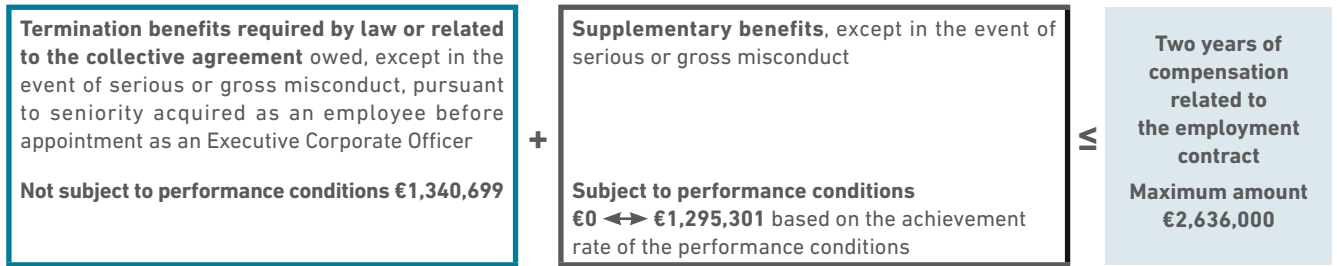
If the average performance rate is less than 50%, no supplemental termination benefit will be paid.

to occur within one year following termination of the corporate office of Laurent Vacherot.

As at December 5, 2016, Laurent Vacherot's contractual compensation was €1,318,000 gross. This amount corresponds to his compensation for the 12 months prior to the suspension of his employment contract.

The maximum benefit would be €2,636,000 on the basis of figures at December 31, 2016 and consists of two components:

- ▶ a legal benefit of €1,340,699;
- ▶ a supplemental benefit (subject to a performance condition) of between €0 and €1,295,301.



*Performance conditions*

The potential payment of this supplemental benefit is subject to the following performance condition:

Performance will be measured using Mr. Vacherot's average rate of targets achievement over the three years prior to his departure. The annual targets for Laurent Vacherot are set in accordance with his term of office and/or his employment contract, and they are

used in calculating the variable component of his compensation. For an average performance rate of at least 50%, the termination benefit will be determined on a strictly proportionate basis up to a maximum of 100% (for example, average performance rate reaches 90% of the target, 90% of the termination benefit will be paid).

If the average performance rate is less than 50%, no supplemental termination benefit will be paid.

**Procedure for related party agreements**

The terms and conditions for granting and calculating the termination benefit of Hubert Sagnières and Laurent Vacherot will be submitted for shareholder approval at the Shareholders' Meeting of May 11, 2017. The conditions for

granting the termination benefit, its maximum amount as well as the calculation methods were defined in accordance with the recommendations contained in the AFEP-MEDEF Corporate Governance Code for listed companies.



### 2.3.4 AFEP-MEDEF compensation and benefits tables

**Table 1 – Directors' fees and other compensation received by Non-Executive Board Directors<sup>(a)</sup>**

€	2016	2015
Philippe Alfroid	57,288	48,000
Benoît Bazin	59,394	43,000
Antoine Bernard de Saint-Affrique	50,088	43,000
Maureen Cavanagh	35,000	35,000
Yves CHEVILLOTTE <sup>(b)</sup>	25,348	69,400
Juliette Favre	35,000	23,883
Xavier FONTANET <sup>(b)</sup>	13,030	45,000
Henrietta Fore <sup>(b)</sup>	34,970	N/A
Louise Fréchette	52,600	52,600
Yi He	35,000	35,000
Franck Henrionnet	35,000	35,000
Bernard Hours	69,753	56,600
Maurice Marchand-Tonel	21,142	58,800
Annette Messemer <sup>(b)</sup>	32,770	N/A
Aïcha Mokdahi <sup>(b)</sup>	N/A	11,116
Marc Onetto <sup>(b)</sup>	52,400	32,238
Olivier Pécoux	43,641	35,000
Michel Rose <sup>(b)</sup>	23,589	65,600
<b>TOTAL</b>	<b>676,013</b>	<b>689,238</b>

(a) No Non-Executive Board Director or non-employee has received any compensation other than Directors' fees.

(b) Director who was appointed or whose term of office expired in 2015 or 2016.

For fiscal 2016, the total amount of the Directors' fees paid to Board members was €676,013, including €422,200 for the variable component.

Maureen Cavanagh, Juliette Favre and Yi He, Directors representing employee shareholders, pay their Directors' fees to the Valoptec Association, net of tax and any applicable social security contributions. Franck Henrionnet, appointed as Director representing employees, pays his Directors' fees to a trade union organization.

**Table 2 – Summary of compensation, options and shares awarded to each Executive Corporate Officer**

€	2016	2015
<b>Hubert SAGNIÈRES</b>	<b>Chairman and Chief Executive Officer</b>	<b>Chairman and Chief Executive Officer</b>
Compensation for the year (detailed in Table 3)	1,767,514	2,157,801
Value of options granted during the year		
Value of performance shares granted during the year <sup>(a)</sup>	2,202,900	1,975,400

€	2016	2015
<b>Laurent VACHEROT</b>	<b>President and Chief Operating Officer</b>	
Compensation due for the period (detailed in Table 3) <sup>(b)</sup>	102,472	
Value of options granted during the year		
Value of performance shares granted during the year <sup>(a) (c)</sup>	1,914,219	

(a) The amounts shown correspond to the accounting fair value of the shares in accordance with IFRS. Accordingly, they are not the actual amounts that may be received at vesting. In addition, share awards are contingent on employment and performance conditions.

(b) Laurent Vacherot was appointed President and Chief Operating Officer on December 6, 2016 with fixed annual compensation of €650,000 and variable annual target compensation of €650,000.

The sums outlined in the above table correspond to 2016 compensation due for the period of the corporate office, i.e. from December 6-31, 2016. For the period from January 1 to December 5, 2016, the compensation due in accordance with Laurent Vacherot's employment contract amounted to €1,035,323.

(c) These performance shares were awarded before Laurent Vacherot was appointed corporate officer.

Table 3 – Summary of compensation paid to each Executive Corporate Officer

Hubert SAGNIÈRES €	2016 Chairman and Chief Executive Officer		2015 Chairman and Chief Executive Officer	
	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	800,000	800,000	800,000	800,000
Variable compensation <sup>(a)</sup>	960,000	1,350,400	1,350,400	1,178,400
Exceptional compensation				
Directors' fees				
Benefits in kind:				
▶ car				
▶ unemployment insurance	7,514	7,514	7,401	7,401
▶ other				
<b>TOTAL</b>	<b>1,767,514</b>	<b>2,157,914</b>	<b>2,157,801</b>	<b>1,985,801</b>

Laurent VACHEROT <sup>(b)</sup> €	2016 President and Chief Operating Officer		2015	
	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	46,301	46,301		
Variable compensation <sup>(c)</sup>	55,561			
Exceptional compensation				
Directors' fees				
Benefits in kind:				
▶ car	610	610		
▶ unemployment insurance				
▶ other				
<b>TOTAL</b>	<b>102,472</b>	<b>46,911</b>		

(a) Variable component for Hubert Sagnières for 2016: 120% of target achievement (169% for 2015).

(b) Laurent Vacherot was appointed President and Chief Operating Officer on December 6, 2016 with fixed annual compensation of €650,000 and variable annual target compensation of €650,000.

The compensation outlined in the above table corresponds to 2016 compensation in respect of the corporate office, i.e. from December 6-31, 2016.

For the period from January 1 to December 5, 2016, the compensation due in accordance with Laurent Vacherot's employment contract amounted to €1,035,323, of which:

– fixed compensation: €471,791;

– variable compensation due: €556,818;

– benefits in kind – car: €6,714.

(c) Variable component for Laurent Vacherot for 2016: 120% of target achievement.

**Table 4 – Performance shares awarded to each Executive Corporate Officer**

Rights to performance shares granted	Total number	Valuation (method applied in the consolidated financial statements) <sup>(a)</sup> (€)	Vesting date	End of lock-up period	Plan	Performance conditions
Hubert SAGNIÈRES	35,000	62.94	Between 09/22/2020 and 09/22/2022	Between 09/22/2020 and 09/22/2022	09/22/2016	Share price + special performance condition for Executive Corporate Officers <sup>(b) (c)</sup>
Laurent VACHEROT	32,005	59.81	Between 09/22/2019 and 09/22/2022	Between 09/22/2021 and 09/22/2024	09/22/2016	Share price + special performance condition for Executive Committee <sup>(b)</sup>

(a) Accounting valuation for the "Non-resident" plan = €62.94 / "Resident" plan = €59.81.

(b) In addition to the employment condition, the number of shares that vest is contingent on a performance condition based on the annualized growth in the Essilor share price.

(c) A second performance condition applies specifically to Executive Corporate Officers: the number of shares that vest may be reduced if the average rate of target achievement for the variable component of compensation is less than 100% during the period for measurement of performance.

(d) These performance shares were awarded before Laurent Vacherot was appointed corporate officer. In addition to the performance condition applying to all beneficiaries, a second performance condition applies specifically to members of the Group's Executive Committee: the number of shares that vest may be reduced if the average rate of target achievement for Group share objectives is less than 100% during the period for measurement of performance.

**Table 5 – Performance shares that became available during the year for each Executive Corporate Officer**

Performance shares awarded that became available	Total number	Plan	Performance conditions
Hubert SAGNIÈRES	45,000 <sup>(a)</sup>	11/25/2010	Share price + special performance condition for Executive Corporate Officers <sup>(d)</sup>
Laurent VACHEROT	14,985 <sup>(b)</sup>	11/26/2009	Share price <sup>(e)</sup>
Laurent VACHEROT	40,000 <sup>(c)</sup>	11/25/2010	Share price <sup>(e)</sup>

(a) 45,000 performance shares out of the 45,000 vested under the November 25, 2010, plan became available on November 25, 2016, subject to the lock-up condition applicable specifically to Executive Corporate Officers.

(b) 14,985 performance shares out of the 14,985 vested under the November 26, 2009, plan became available on November 26, 2016.

(c) 40,000 performance shares out of the 40,000 vested under the November 25, 2010, plan became available on November 25, 2016.

(d) In addition to the employment condition, the number of shares that vest is contingent on a performance condition based on the annualized growth in the Essilor share price. A second performance condition applies specifically to Executive Corporate Officers: the number of shares that vest may be reduced if the average rate of target achievement for the variable component of compensation is less than 100% during the period for measurement of performance.

(e) These performance shares were awarded before Laurent Vacherot was appointed corporate officer.

**Table 6 – Stock subscription or purchase options granted during the year to each Executive Corporate Officer**

No stock subscription or purchase options were granted in 2016.

**Table 7 – Stock subscription or purchase options exercised by each Executive Corporate Officer during the year**

#### Hubert Sagnières, Chairman and Chief Executive Officer

Hubert Sagnières has not had any stock subscription options to exercise since 2014. Consequently, no options were exercised in 2016.

#### Laurent Vacherot, President and Chief Operating Officer

Laurent Vacherot has not had any stock subscription options to exercise since 2012. Consequently, no options were exercised in 2016.

**Table 8 – History of capped performance stock subscription option awards**

Information regarding capped performance stock subscription options (excluding collective awards)

Plan	2009	2010	2011	2012	2013	2014	2015	2016
Date of Shareholders' Meeting	05/11/2007	05/11/2010	05/11/2010	05/11/2012	05/11/2012	05/11/2012	05/05/2015	05/05/2015
Date of Board of Directors' Meeting	11/26/2009	11/25/2010	11/24/2011	11/27/2012	11/25/2013	11/25/2014	12/02/2015	09/22/2016
Total number of shares that can be subscribed	1,579,120	634,760	85,620	81,760	87,880	121,505	100,023	119,392
Number of shares that can be subscribed by the executive corporate officers:	230,000							
Xavier FONTANET	80,000							
Hubert SAGNIÈRES	150,000							
Laurent VACHEROT								
Starting point for the exercise of options	11/28/2011	11/26/2012	11/25/2013	11/27/2014	11/25/2015	11/25/2016	Not yet known, depends on performance	Not yet known, depends on performance
Date of expiration	11/26/2016	11/25/2017	11/24/2018	11/27/2019	11/25/2020	11/25/2021	12/02/2022	09/22/2023
Subscription price (average of the 20 opening prices prior to the Board of Directors Meeting)	€38.96	€48.01	€52.27	€71.35	€77.29	€87.16	€121.32	€114.88
Exercise procedures <sup>(a)</sup>	Subject to conditions: 50% after two years, 100% one year later	Subject to conditions: 50% after two years, 100% one year later	Subject to conditions: 50% after two years, 100% one year later	Subject to conditions: 50% after two years, 100% one year later	Subject to conditions: 50% after two years, 100% one year later	Subject to conditions: 50% after two years, 100% one year later	Subject to conditions: 100% after three years	Subject to conditions: 100% after three years
Number of shares subscribed at 12/31/2016	1,316,171	506,220	66,460	37,222	19,421	2,010		
Cumulative number of options canceled or expired	262,949	69,484	12,880	7,345	5,443	8,050	2,155	3,405
Options remaining at 12/31/2016		59,056	6,280	37,193	63,016	111,445	97,868	115,987

(a) The vesting of subscription options is subject to an employment condition and to a performance condition based on the annualized growth of the market price of the Essilor share. A second performance condition applies specifically, as needed (2009 plan), to corporate officers: the number of vested rights may be reduced when the average rate of achievement of variable compensation targets is less than 100%.

**Table 9 – History of performance share awards****Information on performance shares** (excluding collective awards)

Plan	2012	2013	2014	2015	2016
Date of Shareholders' Meeting	05/11/2012	05/11/2012	05/11/2012	05/05/2015	05/05/2015
Date of Board of Directors' Meeting	11/27/2012	11/25/2013	11/25/2014	12/02/2015	09/22/2016
Total number of shares allocated	1,176,340	1,279,460	1,448,464	1,251,533	1,372,233
Number of shares allocated to the executive corporate officers:					
Hubert SAGNIÈRES	45,000	45,000	40,000	35,000	35,000
Laurent VACHEROT <sup>(a)</sup>	35,000	35,000	35,000	30,000	32,005
Date of vesting of shares	Resident on 11/27/2014	Resident on 11/25/2015	Resident on 11/25/2016	Not yet vested	Not yet vested
	Non-resident on 11/27/2016	Non-resident on 11/25/2017	Non-resident on 11/25/2018		
Date of end of lock-up period.	Resident on 11/27/2018	Resident on 11/25/2019	Resident on 11/25/2020	According to vesting date	According to vesting date
	Non-resident 50% on 11/27/2016 and 50% on 11/27/2018	Non-resident 50% on 11/25/2017 and 50% on 11/25/2019	Non-resident 50% on 11/25/2018 and 50% on 11/25/2020		
Number of shares vested <sup>(b)</sup> at 12/31/2016	1,076,300	481,150	499,035	735 <sup>(c)</sup>	38 <sup>(c)</sup>
Cumulative number of shares canceled or expired	100,040	93,430	61,200	20,340	4,369
Shares remaining at 12/31/2016		704,880	888,229	1,230,458	1,367,826

(a) Laurent Vacherot was not an Executive Corporate Officer when these performance shares were awarded.

(b) In addition to the employment condition, the vesting of shares and their number are subject to a performance condition based on the annualized growth in the market price of the Essilor share. Starting from the allocation that occurred in the year 2010, a second performance condition applies specifically to the corporate officers: the number of vested shares may be reduced when the average rate of achievement of variable compensation targets is less than 100%.

(c) Shares become fully vested in the case of death or invalidity.

**Table 10 – Executive Corporate 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

Start of term	2008
End of appointment	2017
Employment contract	Yes – suspended as of January 1, 2010
Compensation relating to a non-compete clause	No
Supplementary pension plan	Yes
Compensation or benefits that are or may be owed due to the termination or change of functions	No <sup>(a)</sup>

(a) There is no provision for severance payment for this corporate office. Details of the severance payment provided under the suspended employment contract are given in Section 2.3.3.

**Laurent VACHEROT**

President and Chief Operating Officer from December 6, 2016

Start of term	2016
End of appointment	2017 <sup>(a)</sup>
Employment contract	Yes – suspended as of December 6, 2016
Compensation relating to a non-compete clause	No
Supplementary pension plan	Yes <sup>(b)</sup>
Compensation or benefits that are or may be owed due to the termination or change of functions	No <sup>(c)</sup>

(a) The term of office of Laurent Vacherot, appointed President and Chief Operating Officer on December 6, 2016, was set so that its renewal would coincide with that of the Chairman and Chief Executive Officer.

(b) The decision of the Board of Directors regarding the supplementary pension plan will be submitted for shareholder approval at the Shareholders' Meeting of May 11, 2017.

(c) There is no provision for severance payment for this corporate office. The decision of the Board of Directors concerning the severance payment provided for in the suspended employment contract will be submitted for shareholder approval at the Shareholders' Meeting of May 11, 2017. Details of this compensation can be found in Section 2.3.3.

### 2.3.5 “Say on Pay” compensation of Executive Corporate Officers

#### Resolutions 13-15: “Say on Pay” compensation of Executive Corporate Officers

**Resolution 13** seeks the opinion of the shareholders on the compensation components due or awarded to Hubert SAGNIÈRES, Chairman and Chief Executive Officer, in respect of fiscal 2016.

This vote is required in accordance with the recommendations of the AFEP-MEDEF Code of November 2016 (Article 26-2), to which the Company refers pursuant to Article L.225-37 of the French Commercial Code.

These components are set out in the form of a table prepared in accordance with the recommendations of the Application Guide for the AFEP-MEDEF Code issued by the High Committee for Corporate Governance (“Haut Comité de gouvernement d’entreprise”). Details

of all compensation can be found in the 2016 Reference Document in Chapter 2: “Corporate governance” (Section 2.3, “Compensation and benefits”).

**Resolution 14** seeks the opinion of the shareholders on the compensation components due or awarded to Laurent VACHEROT for the period of his corporate office as President and Chief Operating Officer (from December 6, 2016).

**Resolution 15** seeks to submit the compensation policy to the approval of the Shareholders’ Meeting, pursuant to the so-called Sapin 2 Act applicable to the Executive Corporate Officers Laurent SAGNIÈRES and Hubert VACHEROT.

#### Thirteenth resolution

Advisory vote on the compensation components due or awarded to Hubert SAGNIÈRES, Chairman and Chief Executive Officer, in respect of fiscal 2016.

The shareholders, after a reading of the terms of Article 26 of the AFEP-MEDEF Code, deliberating with the quorum and majority required for Ordinary Shareholders’ Meetings, issue a favorable opinion on the compensation due or awarded in respect of fiscal 2016 to Mr. Hubert Sagnières, Chairman of the Board of Directors and Chief Executive Officer, as shown in Chapter 2 of the Registration Document and reproduced below.

Compensation components	Amount	Comments
Fixed compensation	€800,000	Gross annual fixed compensation effective as of January 2, 2012, as decided by the Meeting of the Board of Directors of November 24, 2011 on the recommendation of the Executive Officers and Remuneration Committee. The amount remains unchanged since 2012.
Variable compensation	€960,000	<p>At its meeting of February 16, 2017, the Board of Directors, on the recommendation of the Executive Officers and Remuneration Committee and after approval of the financial items by the Audit and Risk Committee, assessed the variable compensation payable to Hubert Sagnières in respect of the 2016 fiscal year.</p> <p>Given the financial and specific targets approved by the Board Meeting of February 18, 2016 and the achievements recorded as at December 31, 2016, the amount of the variable component was assessed as follows:</p> <ul style="list-style-type: none"> <li>▶ in respect of financial targets: <ul style="list-style-type: none"> <li>▶ restated net EPS, 220% of target achieved,</li> <li>▶ organic growth, 0% of target achieved,</li> <li>▶ bolt-on acquisition-led growth, 180% of target achieved;</li> </ul> </li> <li>▶ for the specific targets: the Board decided that Hubert Sagnières had met 180% of the targets as set by the Board, i.e. the organization of the Group’s senior management, the cohesion and sound governance of the Board of Directors following changes in composition in 2016, the finalization of a strategic acquisition, the strengthening of internal control to support the growth of the Group.</li> </ul> <p>The amount of Hubert Sagnières’ variable compensation for 2016 was approved at €960,000, which is 120% of his annual fixed compensation for 2016.</p> <p>Details of these criteria, their respective weighting and their assessment scales are provided in Chapter 2, Section 2.3, “Compensation and benefits”.</p>
Deferred variable compensation	N/A	Hubert Sagnières does not benefit from any deferred variable compensation.
Multi-year variable compensation	N/A	Hubert Sagnières does not benefit from any multi-year variable compensation.
Directors’ fees	N/A	Hubert Sagnières does not receive any Directors’ fees.



Compensation components	Amount	Comments
Exceptional compensation	N/A	Hubert Sagnières does not benefit from any exceptional compensation.
Award of stock subscription and share purchase options	N/A	Hubert Sagnières does not benefit from stock options.
Award of performance shares	Number: 35,000; accounting valuation: €2,202,900	<p>At its September 22, 2016, meeting, the Board of Directors, in accordance with the authorization accorded it by the 14<sup>th</sup> resolution of the General Meeting of May 5, 2015, and on the recommendation of the Executive Officers and Remuneration Committee, awarded a maximum number of 35,000 performance shares to Hubert Sagnières, valued at €2,202,900 according to the method used for the consolidated financial statements, i.e., 2.2% of the total number of shares awarded (the sum of the performance shares and the performance options awarded) and 0.016% of share capital at December 31, 2016.</p> <p>During 2016, 45,000 shares from previous award plans became available to Hubert Sagnières, provided he adheres to the specific lock-up conditions that apply to Executive Corporate Officers.</p> <p>The rules governing awards to Executive Corporate Officers, the vesting conditions and the lock-up conditions for such shares are set out in Chapter 2, Section 2.3, "Compensation and benefits".</p>
Signing bonus	N/A	Hubert Sagnières has not received any sign-on bonus.
Severance payment	No payment	<p>Under a clause in his employment contract which is suspended during his term of office as an Executive Corporate Officers, Hubert Sagnières is entitled to a severance payment of a maximum of €2,259,000, comprised of:</p> <ul style="list-style-type: none"> <li>▶ €922,425 in respect of benefits payable under French law and the applicable collective bargaining agreement;</li> <li>▶ €1,336,575 in supplementary benefits which are wholly subject to performance conditions.</li> </ul> <p>In accordance with the procedure regarding related-party agreements and commitments, this benefit obligation was authorized by the Board on March 4, 2009, with this authorization reiterated on March 3, 2010, and ratified at the Shareholders' Meeting of May 5, 2011 (4<sup>th</sup> resolution) and submitted to this Shareholders' Meeting (11<sup>th</sup> resolution). Details of the terms of the award of this benefit are provided in Chapter 2, Section 2.3, "Compensation and benefits".</p>
Non-compete payment	N/A	Hubert Sagnières does not benefit from any non-compete payment.
Supplementary pension plan	No payment	<p>Hubert Sagnières is eligible for the defined benefit supplementary pension plan set up by the Company under the same terms and conditions as those applicable to the category of employees to which he belongs in terms of setting employee benefits and other ancillary items of his compensation.</p> <p>In accordance with the procedure regarding related-party agreements and commitments, this benefit obligation was authorized by the Board on November 26, 2009 and ratified at the Shareholders' Meeting of May 11, 2010 (5<sup>th</sup> resolution).</p> <p>By way of example, if the calculation were made on December 31, 2016, the annual pension provided by this plan would amount to 25% of the average total compensation (fixed + variable) actually paid to Hubert Sagnières during the 2014, 2015 and 2016 fiscal years (see Chapter 2, Section 2.3, "Compensation and benefits").</p>
Group death / disability and health insurance plans and defined contribution pension plan		Hubert Sagnières is eligible for the Group death / disability and health insurance plans and the defined contribution pension plan set up by the Company under the same terms and conditions as those applicable to the category of employees to which he belongs in terms of setting employee benefits and other ancillary items of his compensation.
Benefits in kind	€7,514	Hubert Sagnières is covered by an unemployment insurance plan for which the Company paid a premium of €7,514 in 2016.

**Fourteenth resolution**

Advisory vote on the compensation components due or awarded to Laurent VACHEROT, President and Chief Operating Officer, in respect of fiscal 2016.

The shareholders, after a reading of the terms of Article 26 of the AFEP-MEDEF Code, deliberating with the quorum and majority required for Ordinary Shareholders' Meetings, issues a favorable opinion on the

compensation due or awarded in respect of fiscal 2016 to Mr. Laurent Vacherot, President and Chief Operating Officer, as shown in Chapter 2 of the Registration Document and reproduced below.

Compensation components	Amount	Comments
Fixed compensation	€46,301	Gross fixed compensation paid as from December 6, 2016 in respect of Laurent Vacherot's corporate office, corresponding to annual fixed compensation of €650,000, approved by the Board of Directors at its meeting of December 6, 2016 on the recommendation of the Executive Officers and Remuneration Committee.
Variable compensation	€55,661	At its meeting on February 16, 2017, the Board of Directors, on the recommendation of the Executive Officers and Remuneration Committee, and after approval of the financial elements by the Audit and Risks Committee, determined the amount of Laurent Vacherot's variable compensation for his corporate office in fiscal 2016, i.e. for the period from December 6 to December 31, 2016. Based on the achievement of the targets set for fiscal 2016, the amount of the variable compensation of Laurent Vacherot for the period of his corporate office in 2016 was established at €55,661, representing 120% of his fixed annual compensation for his corporate position in 2016. Details of these criteria, their respective weighting and their assessment scales are provided in Chapter 2, Section 2.3, "Compensation and benefits".
Deferred variable compensation	N/A	Laurent Vacherot does not benefit from any deferred variable compensation.
Multi-year variable compensation	N/A	Laurent Vacherot does not benefit from any multi-year variable compensation.
Directors' fees	N/A	Laurent Vacherot does not receive any Directors' fees.
Exceptional compensation	N/A	Laurent Vacherot does not benefit from any exceptional compensation.
Award of stock subscription and share purchase options	N/A	Laurent Vacherot does not benefit from stock options.
Award of performance shares	Number: 32,005; accounting valuation: €1,914,219	In fiscal 2016, Laurent Vacherot benefited from a performance share award prior to his appointment as President and Chief Operating Officer. At its September 22, 2016, meeting, the Board of Directors, in accordance with the authorization accorded it by the 14 <sup>th</sup> resolution of the General Meeting of May 5, 2015, awarded a maximum number of 32,005 performance shares to Laurent Vacherot, valued at €1,914,219 according to the method used for the consolidated financial statements, i.e., 2.1% of the total number of shares awarded (the sum of the performance shares and the performance options awarded) and 0.015% of share capital at December 31, 2016. In 2016, 54,985 shares coming from prior award plans became available for Laurent Vacherot. The vesting conditions and the lock-up conditions for such shares are set out in Chapter 2, Section 2.3, "Compensation and benefits".
Signing bonus	N/A	Laurent Vacherot has not received any sign-on bonus.
Severance payment	No payment	Under a clause in his employment contract which is suspended during his term of office as an Executive Board Director, Laurent Vacherot is entitled to a severance payment of a maximum of €2,636,000, of which: <ul style="list-style-type: none"> <li>▶ €1,340,699 in respect of benefits payable under French law and the applicable collective bargaining agreement;</li> <li>▶ €1,295,301 in supplementary benefits which are wholly subject to performance conditions.</li> </ul> The Board of Directors' decision on the termination benefit is subject to the approval of the shareholders at this Shareholders' Meeting (12 <sup>th</sup> resolution).

Compensation components	Amount	Comments
Non-compete payment	N/A	Laurent Vacherot does not benefit from any non-compete payment.
Supplementary pension plan	No payment	Laurent Vacherot is eligible for the defined benefit supplementary pension plan set up by the Company under the same terms and conditions as those applicable to the category of employees to which he belongs in terms of setting employee benefits and other ancillary items of his compensation. In accordance with the procedure regarding related-party agreements and commitments, this benefit obligation was authorized by the Board on December 6, 2016 and is submitted for the approval of the shareholders at the Shareholders' Meeting of May 11, 2017 (4 <sup>th</sup> resolution). By way of example, if the calculation were made on December 31, 2016, the annual pension provided by this plan would amount to 25% of the average total compensation (fixed + variable) actually paid to Laurent Vacherot during the 2014, 2015 and 2016 fiscal years (see Chapter 2, Section 2.3, "Compensation and benefits").
Group death/disability and health insurance plans and defined contribution pension plan		Laurent Vacherot is eligible for the Group death/disability and health insurance plans and the defined contribution pension plan set up by the Company under the same terms and conditions as those applicable to the category of employees to which he belongs in terms of setting employee benefits and other ancillary items of his compensation.
Company car	€610	From December 6 to 31, Laurent Vacherot benefited from a company car, valued as a benefit in kind at €610.33, corresponding to an annual benefit of €7,324.

### Fifteenth resolution

#### Approval of the compensation policy applicable to Executive Corporate Officers

*Pursuant to Article L.225-37-2 of the French Commercial Code, the Board of Directors submits for approval of the Shareholders' Meeting the principles and criteria for the determination, distribution and award of the fixed, variable and exceptional components making up total compensation and benefits of any kind attributable to the Executive Corporate Officers for the performance of their duties for the 2017 fiscal year, representing the compensation policy applicable to them.*

*These principles and criteria approved by the Board of Directors on the recommendation of the Executive Officers and Remuneration Committee are set out in the report scheduled by the above article and appear in chapter 2, Section 2.3 of the 2016 Registration Document. Pursuant to Article L.225-100 of the French Commercial Code, the amounts resulting from the implementation of these principles and criteria will be submitted to the approval of shareholders at the meeting convened to approve the financial statements for fiscal 2017.*

The Shareholders' Meeting, acting pursuant to the quorum and majority conditions for Ordinary General Meetings, and having reviewed the report scheduled in Article L.225-37-2 of the French Commercial Code, approves the principles and criteria for the determination, distribution and award of the fixed, variable and

exceptional components making up total compensation and benefits of any kind presented in the afore-mentioned report which may be awarded to the Executive Corporate Officers, pursuant to their term of office.

### 2.3.6 Summary statement of transactions performed in 2016 by corporate officers on Essilor International securities

(Article 223 26 of the AMF General Regulations)

First name	Last name	Title	Description of the financial instrument	Transaction type	Transaction date	Transaction amount
Benoît	BAZIN	Director	Shares	Subscription	08/06/16	1,100.88,EUR
			Shares	Acquisition	01/12/16	2,007.29 USD
Maureen	CAVANAGH	Director	Shares	Acquisition	01/12/16	2 555.49 USD
			Shares	Acquisition	01/12/16	2 291.43 USD
			Shares	Acquisition	01/12/16	2 088.37 USD
Juliette	FAVRE	Director	Shares	Subscription	23/12/16	17,343.56,EUR
			Shares	Sale	05/09/16	15,133.30,EUR
			Shares	Sale	02/09/16	15,113.80,EUR
Henrietta	FORE	Director	Shares	Acquisition	24/05/16	115,186.75,EUR
Yi	HE	Director	Shares	Subscription	23/12/16	23,286.41,EUR
			Shares	Subscription	23/12/16	16,673.15,EUR
			Shares	Sale	08/12/16	3,112.50,EUR
Franck	HENRIONNET	Director	Shares	Sale	26/09/16	2,357.00,EUR
			Shares	Subscription	08/06/16	600.48,EUR
Bernard	HOURS	Director	Shares	Acquisition	24/10/16	300,040.00,EUR
Annette	MESSEMER	Director	Shares	Acquisition	24/06/16	112,324.40,EUR
Marc	ONETTO	Director	Shares	Subscription	08/06/16	900.72,EUR
			Shares	Sale	02/08/16	1,245,398.00,EUR
Hubert	SAGNIÈRES	Chairman-Chief Executive officer	Shares	Subscription	08/06/16	276,320.88,EUR
			Shares	Sale	22/04/16	1,848,353.24,EUR
Laurent	VACHEROT	President-Chief Operating officer	Shares	Subscription	23/12/16	29,163.67,EUR

## 2.4 Summary table of recommendations of the AFEP-MEDEF Code that have not been applied

### Reminder of the Corporate Governance Code of reference

The Essilor International Board of Directors declared that, as of March 4, 2009, the AFEP and MEDEF Corporate Governance Code for listed companies of December 2008, which was last revised in November 2016 (hereinafter the "AFEP-MEDEF Code") and is available on the AFEP and MEDEF websites, will be the Code to which Essilor International refers, especially for the preparation of the report provided for in Article L.225-37 of the French Commercial Code.

### Implementation of the "Apply or Explain" rule

With regard to the "Apply or Explain" rule provided for in Article L.225-37 of the French Commercial Code and referred to in Article 27.1 of the AFEP-MEDEF Code, the Company considers that its practices comply with the recommendations of the AFEP-MEDEF Code.

However, certain provisions have been disregarded for the reasons explained in the table below:

Recommendations of the AFEP-MEDEF Code (hereinafter the "Code")	Practices of Essilor International and explanations
<b>Composition of the Executive Officers and Remuneration Committee</b> (participation of the Director representing employees – point 18-1 of the Code)	The Board of Directors did not wish to change the composition of the Executive Officers and Remuneration Committee, which is comprised exclusively of Independent Directors. The compensation of the Executive Corporate Officers is subject to discussion on an annual basis at a meeting of the Board of Directors, under a specific agenda item for which the Executive Corporate Officers and executive members of the Company are not present, so that the Director representing employees can freely express their opinion prior to any decision. Furthermore, the employee shareholders are periodically invited, as part of the Valoptec Association, to discuss a certain number of topics, including the compensation of the Executive Corporate Officers.
<b>Composition of the Nominations Committee (point 16-1 of the Code)</b>	Following the changes made in the composition of the Board of Directors in 2016, the Board of Directors decided to appoint Olivier Pécoux, Philippe Alfroid and Bernard Hours as members of the Nominations Committee. Even though two of them (Philippe Alfroid and Olivier Pécoux) are not independent within the meaning of the AFEP-MEDEF criteria, the Board of Directors decided to trust their independence of mind and judgment. The composition of the Committee will be reviewed in 2017.
<b>Suspension of the employment contract of the Executive Corporate Officer (point 22 of the Code)</b> It is recommended that, when an employee becomes an Executive Corporate Officer of the Company, the employment contract between them and the Company or a Group company be terminated, either by means of contractual termination by mutual consent or by means of resignation.	On the recommendation of the Executive Officers Committee, the Board Meeting of November 27, 2008 expressed reservations on the "requirement" for an Executive Corporate Officer to terminate their employment contract on appointment as Chairman and Chief Executive Officer or Chief Executive Officer. While this provision would make sense for a Director hired externally or newly arrived within the Group, it is difficult to justify it for a manager who has had a long and successful career within the Company and is called to higher responsibilities. By reducing the protection afforded to Executive Corporate Officers at a time when they are taking on increased risks by virtue of their new responsibilities, this could lead internal candidates to turn down the promotion or to ask for a bigger increase in their compensation, which is obviously not in line with the spirit of the AFEP-MEDEF recommendations. This measure would detach the Executive Corporate Officers from the Company and would be out of line with the policies of internal promotion and "sustainable management" that are, for Essilor International, the key to building strong and stable groups. Consequently, the Board of Directors of Essilor decided to continue to "suspend" the employment contracts of senior executives upon their appointment as Chairman and Chief Executive Officer or Chief Executive Officer when they have been with the Company for at least 10 years.
<b>The Board must ensure it awards incentive plans in the same calendar periods, for example, after the publication of the financial statements for the preceding year and preferably each year (point 24.3.3 of the Code)</b>	At its meeting of September 22, 2016, and on the recommendation of the Executive Officers and Remuneration Committee, the Board of Directors revised the schedule for awarding long-term incentive plans to all employees. Such plans had previously been subject to the approval of the Board of Directors at its year-end meeting (in late November or early December). They will now be subject to the approval of the Board of Directors at its late September or early October meeting. This adjustment will allow for better coordination of the Group compensation policy during a given calendar year. The purpose of this change is also to strengthen the consistency of the performance management cycle.

2.5 Statutory Auditors' Report prepared in accordance with Article L.225-235 of the French Commercial Code and dealing with the report of the Chairman of the Board of Directors of Essilor International

## 2.5 Statutory Auditors' Report prepared in accordance with Article L.225-235 of the French Commercial Code and dealing with the report of the Chairman of the Board of Directors of Essilor International

### Financial year ended December 31, 2016

*This is a free translation into English of a report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of ESSILOR INTERNATIONAL and in accordance with article L. 225-235 of the French Commercial Code, we hereby present our report dealing with the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the financial year ending December 31, 2016.

The Chairman is responsible for preparing and submitting for the approval of the Board of Directors, a report describing the internal control and risk management procedures implemented by the

company and disclosing other information as required by article L. 225-37 of the French Commercial Code dealing in particular with corporate governance.

Our own responsibility is to:

- ▶ Communicate to you any observations we may have as to the information contained in the Chairman's Report and relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information; and
- ▶ Attest that the report includes the other disclosures required by article L. 225 37 of the French Commercial Code. It should be noted that we are not responsible for verifying the fair presentation of those other disclosures.

We have performed our work in accordance with the professional standards applicable in France.

### Information relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information

Our professional standards require the application of procedures designed to assess the fair presentation of the information contained in the Chairman's Report and relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information.

Those procedures involve in particular:

- ▶ obtaining an understanding of the underlying internal control and risk management procedures in the area of the preparation and processing of financial and accounting information presented in the Chairman's Report, and of the related documentation;
- ▶ obtaining an understanding of the work performed as a basis for preparing that information and the existing documentation ;

- ▶ determining if any major internal control weaknesses in the area of the preparation and processing of financial and accounting information identified by us during the course of our engagement have been appropriately disclosed in the Chairman's Report.

On the basis of the procedures performed, we have nothing to report on the information relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information contained in the report of the Chairman of the Board of Directors prepared in accordance with article L. 225-37 of the French Commercial Code.

### Other disclosures

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

Neuilly-Sur-Seine and Courbevoie, on March 15, 2017

The Statutory Auditors  
French original signed by:

**PRICEWATERHOUSECOOPERS AUDIT**  
Olivier Lotz

**MAZARS**  
Daniel Escudeiro

## 2.6 Statutory Auditors' special Report on regulated agreements and commitments

### Annual General Meeting for the approval of the financial statements for the year ended December 31, 2016

*This is a free translation into English of the Statutory Auditors' special report on related-party agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In our capacity as Statutory Auditors of Essilor International, we hereby report to you on related-party agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, as well as the reasons given as to why they are beneficial for the

Company, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of Article R. 225-31 of the French Commercial Code (Code de commerce), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Where applicable it is also our responsibility to provide shareholders with the information required by Article R. 225-31 of the French Commercial Code in relation to the implementation during the year of agreements and commitments already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying that the information given to us is consistent with the underlying documents.

### Agreements and commitments submitted for the approval of the annual general meeting

#### Agreements and commitments authorized during the year

In accordance with Article L. 225-40 of the French Commercial Code, we were informed of the following agreements and commitments authorized by the Board of Directors.

#### Corporate officer involved: Laurent Vacherot, President & Chief Operating Officer of Essilor International

1. Addendum to the employment contract of Laurent Vacherot formalising the terms and conditions of suspending his employment contract and the termination benefits that would be awarded as a result of terminating said contract in certain circumstances

At its meeting of December 6, 2016, the Board of Directors authorized the modification of Laurent Vacherot's employment contract upon his appointment as President & Chief Operating Officer. The addendum formally sets out the terms and conditions of suspending his employment contract and the termination benefits that would be awarded as a result of terminating said contract in certain circumstances. This agreement, consistent with market practices, was authorized in accordance with Article L. 225-42-1 of the French Commercial Code. It specifies that:

- ▶ it is Group policy to suspend the employment contract of an employee with more than 10 years seniority within the Group when he or she is promoted to the position of corporate officer;

- ▶ the conditions for awarding termination benefits in the event of his departure at the Company's initiative (except in the event of serious or gross misconduct), the maximum amount and the calculation methods used have been set in accordance with the recommendations of the AFEP MEDEF Code of Corporate Governance. The termination benefits would be equal to two years of his contractual compensation, up to a maximum of €2,636,000, it being specified that the benefits will be calculated based on the compensation package in force at the time the employment contract is suspended.

2. Continuation of the defined benefit pension plan with which Laurent Vacherot was already registered as an employee

At its meeting of December 6, 2016, the Board of Directors authorized to maintain the defined benefit pension plan, with which Laurent Vacherot was already registered as an employee, upon his appointment as President & Chief Operating Officer, consistent with market practices.

Laurent Vacherot's potential pension entitlement, under this supplementary pension plan, has been capped since December 2, 2011, and given that the entitlement cannot increase in respect of his term as President & Chief Operating Officer, the award of a defined benefit pension commitment is only subject to paragraph 1 of Article L. 225-42-1 of the French Commercial Code only, and not to the French «Macron» Act.



## 2.6 Statutory Auditors' special Report on regulated agreements and commitments

**Agreements and commitments authorized after the year end**

We were informed of the following agreements and commitments, which have been authorized since the year end by the Board of Directors.

**Corporate officer involved: Olivier Pécoux, Executive Officer of the group Rothschild & Co and member of the Board of Directors of Essilor International**

At its meeting of January 15, 2017, the Board of Directors authorized the signing of an agency agreement with the

bank Rothschild & Co to negotiate the terms and conditions of the combination with the Luxottica Group. The conditions of Rothschild & Co's assignment are consistent with usual market practices as are customary for this type of agreement. No compensation was paid in 2016, as the commission was only payable if the planned combination with Luxottica was successfully completed.

Essilor International chose to enter into an agreement with Rothschild & Co given its involvement with leading international groups in numerous cross-border transactions.

**Agreements and commitments already approved by the annual general meeting****Agreements and commitments approved in previous years but not implemented during the year**

In addition, we have been informed of the continuation of the following agreements and commitments approved by Annual General Meetings in prior years, which had no effect during the year ended December 31, 2016.

**Corporate officer involved: Hubert Sagnières Chairman and Chief Executive Officer of Essilor International**

**1. Suspension of his employment contract**

At its meeting of November 26, 2009, the Board of Directors authorized the suspension of Hubert Sagnières' employment contract, as of January 1, 2010, upon his appointment as Chairman and Chief Executive Officer of Essilor International.

**2. Termination benefits**

Pursuant to his employment contract, which is suspended during his term as corporate officer, Hubert Sagnières is contractually entitled to termination benefits in a maximum amount of €2,259,000, of which €922,425 relates to the compensation due under the collective agreement and €1,336,575 of additional benefits entirely subject to the fulfilment of performance conditions. This commitment was authorized by the Board of Directors at its meeting of March 4, 2009 and confirmed at its meeting of March 3, 2010.

**3. Supplementary pension plan**

Hubert Sagnières is a member of the supplementary defined benefit pension plan in force in the Company, under the same terms and conditions applicable to the employee category to which he belongs for setting social benefits and other complementary components of compensation. This commitment was authorized by the Board of Directors at its meeting of November 26, 2009.

Neuilly-sur-Seine and Courbevoie, March 15, 2017

The Statutory Auditors  
French original signed by

**PRICEWATERHOUSECOOPERS AUDIT**  
Olivier Lotz

**MAZARS**  
Daniel Escudeiro

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## FINANCIAL STATEMENTS



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## IN BRIEF

### 2016: A NEW YEAR OF GROWTH, ESSILOR RESOLUTELY TURNED TOWARD THE FUTURE

€ millions	2016	2015	Change
Revenue	7,115	6,716	5.9%
Contribution from operations <sup>(a)</sup>	1,321	1,263	4.6%
(% of revenue)	18.6%	18.8%	
Operating profit	1,230	1,183	3.9%
Net profit attributable to Group equity holders	813	757	7.4%
(% of revenue)	11.4%	11.3%	
Earnings per share (€)	3.79	3.57	6.2%
Free cash flow <sup>(b)</sup>	900	867	3.8%

(a) Contribution from operations corresponds to revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

(b) Net cash from operating activities less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.

#### DATE OF THE LATEST FINANCIAL INFORMATION

The latest audited financial information corresponds to fiscal years 2015 and 2016 (periods from January 1 to December 31).

#### DOCUMENTS INCORPORATED BY REFERENCE

Pursuant to Article 28 of Regulation (EC) No 809/2004 of the European Commission, the following information is incorporated by reference in this Registration Document:

- ▶ the consolidated financial statements for the year ended December 31, 2014 and the Statutory Auditors' Report on the consolidated financial statements for the year, which appear respectively on pages 96 to 164 and 165 of the 2014 Registration Document filed with the AMF on March 12, 2015 under number D.15-0131;
- ▶ the consolidated financial statements for the year ended Thursday, December 31, 2015 and the Statutory Auditors' Report on the consolidated financial statements for the year, which appear respectively on pages 96 to 157 and 158 of the 2015 Registration Document filed with the AMF on Thursday, March 17, 2016 under number D.16-0155.

#### SELECTED FINANCIAL INFORMATION FOR INTERIM PERIODS

The Company has elected not to restate financial information for interim periods in this Document. For the record, the consolidated results as at Thursday, June 30, 2016 were published on Friday, July 29, 2016. The financial press release, the consolidated income statement, consolidated balance sheet and consolidated cash flow statement at Thursday, June 30, 2016 and the presentation of results for the first half of 2016 are available on the Essilor website.



the Registration Documents and releases cited are available at:

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Downloads  
[www.essilor.com](http://www.essilor.com)

## 3.1 Comments on the Company's earnings and financial position

### Notes:

**A. Like-for-like growth:** Growth at constant scope and exchange rates. See definition in Note 2.3 to the consolidated financial statements.

**B. Bolt-on acquisitions:** Local acquisitions or partnerships.

**C. Contribution from operations:** Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

**D. Operating cash flow:** Net cash from operating activities before working capital requirement.

**E. Free cash flow:** Net cash from operating activities less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.

### 3.1.1 Operating profit

#### Condensed Statement of Income

€ millions	2016	2015	% change
Revenue	7,115	6,716	+5.9%
Gross profit	4,181	4,012	+4.2%
(% of revenue)	58.8%	59.7%	
Operating expenses	2,860	2,749	+4.0%
Contribution from operations <sup>(a)</sup>	1,321	1,263	+4.6%
(% of revenue)	18.6%	18.8%	
Operating profit	1,230	1,183	+3.9%
(% of revenue)	17.3%	17.6%	
Finance costs, net	(66)	(63)	
Income tax expense	285	308	-7.8%
(tax rate)	24.5%	27.5%	
Net profit	880	813	+8.2%
attributable to equity holders of Essilor International	813	757	+7.4%
(% of revenue)	11.4%	11.3%	
Earnings per share (€)	3.79	3.57	+6.2%

(a) Contribution from operations corresponds to revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

### Significant factors affecting operating profit

#### Revenue

For more information on revenue, refer to Section 1.5, "Essilor in 2016" of this Registration Document.

#### 4.2% increase in gross profit

Gross profit (revenue less cost of sales) stood at €4,181 million for the year, representing 58.8% of revenue, versus 59.7% in 2015. Despite significant operating efficiency gains, the fall in gross margin was due to two major factors, namely weaker lens sales in North America and the growth of the online business, for which gross profit is below the Company average.

#### Operating expenses: up 4.0%

Operating expenses amounted to €2,860 million and represented 40.2% of revenue, versus 40.9% in 2015.

They mainly included:

- ▶ €214 million in R&D and engineering costs, stable compared to 2015;
- ▶ €1,750 million in selling and distribution costs, up from €1,678 million in 2015, mainly reflecting sales force expansion.

#### Contribution from operations (C) kept at a high level

Contribution from operations (C) rose 4.6% to €1,321 million while the margin retreated to 18.6% of revenue. This slight deterioration (down 20 basis points) reflected the combination of:

- ▶ firstly, positive operating leverage (up 20 basis points) linked to organic growth (A) in Company revenue and synergies implemented with partners;
- ▶ secondly, the dilution resulting from bolt-on acquisitions (B) (down 40 basis points), in particular those made in the online retail sector (down 30 basis points) and whose contribution from operations (C) as a percentage of sales was lower than the Company average.

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

Contribution from operations (C)	2016	2015	Change
€ millions	1,321	1,263	+4.6%
As a % of revenue	18.6%	18.8%	

#### Other income and expenses from operations

"Other income and expenses from operations" represented a net expense of €91 million versus a net expense of €80 million in 2015. These outlays covered:

- ▶ a total of €33 million in charges for restructuring provisions, mainly related to the streamlining of a number of production sites, the restructuring of trade flows and the impairment of intangible assets in North America;
- ▶ compensation costs for share-based payments (in particular performance share plans), totaling €64 million.

#### Operating profit: up 3.9%

Operating profit (contribution from operations (C) less other income and expenses from operations) stood at €1,230 million for the year, representing 17.3% of revenue.

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, other than the potential impact of the planned combination with Luxottica announced on January 16, 2017, as described in paragraph 3.2.3.

3.1.2 Net profit

**Finance costs and other financial income and expenses, net**

This item came to a net expense of €66 million, compared with €63 million in 2015.

**Profit attributable to equity holders: up 7.4% to €813 million**

Profit attributable to equity holders is stated after:

- ▶ €285 million in income tax expense compared with €308 million in 2015, representing an effective tax rate of 24.5%, compared

with 27.5% in 2015. The lower rate was mainly due to a reduction in the tax on dividends as a result of a significant part of the 2015 fiscal year dividend being paid in Company shares, as well as to the advance pricing agreement (APA) on royalty rates signed between France and the United States in 2016;

- ▶ €67 million in non-controlling interests, compared with €56 million in 2015. This increase was primarily due to the impact of higher earnings for a number of Essilor's partners, in particular in Asia and Russia.

Earnings per share were €3.79, an increase of 6.2% which outpaced the growth in revenue.

3.1.3 Balance sheet and cash flow statement

**Free cash flow (E): up 3.8% to €900 million**

**Capital expenditure and investments**

Purchases of property, plant and equipment and intangible assets totaled €294 million for the year, primarily related to capital expenditure to drive Company growth.

Financial investments, amounting to €754 million, notably included the acquisitions made in the United Kingdom in the online segment (Vision Direct Group Ltd and MyOptique Group Ltd), as well as Photosynthesis Group Co., Ltd in China in the Sunglasses & Readers Division.

**Change in working capital requirement**

The working capital requirement rose by €8 million over fiscal year 2016. This very healthy performance was primarily due to effective management of inventories and trade payables.

**Operating cash flow (D)**

Operating cash flow (D) stood at €1,202 million compared with €1,245 million at the end of December 2015. It included the payment during the first half-year of a €63 million fine, including interest, about which two of Essilor's subsidiaries in Germany were notified in 2010 by the German competition authority (BKA) and which was recognized in the Company's financial statements.

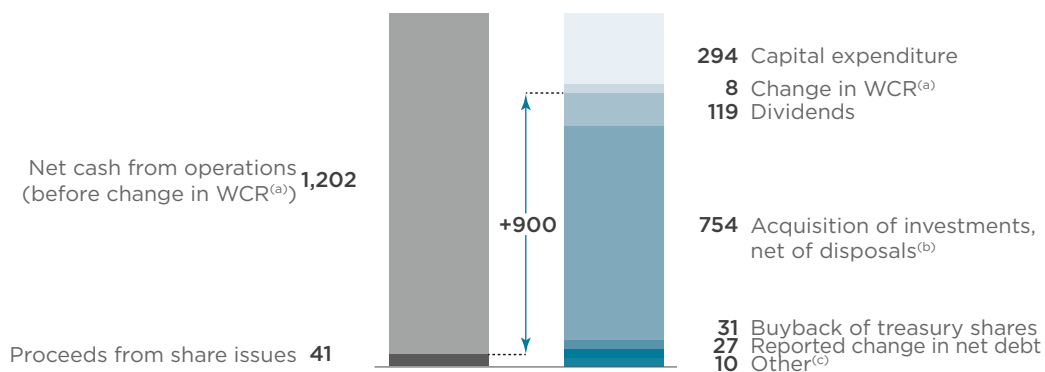
Despite this expense, free cash flow (E) grew 3.8% to €900 million, increasing in line with operating profit, and reflecting good control of capital expenditure and the working capital requirement. Adjusting for this expense, free cash flow (E) growth reached 11%.

**Net debt**

At the end of December 2016, Essilor's net debt stood at €2,062 million, lower than in December 2015 where it was at €2,089 million.

**Cash Flow Statement**

(€ millions)



(a) Working capital requirement.  
 (b) Financial investments net of cash acquired, plus debt of newly consolidated companies.  
 (c) Other items include the positive €33 million currency effect.



## 3.2 Trend information

### 3.2.1 Recent trends

The Company is not aware of any trends affecting production, sales, inventories, costs or selling prices since the end of the last fiscal year.

### 3.2.2 Outlook

Apart from information related to the announcement of the combination of Essilor and Luxottica (see paragraphs 3.2.3 and 3.2.4) the Company is not aware of any trends, uncertainties, claims, commitments or events that would be reasonably likely to materially affect its medium-term outlook.

We believe that the medium and long-term growth outlook in the ophthalmic lens industry is good, as a large portion of the world's population still needs glasses, the world's population is aging and these lenses represent the least expensive option for correcting vision issues. Furthermore, recent advances have made lenses even more attractive in relation to competing technologies.

### 3.2.3 Subsequent Events

#### Combination of Essilor and Luxottica (excerpt from January 16, 2017 news release)

Essilor and Delfin, the majority shareholder of Luxottica Group, announced on January 16, 2017 the signing of an agreement designed to create an integrated global player in the eyewear industry with the combination of Essilor and Luxottica. Intended to answer the growing needs in visual health, the new group would propose a comprehensive offering combining a strong brand portfolio, global distribution capabilities and complementary expertise in prescription lenses, prescription frames and sunglasses.

The transaction would entail a strategic combination of Essilor's and Luxottica's businesses consisting of: (i) Delfin contributing its entire stake in Luxottica (approx. 62%) to Essilor in return for newly-issued Essilor shares to be approved by the Essilor Shareholders' Meeting, on the basis of the Exchange Ratio of 0.461 Essilor shares for 1 Luxottica share, and (ii) Essilor subsequently making a mandatory public exchange offer, in accordance with the provisions of Italian Law, to acquire all of the remaining issued and outstanding shares of Luxottica pursuant to the same Exchange Ratio and with a view to delist Luxottica's shares.

Based on the 2015 financial statements of the two companies, the new entity would represent combined revenue in excess of €15 billion from more than 150 countries, net EBITDA of approx. €3.5 billion, and more than 140,000 employees.

The transaction is expected to close in H2 2017, subject to satisfaction of several conditions precedent, including, but not limited to, approval of the transaction by Essilor shareholders convened for a General Meeting, and by holders of double voting rights convened for a special meeting as well as clearance from relevant anti-trust authorities.

#### Acquisitions

Since January 1, 2017, Essilor has pursued its strategy of forging partnerships with local optical market leaders with four transactions representing aggregate additional annual revenue of around €19 million.

In **Brazil**, the Company acquired a majority stake in **Visolab Produtos Opticos Ltda**, a prescription laboratory located in the State of Sergipe with revenue of around 22 million Brazilian reals.

In **India**, Essilor acquired a majority stake in **Mangalsons Optics PTE Ltd**, a distributor of plastic and glass lenses, sunglasses and prescription frames with revenue of around 460 million Indian rupees in 2016.

Essilor is preparing to enter **Ethiopia** by signing an agreement to acquire a majority stake in **Sun Optical Technologies**, a leading prescription laboratory with revenue of just over €1 million. The completion of this partnership is subject to final approvals by local authorities.

In the **Netherlands**, the Company acquired a majority stake in **Optitrade Logistics Center (OLC)**, the distribution platform of Optitrade, a purchasing alliance of around 650 optical stores in this country. The goal of this partnership is to develop new product and service ranges and support the growth of Optitrade members in the domestic market. OLC will continue to be managed by the existing team.

### 3.2.4 2017 Outlook

In 2017, Essilor will accelerate the deployment of innovation. Over the course of the next 18 months the Company will launch several major products under its three leading trademarks of corrective lenses: Varilux®, Crizal® and Transitions®. In addition, the Company will step up the development of its Sunwear activities and online sales of eyecare products by leveraging the interconnections between product ranges, geographic expansion and synergies with recent acquisitions.

The strengthening of Essilor's top management and organizational structure will lead to greater responsiveness and more effective implementation of the strategy.

Overall, Essilor is forecasting revenue growth (excluding currency effects) of between 6% and 8% including between 3% and 5% on a like-for-like (A) basis. The contribution from operations (C) is expected to be around 18.5% of revenue, reflecting the short-term dilutive impact of the rapid development of online retail

operations. Due to the progressive effect of the initiatives to be implemented over the course of the year and the comparison basis, the group expects a higher level of growth and profitability in the second half of the year versus the first half.

In parallel, following the announcement on January 16, 2017, Essilor has started the process intended to create a combined group with Luxottica Group. This combination would aim to create an integrated global player to answer the growing needs in visual health. The transaction is subject to satisfaction of several conditions precedent, including, but not limited to, approval of the transaction by Essilor shareholders convened for a General Meeting, and by holders of double voting rights convened for a special meeting as well as clearance from relevant anti-trust authorities.

## 3.3 2016 consolidated financial statements

### 3.3.1 Consolidated income statement

€ millions, excluding per share data	Notes	2016	2015
Revenue	3	7,115	6,716
Cost of sales		(2,934)	(2,704)
<b>GROSS MARGIN</b>		<b>4,181</b>	<b>4,012</b>
Research and development costs		(214)	(214)
Selling and distribution costs		(1,750)	(1,678)
Other operating expenses		(896)	(857)
<b>CONTRIBUTION FROM OPERATIONS <sup>(a)</sup></b>		<b>1,321</b>	<b>1,263</b>
Other income from operations	5	18	18
Other expenses from operations	5	(109)	(98)
<b>OPERATING PROFIT</b>	<b>3</b>	<b>1,230</b>	<b>1,183</b>
Finance costs, net	6	(54)	(54)
Other financial income	7		5
Other financial expenses	7	(12)	(14)
Share of profits of associates		1	1
<b>PROFIT BEFORE TAX</b>		<b>1,165</b>	<b>1,121</b>
Income tax expense	8	(285)	(308)
<b>NET PROFIT</b>		<b>880</b>	<b>813</b>
<b>attributable to Group equity holders</b>		<b>813</b>	<b>757</b>
attributable to minority interests		67	56
Net profit attributable to Group equity holders per share (€)		3.79	3.57
Average number of shares (thousands)	9	214,614	212,226
Diluted net profit attributable to Group equity holders per share (€)		3.71	3.50
Diluted average number of shares (thousands)	10	219,203	216,583

(a) The contribution from operations corresponds to revenue less the cost of sales and operating expenses (research and development costs, selling and distribution costs, and other operating expenses).

The accompanying notes are an integral part of the consolidated financial statements.

## 3.3.2 Statement of consolidated comprehensive income

€ millions	Year 2016			Year 2015		
	Attributable to Group equity holders	Attributable to minority interests	Total	Attributable to Group equity holders	Attributable to minority interests	Total
<b>NET PROFIT FOR THE PERIOD (A)</b>	<b>813</b>	<b>67</b>	<b>880</b>	<b>757</b>	<b>56</b>	<b>813</b>
<b>Items of comprehensive income that will not be reclassified subsequently to profit or loss</b>						
Actuarial gains and losses on pension and other post-employment benefit obligations	(31)		(31)	(10)		(10)
Tax on items that will not be reclassified subsequently	1		1	2		2
<b>Items of comprehensive income that may be reclassified subsequently to profit or loss</b>						
Cash flow hedges, effective portion	2		2	(2)		(2)
Increase (decrease) in fair value of long-term financial investments				(1)		(1)
Translation reserves	212	(3)	209	188	27	215
Tax on items that may be reclassified subsequently				1		1
<b>TOTAL INCOME (EXPENSES) FOR THE PERIOD RECOGNIZED DIRECTLY IN EQUITY, NET OF TAX (B)</b>	<b>184</b>	<b>(3)</b>	<b>181</b>	<b>178</b>	<b>27</b>	<b>205</b>
<b>TOTAL RECOGNIZED INCOME AND EXPENSES, NET OF TAX (A) + (B)</b>	<b>997</b>	<b>64</b>	<b>1,061</b>	<b>935</b>	<b>83</b>	<b>1,018</b>

The accompanying notes are an integral part of the consolidated financial statements.

### 3.3.3 Consolidated balance sheet

#### Assets

The accompanying notes are an integral part of the consolidated financial statements.

€ millions	Notes	December 31, 2016	December 31, 2015
Goodwill	11	6,191	5,295
Other intangible assets	12	1,825	1,826
Property, plant and equipment	13	1,214	1,200
Investments in associates		8	5
Non-current financial assets	14	136	139
Deferred tax assets	8	187	169
Long-term receivables		37	24
Other non-current assets		56	41
<b>TOTAL NON-CURRENT ASSETS</b>		<b>9,654</b>	<b>8,699</b>
Inventories	15	1,125	1,099
Prepayments to suppliers		31	32
Short-term receivables	16	1,618	1,456
Tax receivables		81	60
Other receivables		25	34
Derivative financial instruments recognized in assets	21	45	64
Prepaid expenses		67	61
Cash and cash equivalents	17	517	466
<b>CURRENT ASSETS</b>		<b>3,509</b>	<b>3,272</b>
<b>TOTAL ASSETS</b>		<b>13,163</b>	<b>11,971</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Liabilities**

€ millions	Notes	December 31, 2016	December 31, 2015
Share capital		39	39
Issue premiums		591	400
Consolidated reserves		4,936	4,441
Own shares		(168)	(223)
Hedging and revaluation reserves		(159)	(131)
Translation differences		636	424
Net profit attributable to Group equity holders		813	757
<b>Equity attributable to parent company owners</b>		<b>6,688</b>	<b>5,707</b>
Equity attributable to non-controlling interests		366	385
<b>TOTAL CONSOLIDATED EQUITY</b>		<b>7,054</b>	<b>6,092</b>
Provisions for pensions	18	344	295
Long-term borrowings	20	1,364	1,905
Deferred tax liabilities	8	383	422
Other non-current liabilities	22	300	404
<b>NON-CURRENT LIABILITIES</b>		<b>2,391</b>	<b>3,026</b>
Provisions	19	393	369
Short-term borrowings	20	1,246	674
Customer prepayments		33	31
Short-term payables	16	1,431	1,357
Tax payables		73	87
Other current liabilities	22	509	316
Derivative financial instruments recognized in liabilities	21	22	9
Deferred income		11	10
<b>CURRENT LIABILITIES</b>		<b>3,718</b>	<b>2,853</b>
<b>TOTAL LIABILITIES</b>		<b>13,163</b>	<b>11,971</b>

The accompanying notes are an integral part of the consolidated financial statements.

## 3.3.4 Statement of changes in equity

## Fiscal year 2016

€ millions	Share capital	Issue premiums	Revaluation reserves	Reserves	Translation difference	Treasury stock	Profit attributable to Group equity holders	Equity attributable to parent company owners	Equity attributable to non-controlling interests	Total equity
<b>EQUITY AT JANUARY 1, 2016</b>	<b>39</b>	<b>400</b>	<b>(131)</b>	<b>4,441</b>	<b>424</b>	<b>(223)</b>	<b>757</b>	<b>5,707</b>	<b>385</b>	<b>6,092</b>
Capital increases <sup>(a)</sup>		158						158		158
Employee share issues		26						26		26
Stock subscription options		7						7		7
Capital increases subscribed by minority interests									7	7
Share-based payments				54				54		54
Net sale / (Net purchase) of treasury stock				(86)		55		(31)		(31)
Allocation of profit				757			(757)			
Effect of changes in the scope of consolidation				7				7	(50)	(43)
Dividends paid				(237)				(237)	(40)	(277)
<b>TRANSACTIONS WITH SHAREHOLDERS</b>		<b>191</b>		<b>495</b>		<b>55</b>	<b>(757)</b>	<b>(16)</b>	<b>(83)</b>	<b>(99)</b>
Income (expense) for the period recognized directly in equity			(28)					(28)		(28)
Net profit for the fiscal year							813	813	67	880
Translation differences and other					212			212	(3)	209
<b>TOTAL RECOGNIZED INCOME AND EXPENSES</b>			<b>(28)</b>		<b>212</b>		<b>813</b>	<b>997</b>	<b>64</b>	<b>1,061</b>
<b>EQUITY AT DECEMBER 31, 2016</b>	<b>39</b>	<b>591</b>	<b>(159)</b>	<b>4,936</b>	<b>636</b>	<b>(168)</b>	<b>813</b>	<b>6,688</b>	<b>366</b>	<b>7,054</b>

(a) The Group has proposed a payment of the 2015 dividend to shareholders either in cash or in shares. If exercised, this option would allow shareholders to obtain new Essilor shares, in consideration for the amount due in respect of the dividend, at a preferential subscription price corresponding to 90% of the average of the opening prices quoted for Essilor's shares on the Euronext regulated market in Paris over the 20 trading days preceding the Shareholders' Meeting of May 11, 2016. This average is reduced by the amount of the dividend per share of €1.11. The Group has also created 1,578,804 new shares.

The accompanying notes are an integral part of the consolidated financial statements.



## Fiscal year 2015

€ millions	Share capital premiums	Issue	Revaluation reserves	Reserves	Translation difference	Treasury stock	Profit attributable to Group equity holders	Equity attributable to parent company owners	Equity attributable to non-controlling interests	Total equity
<b>EQUITY AT JANUARY 1, 2015</b>	<b>39</b>	<b>360</b>	<b>(121)</b>	<b>3,758</b>	<b>236</b>	<b>(286)</b>	<b>929</b>	<b>4,915</b>	<b>345</b>	<b>5,260</b>
Employee share issues		25						25		25
Stock subscription options		15						15		15
Capital increases subscribed by minority interests									6	6
Share-based payments				41				41		41
Net sale / (Net purchase) of treasury stock				(63)		63				
Allocation of profit				929			(929)			
Effect of changes in the scope of consolidation				(8)				(8)	(14)	(22)
Dividends paid				(216)				(216)	(35)	(251)
<b>TRANSACTIONS WITH SHAREHOLDERS</b>		<b>40</b>		<b>683</b>		<b>63</b>	<b>(929)</b>	<b>(143)</b>	<b>(43)</b>	<b>(186)</b>
Income (expense) for the period recognized directly in equity			(10)					(10)		(10)
Net profit for the fiscal year							757	757	56	813
Translation differences and other					188			188	27	215
<b>TOTAL RECOGNIZED INCOME AND EXPENSES</b>			<b>(10)</b>		<b>188</b>		<b>757</b>	<b>935</b>	<b>83</b>	<b>1,018</b>
<b>EQUITY AT DECEMBER 31, 2015</b>	<b>39</b>	<b>400</b>	<b>(131)</b>	<b>4,441</b>	<b>424</b>	<b>(223)</b>	<b>757</b>	<b>5,707</b>	<b>385</b>	<b>6,092</b>

The accompanying notes are an integral part of the consolidated financial statements.

## 3.3.5 Consolidated cash flow statement

€ millions	Year 2016	Year 2015
<b>CONSOLIDATED NET PROFIT <sup>(a)</sup></b>	<b>880</b>	<b>813</b>
Share of profits of associates, net of dividends received	(1)	(1)
Depreciation, amortization and other non-cash items	360	380
<b>Profit before amortization and depreciation and associates</b>	<b>1,239</b>	<b>1,192</b>
Provision charges (reversals)	(50)	(8)
Gains and losses on asset disposals, net	(6)	(1)
<b>Cash flow after tax and finance costs, net</b>	<b>1,183</b>	<b>1,183</b>
Finance costs, net <sup>(a)</sup>	54	54
Tax expenses (including deferred taxes) <sup>(a)</sup>	285	308
<b>Cash flow before tax and finance costs, net</b>	<b>1,522</b>	<b>1,545</b>
Taxes paid	(264)	(265)
Interest (paid) and received, net	(56)	(35)
Change in working capital requirement	(8)	(51)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,194</b>	<b>1,194</b>
Purchases of property, plant and equipment and intangible assets	(294)	(327)
Acquisitions of subsidiaries, net of the cash acquired	(706)	(780)
Change in other non-financial assets	(43)	(13)
Proceeds from the sale of other financial assets, property, plant and equipment and intangible assets	21	7
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,022)</b>	<b>(1,113)</b>
Capital increase <sup>(b)</sup>	41	46
Net sale (net buyback) of treasury shares <sup>(b)</sup>	(31)	
Dividends paid:		
▶ to Essilor shareholders <sup>(b)</sup>	(79)	(216)
▶ to minority shareholders of the consolidated subsidiaries <sup>(b)</sup>	(40)	(35)
Bond issues	20	300
Increase / (Decrease) in borrowings other than finance lease liabilities	20	(345)
Repayment of finance lease liabilities	(3)	(2)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(143)</b>	<b>(252)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>29</b>	<b>(171)</b>
<b>Net cash and cash equivalents at January 1</b>	<b>431</b>	<b>598</b>
Effect of changes in exchange rates	-	4
<b>NET CASH AND CASH EQUIVALENTS AT PERIOD-END</b>	<b>460</b>	<b>431</b>
Cash and cash equivalents	20	517
Bank credit facilities	20	(57)

(a) See income statement.

(b) See statement of changes in equity.

The accompanying notes are an integral part of the consolidated financial statements.

## 3.4 Notes to the consolidated financial statements

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## NOTE 1. ACCOUNTING PRINCIPLES

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### 1.1 General

Essilor International (Compagnie Générale d'Optique) is a *société anonyme* (public limited company) with a Board of Directors and is governed by the laws of France. Its registered office is located 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 2016 consolidated financial statements were approved by the Board of Directors on February 16, 2017.

The financial statements are prepared on a going concern basis.

The Group's functional and reporting currency is the euro. All amounts are expressed in millions of euros, unless otherwise specified.

### 1.2 Basis of preparation of the financial statements

In accordance with European Regulation No 1606/2002 of July 19, 2002, the Essilor group has applied, since January 1, 2005, all international accounting standards including IFRS (International Financial Reporting Standards), IAS (International Accounting

Standards), and their interpretations since January 1, 2005, as approved in the European Union, with mandatory application as at December 31, 2016. These international accounting standards can be accessed on the European Commission website <sup>(1)</sup>.

### 1.3 New accounting standards and interpretations

The accounting methods applied are the same as those used in the annual financial statements as at December 31, 2015. The standards, amendments and interpretations with mandatory application in or after 2016 (see below) have no material impact on the Group's financial statements:

- ▶ amendments to IAS 1 – Disclosure Initiative;
- ▶ amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization;
- ▶ amendment to IAS 19 – Defined Benefit Plans: Employee Contributions;
- ▶ amendment to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations.

Furthermore, the Group has not opted for early application of the standards, amendments or interpretations whose application is not mandatory on or after January 1, 2016:

- ▶ IFRS 9 – Financial Instruments; with mandatory application as at January 1<sup>st</sup>, 2018 according to IASB;
- ▶ IFRS 14 – Regulatory Deferral Accounts;
- ▶ IFRS 15 – Revenues from Contracts with Customers, application will be mandatory as at January 1<sup>st</sup>, 2018 according to IASB. The Group is currently reviewing the most significant

customer contracts in the various business units so as to be able to assess the potential impact of this standard on the revenue recognition. In view of the preliminary review that has been conducted, the Group expects that the standard's application will lead to a reclassification between the revenue and some lines from the operating result regarding some provision of services received or performed by the Group and some expenses, in particular, marketing expenses;

- ▶ IFRS 16 – Contract leases; application mandatory as at January 1<sup>st</sup>, 2019 according to IASB;
- ▶ IAS 7 Amendments – Disclosure initiative, application mandatory as at January 1<sup>st</sup>, 2017 according to IASB;
- ▶ IAS 12 Amendments – Recognition of Deferred Tax Assets for Unrealised Losses, application mandatory as at January 1<sup>st</sup>, 2017 according to IASB;
- ▶ IFRS 2 Amendments – Classification and measurement of share-based payment transactions;
- ▶ IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The impact of these standards on the consolidated financial statements is currently being assessed by the Group.

<sup>(1)</sup> [http://ec.europa.eu/finance/company-reporting/index\\_en.htm](http://ec.europa.eu/finance/company-reporting/index_en.htm)

## 1.4 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. The most significant estimates and assumptions concern, in particular:

- ▶ the recoverable amount of goodwill;
- ▶ fair values in relation to business combinations and put options granted to minority shareholders;

- ▶ risk assessment to determine the amount of provisions;
- ▶ measurement of pension and other post-employment benefit obligations.

The final amounts may differ from these estimates.

The Group is subject to taxation on earnings in many countries under various tax regulations. Calculation of taxes on a global scale requires the use of estimates and assumptions based on the information available at the balance sheet date.

## 1.5 Financial statements presentation

Some reclassifications related to the presentation of comparative figures could have been realized in order to be compliant with the presentation of the current period or to IFRS standards.

## 1.6 Basis of consolidation

Companies over which the Group has direct or indirect exclusive control are fully consolidated. Control exists when the Group is exposed or received variable rates of return due to its ties with the entity and when the Group has the capacity to influence these rates of return because of the power the Group holds over this entity. To measure control, potential voting rights are considered only to the extent that they provide substantive rights to the Group.

Associates, defined as companies over which the Group directly or indirectly exercises significant influence, are accounted for by the equity method. Existence of Significant influence is presumed when the Group holds directly or indirectly at least 20% of the voting rights.

The accounting policies and methods applied by associates comply with IFRS and are consistent with the Group's accounting principles.

The criteria applied to determine the scope of consolidation are described under "Changes in the scope of consolidation" (see Note 2.2).

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 event of a change in the percentage of ownership interest held during the year, the profit attributable to Group equity holders is calculated by applying:

- ▶ the former percentage of ownership interest in the profit generated prior to the date on which the percentage of ownership interest changed;
- ▶ the new percentage of ownership interest in the profit generated after that date and up to the period-end.

In the event of a dilution of its ownership interest in a subsidiary, the change in the share of the subsidiary's equity hold is recorded in equity in accordance with IFRS 10 if there has been no loss of control, and in profit if there has been a loss of control, the transaction being treated as a sale.

All intragroup profits and transactions are eliminated in consolidation.

## 1.7 Segment information

The Group's segment information is presented in accordance with the information provided internally to management for the purpose of managing operations, taking decisions and analyzing operational performance.

Such information 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 Sunglasses & Readers.

The **Lenses & Optical Instruments** business segment comprises the Group's Lens business (production, prescription, distribution and trading) and the Instruments business (small equipment used

by opticians and relating to the sale of lenses). The end customers for this business segment are eye-care professionals (opticians and optometrists).

The **Lenses & Optical Instruments** business chain is designed as a complete network with multiple interactions. The segment has a global network of plants, prescription laboratories, edging facilities and distribution centers serving eye care professionals throughout the world. This network is centrally managed, along with the Group's research and development, marketing, intellectual property and engineering functions.

The **Equipment** business segment comprises the production, distribution and sale of high capacity equipment, such as

digital surfacing machines and lens coating 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 **Sunglasses & Readers** business segment comprises the production, distribution and sale of both non-prescription sunglasses and non-prescription reading glasses. The end customers for this segment are retailers that sell these products to consumers.

## 1.8 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, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing activities.

Profit before amortization and depreciation and from associates is equal to the sum of net profit of consolidated companies, plus amortization, depreciation and provisions (other than provisions on current assets), calculated expenses (mainly expenses on stock subscription options and purchases of shares, awards of performance shares and the employee share ownership plan) and dividends received from associates.

Working capital comprises inventories, operating receivables and payables, sundry receivables and payables, deferred income and prepaid expenses. Changes in working capital are stated before the effect of changes in the scope of consolidation.

Cash flows of foreign subsidiaries are translated at the average exchange rate for the period.

The effect of changes in exchange rates on net cash and cash equivalents corresponds to the effect of (i) changes in exchange rates between the beginning and end of the period on cash at the opening and (ii) the difference between the closing exchange rate and the average rate on movements over the period.

The amounts reported for acquisitions (sales) of subsidiaries correspond to the acquisition price (sale proceeds), adjusted by the net cash and cash equivalents of the acquired (sold) company at the transaction date.

Cash corresponds to the sum of marketable securities qualifying as cash equivalents and cash less short-term bank loans and overdrafts.

- ▶ The Group's marketable securities, consisting mainly of units in money market UCITS, are qualified as cash equivalents when the investment 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.

## 1.9 Conversion of foreign subsidiaries' financial statements

The financial statements of foreign companies are prepared in the entity's functional currency. The functional currency is defined as the currency of the primary economic environment in which the entity 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, is recorded in equity, under "Translation difference," and reclassified to profit when the foreign investments to which it relates are sold or wound up.

## 1.10 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 Sunglasses & Readers (non-prescription sunglasses and 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 customer, generally corresponding to the date of physical and technical acceptance by the latter.

## 1.11 Cost of sales

Cost of sales corresponds mainly to the cost of goods sold, less any cash discounts received from suppliers.

### 1.12 Contribution from operations

The Group regards contribution from operations as a measurement of operating performance, including the operational business lines presented in the segment information.

Contribution from operations corresponds to revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs, and other operating expenses).

### 1.13 Other operating income and expenses

Income and expenses that cannot be inherent to the Group's current business activities, in terms of their materiality, nature or unusual nature are recognized under other operating income and expenses. They mainly include:

- ▶ costs related to major strategic acquisitions, estimate adjustments to opening balance sheets of acquired subsidiaries recorded after the one-year allocation period,

changes in price supplements for acquisitions made after January 1, 2010, net income on disposals of business activities and consolidated entities as well as, in step acquisitions, the fair value revaluation of the previously held share; and

- ▶ significant fixed or unfixed assets depreciation, costs related to restructuring, compensation costs on share based payments and provision for litigation.

### 1.14 Share-based payments

#### Stock subscription options and performance share awards

The fair value of stock options and performance share awards is determined based on methods adapted to their characteristics:

- ▶ performance-based stock subscription options, subject to vesting conditions based on the share price performance, are valued using the Monte Carlo model;
- ▶ performance shares, which are subject to vesting conditions based on the change in the share price compared with the Reference Price on the grant date, are valued 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 such options being exercised early, with a corresponding increase in consolidated reserves.

For performance share awards, 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 2012, November 2013, November 2014, December 2015, September 2016 and December 2016 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 for the November 2012, November 2013, and November 2014 performance share plans, for three and a half years for the December 2015 performance share plan and for two years for the September 2016 and December 2016 performance share plans.

The model parameters are determined at the grant date:

- ▶ 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 dividends paid in the previous year;
- ▶ the options' expected life is determined based on the vesting period and the exercise period;
- ▶ in line with French accounting authority (CNC) guidelines dated December 21, 2004, the lock-up discount applied to the November 2012, November 2013, November 2014, December 2015, September 2016 and December 2016 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 consolidated reserves.

#### 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 as an expense 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 authority (*Conseil National de la Comptabilité*) issued a press release in which it proposed guidelines for valuing this discount. An illiquidity discount has been taken into account by the Group since the



second half of 2007. In line with the 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.

### 1.15 Financial income

Interest receivable or payable is recognized on an accruals basis in the period in which it is earned or due, using the effective interest method.

The cost of gross debt consists of interest on financing, realized gains or accrued interest on interest rate derivatives, non-use fees on credit facilities, and swap points on currency derivatives of balance sheet positions in foreign currency.

Income from cash and cash equivalents includes interest received and accrued on investments made by Group companies (bank deposits) and unrealized and realized capital gain or loss on marketable securities.

### 1.16 Foreign currency 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 financial income.

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 at the fair value of the currency risk hedging instrument at the transaction date.

### 1.17 Assets and liabilities measured at fair value

In accordance with IAS 39, derivatives (including currency forwards transactions) are initially recognized at cost and subsequently measured at their fair value at each closing date.

Changes in the fair value of financial instruments are accounted for as follows:

- ▶ cash flow hedges: the effective portion of the change in the 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 on the fair value of the hedging instrument. The ineffective portion of the change in the fair value is recognized in financial income;
- ▶ hedge of the net investment in a foreign company: the effective portion of the change in the 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 company is sold or the entity is wound up. The ineffective portion of the change in the fair value is recognized in financial income;

- ▶ fair value hedges of existing assets or liabilities: the change in the fair value is recognized in profit or loss on a symmetrical basis with the change in the fair value of the hedged assets or liabilities;
- ▶ financial instruments not qualifying for hedge accounting: certain derivatives that in substance represent hedges do not qualify for hedge accounting under IAS 39. Gains and losses from the change in the fair value of these financial instruments are recognized directly in financial income, in accordance with the criteria of IAS 39.

In accordance with IFRS 13, financial assets and liabilities at fair value are classified according to the following hierarchy:

- ▶ level 1: financial assets and liabilities quoted on an active market;
- ▶ level 2: financial assets and liabilities measured using valuation techniques that are based on observable market data;
- ▶ level 3: financial assets and liabilities measured using valuation techniques that are not based on observable market data.

## 3.4 Notes to the consolidated financial statements

The fair values of the main financial assets and liabilities recorded in the Group's balance sheet are determined in accordance with the principles set out below:

Financial instruments	Principle of valuation on consolidated balance sheet	Value level according to IFRS 13	Note to the financial statements	Principle of determination of fair value			
				Valuation model	Market data		
Exchange rate	Interest rate	Volatility					
Securities available for sale (listed securities)	Fair Value	1	14	Share price		N/A	
UCITS units	Fair Value	1	20	Market value (NAV)		N/A	
Currency futures	Fair Value	2	21	Current value of future cash flows	ECB rate	Zero curves Coupon	N/A
Currency options	Fair Value	2	21	Black and Scholes	Forward curves, ECB rate, Spot prices	Zero curves Coupon	On the money
Interest rate swaps	Fair Value	2	21	Current value of future cash flows	N/A	Zero curves Coupon	N/A
Cross-currency swaps	Fair Value	2	21	Current value of future cash flows	ECB rate	Zero curves Coupon	N/A
Liabilities related to business combinations and minority interests	Fair Value	3	21	In accordance with IAS 32, contingent consideration payable to minority interests or in connection with business combinations are recognized as financial liabilities. The fair value of these liabilities is determined by reviewing commitments to the date of approval using the method described in Note 1.33.			

The fair value of financial assets and liabilities is shown in Note 21.2.

### 1.18 Income tax

The Group's income tax calculation relies on tax regulations that apply in countries with taxable profit.

The current tax expense is calculated based on tax laws that have been adopted or near adopted at closing date in countries in which the Group's activities generate taxable profit. The Group periodically evaluates tax positions that have been taken with regard to the tax laws that apply when it is subject to interpretation and evaluates in this case the amount that could be expected to be paid to tax authorities.

Deferred taxes are recognized by the liability method for temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and their tax bases.

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 or loss. 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.

At each period-end, the Group reviews the recoverable value of deferred tax assets of tax entities holding significant loss carryforwards. This value is based, by tax entity, on the strategy for medium-term recoverability of the tax loss carryforwards.

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 pension and other post-employment benefit obligations.

Deferred tax assets and liabilities are offset when they are levied on the same taxable entity (legal entity or tax group) and when the applicable tax regulations authorize this offsetting of tax due.

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.

### 1.19 Earnings per share

#### Earnings per share

Earnings per share correspond to net profit attributable to Group equity holders divided by the average number of shares outstanding during the year, excluding treasury stock.

Awards of performance shares are taken into account in the average number of shares outstanding over the fiscal year on the basis of the number of shares granted, as soon as the performance criteria have been met before the period-end.

#### 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 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 exercise price of the stock subscription options is adjusted for the cost to be recognized in future periods for options that have not yet vested at the period-end;

- ▶ performance share grants: 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.

### 1.20 Research and development costs

Research costs are recognized as an expense for the year in which they are incurred.

Research and development costs recognized in operating expenses 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;
- ▶ the Group's 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 intangible asset; 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, the development costs for these projects are recognized as an expense.

Instrument and laboratory equipment development costs are capitalized when the above criteria are fulfilled.

### 1.21 Goodwill

Business combinations recorded between January 1, 2004 and January 1, 2010 were recognized by the acquisition method, in accordance with the previous version of IFRS 3.

Business combinations recorded after January 1, 2010 are recognized by the acquisition method, in accordance with the revised IFRS 3.

The Group can measure non-controlling interests (minority interests) either at the 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.

The acquired company's identifiable assets, liabilities and contingent liabilities meeting the recognition criteria of revised IFRS 3 are recognized at fair value determined on the acquisition date, with the exception of non-current assets held-for-sale which are recognized at fair value less costs to sell. Only identifiable

liabilities that meet the criteria for recognition as a liability in the acquired company's accounts are recognized in the business combination. In line with this principle, a restructuring liability is not recognized as a liability of the acquired company if it is not obligated, at the acquisition date, to undertake this 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 of 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.

Costs that are directly attributable to the acquisition are recognized as expenses for the period. Costs related to major strategic acquisitions for the Group (*i.e.*, that represent highly

significant acquisitions that cover various geographical areas or correspond to a new area of business) are included in operating profit, under "Other operating income and expenses." Costs related to lower-value acquisitions are included in "Other operating expenses" as part of the "Contribution from operations."

Acquisitions of non-controlling interests or sales without loss of control 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 operating income and expenses"), along with the components of other comprehensive income that may be reclassified subsequently.

Where put options have been granted to minority shareholders of subsidiaries, the amount recognized in liabilities is measured at the present value of the option's exercise price. This liability is classified as "Non-current liabilities" or "Other current liabilities" in the consolidated balance sheet based on its due date. Discounting adjustments to reflect the accretion of discount are recognized in financial income. Subsequent changes in the liability's fair value are recognized through Group equity, except for acquisitions prior to January 1, 2010 for which changes in the recognized liability are reported as an adjustment to goodwill.

Goodwill arising on acquisitions of associates is included in the carrying amount of the investment.

### Impairment of goodwill

Goodwill subject to impairment tests is grouped into groups of cash-generating units (CGUs) corresponding to the analytical focus and return on investment follow-up of the Group's senior management.

Group plants that conduct manufacturing operations for several groups of CGUs form a separate group of CGUs whose cash flows are reallocated to the Group's other CGUs, based on sales volumes. In line with this principle, the Asian plants are considered as a shared resource allocated to the other groups of CGUs for impairment testing purposes.

CGUs testing does not exempt the Group from testing subsidiaries' assets on an individual basis in the event of an indication of impairment. Once these tests are complete, the necessary provisions are recorded.

Impairment test, consisting in the comparison of the recoverable amount of each group of CGUs with the carrying amount of the corresponding assets including goodwill, is performed annually for year-end closing.

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 discounted forecast cash flows less taxes.

Future cash flows are estimated as follows:

- ▶ the last fiscal year for the reference year (Y);
- ▶ the annual budget for the year Y+1;
- ▶ cash flows for years Y+2 to Y+5 are estimated by applying to Y+1 data growth rates that are consistent with our projections and with the projected Y+1 growth rate compared to year Y;
- ▶ subsequent years are extrapolated with a perpetuity growth rate.

This data is approved in advance by Management and take account of past experience.

The discount rate applied in all cases is the Group's weighted average cost of capital (WACC). A risk premium is added to the WACC for some CGUs, to reflect specific country risk exposures and local conditions.

Note 11 summarizes the assumptions used.

## 1.22 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 intangible assets when allocating the acquisition price of companies or activities.

They are shown on the balance sheet at their acquisition price or at the 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:

- ▶ 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 20 to 45 years;
- ▶ contractual customer relationships are amortized over periods ranging from 5 to 20 years;

- ▶ technology is 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:

- ▶ the trademark corresponds to the legal name of a legal entity and is, therefore, associated with the image and reputation of the company;
- ▶ the Group has the intention and ability to support the trademark.

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. An asset's recoverable amount is defined as the higher of the fair value (less costs to sell) and the value in use.

Trademarks with a finite life as well as 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. A review is carried out at each period-end to determine whether any such indications exist.

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.

### 1.23 Property, plant and equipment

Property, plant and equipment are shown on the balance sheet at their acquisition price, net of accumulated depreciation and 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 on the balance sheet 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 corresponding payable is posted to liabilities under "Borrowings".

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 in profit or loss 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, according to the normal useful life of assets on the basis of the acquisition price less, where applicable, the residual value.

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

Where 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.

The 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.

Where there are any internal or external indications that the value of an item of property, plant and equipment may be impaired, the Group assesses its recoverable amount and records a provision for impairment if the carrying amount is more than the recoverable amount. A review is carried out at each period-end to determine whether any such indications exist.

### 1.24 Other long-term financial investments

#### Available-for-sale securities

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 on the closing date.

Gains and losses from the change in the fair value of such assets are 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 profit or loss.

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 assets, the prices of recent transactions, or by the discounted cash flows method.

#### Other assets measured at amortized cost

Loans issued by the Group are measured at amortized cost.

A provision is recorded in profit or loss for any other-than-temporary impairment in value or if there is a risk of non-recovery.

### 1.25 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a disposal rather than through continuing use.

When they are being classified, non-current assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell, with an impairment recorded where applicable. Assets held for sale are not amortized.

### 1.26 Inventories

Inventories are measured at the lower of the 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.

### 1.27 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 under trade receivables to cover any risk of non-recovery. Risk of recovery is determined based on the various types of Group customers, most often on a statistical basis but also by taking into account specific situations if necessary.

### 1.28 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 on the balance sheet under "Other marketable securities" and are taken into account by

the Group for the calculation of net debt (see Note 20 – Net debt and borrowings).

In accordance with IAS 39, marketable securities are recognized at market value at the closing date. Changes in market value are recorded in financial income.

### 1.29 Equity

#### Issue premiums

Issue premiums are comprised of the excess of the issue price of capital increases over the par value of the shares issued.

#### Treasury shares

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 fair value of financial instruments used to hedge risks on future transactions or as hedges of the net investment in foreign subsidiaries, net of deferred tax;
- ▶ the revaluation (difference between the acquisition price and the fair value) of financial assets measured at fair value through equity ("available-for-sale assets" 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 the Shareholders' Meeting.

**Negative equity**

Where a consolidated company has negative equity, non-controlling 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.

**Non-controlling interests**

Non-controlling 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.

Where minority shareholders of consolidated companies have been granted put options, their amount is valued at the fair value of the put option. That amount is classified in the consolidated balance sheet as "Other non-current liabilities" or "Other current liabilities", based on their expiration date.

**1.30 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.

**1.31 Pension and other post-employment benefit obligations**

The Group companies may have obligations for the payment of pensions, early-retirement benefits, length-of-service awards, and other post-employment benefits under the laws and practices applicable in each country.

Where these obligations are payable under defined contribution plans, the contributions are recognized as expenses for the fiscal year.

In the case of defined benefit plans, provisions are booked based on actuarial valuations that can be performed by independent actuaries.

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 concerned (staff turnover rates, rate of future salary increases).

The discount rate used corresponds to the prime interest rate in the country concerned for periods corresponding to the estimated average duration of the benefit obligation. Discounting adjustments related to pension and other post-employment benefit obligations are recognized in operating profit or loss.

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".

If a company introduces a defined benefit plan or changes the benefit formula under an existing defined benefit plan, the related change in the company's obligation ("past service cost") is immediately recognized in profit or loss.

**1.32 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 – 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 by the Group 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.

Provisions for warranty costs are recognized when the products are sold. The corresponding expense is recognized in cost of sales.



### 1.33 Other current and non-current liabilities

Where put options have been granted to minority shareholders of subsidiaries, the amount recognized in liabilities is measured at the present value of the option's exercise price. This liability is classified as "Non-current liabilities" or "Other current liabilities" in the consolidated balance sheet based on its due date. Discounting adjustments to reflect the accretion of discount are recognized in financial income.

The accounting treatment in the consolidated balance sheet of the difference between the present value of the option exercise price and the accounting value of non-controlling interests is presented in "Goodwill" from the initial consolidation of the company. Future changes in the recognized liability are reported in goodwill

for companies acquired before January 1, 2010. Following the application of IFRS 3 (revised), future changes in the recognized liability are reported in equity for companies acquired after January 1, 2010.

Price supplements are recognized from the acquisition date at their fair value in recognition of a debt. For companies acquired before January 1, 2010, subsequent changes in price supplements are recognized in goodwill. Following the application of IFRS 3 (revised), subsequent changes in price supplements are recognized in other operating income and expenses for companies acquired after January 1, 2010.

## NOTE 2. EXCHANGE RATES AND SCOPE OF CONSOLIDATION

### 2.1 Exchange rates of the main functional currencies

For €1	Closing rate		Average rate	
	December 2016	December 2015	December 2016	December 2015
Canadian dollar	1.42	1.51	1.47	1.42
British pound	0.86	0.73	0.82	0.73
Yuan	7.32	7.06	7.35	6.97
Yen	123.40	131.07	120.20	134.31
Indian rupee	71.59	72.02	74.37	71.20
Brazilian real	3.43	4.31	3.86	3.70
US dollar	1.05	1.09	1.11	1.11

### 2.2 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 €1 million;
- ▶ or property, plant and equipment 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 Group'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 on the following January 1.

The significant acquisitions or business combinations realized during the year 2016 are related to the following companies:

Name	Country	Acquisition date	Consolidation method	% interest	% consolidated
Vision Direct Group Ltd	United Kingdom	February 23, 2016	Full	100	100
Vision Direct Europe Ltd	United Kingdom	February 23, 2016	Full	100	100
Vision Direct Ltd	United Kingdom	February 23, 2016	Full	100	100
Vision Dispensing Ltd	United Kingdom	February 23, 2016	Full	100	100
Get Lenses UK Ltd	United Kingdom	February 23, 2016	Full	100	100
Amex B.V.	Netherlands	February 23, 2016	Full	100	100
Contact Lens Group B.V.	Netherlands	February 23, 2016	Full	100	100
Get Lenses B.V.	Netherlands	February 23, 2016	Full	100	100
Lens Base B.V.	Netherlands	February 23, 2016	Full	100	100
R&L Vision B.V.	Netherlands	February 23, 2016	Full	100	100
Vision Direct B.V.	Netherlands	February 23, 2016	Full	100	100
US Optical L.L.C.	United States	July 1, 2016	Full	60	100
4Care GmbH	Germany	September 1, 2016	Full	100	100
MyOptique Group Ltd	United Kingdom	September 1, 2016	Full	100	100
Lenson AB	Sweden	September 1, 2016	Full	100	100
Photosynthesis Group Co, Ltd	Hong Kong	October 25, 2016	Full	50	100
Yfeng Group Ltd	Hong Kong	October 25, 2016	Full	50	100
Hunan Photosynthesis Trading Co., Ltd	China	October 25, 2016	Full	50	100
Heze Trading Co., Ltd	China	October 25, 2016	Full	50	100
Pinchuang Trading Co., Ltd	China	October 25, 2016	Full	50	100

### 2.3 Impact of changes in the scope of consolidation and exchange rates

#### Balance sheet

The impact on the consolidated balance sheet of newly consolidated companies in 2016 is analyzed below:

€ millions	Scope entry
Intangible assets	77
Property, plant and equipment	20
Current assets	58
Cash	19
<b>TOTAL ASSETS ACQUIRED AT FAIR VALUE</b>	<b>174</b>
Equity attributable to non-controlling interests	2
Long-term borrowings	36
Other non-current liabilities	14
Short-term liabilities	1
Other current liabilities	83
<b>TOTAL LIABILITIES ASSUMED AT FAIR VALUE</b>	<b>136</b>
<b>NET ASSETS ACQUIRED <sup>(a)</sup></b>	<b>38</b>
Acquisition cost	734
Fair value of net assets acquired <sup>(a)</sup>	38
<b>Recognized goodwill</b>	<b>696</b>

(a) Or consolidated during the period.

The amount recognized as goodwill is supported by the expected synergies and growth's outlook of the acquired companies within the Group.

The fair value used for the acquired assets and assumed liabilities of acquisitions for the period is temporary and may be reviewed 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 of the acquisition date.

If the companies consolidated during the year (see Note 2.2 – Changes in consolidation scope) had been consolidated at January 1, 2016, the Group's 2016 revenues would have been estimated at €7,198 millions and the Group's 2016 net profit at €809 millions.

**Income statement**

The methods for determining the impact of changes in the scope of consolidation and exchange rates on the income statement are explained below.

The apparent change in performance indicators (revenues and contribution from operations) results from the breakdown of this change between the impact of the Group's acquisitions (scope of consolidation impact), the impact of currency fluctuations (foreign exchange impact) and the impact of the change in its intrinsic operations, or like-for-like growth.

For the impact of changes in the scope of consolidation:

- ▶ impacts of changes in the scope of consolidation arising from acquisitions during the year consist of the subsidiaries' income statements, from their consolidation date, until December 31 of the current fiscal year;

- ▶ impacts of changes in the scope of consolidation 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 initial consolidation;
- ▶ divested companies do not impact the change in the scope of consolidation since no consolidated subsidiaries were sold by the Group;
- ▶ major strategic acquisitions, *i.e.*, those that represent highly significant acquisitions that cover various geographical areas 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 plants).

For the impacts of changes in exchange rates:

- ▶ this is determined on a subsidiary-by-subsidiary basis by applying the average conversion rate from the previous year to the income statements for the current year for subsidiaries using currencies other than the euro, 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;
- ▶ consequently, this is not a currency effect but the effect of converting the financial statements of subsidiaries.

Like-for-like growth is determined as the residual difference in apparent growth, less the impact of changes in the scope of consolidation and the impact of changes in exchange rates. Organic growth is growth on a like-for-like consolidation and exchange rate basis.

The overall effect of changes in the scope of consolidation and exchange rates on revenue and the contribution from operations was as follows:

As a %	Reported growth	Currency effect	Change in the scope of consolidation of bolt-on acquisitions	Like-for-like growth
Revenue	5.9	(1.7)	4.0	3.6
Contribution from operations	4.6	(1.0)	0.9	4.7



## NOTE 3. SEGMENT INFORMATION

### 3.1 Information by business segment

Fiscal year 2016 € millions	Lenses and Optical Instruments	Equipment	Sunglasses & Readers	Eliminations	Group Total
External revenue	6,218	212	685		7,115
Intra-segment revenue	11	72	5	(88)	
<b>TOTAL REVENUE</b>	<b>6,229</b>	<b>284</b>	<b>690</b>	<b>(88)</b>	<b>7,115</b>
<b>Contribution from operations</b>	<b>1,209</b>	<b>39</b>	<b>73</b>		<b>1,321</b>
Operating profit					1,230
Finance costs, net					(54)
Other financial income					
Other financial expenses					(12)
Share of profits of associates					1
Income tax					(285)
<b>Net profit</b>					<b>880</b>
<b>Segment assets <sup>(a)</sup></b>	<b>9,601</b>	<b>490</b>	<b>1,950</b>		<b>12,041</b>
<b>Non-segment assets</b>					<b>1,122</b>
<b>TOTAL ASSETS</b>					<b>13,163</b>
Segment liabilities <sup>(b)</sup>	1,289	42	133		1,464
Non-segment liabilities					4,645
Equity					7,054
<b>TOTAL LIABILITIES</b>					<b>13,163</b>
Acquisitions of property, plant and equipment & intangible assets	217	5	72		294
Amortization, depreciation and impairment of property, plant and equipment and intangible assets	(356)	(10)	(73)		(439)

(a) Segment assets include goodwill, other intangible assets, property, plant and equipment, long-term receivables, inventories and works-in-progress, prepayments to suppliers and short-term receivables.

(b) Segment liabilities include customer prepayments and short-term payables.

Fiscal year 2015 € millions	Lenses and Optical Instruments	Equipment	Sunglasses & Readers	Eliminations	Group Total
External revenue	5,840	203	673		6,716
Intra-segment revenue	13	69	2	(84)	
<b>TOTAL REVENUE</b>	<b>5,853</b>	<b>272</b>	<b>675</b>	<b>(84)</b>	<b>6,716</b>
<b>Contribution from operations</b>	<b>1,148</b>	<b>29</b>	<b>86</b>		<b>1,263</b>
Operating profit					1,183
Finance costs, net					(54)
Other financial income					5
Other financial expenses					(14)
Share of profits of associates					1
Income tax					(308)
<b>Net profit</b>					<b>813</b>
<b>Segment assets <sup>(a)</sup></b>	<b>8,774</b>	<b>475</b>	<b>1,683</b>		<b>10,932</b>
<b>Non-segment assets</b>					<b>1,039</b>
<b>TOTAL ASSETS</b>					<b>11,971</b>
<b>Segment liabilities <sup>(b)</sup></b>	<b>1,223</b>	<b>36</b>	<b>129</b>		<b>1,388</b>
Non-segment liabilities					4,491
Equity					6,092
<b>TOTAL LIABILITIES</b>					<b>11,971</b>
Acquisitions of property, plant and equipment & intangible assets	230	6	91		327
Amortization, depreciation and impairment of property, plant and equipment and intangible assets	(307)	(11)	(82)		(400)

(a) Segment assets include goodwill, other intangible assets, property, plant and equipment, long-term receivables, inventories and works-in-progress, prepayments to suppliers and short-term receivables.

(b) Segment liabilities include customer prepayments and short-term payables.

### 3.2 Information by geographical area

€ millions	Revenue		Non-current assets <sup>(a)</sup>	
	Year 2016	Year 2015	December 31, 2016	December 31, 2015
North America	3,328	3,201	1,355	1,371
Europe	1,998	1,868	1,064	1,032
Asia, Oceania, Africa	1,308	1,230	682	692
Latin America	481	417	175	140
<b>TOTAL</b>	<b>7,115</b>	<b>6,716</b>	<b>3,276</b>	<b>3,235</b>

(a) Non-current assets comprise property, plant and equipment and intangible assets, investments in associates, non-current financial assets, long-term receivables and other non-current assets.

The Group's top 20 customers accounted for 19.3% of its revenue in 2016, and 19.9% in 2015.

No single customer accounts for more than 10% of the Group's revenue.

## NOTE 4. PERSONNEL COSTS, DEPRECIATION AND AMORTIZATION

Personnel costs amount to €2,142 million in 2016 compared to €2,045 million in 2015 (see also Note 27 – Number of employees and personnel costs).

Depreciation and amortization of property, plant and equipment and intangible assets amount to €439 million in 2016, compared to €400 million in 2015.

## NOTE 5. OTHER OPERATING INCOME AND EXPENSES

€ millions	Year 2016	Year 2015
Other <sup>(a)</sup>	18	18
<b>OTHER INCOME FROM OPERATIONS</b>	<b>18</b>	<b>18</b>
Restructuring costs <sup>(b)</sup>	(33)	(32)
Compensation costs on share-based payments	(64)	(49)
Other <sup>(a)</sup>	(12)	(17)
<b>OTHER EXPENSES FROM OPERATIONS</b>	<b>(109)</b>	<b>(98)</b>

(a) Mainly includes gain or loss on disposal of tangible assets and the changes in price supplements for acquisitions.

(b) Restructuring costs are, for the most part, related to the streamlining of a number of production sites, the reorganization of commercial flows and the impairment of intangible assets located in North America.

### Share-based payments

Compensation costs on share-based payments are measured by the methods described in Note 1.14 and break down as follows:

€ millions	Year 2016	Year 2015
Stock subscription options	1	1
Performance shares <sup>(a)</sup>	62	48
Employee share issues	1	
<b>COMPENSATION COSTS ON SHARE-BASED PAYMENTS</b>	<b>64</b>	<b>49</b>

(a) Including the employer's contribution.

### Performance shares

Since 2006, the Essilor group has launched performance-based bonus share allotment plans (performance shares).

For the November 2010 to November 2014 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 price 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).

For the December 2015, September 2016 and December 2016 plans, the number of shares vested at the end of a period of three 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 price 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:

- ▶ 2016 awards: 1,440,063 shares;
- ▶ 2015 awards: 1,343,153 shares.

The following table analyzes changes in the number of performance shares at each period-end:

	Quantity
<b>PERFORMANCE SHARES AT JANUARY 1, 2016</b>	<b>4,126,157</b>
Performance shares vested	(1,113,448)
Performance shares canceled	(106,969)
Awards for the fiscal year	1,440,063
<b>PERFORMANCE SHARES AT DECEMBER 31, 2016</b>	<b>4,345,803</b>
<b>Performance shares at January 1, 2015</b>	<b>4,021,259</b>
Performance shares vested	(1,099,823)
Performance shares canceled	(138,432)
Awards for the fiscal year	1,343,153
<b>Performance shares at December 31, 2015</b>	<b>4,126,157</b>

The performance conditions of the November 2014 plans were achieved in 2016.

The main assumptions used to measure costs related to performance shares granted in 2016 are as follows:

- ▶ share volatility: 21.62% (2015 awards: 19.53%);
- ▶ risk-free interest rate: -0.53% (2015 awards: 0.31%);
- ▶ yield: 1.10% (2015 awards: 1.10%).

Based on these assumptions, the fair value of a share awarded in 2016 was €62.94 for non-residents of France (€56.44 in 2015) and, for French residents, €59.81 for the September 2016 plan and €49.23 for the December 2016 plan respectively (€48.23 in 2015).



## NOTE 6. COST OF NET DEBT

€ millions	Year 2016	Year 2015
Cost of gross debt	(71)	(71)
Income from cash and cash equivalents	17	17
<b>COST OF NET DEBT</b>	<b>(54)</b>	<b>(54)</b>

## NOTE 7. OTHER FINANCIAL INCOME AND EXPENSES

€ millions	Year 2016	Year 2015
Foreign exchange gains		5
<b>OTHER FINANCIAL INCOME</b>		<b>5</b>
Foreign exchange losses	(4)	
Accretion of discount on liabilities charges	(8)	(12)
Provisions for non-consolidated securities		(2)
<b>OTHER FINANCIAL EXPENSES</b>	<b>(12)</b>	<b>(14)</b>

## NOTE 8. INCOME TAX

### 8.1 Income tax gain (loss) for the period

Income tax expense can be split as below:

€ millions	Year 2016	Year 2015
Current taxes	(349)	(349)
Deferred taxes	64	41
<b>TOTAL</b>	<b>(285)</b>	<b>(308)</b>

## 8.2 Effective tax rate

The reconciliation from the income tax charge valued at the French statutory rate to the actual income tax charge is explained as following:

As a % of profit before tax	Year 2016	Year 2015
Standard French income tax rate	34.4	34.4
Impact of tax rates applied to foreign subsidiaries, when different from the French rate	(9.0)	(5.6)
Impact of reduced rates	(7.8)	(6.0)
Impact of valuation allowance, permanent differences between book and taxable profit and other items <sup>(a)</sup>	6.9	4.7
<b>EFFECTIVE RATE OF THE INCOME TAX EXPENSE</b>	<b>24.5</b>	<b>27.5</b>

(a) Includes, in particular, the effects of internal disposals and the reorganization of commercial flows.

The effective tax rate amounts to 24.5% as of December 2016 instead of 27.5% as of December 2015. This decrease can be mainly explained by the approval in 2016 of an advanced price agreement on royalties ("APA") between the France and the United States and by the decrease of the tax on dividends following the proposal given to shareholders to receive the 2015 dividend in shares.

This rate may change from one year to another notably based on the following events:

- ▶ the geographical mix of income before tax;
- ▶ the outcome of income tax audits;
- ▶ changes on local regulations;
- ▶ the Group's ability to recognize deferred tax assets and to use its tax loss carryforwards.

## 8.3 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:

€ millions	2016	2015
<b>POSITION AT JANUARY 1</b>	<b>(253)</b>	<b>(232)</b>
Deferred taxes recognized in comprehensive income	1	3
Income (expenses) for the period, net	64	41
Effect of changes in the scope of consolidation, exchange rate impacts and other movements	(8)	(65)
<b>POSITION AT DECEMBER 31</b>	<b>(196)</b>	<b>(253)</b>

## 8.4 Unrecognized deferred tax assets

€ millions	Year 2016	Year 2015
Tax loss carryforwards	65	48
Other deferred tax assets	34	23
<b>UNRECOGNIZED DEFERRED TAX ASSETS</b>	<b>99</b>	<b>71</b>

### 8.5 Deferred taxes by type (net position)

€ millions	Year 2016	Year 2015
Elimination of inter-company profits	64	57
Differences in depreciation periods	(66)	(60)
Temporarily non-deductible provisions	129	63
Actuarial gains and losses	26	24
Assets and liabilities recognized on an acquisition	(419)	(411)
Assets and liabilities recognized on tax loss carryforwards	53	57
Other	17	17
<b>TOTAL</b>	<b>(196)</b>	<b>(253)</b>

## NOTE 9. CHANGE IN THE NUMBER OF SHARES

The shares have a par value of €0.18.

### Change in the actual number of shares, excluding treasury stock

	Year 2016	Year 2015
<b>NUMBER OF SHARES AT JANUARY 1</b>	<b>213,596,342</b>	<b>211,932,607</b>
Exercise of stock subscription options	140,512	306,855
Subscription of the Essilor group FCP mutual fund	331,945	257,057
Delivery of performance shares	1,113,448	1,099,823
Payment of dividend in shares	1,578,804	
Net sales (purchases) of treasury shares	(299,490)	
<b>NUMBER OF SHARES AT PERIOD-END</b>	<b>216,461,561</b>	<b>213,596,342</b>
Number of treasury shares eliminated	2,046,140	2,860,098

### Change in the weighted average number of shares, excluding treasury stock

	Year 2016	Year 2015
<b>NUMBER OF SHARES AT JANUARY 1</b>	<b>213,596,342</b>	<b>211,932,607</b>
Exercise of stock subscription options	60,245	198,496
Subscription of the Essilor group FCP mutual fund	10,883	8,451
Delivery of performance shares	88,868	87,278
Payment of dividend in shares	888,616	
Net sales (purchases) of treasury shares	(30,627)	
<b>AVERAGE NUMBER OF SHARES AT PERIOD-END</b>	<b>214,614,327</b>	<b>212,226,832</b>

In 2016 and in 2015, no treasury stock was canceled.

## NOTE 10. DILUTED EARNINGS PER SHARE

The net profit used for the calculation of diluted earnings per share is €813 million (€757 million in 2015).

The average number of shares used to calculate diluted earnings per share is as follows:

€ millions	Year 2016	Year 2015
Weighted average number of shares	214,614,327	212,226,832
Dilutive effect of stock subscription options	79,019	230,059
Dilutive effect of performance share grants	4,509,652	4,126,157
<b>DILUTED WEIGHTED AVERAGE NUMBER OF SHARES</b>	<b>219,202,998</b>	<b>216,583,048</b>

## NOTE 11. GOODWILL

€ millions	December 31, 2015	Business combination	Other changes in scope and other movements	Translation difference	Provisions for impairment	December 31, 2016
Gross amount	5,332	696	18	181		6,227
Impairment	(37)			1		(36)
<b>NET AMOUNT</b>	<b>5,295</b>	<b>696</b>	<b>18</b>	<b>182</b>		<b>6,191</b>

€ millions	December 31, 2014	Business combination	Other changes in scope and other movements	Translation difference	Provisions for impairment	December 31, 2015
Gross amount	4,699	391	4	238		5,332
Impairment	(31)		(1)		(5)	(37)
<b>NET AMOUNT</b>	<b>4,668</b>	<b>391</b>	<b>3</b>	<b>238</b>	<b>(5)</b>	<b>5,295</b>

In 2016, the main increases in goodwill resulted, among other things, from the acquisitions of Photosynthesis Group (Hong-Kong), MyOptique Group (United Kingdom), US Optical (USA) and Vision Direct (United Kingdom).

In 2015, the main increases were attributable to the acquisitions of Vision Source and Perc, two national service providers for optometrists located in USA, and Grupo Vision (Costa-Rica).

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 "full goodwill" method for acquisitions for which there was a commitment to redeem non-controlling interests. The fair value of such non-controlling interests is then determined by estimating the future price to be paid for those non-controlling interests.

Moreover, most often, when there is an acquisition with no option to redeem non-controlling interests, the Group usually applies the "partial goodwill" method.

The carrying amount of goodwill breaks down as follows by group of CGUs:

€ millions	December 31, 2016	December 31, 2015
Lenses – Europe	897	700
Lenses – North America	2,373	2,147
Lenses – South America	581	434
Lenses – Asia, Oceania, Middle East, Africa	957	927
Laboratory equipment	305	297
Sunglasses & Readers	1,078	790
<b>TOTAL</b>	<b>6,191</b>	<b>5,295</b>

Goodwill impairment tests were conducted for the accounting closing in line with the principles and methods defined in Note 1.21.

The Group's weighted average cost of capital (WACC) for 2016 was 7% (2015: 7%). Given the risk premiums calculated, the effective discount rates applied to the groups of CGUs of the Group were as follows:

As a %	Year 2016	Year 2015
Lenses – Europe	8	8
Lenses – North America	7	7
Lenses – South America <sup>(a)</sup>	17	17
Lenses – Asia, Oceania, Middle East, Africa	9	9
Laboratory equipment	7	7
Sunglasses & Readers	8	7
Plants <sup>(b)</sup>	9	9

(a) Primarily Brazil.

(b) Group of CGUs reallocated to various other groups of CGUs depending on sales volumes.

The perpetual growth rate was set at between 0% and 2% (2015: between 0% and 2%), with the highest rates applied to emerging markets.

No material goodwill impairment losses were recognized in 2016 and in 2015.

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 a reasonable change within the meaning of IAS 36.

A 0.5% increase in the benchmark discount rate would not generate another impairment loss on the net amount of goodwill at December 31, 2016.

A 0.5% decrease in the perpetual growth rate would not generate another impairment loss on the net amount of goodwill at December 31, 2016.

## NOTE 12. OTHER INTANGIBLE ASSETS

€ millions	December 31, 2015	Scope changes	Acquisitions	Disposals and retirement	Translation difference and other movements	Depreciation, amortization and impairment provisions	December 31, 2016
Trademarks	1,188	33			32		1,253
Concessions, patents and licenses	524	6	35	(5)	41		601
Contractual customer relationships	668	26			17		711
Other intangible assets	290	24	33	(5)	(4)		338
<b>GROSS AMOUNT</b>	<b>2,670</b>	<b>89</b>	<b>68</b>	<b>(10)</b>	<b>86</b>		<b>2,903</b>
Accumulated depreciation	(844)	(4)		9	(23)	(216)	(1,078)
<b>NET AMOUNT</b>	<b>1,826</b>	<b>85</b>	<b>68</b>	<b>(1)</b>	<b>63</b>	<b>(216)</b>	<b>1,825</b>

€ millions	December 31, 2014	Scope changes	Acquisitions	Disposals and retirement	Translation difference and other movements	Depreciation, amortization and impairment provisions	December 31, 2015
Trademarks	1,016	56			116		1,188
Concessions, patents and licenses	461	2	29	(5)	37		524
Contractual customer relationships	454	160			54		668
Other intangible assets	244		67	(1)	(20)		290
<b>GROSS AMOUNT</b>	<b>2,175</b>	<b>218</b>	<b>96</b>	<b>(6)</b>	<b>187</b>		<b>2,670</b>
Accumulated depreciation	(643)	(1)		6	(32)	(174)	(844)
<b>NET AMOUNT</b>	<b>1,532</b>	<b>217</b>	<b>96</b>		<b>155</b>	<b>(174)</b>	<b>1,826</b>

Intangible assets in progress amounted to €9 million at the end of 2016 (€12 million in 2015).

## NOTE 13. PROPERTY, PLANT AND EQUIPMENT

€ millions	December 31, 2015	Scope changes	Acquisitions	Disposals and retirement	Translation difference and other movements	Depreciation, amortization and impairment provisions	December 31, 2016
Land	69		1	(1)	2		71
Buildings	846	5	30	(18)	20		883
Plant and equipment	1,970	18	69	(84)	83		2,056
Other property, plant and equipment	584	6	126	(51)	(51)		614
<b>GROSS AMOUNT</b>	<b>3,469</b>	<b>29</b>	<b>226</b>	<b>(154)</b>	<b>54</b>		<b>3,624</b>
Accumulated depreciation	(2,269)	(11)		140	(47)	(223)	(2,410)
<b>NET AMOUNT</b>	<b>1,200</b>	<b>18</b>	<b>226</b>	<b>(14)</b>	<b>7</b>	<b>(223)</b>	<b>1,214</b>

€ millions	December 31, 2014	Scope changes	Acquisitions	Disposals and retirement	Translation difference and other movements	Depreciation, amortization and impairment provisions	December 31, 2015
Land	60			(2)	11		69
Buildings	785	2	33	(35)	61		846
Plant and equipment	1,880	11	83	(106)	102		1,970
Other property, plant and equipment	550	5	116	(33)	(54)		584
<b>GROSS AMOUNT</b>	<b>3,275</b>	<b>18</b>	<b>232</b>	<b>(176)</b>	<b>120</b>		<b>3,469</b>
Accumulated depreciation	(2,121)	(17)		170	(75)	(226)	(2,269)
<b>NET AMOUNT</b>	<b>1,154</b>	<b>1</b>	<b>232</b>	<b>(6)</b>	<b>45</b>	<b>(226)</b>	<b>1,200</b>

The carrying amount of the Group's property, plant and equipment – including assets under finance leases – held by consolidated companies was €1,214 million at the end of 2016 (€1,200 million at the end of 2015). 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 facilities are located in France and the United States (plants, laboratories and administrative offices), while other Group plants are located primarily in Ireland, Thailand and the Philippines;
- ▶ production plant and equipment includes 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. Their locations are extremely diverse. The largest facilities are in France and the United States.

Assets under construction amounted to €91 million at the end of 2016 (€89 million at the end of 2015).



## NOTE 14. OTHER NON-CURRENT FINANCIAL ASSETS

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).

€ millions	December 31, 2015	Scope changes	Acquisitions and new loans	Disposals and repayments	Translation difference and other movements	Revaluation	Net allocation to provisions	December 31, 2016
<b>Long-term financial investments at fair value</b>	42	(29)	7		2		3	25
Non-consolidated interests	40	(29)	7		2		3	23
Other long-term financial investments	2							2
<b>Long-term financial investments at amortized cost</b>	97		60	(40)	2		(8)	111
Loans, including accrued interest	104		60	(40)	2			126
Impairment	(7)						(8)	(15)
<b>Other non-current financial assets</b>	139	(29)	67	(40)	4		(5)	136

€ millions	December 31, 2014	Scope changes	Acquisitions and new loans	Disposals and repayments	Translation difference and other movements	Revaluation	Net allocation to provisions	December 31, 2015
<b>Long-term financial investments at fair value</b>	16		28		(1)	(1)		42
Non-consolidated interests	15		28		(2)	(1)		40
Other long-term financial investments	1				1			2
<b>Long-term financial investments at amortized cost</b>	87		22	(16)	4			97
Loans, including accrued interest	93		22	(16)	5			104
Impairment	(6)				(1)			(7)
<b>Other non-current financial assets</b>	103		50	(16)	3	(1)		139

## NOTE 15. INVENTORIES

€ millions	December 31, 2016	December 31, 2015
Raw materials and other supplies	388	361
Goods for resale	133	112
Finished and semi-finished products and work in process	830	839
<b>GROSS AMOUNT</b>	<b>1,351</b>	<b>1,312</b>
Write-down of inventories	(226)	(213)
<b>NET AMOUNT</b>	<b>1,125</b>	<b>1,099</b>

## NOTE 16. SHORT-TERM RECEIVABLES AND PAYABLES

Short-term receivables break down as follows:

€ millions	December 31, 2016	December 31, 2015
<b>Trade receivables</b>		
Gross amount	1,584	1,451
Valuation allowance	(119)	(109)
<b>Net amount of trade receivables</b>	<b>1,465</b>	<b>1,342</b>
<b>Other short-term receivables</b>		
Gross amount	154	115
Valuation allowance	(1)	(1)
<b>Net amount of other operating receivables</b>	<b>153</b>	<b>114</b>
<b>TOTAL SHORT-TERM RECEIVABLES, NET</b>	<b>1,618</b>	<b>1,456</b>

Short-term payables break down as follows:

€ millions	December 31, 2016	December 31, 2015
Trade payables	697	624
Accrued taxes and personnel expenses	365	371
Other short-term payables	369	362
<b>TOTAL SHORT-TERM PAYABLES</b>	<b>1,431</b>	<b>1,357</b>

## NOTE 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents break down as follows:

€ millions	December 31, 2016	December 31, 2015
Cash	408	433
Money market funds	83	
Bank deposits	26	14
Other cash equivalents		19
<b>TOTAL</b>	<b>517</b>	<b>466</b>

The Group is located in some countries where cash & cash equivalents are subject to legal restrictions. The respect of preliminary formalities in these countries is mandatory before transferring these funds with some delay and eventually some

tax payment. Cash & cash equivalents can also be held by some subsidiaries where the initial approval of our partner is required to transfer any funds.

## NOTE 18. PENSION AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS

The Group's pension and other post-retirement benefit obligations mainly concern:

- ▶ 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 (length-of-service awards in France and their equivalent in other countries).

At December 31, 2016, net recognized benefit obligations amount to €344 million (€294 million at December 31, 2015).

### Provisions for pensions

€ millions	December 31, 2016	December 31, 2015
Non-current assets (plan surpluses)		1
Provisions for pensions in liabilities	344	295

### Analysis of changes in net recognized benefit obligations

€ millions	Obligation	Fair value of funds	Net recognized benefit obligations
<b>AT JANUARY 1, 2016</b>	<b>455</b>	<b>(160)</b>	<b>295</b>
Cost of services rendered in the period	24		24
Interest expense on discounting	11		11
Interest income for the period		(4)	(4)
Cost of past services	(1)		(1)
Employee contributions	1	(1)	
Contributions to plan assets		(11)	(11)
Benefits paid	(22)	10	(12)
Actuarial gains and losses	48	(17)	31
Changes in the scope of consolidation	(2)	2	
Translation differences and other movements	8	3	11
<b>AT DECEMBER 31, 2016</b>	<b>522</b>	<b>(178)</b>	<b>344</b>
of which Obligations funded in whole or in part by a fund	288		288
of which Obligations not funded by a fund	234		234

€ millions	Obligation	Fair value of funds	Net recognized benefit obligations
<b>AT JANUARY 1, 2015</b>	<b>445</b>	<b>(164)</b>	<b>281</b>
Cost of services rendered in the period	22		22
Interest expense on discounting	11		11
Interest income for the period		(5)	(5)
Cost of past services	(1)		(1)
Employee contributions	1	(1)	0
Contributions to plan assets		(13)	(13)
Benefits paid	(23)	9	(14)
Actuarial gains and losses	3	7	10
Plan reduction and liquidation	(16)	15	(1)
Translation differences and other movements	13	(9)	4
<b>AT DECEMBER 31, 2015</b>	<b>455</b>	<b>(160)</b>	<b>295</b>
of which Obligations funded in whole or in part by a fund	254		254
of which Obligations not funded by a fund	201		201

### Analysis of the change in actuarial gains and losses recognized in equity

Actuarial gains and losses generated for 2016 have been recognised directly in equity for an amount of -€31 million.

### Analysis of rights

€ millions	Obligation	Funds	Net obligation at December 31, 2016
Pensions (supplementary pension plans, guaranteed income plans)	431	(171)	260
Retirement benefits	85	(7)	78
Other benefits	6		6
<b>TOTAL</b>	<b>522</b>	<b>(178)</b>	<b>344</b>

€ millions	Obligation	Funds	Net obligation at December 31, 2015
Pensions (supplementary pension plans, guaranteed income plans)	382	(153)	229
Retirement benefits	67	(7)	60
Other benefits	6		6
<b>TOTAL</b>	<b>455</b>	<b>(160)</b>	<b>295</b>

### Actuarial assumptions used to estimate commitments in the main countries concerned

A major assumption taken into account in the valuation of pension and other post-employment benefit obligations is the discount rate.

In accordance with IAS 19, the rates were determined by monetary zone by referring to the return on high-quality 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 as follows:

As a %	December 31, 2016			December 31, 2015		
	Eurozone	United States	United Kingdom	Eurozone	United States	United Kingdom
Discount rate	1.60	4.15	2.75	2.15	4.50	3.70
Inflation rate	1.80	3.50	3.30	1.80	3.50	3.50
Weighted average rate of return on plan assets		13.13			(1.02)	
Weighted average rate of salary increases		1.97			1.88	

Additionally, had the discount rates been 25 basis points lower than the rates actually applied, the Group's total obligation as at December 31, 2016 would have been €18 million higher. If the discount rates had been 25 basis points higher than the rates actually applied, the Group's total obligation as at December 31, 2016 would have been €18 million lower.

Had salaries been 25 basis points lower than the salaries actually applied, the Group's total obligation as at December 31, 2016 would have been €11 million lower. If the salaries had been 25 basis points higher than the salaries actually applied, the Group's

total obligation as at December 31, 2016 would have been €11 million higher.

The recognized actuarial gains and losses correspond to experience adjustments (differences between the assumptions used and the actual data) and changes in financial and demographic assumptions.

In 2016, actuarial gains and losses were -€10 million as a result of experience adjustments, €42 million as a result of changes in financial assumptions and -€1 million as a result of changes in demographic assumptions.

### Composition by type of plan assets

As a %	December 31, 2016	December 31, 2015
Shares	15	13
Bonds	45	37
General insurance funds	18	20
Other	22	30

Actual returns on plan assets were +€22 million in 2016 (2015: -€2 million).

At December 31, 2016, plan assets did not include any Group shares.

Assets associated with funded obligations are invested in pension funds or insurance companies. Investments comply with local regulations in the countries in question.

Invested assets are managed directly by pension fund managers or insurance companies. They determine appropriate investment strategies and funding allocations.

## Expenses for the year

Income (expenses) € millions	Year 2016	Year 2015
Cost of services rendered in the period	(24)	(21)
Interest expense	(7)	(6)
Cost of past services	(1)	1
<b>EXPENSES FOR THE YEAR</b>	<b>(32)</b>	<b>(26)</b>
Contributions to plan assets	11	13
Benefits paid	12	14
<b>TOTAL INCREASE / (DECREASE) IN PROVISIONS</b>	<b>(9)</b>	<b>1</b>

## NOTE 19. PROVISIONS

€ millions	December 31, 2015	Provisions for the period	Utilisation during the period	Reversals not applicable	Translation differences and other movements	Scope	December 31, 2016
Restructuring provisions <sup>(a)</sup>	14	12	(7)	(3)	(1)		15
Warranty provisions	41	11	(9)		2	1	46
Provisions for legal claims <sup>(b)</sup>	107	23	(68)	(6)	1		57
Tax reserves <sup>(c)</sup>	148	62	(7)	(10)	7	12	212
Other risks	59	13	(3)	(7)	(2)	3	63
<b>TOTAL</b>	<b>369</b>	<b>121</b>	<b>(94)</b>	<b>(26)</b>	<b>7</b>	<b>16</b>	<b>393</b>

(a) Restructuring provisions are, for the most part, related to the streamlining of a number of production sites located primarily in North America.

(b) The change of provisions for legal claims relates mainly to the reversal of provisions related to alleged anti-competitive practices in Germany as the due amounts were paid in early 2016 (see Note 26).

(c) The Group tax filings are subject to audit by tax authorities in most jurisdictions in which the Group operated. These audits may result in assessment of additional taxes. The Group pursues all legal remedies, through the relevant courts, in order to contest these tax assessments.

€ millions	December 31, 2014	Provisions for the period	Utilisation during the period	Reversals not applicable	Translation differences and other movements	Scope	December 31, 2015
Restructuring provisions	29	10	(18)	(8)		1	14
Warranty provisions	25	10	(8)		13	1	41
Provisions for legal claims	71	24	(4)		(3)	19	107
Tax reserves	89	33		(8)	19	15	148
Other risks	60	6	(5)		(2)		59
<b>TOTAL</b>	<b>274</b>	<b>83</b>	<b>(35)</b>	<b>(16)</b>	<b>27</b>	<b>36</b>	<b>369</b>

## NOTE 20. NET DEBT AND BORROWINGS

### Net debt

The Group's net debt can be analyzed as follows:

€ millions <sup>(a)</sup>	December 2016	December 2015
Long-term borrowings	1,364	1,905
Short-term borrowings	1,172	621
Short-term bank loans and overdrafts	57	35
Accrued interest	17	18
<b>TOTAL LIABILITIES</b>	<b>2,610</b>	<b>2,579</b>
Cash and cash equivalents <sup>(b)</sup>	(517)	(466)
<b>TOTAL ASSETS</b>	<b>(517)</b>	<b>(466)</b>
<b>INTEREST RATE SWAPS <sup>(c)</sup></b>	<b>(31)</b>	<b>(24)</b>
<b>NET DEBT</b>	<b>2,062</b>	<b>2,089</b>

(a) Sign convention: + debt /- excess cash or securities.

(b) See Note 17.

(c) Interest rate swap measured at fair value at each period end.

### Long-term borrowings

At December 31, 2016, the Group's long-term funding structure was as follows:

€ millions	December 31, 2016	December 31, 2015	Issue date	Maturity
Bonds	831	1,124	2014	2021/2024
US private placement (1 tranche)	95	276	2012	2019
US private placement (6 tranches)	403	459	2013	2018/2023
Other	35	46		
<b>LONG-TERM BORROWINGS</b>	<b>1,364</b>	<b>1,905</b>		

The Group issued on October 11, 2016 an US private placement with a financing available on January 5, 2017. Its purpose is to prefinance the two fundings matured in March and in May 2017 for an amount of US\$275 million. The main components of this private placement are:

- ▶ US\$200 million to 5 years with a rate of 2.05%;
- ▶ US\$100 million to 10 years with a rate of 2.65%.

Private investments are subject to a financial covenant, which was respected as at December 31, 2016.

### Short-term borrowings

At December 31, 2016, the Group's short-term funding structure was as follows:

€ millions	December 31, 2016	December 31, 2015	Issue date	Maturity
Bonds	300		2015	2017
French commercial paper	100	100	2016	2017
US commercial paper (USCP)	472	402	2016	2017
US private placement (2 tranches)	261		2012-2013	2017
Bank overdraft	57	35		
Other	56	137		
<b>SHORT-TERM BORROWINGS</b>	<b>1,246</b>	<b>674</b>		

In accordance with the Group's policy, these commercial paper programs are backed by long-term committed credit facilities, totaling €2.4 billion at December 31, 2016.

### Borrowings by maturity

Borrowings break down by maturity as follows:

€ millions	December 31, 2016	December 31, 2015
Due within one year	1,246	674
Due in 1 to 5 years	1,004	1,044
Due in more than 5 years	360	861
<b>TOTAL</b>	<b>2,610</b>	<b>2,579</b>

### Borrowings by currency

Borrowings break down by issue currency as follows:

€ millions	December 31, 2016	December 31, 2015
US dollar	1,268	1,196
Euro	1,247	1,250
Other currencies	95	133
<b>TOTAL</b>	<b>2,610</b>	<b>2,579</b>

### Fair value of borrowings

The fair value of borrowings is as follows:

€ millions	December 31, 2016	December 31, 2015
Long-term borrowings	1,412	1,949
Short-term borrowings	1,173	625
Short-term bank loans, overdrafts and accrued interest	74	52
<b>TOTAL</b>	<b>2,659</b>	<b>2,626</b>

### Finance lease liabilities

€ millions	December 31, 2016		December 31, 2015	
	Principal	Interest	Principal	Interest
Due within one year	3		4	
Due in 1 to 5 years	3		4	
Due in more than 5 years				
<b>TOTAL</b>	<b>6</b>		<b>8</b>	



## NOTE 21. FINANCIAL INSTRUMENTS

### 21.1 Financial instruments recognized in the balance sheet

Financial instruments recorded in the Group's balance sheet at the end of fiscal years 2016 and 2015 fall into the following categories:

2016 € millions	Category of instruments					
	Balance sheet value	Fair value through profit or loss	Fair value through equity <sup>(a)</sup>	Loans, receivables	Debts at amortized cost	Derivatives
Non-current financial assets	136		25	111		
Long-term receivables	37			37		
Prepayments to suppliers	31			31		
Short-term receivables	1 618			1 618		
Tax receivables	81			81		
Other receivables	25			25		
Derivative financial instruments recognized in assets	45					45
Cash and cash equivalents	517	517				
<b>FINANCIAL INSTRUMENTS RECOGNIZED IN ASSETS</b>	<b>2 490</b>	<b>517</b>	<b>25</b>	<b>1 903</b>		<b>45</b>
Long-term borrowings	1 364				1 364	
Other non-current liabilities	300		243		57	
Short-term borrowings	1 246				1 246	
Customer prepayments	33				33	
Short-term payables	1 431				1 431	
Tax payables	73				73	
Other current liabilities	509		242		267	
Derivative financial instruments recognized in liabilities	22					22
<b>FINANCIAL INSTRUMENTS RECOGNIZED IN LIABILITIES</b>	<b>4 978</b>		<b>485</b>		<b>4 471</b>	<b>22</b>

(a) Assets available for sale as defined by IAS 39, liabilities revalued in accordance with the accounting principles described in Note 1.33.

2015 € millions	Category of instruments					
	Balance sheet value	Fair value through profit or loss	Fair value through equity <sup>(a)</sup>	Loans, receivables	Debts at amortized cost	Derivatives
Non-current financial assets	139		42	97		
Long-term receivables	24			24		
Prepayments to suppliers	32			32		
Short-term receivables	1,456			1,456		
Tax receivables	60			60		
Other receivables	34			34		
Derivative financial instruments recognized in assets	64					64
Cash and cash equivalents	466	466				
<b>FINANCIAL INSTRUMENTS RECOGNIZED IN ASSETS</b>	<b>2,275</b>	<b>466</b>	<b>42</b>	<b>1,703</b>		<b>64</b>
Long-term borrowings	1,905				1,905	
Other non-current liabilities	404		306		98	
Short-term borrowings	674				674	
Customer prepayments	31				31	
Short-term payables	1,357				1,357	
Tax payables	87				87	
Other current liabilities	316		162		154	
Derivative financial instruments recognized in liabilities	9					9
<b>FINANCIAL INSTRUMENTS RECOGNIZED IN LIABILITIES</b>	<b>4,783</b>		<b>468</b>		<b>4,306</b>	<b>9</b>

(a) Assets available for sale as defined by IAS 39, liabilities revalued in accordance with the accounting principles described in Note 1.33.

The Group's financial assets and liabilities (including operating receivables and payables) at the end of 2016 break down as follows by contractual maturity:

€ millions	Within one year	In 1 to 5 years	Beyond 5 years	Total
Financial liabilities other than financial instruments	(3,292)	(1,281)	(383)	(4,956)
Financial assets other than financial instruments	2,328	94	23	2,445
Net market value of financial instruments	(6)	(2)	31	23
<b>NET POSITION</b>	<b>(970)</b>	<b>(1,189)</b>	<b>(329)</b>	<b>(2,488)</b>

## 21.2 Market 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 change in the fair value

of these financial instruments are recognized directly in financial income, in accordance with the criteria of IAS 39.

The market value of Group derivatives is presented below:

### Market value by instrument type

€ millions	December 31, 2016		December 31, 2015	
	Nominal amount	Market value	Nominal amount	Market value
Forward currency transactions	1,473	(6)	1,710	34
Currency options			15	1
Interest rate swaps	542	28	630	18
Interest rate options (caps)	95	1	92	2
<b>TOTAL DERIVATIVES</b>		<b>23</b>		<b>55</b>

### Market value by hedge type

€ millions	December 31, 2016	December 31, 2015
Cash flow hedge:		
▶ Interest rate swaps	(3)	(5)
▶ Currency options		1
▶ Interest rate options (caps)	1	2
Fair value hedge:		
▶ Interest rate swap	31	23
Not allocated to a hedging relationship:		
▶ Currency forward	(6)	34
<b>MARKET VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS</b>	<b>23</b>	<b>55</b>
of which derivative financial instruments recognized in assets	45	64
of which derivative financial instruments recognized in liabilities	(22)	(9)

### Forward foreign exchange transaction details at December 31, 2016 (nominal amount)

€ millions	Currency purchased											Total
	EUR	CAD	USD	KRW	CNY	AUD	PLN	JPY	GBP	TRY	Other	
<b>Currency sold</b>												
EUR		128	33	30	38	13	13	10	11	11	10	297
USD	536			19				1			9	565
CAD	147		46									193
GBP	168											168
CNY	99											99
CLP	26											26
AUD	3		18									21
THB	18											18
SEK	15											15
Other	53		18									71
<b>TOTAL</b>	<b>1,065</b>	<b>128</b>	<b>115</b>	<b>49</b>	<b>38</b>	<b>13</b>	<b>13</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>19</b>	<b>1,473</b>

### 21.3 Profit (loss) on settling of cash flow hedges

The effects on the gross margin of unwinding cash flow hedges set up at the end of the previous fiscal year generate no impact for 2016 and for 2015.

## NOTE 22. OTHER CURRENT AND NON-CURRENT LIABILITIES

€ millions	December 31, 2016	December 31, 2015
Liabilities related to long-term call options granted to minority shareholders	243	306
Trade payables and liabilities related to long-term financial investments	57	98
<b>TOTAL OTHER NON-CURRENT LIABILITIES</b>	<b>300</b>	<b>404</b>
Trade payables related to intangible assets and property, plant and equipment	5	6
Liabilities related to short-term financial investments	184	94
Liabilities related to short-term call options granted to minority shareholders	242	162
Other	78	54
<b>TOTAL OTHER CURRENT LIABILITIES</b>	<b>509</b>	<b>316</b>

## NOTE 23. OFF-BALANCE-SHEET COMMITMENTS

€ millions	December 31, 2016	December 31, 2015
<b>Commitments given</b>		
Guarantees and endorsements	109	91
Debt secured by collateral:		
▶ Debt	1	0
▶ Net carrying amount of collateral	2	2
<b>Commitments received</b>		
Guarantees, endorsements and sureties received	1	1
<b>Commitments under operating leases and for royalties</b>		
Within one year	41	36
In 1 to 5 years	83	93
Beyond 5 years	25	26
<b>TOTAL OPERATING LEASE COMMITMENTS</b>	<b>149</b>	<b>155</b>

## NOTE 24. MARKET RISKS

### Liquidity risk

The Group aims to maintain continuous liquidity to ensure its independence and growth. Key to this is substantial and steady cash flow. It also operates a funding policy that guarantees available funding capacity at all times at low cost. This policy is based on the diversification of funding sources, the use of medium- and long-term financing, the distribution of debt maturities over time and the establishment of committed credit facilities.

Most of the long-term financing and credit facilities are concentrated on the parent company, which then refinances its subsidiaries. Some companies may, however, find it better to arrange their own local financing when local regulations hamper intra-Group arrangements.

The Group has the following confirmed credit facilities with leading banks.

€ millions	Amount December 31, 2016	Issue date	Maturity
Syndicated credit facility	900	2015	2021 <sup>(a)</sup>
Club deal	474	2014	2018
Bilateral bank facilities	1,068	2014-2016	2018-2021 <sup>(b)</sup>

(a) With the option to extend for one additional year with the preliminary approval of the banks.

(b) With the option to extend for one or two additional years.

Drawing down on these lines is not subject to any particular covenant.

At December 31, 2016, none of these lines had been used.

The Group increased the diversification of its means of financing and has endeavored to spread the short- and long-term debt repayment schedules over time in order to reduce the risk of refinancing.

The debt of the Group has the following ratings:

	Long-term	Short-term	Perspective	Last opinion
Moody's	A2	Prime-1	Stable	November 23, 2016
Standard & Poor's		A-1	Stable	April 30, 2015

The distribution of the Group's net financial debt and available credit facilities by contractual maturity at the end of 2016 was as follows:

€ millions	2017	2018	2019	2020	2021	2022	2023	>2023	Total
Bonds	300				500			300	1,100
Commercial paper and USCP <sup>(a)</sup>					572				572
Bank borrowings	38	5	2						45
US private investments	261	119	223	128				28	759
Bank overdraft	57								57
Other liabilities	18	23	2	2	1				46
<b>GROSS DEBT</b>	<b>674</b>	<b>147</b>	<b>227</b>	<b>130</b>	<b>1,073</b>			<b>328</b>	<b>2,579</b>
Cash	(517)								(517)
Marketable securities									
<b>NET DEBT <sup>(b)</sup></b>	<b>157</b>	<b>147</b>	<b>227</b>	<b>130</b>	<b>1,073</b>			<b>328</b>	<b>2,062</b>
Available committed credit facilities		739	292	150	1,262				2,443

(a) Commercial paper and USCP are set to mature in 2021 (maturity of the credit facilities).

(b) > 0: net debt; < 0: net cash surplus.

(Please also refer to Note 20 to the consolidated financial statements, Net debt and borrowings)

## Currency risk

Due to its international presence, the Group is naturally exposed to currency fluctuations. This impacts its operations, its financing, and the conversion into euros of the financial statements of foreign subsidiaries denominated in other currencies.

Currency hedging is, for the most part, managed by the parent company Essilor International. The Group seeks to limit currency risk first with natural hedges, then by hedging residual transactional exposure through currency forwards or options.

Foreign exchange transactions are entered into solely to hedge currency risks arising on business operations. The Group does not carry out any currency trading transactions without any underlying commercial transaction.

The Group's total net exposure to currency risk at December 31, 2016 represented an amount equivalent to some €5 million.

The Group has part of its business in the United-Kingdom but there is no material unhedged exposure.

## Consolidated exposure to currency risk on assets and liabilities at December 31, 2016, before and after hedging

(when an asset or liability is denominated in a currency other than the functional currency of the company concerned)

€ millions	Balance sheet amount before hedging <sup>(a)</sup>	Hedges on balance sheet items <sup>(b)</sup>	Net exposure after hedging <sup>(c)</sup>	Cash flow hedges <sup>(d)</sup>
<b>Exposed currency</b>				
USD	561	(496)	65	36
GBP	136	(132)	4	
CAD	24	(23)	1	
KRW	(50)	49	(1)	
CNY	(82)	20	(62)	16
CLP	29	(26)	3	(3)
Other	17	(22)	(5)	(3)
<b>TOTAL</b>	<b>635</b>	<b>(630)</b>	<b>5</b>	<b>46</b>

(a) > 0: Assets to be hedged; < 0: Liabilities to be hedged.

(b) > 0: Net purchases of currencies; < 0: Net sales of currencies.

(c) > 0: Unhedged assets; < 0: Unhedged liabilities.

(d) > 0: Hedges of currency purchases; < 0: Hedges of currency sales.

**Sensitivity of equity and profit to changes in the fair value of derivatives at December 31, 2016**

Sensitivity is calculated solely on the valuation of derivatives at the end of the year.

The impact of a change in the fair value of the derivatives following a rise or fall in the euro versus all other currencies is presented below:

€ millions	Impact of change	
	+5%	-5%
On equity	5	(5)
On profit before tax	32	(35)

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.

**Interest rate risk**

The purpose of the interest rate management policy is to minimize the cost of financing while limiting the volatility of financial expenses linked to changes in interest rates. The major part of financing is therefore kept at fixed rates, either in the initial agreement or via hedging.

As almost all of the Group's financing is concentrated on the parent company, interest rate risks are therefore also centralized at the parent company level. The interest rate risk on financial liabilities is structurally limited.

The interest rate position before and after hedging is as follows:

€ millions	Before hedging		Hedges <sup>(a)</sup>			After hedging <sup>(a)</sup>		
	Fixed rate	Variable rate	Fixed rate	Variable rate	Cap	Fixed rate	Variable rate	Capped variable rate
Gross debt	1,599	1,011	(89)	(37)	95	1,510	974	95
Cash and similar		(517)					(517)	
<b>SUB-TOTAL</b>	<b>1,599</b>	<b>494</b>	<b>(89)</b>	<b>(37)</b>	<b>95</b>	<b>1,510</b>	<b>457</b>	<b>95</b>
<b>NET DEBT</b>		<b>2,093</b>			<b>(31)</b>			<b>2,062</b>

(a) Including the fair value of interest rate swaps of €300 million.

The interest rate position, by currency, before and after hedging is as follows:

€ millions	Before hedging		Hedges <sup>(a)</sup>			After hedging <sup>(a)</sup>		
	Fixed rate	Variable rate	Fixed rate	Variable rate	Cap	Fixed rate	Variable rate	Capped variable rate
EUR	843	264	(231)	(474)		612	(210)	
USD	733	443	142	247	95	875	690	95
Other	23	(213)		190		23	(23)	
<b>SUB-TOTAL</b>	<b>1,599</b>	<b>494</b>	<b>(89)</b>	<b>(37)</b>	<b>95</b>	<b>1,510</b>	<b>457</b>	<b>95</b>
<b>NET DEBT</b>		<b>2,093</b>			<b>(31)</b>			<b>2,062</b>

(a) Including the fair value of interest rate swaps of €300 million.

At December 31, 2016, 59% of the gross debt after hedging was at fixed rate (63% at the end of 2015).

A parallel shift by 1% of the interest rate curves at December 31, 2016 applied to the components of the net debt would have the following impact:

€ millions	Cash flow impact on income statement
1% increase	(5)
1% decrease	6

€ millions	Gross debt	Cash and similar	Hedges <sup>(a)</sup>	Net debt after hedging <sup>(a)</sup>
EUR	1,247	(140)	(705)	402
USD	1,268	(92)	484	1,660
BRL		(20)	(1)	(21)
KRW	3	(20)	(48)	(65)
JPY		(28)	(10)	(38)
GBP		(11)	154	143
CNY	4	(84)		(80)
CAD		(11)	22	11
SGD		(7)	(1)	(8)
INR	43	(19)	3	27
THB		(7)	18	11
Other	45	(78)	53	20
<b>SUB-TOTAL</b>	<b>2,610</b>	<b>(517)</b>	<b>(31)</b>	<b>2,062</b>
<b>NET DEBT</b>		2,093	<b>(31)</b>	<b>2,062</b>

(a) Including the market value of fair value derivatives.

### Counterparty risk

The Group is exposed to financial counterparty risk in its short-term investments, hedges and credit facilities. Default by a counterparty may result in an impairment (non-repayment of an asset) or loss of liquidity (inability to draw down a credit facility).

To limit this risk, the Group only deals with top-tier banks with the best credit ratings, while maintaining prudent diversification.

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, 2016, 95% of transactions carried out by the Group are realized with counterparties with a minimum Standard & Poor's long-term rating of A- and 5% with counterparties rated BBB+ (long-term).

At December 31, 2016, 83% of credit facilities are provided by banks with a minimum Standard & Poor's long-term rating of A- and 17% are provided by banks with a minimum Standard & Poor's long-term rating of BBB+

### Credit risk

Non-provisioned outstanding trade receivables due amount to €272 million at the end of 2016 (€207 million at the end of 2015).

This was comprised mostly of receivables due in less than three months (67% in 2016; 84% in 2015) that were slightly past due.

€ millions	December 31, 2016	December 31, 2015
Trade receivables due within one year, net	1,465	1,342
Trade receivables due beyond one year, net	37	24
<b>TRADE RECEIVABLES, NET</b>	<b>1,502</b>	<b>1,366</b>
Trade receivables not yet due	1,230	1,159
Past-due trade receivables, net	272	207

Information relating to the Group's 20 largest customers is presented in Note 3 – Segment Information.



## NOTE 25. ENVIRONMENTAL RISKS

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The Essilor group is not exposed to any material environmental risks.

## NOTE 26. CONTINGENT LIABILITIES

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The main claims and litigation are as follows:

### Alleged anti-competitive practices

#### Germany

In late 2008, the German competition authority, 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 German 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 optics companies in Germany. The Group's two subsidiaries are part of this notification.

Essilor GmbH and Rupp & Hubrach Optik GmbH contested BKA's findings and lodged an appeal against the BKA's decisions.

Our two subsidiaries have decided to withdraw their appeal to avoid long and costly proceedings further to ending of all settlement discussions. Accordingly the BKA's decision is final and the amounts of €63 million due were entirely paid in 2016.

#### France

In July 2014, the French competition authority's inspection department made unannounced visits to selected Group subsidiaries in France and other actors in the ophthalmic lens market related to the online sale of ophthalmic lenses. The Group appealed against the seizure order, but the appeal was dismissed. The Group lodged an appeal with the Supreme Court. Meanwhile, the Authority carries on its investigation.

### Group actions

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 were filed in 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 jointly to monopolize the market for the development, manufacture, and sale of photochromic lenses between 1999 and March 2010. A settlement was agreed in 2014, bringing these class actions to a close, and

leaving only the action by VisionEase with respect to Transitions Optical pending. On July 1, 2016, the court rejected part of Vision Ease's requests, and allowed trial on another part.

### Intellectual property

Hoya filed a court claim in Tokyo, Japan on July 24, 2013, alleging that the sale of products by Nikon-Essilor fell within the scope of a patent originally registered by Seiko and sold to Hoya on March 15, 2013. Hoya's claim covers Nikon-Essilor sales for the period from March to July 2013.

In 2014, Nikon-Essilor filed a motion with the Tokyo court and the Japanese patent office to seek the invalidation of the patent.

In a decision handed down on July 13, 2016, the Tokyo court determined that the patent was invalid and dismissed Hoya's claim; then, in a decision handed down on November 8, 2016, the Japanese Patent Office invalidated the claims of said patent, which had served as a basis for Hoya's action. Hoya appealed both decisions.

Furthermore, Hoya gave notice of motion to various Group entities before a Federal court in Virginia, in the United States, claiming that the sale of certain products by Essilor fell within the scope of one of its patents, an equivalent to the Japanese patent that was litigated in Japan. Essilor disputes those claims and requests that the patent be invalidated, but it cannot be certain that its arguments will be taken into account.

Other pending legal proceedings of which the Group is aware are currently not likely to have a material impact on the financial situation or the profitability of the Group.

### Inquiry

In 2016, the US federal government (Department of Justice) and the Californian government (Insurance Commission of the State of California) requested information concerning various promotional programs of Essilor of America. Essilor of America collaborates with the authorities in connection herewith.

### Tax disputes

Due to its presence in numerous countries, the Group is subject to various national tax regulations. Any failure to observe these regulations may result in tax adjustments and the payment of fines and penalties.

## NOTE 27. NUMBER OF EMPLOYEES AND PERSONNEL COSTS

Number of employees	Year 2016	Year 2015
Managerial personnel	7,830	7,328
Supervisors and employees	21,492	20,001
Production	33,786	33,174
<b>TOTAL AVERAGE NUMBER OF EMPLOYEES FOR THE PERIOD</b>	<b>63,108</b>	<b>60,503</b>

€ millions	Year 2016	Year 2015
<b>PERSONNEL EXPENSES</b>	<b>2,142</b>	<b>2,045</b>
(Salaries, payroll taxes and compensation costs on share-based payments including temporary staff expenses)		

Number of employees	December 31, 2016	December 31, 2015
<b>NUMBER OF EMPLOYEES AT THE END OF THE PERIOD</b>	<b>63,676</b>	<b>60,883</b>

## NOTE 28. RELATED PARTY TRANSACTIONS

Main related parties are:

- ▶ main executives of the Group;
- ▶ subsidiaries over which the Group exercises an exclusive or joint control and companies over which the Group exercises a significant influence.

### Compensation of executives

€ millions	Year 2016	Year 2015
Total compensation and benefits paid <sup>(a)</sup>	10	19
Directors' fees paid		
<b>TOTAL SENIOR MANAGEMENT COMPENSATION</b>	<b>10</b>	<b>19</b>

(a) Gross amount before payroll and other taxes paid for the exercise to current members of the Management Committee at December 31, 2016 (the Executive Committee at December 31, 2015).

In December 2016, Essilor has decided to realign its organization with its growing businesses. The Management Committee has been created and replaces the existing Executive Committee.

The Management Committee had 10 members at December 31, 2016. The Executive Committee had 26 members at December 31, 2015.

Post employment benefits dedicated to the members of the Management Committee comprise pension obligation for €39.5 million at the end of 2016 and retirement benefits for €1.9 million at the end of 2016.

At the end of 2015, the 26 members of the Executive Committee benefited from post employment advantages split between pension obligation for €45 million and retirement benefits for €2.1 million.

These obligations are part of Group plans set up by Essilor International for all employees or for certain employee categories. Most part of these obligations are funded under insured plans.

In addition, these obligations are fully funded by retirement provisions recorded in the Group's financial statements.

### Stock subscription options and performance shares awarded to Executives

The cost of these plans shown below reflects the recognition over the acquisition period of the fair value of stock subscription options and performance shares at the grant date (see Note 1.14 for more details).

The expense recognized in 2016 for awards to Management Committee members was €7.3 million for performance shares.

The expense recognized in 2015 for awards to Executive Committee members was €12.5 million for performance shares.

### Other related party transactions

There were no non-current transactions with members of the management bodies during the year.

## NOTE 29. INDEPENDENT AUDITORS'S FEES

Fees as following are invoiced by PricewaterhouseCoopers Audit France & Mazars France to the French fully consolidated entities for the fiscal year 2016:

€ thousands	Pricewaterhouse-Coopers Audit	Mazars
Certification of accounts	548	441
Audit related services other than certification	354	505
<b>TOTAL</b>	<b>902</b>	<b>946</b>

Audit related services other than certification mainly include due diligence services rendered in connection with the acquisitions of new entities to be consolidated.

## NOTE 30. SUBSEQUENT EVENTS

### Combination of Essilor and Luxottica (news release of January 16, 2017)

Essilor and Delfin, the majority shareholder of Luxottica group, announced on January 16, 2017 the signing of an agreement designed to create a global integrated player in the eyewear industry with the combination of Essilor and Luxottica. Intended to answer the growing needs in visual health, the new group will propose a comprehensive offering combining a strong brand portfolio, global distribution capabilities and complementary

expertise in prescription lenses, prescription frames and sunglasses.

The transaction would entail a strategic combination of Essilor's and Luxottica's businesses consisting of: (i) Delfin contributing its entire stake in Luxottica (approx. 62%) to Essilor in return for newly-issued Essilor shares to be approved by the Essilor Shareholders' Meeting, on the basis of the Exchange Ratio of 0.461

Essilor shares for 1 Luxottica share, and (ii) Essilor subsequently making a mandatory public exchange offer, in accordance with the provisions of Italian Law, to acquire all of the remaining issued and outstanding shares of Luxottica pursuant to the same Exchange Ratio and with a view to delist Luxottica's shares.

Based on the 2015 financial statements of the two companies, the new entity would represent net revenue in excess of €15 billion, net EBITDA of approx. €3.5 billion, and more than 140,000 employees.

The transaction is expected to close in H2 2017, subject to satisfaction of several conditions precedent, including the approval of the transaction by Essilor shareholders at the General Shareholders' Meeting and by holders of double voting rights at the Extraordinary Shareholders' Meeting, as well as obtaining the approval of the relevant competition authorities.

## Acquisitions

Since January 1, Essilor has pursued its strategy of forging partnerships with local optical market leaders with four transactions representing aggregate additional annual revenue of around €19 million.

In Brazil, the Company acquired a majority stake in Visolab, a prescription laboratory located in the State of Sergipe with revenue of around 22 million Brazilian reals.

In India, Essilor acquired a majority stake in Mangalsons, a distributor of plastic and glass lenses, sunglasses and prescription frames with revenue of around 460 million Indian rupees in 2016.

Essilor is preparing to enter in Ethiopia by signing an agreement to acquire a majority stake in Sun Optical Technologies, a leading prescription laboratory with revenue of just over €1 million. The completion of this partnership is subject to final approvals by local authorities.

In the Netherlands, the Company acquired a majority stake in Optitrade Logistics Platform (OLC), the distribution platform of Optitrade, a purchasing alliance of around 650 optical stores in this country. The goal of this partnership is to develop new product and service ranges and support the growth of Optitrade members in the domestic market. OLC will continue to be managed by the existing team.

## NOTE 31. SCOPE OF CONSOLIDATION

Listed below are the main Group companies. The complete list of consolidated companies is available on request at the registered office of the Group.

Company	Country	Consolidation method	% interest	Company	Country	Consolidation method	% interest
Essilor GmbH	Germany	Full consolidation	100	Nikon Optical Canada Inc.	Canada	Full consolidation	50
Rupp + Hubrach Optik GmbH	Germany	Full consolidation	100	Opticas Opv S.p.A.	Chile	Full consolidation	100
Satisloh GmbH	Germany	Full consolidation	100	Xiamen Artgri Optical Co., Ltd	China	Full consolidation	50
Essilor Laboratories Pty Ltd	Australia	Full consolidation	100	Jiangsu Wanxin Optical Co., Ltd	China	Full consolidation	80
Eyebiz Laboratories Pty Ltd	Australia	Full consolidation	70	Shanghai Essilor Optical Company Limited	China	Full consolidation	100
Multi-Optica Distribuidora Ltda	Brazil	Full consolidation	100	Chemilens (Jiaxing) Co., Ltd	China	Full consolidation	50
Essilor da Amazonia E Comercio Ltda	Brazil	Full consolidation	100	Xin Tianhong Optical Company Limited	China	Full consolidation	50
Brasilor Comércio de Produtos Ópticos E Participacoes Ltda	Brazil	Full consolidation	100	Essilor (China) Holding Co., Ltd	China	Full consolidation	100
Essilor Group Canada Ltd	Canada	Full consolidation	100	Servioptica SAS	Colombia	Full consolidation	51
Essilor Network in Canada Inc.	Canada	Full consolidation	100	Chemiglas Corp.	Korea	Full consolidation	50
Canoptec Inc.	Canada	Full consolidation	100	Essilor Espana	Spain	Full consolidation	100

## 3.4 Notes to the consolidated financial statements

Company	Country	Consolidation method	% interest
Essilor Optica International Holding SL	Spain	Full consolidation	100
Classic Optical Laboratories, Inc.	United States	Full consolidation	95
Eoa Holding Co., Inc.	United States	Full consolidation	100
Essilor Laboratories of America Holding Co Inc.	United States	Full consolidation	100
Essilor Laboratories of America Inc.	United States	Full consolidation	100
Essilor Labs Company	United States	Full consolidation	100
Essilor Latin America & Caribbean, Inc.	United States	Full consolidation	100
Essilor of America, Inc.	United States	Full consolidation	100
I-Coat Company, L.L.C.	United States	Full consolidation	85
Interstate Optical Co.	United States	Full consolidation	80
K.B. Co. L.L.C., The Polarized Lens Company	United States	Full consolidation	100
Moc Acquisition Corporation	United States	Full consolidation	84
Nassau Lens Co, Inc.	United States	Full consolidation	100
Oogp, Inc.	United States	Full consolidation	100
Pech Optical Corp.	United States	Full consolidation	100
Tri-Supreme Optical, L.L.C.	United States	Full consolidation	100
Vision Source	United States	Full consolidation	100
Transitions Optical Inc.	United States	Full consolidation	100
Satisloh North America	United States	Full consolidation	100
Fgx International Inc.	United States	Full consolidation	100
Costa Del Mar, Inc.	United States	Full consolidation	100
Stylemark, L.L.C.	United States	Full consolidation	100
Frames For America, Inc.	United States	Full consolidation	61
Eyebuy Direct, Inc.	United States	Full consolidation	61
Signet Armorlite, Inc.	United States	Full consolidation	100
Shamir Insight Inc.	United States	Full consolidation	50
Dac Vision Inc.	United States	Full consolidation	100
Essilor International	France	Full consolidation	100
Bbgr	France	Full consolidation	100
Novacel Ophtalmique	France	Full consolidation	75
Mega Optic Design	France	Full consolidation	75
Essidev	France	Full consolidation	100

Company	Country	Consolidation method	% interest
Essiholding	France	Full consolidation	100
Invoptic	France	Full consolidation	100
Essilor India Private Limited	India	Full consolidation	100
Gkb Rx Lens Private Limited	India	Full consolidation	76
Gkb Hi-Tech Lenses Private Limited	India	Full consolidation	50
Transitions Optical Limited	Ireland	Full consolidation	100
Essilor Israeli Holdings Ltd	Israel	Full consolidation	100
Shamir Optica Holding Ltd	Israel	Full consolidation	50
Shamir Optical Industry Ltd	Israel	Full consolidation	50
Essilor Italia	Italy	Full consolidation	100
L.T.L. S.p.A.	Italy	Full consolidation	100
Nikon Essilor Co., Limited	Japan	Full consolidation	50
Essilor Mexico S.A de C.V.	Mexico	Full consolidation	100
Essilor Nederland B.V.	Netherlands	Full consolidation	100
Essilor Nederland Holding B.V.	Netherlands	Full consolidation	100
Essilor Portugal – Sociedade Industrial De Óptica, Lda	Portugal	Full consolidation	100
Bbgr Limited	United Kingdom	Full consolidation	100
Essilor Limited	United Kingdom	Full consolidation	100
Trifle Holdings Limited	United Kingdom	Full consolidation	100
Vision Direct Limited	United Kingdom	Full consolidation	100
Laboratori Mekk L.L.C.	Russia	Full consolidation	80
Company Grandvision L.L.C.	Russia	Full consolidation	75
Optic Club L.L.C.	Russia	Full consolidation	75
Transitions Optical (S) Pte. Ltd	Singapore	Full consolidation	100
Essilor Amara Pte Ltd	Singapore	Full consolidation	100
Osa Investments Holdings Pte Ltd	Singapore	Full consolidation	100
Lensco AB	Sweden	Full consolidation	100
Essilor Suisse SA	Switzerland	Full consolidation	100
Satisloh AG	Switzerland	Full consolidation	100
Satisloh Holding AG	Switzerland	Full consolidation	100
Essilor Manufacturing (Thailand) Co., Ltd	Thailand	Full consolidation	100
Merve Optik Sanayi Ve Ticaret AS	Turkey	Full consolidation	65

## 3.5 Statutory Auditors' report on the consolidated financial statements

(For the year ended December 31, 2016)

*This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and is provided solely for the convenience of English-speaking users. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of*

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- ▶ the audit of the accompanying consolidated financial statements of ESSILOR INTERNATIONAL;

*issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.*

*This report also includes information relating to the specific verification of information given in the Group's management report.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

- ▶ the justification of our assessments;
- ▶ the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and

the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- ▶ your Company tests goodwill for impairment using the methods described in Note 1.21 to the consolidated financial statements. We have examined the methods used to carry out these impairment tests as well as the underlying assumptions,

and have verified that Note 11 to the consolidated financial statements provides appropriate disclosures.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. Specific verification

As required by law and in accordance with professional standards applicable in France, we have also verified the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Courbevoie, March 3, 2017

The Statutory Auditors  
French original signed by:

**PricewaterhouseCoopers Audit**  
Olivier Lotz

**Mazars**  
Daniel Escudeiro

## 3.6 Fees paid to the Auditors and the members of their networks

€ thousands, excluding percentages	PricewaterhouseCoopers				Mazars			
	Amount (net of VAT)		As a %		Amount (net of VAT)		As a %	
	Fiscal year 2016	Fiscal year 2015	Fiscal year 2016	Fiscal year 2015	Fiscal year 2016	Fiscal year 2015	Fiscal year 2016	Fiscal year 2015
<b>AUDIT</b>								
<b>Statutory Auditors, certification, review of separate and consolidated financial statements:</b>								
▶ parent company	447	447	9%	10%	281	282	6%	6%
▶ fully consolidated subsidiaries	3,348	2,985	66%	67%	3,094	2,968	64%	66%
Other audit-related services <sup>(a)</sup> :								
▶ parent company	428	347	8%	8%	501	568	10%	13%
▶ fully consolidated subsidiaries	252	202	5%	5%	895	629	19%	14%
<b>SUB-TOTAL</b>	<b>4,475</b>	<b>3,981</b>	<b>88%</b>	<b>89%</b>	<b>4,771</b>	<b>4,447</b>	<b>99%</b>	<b>99%</b>
<b>OTHER SERVICES PROVIDED TO CONSOLIDATED SUBSIDIARIES <sup>(b)</sup></b>								
Legal and tax advice	601	494	12%	11%	50	49	1%	1%
Other	0	0	0%	0%		12	0%	0%
<b>SUB-TOTAL</b>	<b>601</b>	<b>494</b>	<b>12%</b>	<b>11%</b>	<b>50</b>	<b>61</b>	<b>1%</b>	<b>1%</b>
<b>TOTAL</b>	<b>5,076</b>	<b>4,475</b>	<b>100%</b>	<b>100%</b>	<b>4,821</b>	<b>4,508</b>	<b>100%</b>	<b>100%</b>

(a) The other audit-related procedures and services correspond principally to the work conducted in connection with acquisitions of companies to be included in the scope of consolidation.

(b) Other services provided by networks to fully-consolidated subsidiaries mainly relate to services ensuring compliance with local taxation in foreign companies.

## 3.7 Annual financial statements of Essilor international

Annual statutory accounts 2016 include the profit and loss, the balance sheet, cash flows statement and notes presented below. The Statutory Auditors Report on the annual statutory accounts 2016 is in the Chapter 3.9 of this "Registration document".

### 3.7.1 Key figures at December 31, 2016

€ millions, except per share data which is in €	2016	2015
<b>Income statement</b>		
Revenue	888	897
Operating results	460	119
Profit before non-operating items and tax	654	332
Net profit	586	587
<b>Balance sheet</b>		
Share Capital	39	39
Equity	3,881	3,337
Net debt	2,474	2,401
Non-current assets, net	7,496	6,364
<b>TOTAL ASSETS</b>	<b>8,233</b>	<b>7,113</b>
Net dividend per ordinary share (€)	1.50 <sup>(a)</sup>	1.11

(a) Subject to the decision of the Shareholders' Meeting of May 11, 2017.

Essilor International's revenue increased by 0.4% compared to 2015, excluding revenue generated by Puerto Rico branch liquidated on November 30, 2015. Sales of corrective lenses increased by 3.5% in France and decreased by 2.2% in the export market. Sales of instruments increased by 3.7% in France and by 3.1% in the export market.

Operating results increased by €341 million compared to 2015, mainly due to a billing in 2016 of royalties to Essilor of America, Inc. related to an advance pricing agreement ("APA") signed in 2016 between France and the United States.

Financial income results amount to €194 million, down by 9% compared to 2015 due to:

- ▶ an impairment loss on financial assets of €55 million;
- ▶ an increase in dividends received of €28 million.

The net non-operating results represent a loss amounting to €2 million compared to an income of €277 million in 2015. For 2015, the net non-operating results included a net capital gain of €271 million due to the sale of 20% interest in Transitions Optical Inc. to Essilor of America Holding, Inc. and a net capital gain of €9 million due to the sale of DAC Vision Inc. to Satisloh Inc.

For year 2016, the corporate income tax in the financial statements amounts to €66 million.



## 3.7.2 Income statement at December 31, 2016

€ millions	Notes	2016	2015
Revenue	2	888	897
Production transferred to inventory		(3)	(5)
Production of assets for own use		6	5
Reversals of depreciation, amortization and provisions		82	89
Other income	3	695	334
<b>TOTAL OPERATING PROFIT</b>		<b>1,668</b>	<b>1,320</b>
Purchases of materials and change in inventories		484	470
Other external purchases and expenses	4	267	253
Taxes and duties		35	29
Personnel expenses	16	349	386
Depreciation, amortization and provisions		50	51
Other expenses		23	12
<b>TOTAL OPERATING EXPENSES</b>		<b>1,208</b>	<b>1,201</b>
<b>OPERATING RESULTS</b>		<b>460</b>	<b>119</b>
Financial income	5	194	213
<b>PROFIT BEFORE NON-OPERATING ITEMS AND TAX</b>		<b>654</b>	<b>332</b>
Non-operating income (expenses)	6	(2)	277
Income tax expense	7	66	22
<b>NET PROFIT</b>		<b>586</b>	<b>587</b>

## 3.7.3 Balance sheet at December 31, 2016

## Assets

€ millions	Notes	2016			2015
		Gross amount	Amortizations Provisions	Net amount	Net amount
Intangible assets	8	164	126	38	35
Tangible assets	9	377	270	107	105
Investments and other non-current assets	10	7,488	137	7,351	6,224
<b>LONG-TERM FINANCIAL ASSETS</b>		<b>8,029</b>	<b>533</b>	<b>7,496</b>	<b>6,364</b>
Inventories	11.1	57	12	45	46
Prepayments to suppliers		3		3	2
Trade receivables	11.2	320	3	317	343
Other receivables	11.2	266	1	265	281
Marketable securities	11.3	83		83	37
Cash		6		6	24
<b>CURRENT ASSETS</b>		<b>735</b>	<b>16</b>	<b>719</b>	<b>733</b>
Bond redemption premium		3		3	3
Prepaid expenses	11.4	15		15	13
<b>OVERALL TOTAL</b>		<b>8,782</b>	<b>549</b>	<b>8,233</b>	<b>7,113</b>

## Liabilities

€ millions	Notes	2016	2015
Share capital	12.1	39	39
Issue, merger and transfer premiums		591	400
Legal reserve		4	4
Other reserves		2,601	2,251
Retained earnings		16	16
Net profit		586	587
Untaxed provisions		44	40
<b>EQUITY</b>	<b>12.2</b>	<b>3,881</b>	<b>3,337</b>
<b>PROVISIONS FOR CONTINGENCIES AND CHARGES</b>	<b>13.1</b>	<b>137</b>	<b>154</b>
Other bonds	14.1	1,875	1,851
Borrowings and advances from credit institutions (including loans from subsidiaries)	14.1	574	507
Other financial debt	14.1	114	104
<b>FINANCIAL LIABILITIES</b>		<b>2,563</b>	<b>2,462</b>
Trade payables	14.2	185	161
Accrued taxes and personnel expenses	14.2	90	112
Other liabilities	14.2	1,373	886
<b>OPERATING AND OTHER LIABILITIES</b>		<b>1,648</b>	<b>1,159</b>
Deferred income		4	1
<b>OVERALL TOTAL</b>		<b>8,233</b>	<b>7,113</b>

**3.7.4 Cash flows statement at December 31, 2016**

€ millions	2016	2015
Net profit of the fiscal year	586	587
Elimination of non-cash items	(170)	(244)
Cash flow	416	343
Change in working capital <sup>(a)</sup>	406	483
<b>NET FLOWS FROM TRANSACTIONS</b>	<b>822</b>	<b>826</b>
Purchases of tangible and intangible assets	(33)	(24)
Acquisition of shares in subsidiaries and affiliates and other investments	(625)	(523)
New loans extended	(5,049)	(4,581)
Proceeds from disposals of fixed assets	9	352
Repayment of loans and advances	4,881	3,911
<b>NET FLOW ASSIGNED TO INVESTMENTS</b>	<b>(817)</b>	<b>(865)</b>
Capital increase	34	39
Purchases and sales of treasury stock	(31)	
Dividends paid	(79)	(216)
Increase and decrease in borrowings	103	123
<b>NET FLOWS FROM FINANCING TRANSACTIONS</b>	<b>27</b>	<b>(54)</b>
Change in cash and cash equivalents	32	(93)
Cash and cash equivalents at the beginning of the period	52	145
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>84</b>	<b>52</b>

(a) Changes in working capital are as follows:

€ millions	2016	2015	Variation
Prepayments to suppliers	3	2	(1)
Inventories	45	46	1
Operating receivables	336	360	24
Other receivables	240	264	24
Accrued interest	1	(4)	(5)
Operating liabilities	(391)	(382)	9
Other liabilities	(1,130)	(777)	353
Accruals	11	12	1
<b>TOTAL WORKING CAPITAL</b>	<b>(885)</b>	<b>(479)</b>	<b>406</b>

Cash and cash equivalents correspond to cash and short-term deposits, less short-term bank loans and overdrafts.

## 3.8 Notes to the 2016 annual financial statements

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The following notes provide additional information about items reported in the balance sheet at December 31, 2016, which shows total assets of €8,233 million, and the income statement, which shows a net profit of €586 million.

The financial statements cover a 12-month period from January 1 to December 31, 2016.

The parent company is Essilor International, hereinafter referred to as "Essilor."

All amounts are presented in million of euros, unless otherwise specified.

### Significant events of the year

#### Commercial revenue

Essilor International's revenue increased by 0.4% compared to 2015, excluding revenue generated by Puerto Rico branch liquidated on November 30, 2015. Sales of corrective lenses increased by 3.5% in France and decreased by 2.2% in the export market. Sales of instruments increased by 3.7% in France and by 3.1% in the export market.

#### New financing

Essilor has issued on October 11, 2016 a US private placement with a financing available on January 5, 2017 to pre-finance the term of two debts reaching maturity in March and May 2017 for US\$275 million. Details of this private placement are the followings:

- ▶ US\$200 million at 5 years at a 2.05% rate;
- ▶ US\$100 million at 10 years at a 2.65% rate.

**Income tax**

For fiscal year 2016, the tax debt recognized in the financial statements amounted to €66 million. This amount reflects a number of factors:

- ▶ the impact of a normal tax rate and a reduced tax rate on taxable income;
- ▶ tax income corresponding to the tax credits applicable (especially the research tax credit), and to the tax savings from fiscal consolidation.

Furthermore, a tax audit was performed on Essilor accounts for the years 2012 to 2014. Essilor received a notice regarding these years, to which it will formulate observations. Although no prejudgement is made regarding the final position of the French Tax Authorities, a provision for fiscal risk has been recognized in the 2016 accounts.

**NOTE 1.**  
**ACCOUNTING PRINCIPLES**

---

**1.1 General**

The annual accounts have been prepared in accordance with the French General Accounting Plan 2014 corresponding to the Regulation ANC n°2014-03 dated June 5, 2014 (approved by the order of September 8, 2014 published in the "Journal officiel" of

October 15, 2014 which cancels and constitutes a recodification of the General Accounting Plan 1999, supplemented by regulations published since this date and generally accepted principles.

**1.2 Revenue**

Revenue is stated net of volume discounts, cash discounts, returned goods and certain revenue-based commissions. Revenue is recognized when risk and rewards of ownership have

been transferred to the customer, or at the date of physical and technical acceptance by the latter.

**1.3 Intangible assets**

Intangible assets correspond primarily to patents, licenses and software. Intangible assets are evaluated at acquisition or production cost and are amortized:

- ▶ either by work unit;
- ▶ or on a straight-line basis over the following estimated useful lives.

Software	1 to 10 years
Patents	Period of legal protection

Internally generated 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 impairment loss 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.

### 1.4 Research and development costs

Research costs are recognized as an expense for the period in which they are incurred.

Only development costs are recognized as an intangible asset if the following conditions 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 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 and laboratory equipment development costs are recognized as an intangible asset when the above criteria are fulfilled.

### 1.5 Tangible assets

Property, plant and equipment are stated at acquisition or production cost.

Depreciation of property, plant and equipment is calculated on a straight-line basis or a declining method basis over the following estimated useful lives.

Buildings	20 to 33 years
Buildings improvements	7 to 10 years
Machinery, equipments and toolings	3 to 20 years
Other	3 to 10 years

Lands are 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 impairment loss 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 property, plant and equipment.

### 1.6 Financial assets

Investment securities are recognized at acquisition cost. Acquisition costs for the investment securities are included in the initial costs.

The value in use of shares is estimated each year, generally on the basis of actualization of future cash flows, which are estimated from forecasts established by the subsidiaries and reviewed by the Group, and on the basis of the proportion of equity. In this case of actualization of future cash flows, the discount rate used is the weighted average cost of the capital.

Loans and receivables are stated at nominal value. 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 impairment loss 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 canceled and those shares covered by a provision for risks because they were intended to hedge performance share plans and stock options.

A provision for impairment is recorded, at financial result level, when their recoverable amount, defined as the higher of fair value or value in use, is less than their carrying amount.

## 1.7 Inventories

Raw materials and goods inventories are stated at cost, including incidental expenses, determined by the weighted average cost method. Production inventories are stated at actual production cost, which includes the cost of raw materials and direct and indirect production costs.

At each period-end, the gross value and net realizable value of inventories are compared and the lower of the two values is retained. Net realizable value is determined in reference to market prices, sales prospects and the risk of obsolescence, assessed on the basis of objective inventory levels.

## 1.8 Receivables and payables

Receivables and payables are stated at nominal value.

Receivables are written down when their net realizable value, estimated by reference to the risk of non-recovery, is less than their carrying amount.

## 1.9 Marketable securities

Marketable securities are recognized at cost.

An impairment loss is recorded if the net asset value of the mutual fund units represents less than their cost.

## 1.10 Derivative financial instruments and transactions in foreign currency

### Derivative financial instruments on foreign currency

The Company uses derivative financial instruments solely for hedging purposes. Derivative financial instruments are processed within predetermined management limits with the purpose of optimizing exchange rate risk hedging.

Essilor manages an exchange position including monetary assets and liabilities in foreign currency related to business and financial activities of the Company. Gains and losses on derivative financial allow to offset the closing rate revaluation of the balance sheet positions in foreign currency (loans, debts, receivables, payables, current accounts, bank accounts). The report / deport related to derivative financial instruments is spread in financial profit on the hedging's duration.

Essilor also uses forward sales and purchases to hedge future transactions in foreign currency. Gains and losses on derivative financial instruments are recognized in the year in which they are settled, on a symmetrical basis with the loss or gain on the hedged item.

In principle, derivative financial instruments solely used by Essilor for hedging purposes. In some exceptional cases where derivative financial instruments are not meeting the criteria in order to be qualified as they are following the accounting method below:

- ▶ a provision is recognized for unrealized losses (unrealized gains are not recognized in the income statement);
- ▶ realized gains and losses are recorded in profit and loss.

As part of the centralized foreign exchange risk's management, Essilor subscribes derivative financial instruments for the Group's subsidiaries. Realized gains and losses on the derivative financial instruments subscribed towards banking counterparts are transferred to the subsidiaries which are at the origin of the hedging.

### Derivative financial instruments on rates

On risk interest's rate, the policy of the Company is to protect itself against an unfavourable rate's evolution. To hedge the rate's risk, Essilor uses rate swaps and rate caps.

Financial incomes and expenses related to derivative financial instruments on rates are recognized in profit and loss on a symmetrical basis with the loss or gain on the hedged item.

Paid premiums on caps are spread in financial profit over the hedging's duration.

### 1.11 Pension and other post-employment benefit obligations

In application of the Regulation ANC n°2013-02 dated November 7, 2013 related to the valuation rules and the accounting obligations towards employees for the payment of pensions, early-retirement benefits, length-of-service and other awards are subject to provisions.

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 discount rate, inflation, staff turnover rates and the rate of salary increase;
- ▶ the discount rate corresponds to the interest rate premium in the country concerned for periods corresponding to the estimated average duration of the benefit obligation;
- ▶ when all or part of the obligation is funded under an external plan, the provision is decreased by the market 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 market value of the plan assets;
- ▶ if the 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. If rights under the new or modified plan vest immediately, the resulting change in the Company's obligation is recognized in profit immediately;
- ▶ provision recorded in the balance sheet correspond to the projected benefit obligation less the market value of any plan assets, the value of unrealized actuarial gains and losses and unrecognized past service costs.

### 1.12 Income tax (Group relief)

Essilor files a consolidated tax return with ESSILOR, BBGR, OPTIM, INVOPTIC, ESSILOR ACADEMY EUROPE, NOVISA, ESSIDEV, OSE, TIKAI VISION, BNL EUROLENS, FGX HOLDING, DELAMARE SOVRA, EOMC, ESSIHOLDING, MONT-ROYAL, TRANSITIONS OPTICAL DISTRIBUTION and DAC VISION 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 (with no impact on the parent company's financial statements).

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.



### 1.13 Recognition and measurement of provisions

#### Regulated provisions

Regulated provisions 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;
- ▶ 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 grant of performance shares

A provision is recorded for the cost of performance shares, corresponding to the number of shares that are expected to vest multiplied by the weighted Average Price of our own treasury share 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 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 carrying amount. As necessary, the provision is allotted in the following order: securities, long-term receivables, current account, 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 on the other legal forms.

### 1.14 Loan issuance charges

Loan issuance charges may be:

- ▶ kept in expenses in their entirety in the year they are incurred;
- ▶ or distributed over the term of the loan.

The choice between those two methods is made upon issuance of the loan and cannot be later changed for the concerned loan.

## NOTE 2. REVENUE

### 2.1 Net revenue per business sector

2016 € millions	France	Export	Total	Variation % 2016/2015
Lenses	381	314	695	-0.9%
Instruments	31	70	101	+3.3%
Equipment business	1	14	15	+18.6%
Other sales	14	63	77	-9.3%
<b>TOTAL</b>	<b>427</b>	<b>461</b>	<b>888</b>	<b>-1.0%</b>

2015 € millions	France	Export	Total	Variation % 2015/2014
Lenses	368	333	701	+7.9%
Instruments	30	68	98	+6.6%
Equipment business	1	12	13	+0.8%
Other sales	14	71	85	+11.0%
<b>TOTAL</b>	<b>413</b>	<b>484</b>	<b>897</b>	<b>+8.0%</b>

### 2.2 Net revenue distribution between France and export, Group and outside of Group

€ millions	2016	2015	Variation % 2016/2015
France:			
▶ Group	85	81	+5.1%
▶ Non-Group	342	332	+2.7%
<b>SUB-TOTAL</b>	<b>427</b>	<b>413</b>	<b>+3.2%</b>
Export:			
▶ Group	442	465	-5.0%
▶ Non-Group	19	19	+4.4%
<b>SUB-TOTAL</b>	<b>461</b>	<b>484</b>	<b>-4.6%</b>
<b>TOTAL</b>	<b>888</b>	<b>897</b>	<b>-1.0%</b>

### NOTE 3. OTHER INCOME

€ millions	2016	2015
Royalties and rebilling of expenses to Group companies <sup>(a)</sup>	695	334
<b>TOTAL</b>	<b>695</b>	<b>334</b>

(a) In 2016, increase in "royalties and rebilling of expenses to Group companies" is mainly due to the billing of royalties to Essilor of America, Inc. related to an advance pricing agreement ("APA") signed in 2016 between France and the United States.

### NOTE 4. OTHER EXTERNAL PURCHASES AND EXPENSES

€ millions	2016	2015
Outsourcing	72	69
Rentals, maintenance and insurance	28	27
Studies, research and documentation	30	30
Temporary staff	23	18
Fees	41	32
Communication and advertising	36	39
Telecommunications, commissions et business travel	29	30
Others	8	8
<b>TOTAL</b>	<b>267</b>	<b>253</b>

### NOTE 5. FINANCIAL INCOME

€ millions	2016	2015
Interest expenses	(53)	(46)
Financial income		
▶ Dividends	176	148
▶ Investments income	1	
▶ Interest income from loans	124	106
Net discounts	(5)	(4)
Impairment loss, write-back of provisions <sup>(a)</sup>	(55)	(5)
Currency exchange	8	17
Other	(2)	(3)
<b>TOTAL</b>	<b>194</b>	<b>213</b>

(a) Including a net impairment loss on financial assets for €55 million.

## NOTE 6. NON-OPERATING INCOME (EXPENSE), NET

€ millions	2016	2015
<b>ON OPERATING ITEMS</b>	<b>(2)</b>	
Other income and expenses on operating items	(2)	
<b>ON CAPITAL ITEMS</b>	<b>9</b>	<b>277</b>
Transactions on disposal of financial assets <sup>(a)</sup>		278
Other exceptional income and expenses on capital items	9	(1)
<b>PROVISIONS, WRITE-BACK OF PROVISIONS AND CHARGES TRANSFERRED</b>	<b>(9)</b>	
Provisions, write-back of provisions	(5)	(2)
Charges transferred		1
Others	(4)	1
<b>TOTAL</b>	<b>(2)</b>	<b>277</b>

(a) Including for 2015, the disposal of financial assets which mainly consisted of the contribution of 20% in Transitions Optical Inc. to Essilor of America Holding, Inc.

## NOTE 7. CORPORATE INCOME TAX

### 7.1 Profit excluding overriding tax assessments

€ millions	2016	2015
Profit & Loss of the year	586	587
Corporate income tax	66	22
Result before corporate tax on profit	652	609
Movements of regulated provisions	5	1
Result before corporate tax on profit, excluding overriding tax assessments	657	610

The corporate income tax expense of €66 million includes a research tax credit for €20 million and a tax consolidation profit for €4 million.

## 7.2 Allocation of income tax

Breakdown of the income tax expense between operating and non-operating items is as follows:

2016 € millions	Before tax	Corresponding tax	After tax
Result of ordinary operations <sup>(a)</sup>	654	(66)	588
Exceptional result	(2)		(2)
<b>NET RESULT</b>			<b>586</b>

(a) Of which €176 million in dividends subject to the parent company-subsidiary treatment and €516 million in royalties taxed at the reduced rate of 15%.

2015 € millions	Before tax	Corresponding tax	After tax
Result of ordinary operations <sup>(a)</sup>	332	(11)	321
Exceptional result <sup>(b)</sup>	277	(11)	266
<b>NET RESULT</b>			<b>587</b>

(a) Of which €148 million in dividends subject to the parent company-subsidiary treatment and €198 million in royalties taxed at the reduced rate of 15%.

(b) Of which €271 million net capital gains arising from the contribution of Transitions Optical Inc. securities and €9 million net long-term capital gains arising from the disposal of Dac Vision Inc. securities.

## 7.3 Increases and reductions in future tax liabilities

### Assets

No deferred tax assets are recognized in the balance sheet.

€ millions	2016	2015
Pension	34	32
Provision for paid holidays <sup>(a)</sup>	13	12
Others	8	8
<b>TOTAL</b>	<b>55</b>	<b>52</b>
<b>LOSS OF PERIOD CARRIED BACK AGAINST PRIOR PERIOD PROFITS <sup>(b)</sup></b>	<b>186</b>	<b>207</b>
Corporate income tax corresponding to 34.43%	83	89

(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 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. This debt amounts to €6 million at December 31, 2016. The Company believes it can utilize these tax loss carry-forwards.

### Liabilities

No deferred tax liabilities are recognized in the balance sheet. Recognition of deferred taxes on the timing differences shown below would have the effect of increasing income tax expense by €15 million.

€ millions	Year-end 2014	Increase 2015	Decrease 2015	Year-end 2015	Increase 2016	Decrease 2016	Year-end 2016
Provisions related to:							
▶ Excess tax depreciation	38	9	8	39	12	7	44
<b>TOTAL</b>	<b>38</b>	<b>9</b>	<b>8</b>	<b>39</b>	<b>12</b>	<b>7</b>	<b>44</b>
Future tax liabilities (34.43%)	14			14			15

## NOTE 8. INTANGIBLE ASSETS

€ millions	Value at the start of the year	Acquisitions	Disposals	Movements	Provisions for the year	Reversals for the year	Value at year-end
<b>2016</b>							
Research and development costs	7	1					8
Patents, trade marks and licenses	139	11		1			151
Other intangible fixed assets	6			(1)			5
<b>GROSS VALUE</b>	<b>152</b>	<b>12</b>					<b>164</b>
Amortizations and depreciations	117				9		126
<b>NET VALUE</b>	<b>35</b>						<b>38</b>
<b>2015</b>							
Research and development costs	6			1			7
Patents, trade marks and licenses	134	5	1	1			139
Other intangible fixed assets	3	5		(2)			6
<b>GROSS VALUE</b>	<b>143</b>	<b>10</b>	<b>1</b>				<b>152</b>
Amortizations and depreciations	111				8	2	117
<b>NET VALUE</b>	<b>32</b>						<b>35</b>

## NOTE 9. TANGIBLE ASSETS

€ millions	Value at the start of the year	Acquisitions	Disposals	Movements	Provisions for the year	Reversals for the year	Value at year-end
<b>2016</b>							
Lands	16		1				15
Constructions	159	11	5				165
Plant and equipment	139	4	1	1			143
Other property, plant and machinery	46	4	1				49
Property, plant and equipment in progress	4	2		(1)			5
<b>GROSS VALUE</b>	<b>364</b>	<b>21</b>	<b>8</b>				<b>377</b>
Amortizations and depreciations	259				18	7	270
<b>NET VALUE</b>	<b>105</b>						<b>107</b>
<b>2015</b>							
Lands	15			1			16
Constructions	161	3	6	1			159
Plant and equipment	148	5	18	4			139
Other property, plant and machinery	47	1	2				46
Property, plant and equipment in progress	5	4		(5)			4
<b>GROSS VALUE</b>	<b>376</b>	<b>13</b>	<b>26</b>	<b>1</b>			<b>364</b>
Amortizations and depreciations	262				20	23	259
<b>NET VALUE</b>	<b>114</b>						<b>105</b>

## NOTE 10. FINANCIAL ASSETS

### 10.1 Summaries

2016 € millions	Value at the start of the year	Increases	Decreases	Movements	Provisions for the year	Reversals for the year	Value at year-end
Equity held <sup>(a)</sup>	3,310	1,311	1	1			4,621
Receivables from companies in which an equity is held <sup>(b)</sup>	2,761	5,167	5,238				2,690
Other long-term investments (treasury shares)	224	31	85				170
Other loans	3	7	7				3
Other long-term financial investments	8	4	7	(1)			4
<b>GROSS VALUE</b>	<b>6,306</b>	<b>6,520</b>	<b>5,338</b>				<b>7,488</b>
Impairment	82				74	19	137
<b>NET VALUE</b>	<b>6,224</b>						<b>7,351</b>

(a) Increases mainly related to:

- acquisition of 50% of Photosynthesis Group CO., Limited, 50% of Yfeng Group Limited, 80% of SLC International SAS, 49% remaining of Opti-Express S.R.L. and 30% of Jiangsu Wanxin Optical CO., Limited for a total amounting to €314 million;
- capital increases for Essilor of America, Inc., Essiholding SASU, Essilor GmbH, Essilor Austria GmbH, EGRM L.L.C., Trifle Optical Ltd, Essilor Optica Inter. Holding SL, Essilor Canada Inc, Canoptec Inc., Brasilor Participacoes SC Ltda, Essilor Colombia SAS, Essilor Argentina SA, Essilor India Private Limited, Essilor South Africa Limited, Essilor Middle East Ltd, Movisia SA et Opak Optik Sanayi for a global total amounting to €997 million.

(b) Increases and decreases are mainly related to the renewal of loans to subsidiaries, particularly those granted to Essilor of America, Inc., Canoptec Inc., Essilor Canada Inc. And Trifle Holding Ltd.

2015 € millions	Value at the start of the year	Increases	Decreases	Movements	Provisions for the year	Reversals for the year	Value at year-end
Equity held	2,780	631	101				3,310
Receivables from companies in which an equity is held	2,088	4,683	4,010				2,761
Other long-term investments (treasury shares)	289		65				224
Other loans		3					3
Other long-term financial investments	6	5	3				8
<b>GROSS VALUE</b>	<b>5,163</b>	<b>5,322</b>	<b>4,179</b>				<b>6,306</b>
Impairment	66				30	14	82
<b>NET VALUE</b>	<b>5,097</b>						<b>6,224</b>



## 10.2 Table of subsidiaries and shareholdings

### Subsidiaries and affiliates whose gross value percentage of Essilor's share capital:

€ millions	Share capital	Other equity	Carrying amount of shares held		Loans and advances granted by the Company	Guarantees and endorsements given by the Company	Net revenue of the last fiscal year	Profit for the last fiscal year	Dividends cashed by the Company over the fiscal year
			Gross	Net					
<b>A IS GREATER THAN 1%</b>									
French subsidiaries	225	270	387	368	101		461	36	41
International subsidiaries	1,738	3,125	4,233	4,123	1,908	45	6,535	288	136
<b>B DOES NOT EXCEED 1%</b>									
French subsidiaries									
International subsidiaries	107	40	1	1	20	3	114	(18)	

## 10.3 Maturities of long-term asset receivables

€ millions	2016	2015
More than one year	2,450	1,865
Less than one year	247	906
<b>TOTAL</b>	<b>2,697</b>	<b>2,771</b>

## NOTE 11. CURRENT ASSETS

### 11.1 Inventories

€ millions	2016	2015
Raw materials and supplies	26	25
Goods	11	11
Finished, semi-finished and in-process goods	20	21
<b>SUB-TOTAL</b>	<b>57</b>	<b>57</b>
Provisions related to:		
▶ Raw materials and supplies	(6)	(6)
▶ Goods	(2)	(2)
▶ Finished, semi-finished and in-process goods	(4)	(3)
<b>SUB-TOTAL</b>	<b>(12)</b>	<b>(11)</b>
<b>TOTAL</b>	<b>45</b>	<b>46</b>

## 11.2 Maturities of current assets receivables

€ millions	2016
<b>MORE THAN ONE YEAR</b>	<b>11</b>
Trade receivables	11
<b>LESS THAN ONE YEAR</b>	<b>574</b>
Prepayments on orders	3
Trade receivables	306
Other receivables <sup>(a)</sup>	265
<b>TOTAL</b>	<b>585</b>

(a) The "Other receivables" line primarily includes current accounts with regard to subsidiaries for €213 million and a carry-back receivable of €4 million.

## 11.3 Marketable securities

€ millions	2016		2015	
	Gross	Net	Gross	Net
SICAV <sup>(a)</sup>	83	83		
Treasury instruments			37	37
<b>TOTAL</b>	<b>83</b>	<b>83</b>	<b>37</b>	<b>37</b>

(a) SICAV mutual funds held at closing are comprised solely of money market funds with a maturity of three months or less.

Available cash is invested in accordance with the two overarching principles of security and liquidity. Essilor sets limits on investment periods and vehicles, as well as on concentrations of counterparty risks. At December 31, 2016, 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

€ millions	2016	2015
Prepaid expenses:		
▶ Operating result	9	14
▶ Financial income	6	(1)
<b>TOTAL</b>	<b>15</b>	<b>13</b>

## 11.5 Accrued income

€ millions	2016	2015
<b>Investments and other non-current assets</b>		
▶ Receivables from companies in which an equity interest is held	13	8
<b>Receivables</b>		
▶ Clients – invoices to raise	78	71
▶ Other receivables		3
<b>TOTAL</b>	<b>91</b>	<b>82</b>

## NOTE 12. SHAREHOLDERS' EQUITY

### 12.1 Composition of capital

	Number of shares				At the year-end	Per unit (€)
	At the start of the year	Issued	Canceled	Exchanged		
Ordinary shares	216,456,440	2,051,261			218,507,701	0.18
<b>TOTAL</b>	<b>216,456,440</b>	<b>2,051,261</b>			<b>218,507,701</b>	<b>0.18</b>

Of which treasury shares:

Number of shares	Number of shares at the start of the year	Share purchases	Cancellation	Exercises of options	Exercises of performance shares	Number of shares at the year-end
Other long-term investments capitalized	2,860,098	299,490			(1,113,448)	2,046,140
<b>TOTAL</b>	<b>2,860,098</b>	<b>299,490</b>			<b>(1,113,448)</b>	<b>2,046,140</b>

## 12.2 Statement of changes in equity

€ millions	Share capital	Issue premiums	Reserves and retained earnings	Result of the fiscal year	Untaxed provisions	Total Equity
<b>EQUITY AS AT JANUARY 1, 2016</b>	<b>39</b>	<b>400</b>	<b>2,271</b>	<b>587</b>	<b>40</b>	<b>3,337</b>
Capital increase						
▶ FCP Mutual funds		26				26
▶ Stock subscription options		7				7
▶ Payment of the dividend in shares		158				158
Other movements over the fiscal year					4	4
Allocation of profit			587	(587)		
Dividends paid			(237)			(237)
Net profit of the fiscal year				586		586
<b>EQUITY AS AT DECEMBER 31, 2016</b>	<b>39</b>	<b>591</b>	<b>2,621</b>	<b>586</b>	<b>44</b>	<b>3,881</b>

### 2016

Share capital totalled €39,331,386 corresponding to an increase of 2,051,261 new ordinary shares following:

- ▶ subscriptions to Essilor group FCP mutual funds of 331,945 shares;
- ▶ dividends paid in shares amounting to 1,578,804 shares;
- ▶ stock subscription options for 140,512 shares.

New shares were entitled to dividends starting January 1, 2016.

Cash dividend paid to the shareholders who did not choose to be paid in shares amounts to €77 million. In addition, a cash adjustment of €2 million was paid out to cover the fractional portions of dividends paid in shares.

### 2015

Share capital totalled €38,962,159 corresponding to an increase of 563,912 new ordinary shares following:

- ▶ subscriptions to Essilor group FCP mutual funds (257,057 shares);
- ▶ stock subscription options (306,855 shares).

New shares were entitled to dividends starting January 1, 2015.

## 12.3 Stock subscription and purchase options, performance shares and employee share issue

### 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 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 since November 2008 are subject to performance conditions based on the share performance over a period of two to six years, as well as to the 100% cap on gains.

The following table analyzes changes in the number of stock subscription options at the year-end:

	Number of stock options as at 01/01/2016	Share subscription options	Stock options canceled and expired	Awards	Number of stock options as at 12/31/2016
Share subscription options	603,631	(140,512)	(91,666)	119,392	490,845
<b>TOTAL</b>	<b>603,631</b>	<b>(140,512)</b>	<b>(91,666)</b>	<b>119,392</b>	<b>490,845</b>

**Performance shares**

Since 2006, the Essilor group has launched performance-based bonus share allotment plans (performance shares).

For the November 2010 to November 2014 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 price 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).

For the December 2015, September 2016 and December 2016 plans, the number of shares vested at the end of a period of three 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 price 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:

- ▶ 2016 awards: 1,440,063 shares;
- ▶ 2015 awards: 1,343,153 shares.

The following table analyzes changes in the number of performance over the fiscal-year:

	Number of performance shares as at 01/01/2016	Definitive awards of performance shares	Performance shares canceled	Awards	Number of performance shares as at 12/31/2016
Performance shares	4,126,157	(1,113,448)	(106,969)	1,440,063	4,345,803
<b>TOTAL</b>	<b>4,126,157</b>	<b>(1,113,448)</b>	<b>(106,969)</b>	<b>1,440,063</b>	<b>4,345,803</b>

**Employee share issues**

The main features of employee share issues are:

€	2016	2015
Share subscription price	79.98	97.05
Total discount amount	19.99	24.26
Number of shares subscribed	331,945	257,057



## NOTE 13. PROVISIONS

### 13.1 Provisions for contingencies and liabilities

2016 € millions	Value at the beginning of the period	Provisions for the year	Reversals for the year (used)	Reversals for the year (non used)	Value at the year-end
Provisions for pension	32	6	4		34
Provisions for performance shares <sup>(a)</sup>	105	63	87		81
Other provisions for losses and liabilities <sup>(b)</sup>	17	12	6	1	22
<b>TOTAL</b>	<b>154</b>	<b>81</b>	<b>97</b>	<b>1</b>	<b>137</b>

(a) Reversal of the provision for performance shares amounting to €87 million corresponds to the performance shares plans delivered in 2016.

(b) Other provisions for losses and liabilities at December 31, 2016 are mostly composed of the tax audit provision and the jubilee provision.

2015 € millions	Value at the beginning of the period	Provisions for the year	Reversals for the year (used)	Reversals for the year (non used)	Value at the year-end
Provisions for pension	31	7	6		32
Provisions for performance shares	80	103	78		105
Other provisions for losses and liabilities <sup>(a)</sup>	39	8	26	4	17
<b>TOTAL</b>	<b>150</b>	<b>118</b>	<b>110</b>	<b>4</b>	<b>154</b>

(a) Other provisions for losses and liabilities at December 31, 2015 are mostly composed of the tax audit provision and the jubilee provision.

### 13.2 Asset depreciation

2016 € millions	Value at the beginning of the year	Provisions for the year	Reversals for the year	Value at the year-end
<b>ASSETS DEPRECIATION</b>	<b>97</b>	<b>89</b>	<b>34</b>	<b>152</b>
Inventories	11	12	11	12
Receivables	4	3	3	4
Shares in subsidiaries and affiliates	82	67	20	129
Receivables from companies in which an equity interest is held		7		7
<b>2015</b>				
<b>ASSETS DEPRECIATION</b>	<b>91</b>	<b>44</b>	<b>38</b>	<b>97</b>
Inventories	18	11	18	11
Receivables	8	3	7	4
Shares in subsidiaries and affiliates	65	30	13	82

## NOTE 14. LIABILITIES

### 14.1 Financial debts maturities

#### Total debt's split by maturity and type

€ millions	2016	2015
<b>A MOINS D'UN AN</b>	<b>1,265</b>	<b>627</b>
Loans from subsidiaries	111	104
Bonds <sup>(a)</sup>	261	
US private placements <sup>(a)</sup>	300	
Interest on bonds and US private placements <sup>(a)</sup>	16	16
US and French commercial paper programs	572	502
Total borrowings	5	5
<b>DUE IN ONE TO FIVE YEARS</b>	<b>970</b>	<b>1,007</b>
US private placements <sup>(a)</sup>	470	707
Bonds <sup>(a)</sup>	500	300
<b>A PLUS DE 5 ANS</b>	<b>328</b>	<b>828</b>
US private placements <sup>(a)</sup>	28	28
Bonds <sup>(a)</sup>	300	800
<b>TOTAL</b>	<b>2,563</b>	<b>2,462</b>

(a) Correspond to line "Other bonds" in the balance sheet for a total amount of €1,875 million.

#### Financial debt's split by currency

€ millions	2016	2015
EUR	1,226	1,250
USD	1,266	1,157
KRW	49	29
JPY	10	15
PLN	9	8
GBP	3	3
<b>TOTAL</b>	<b>2,563</b>	<b>2,462</b>

#### Covenants

The Company's financing is not subject to any particular financial covenants. Only the US\$300 and US\$500 million private placements subscribed in 2012 and 2014 are subject to a specific financial ratio. This was complied with at December 31, 2016.

## 14.2 Maturities and other liabilities

### Analysis of total liabilities by maturity and by category

€ millions	2016	2015
<b>DUE IN LESS THAN ONE YEAR</b>	<b>1,648</b>	<b>1,159</b>
Operating liabilities	437	392
Other liabilities <sup>(a)</sup>	1,211	767
<b>DUE IN ONE TO FIVE YEARS</b>		
Operating liabilities		
Other liabilities		
<b>DUE IN MORE THAN FIVE YEARS</b>		
Operating liabilities		
Other liabilities		
<b>TOTAL</b>	<b>1,648</b>	<b>1,159</b>

(a) "Other liabilities" account mostly includes current accounts with subsidiaries for €1,103 million.

## 14.3 Accrued expenses

€ millions	2016	2015
Accrued interest on borrowing	17	17
Trade payables	64	76
Accrued taxes and personnel expenses:		
▶ Vacation pay	42	39
▶ Discretionary profit sharing	5	6
▶ Other	35	39
Other operating liabilities:		
▶ Discounts and allowances to be granted	107	102
▶ Amounts due to customers	7	10
▶ Credit notes to be issued	48	7
▶ Other	68	
<b>TOTAL</b>	<b>393</b>	<b>296</b>



## NOTE 15. OFF BALANCE SHEET COMMITMENTS

### 15.1 Financial commitments

#### Commitments given and received

€ millions	2016	2015
<b>Projected benefit obligations given</b>		
Guarantees and endorsements <sup>(a)</sup>	93	68
<b>Projected benefit obligations received</b>		
Guarantees, endorsements and sureties received		

(a) Guarantees by Essilor mainly granted to its subsidiaries and affiliates.

Confirmed undrawn credit at December 31, 2016 amounted to €2,443 million.

#### Forward foreign exchange contracts

Foreign exchange forward transactions at December 31, 2016 are the following:

€ millions	Contractual amount (initial price)	Market value as at December 31, 2016
Foreign currency sell position	1,157	(9)
Foreign currency buy position	407	2
<b>TOTAL</b>		<b>(7)</b>

The Company is in a net selling position for USD, CNY, GBP and CAD.

#### Interest rate products

In millions of currency units	Notional (\$)	Notional (€)	Market value as at December 31, 2016
USD interest rate swaps	150		(1)
EUR interest rate swaps		400	33
USD interest rate caps	100		1
<b>TOTAL</b>			<b>33</b>

### 15.2 Commitments under finance leases

No commitments regarding financial leases.

### 15.3 Commitments for future payments

2016 Contractual obligations € millions	Payments due by period			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Simple rent's contract	4	13	6	23
<b>TOTAL</b>	<b>4</b>	<b>13</b>	<b>6</b>	<b>23</b>

### 15.4 Commitments 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, 2016, the value of all of those put options if they were fully exercised totalled €41 million.

## NOTE 16. INFORMATION ON EMPLOYEES

### 16.1 Pension, jubilees and post-retirement benefit obligations

#### Supplementary pension plan

Actuarial retained hypothesis for 2016 are inflation rate (1.80%), staff turnover rate, salaries increase's rate (between 1.80 and 4%) and discount rate (1.60%).

The global amount of the estimated commitment amounts €81 million for the year 2016, of which €3 million have already been paid to the retirement's funds managed by an insurance company as at December 31, 2016.

€ millions	2016	2015
Present value of the commitments	81	66
Market value of the assets of the fund	(26)	(22)
Deferred items <sup>(a)</sup>	(49)	(38)
<b>PROVISION IN THE BALANCE SHEET</b>	<b>6</b>	<b>6</b>

(a) Deferred items include actuarial losses or gains.

#### Jubilees

The commitment towards employees regarding the allocation of monetary benefits, in return of a number of years of work, in application of labor regulations, collective agreements,

professional union agreements, has been subject to an evaluation as at December 31, 2016 under a retrospective method, with an actualization of 1.60% and amounts €3 million.

€ millions	2016	2015
Present value of the commitments	3	3
<b>PROVISION IN THE BALANCE SHEET</b>	<b>3</b>	<b>3</b>

**Retirement benefits**

The commitment towards the employees regarding the retiring allowance for each retirement has been subject to an evaluation

as at December 31, 2016 under a retrospective method, with an actualization rate of 1.60% and amounts €45 million.

€ millions	2016	2015
Present value of the commitments	45	41
Deferred items <sup>(a)</sup>	(22)	(20)
<b>PROVISION IN THE BALANCE SHEET</b>	<b>23</b>	<b>21</b>

(a) Deferred items include actuarial losses or gains and past services costs.

**Expenses for the year**

€ millions	2016	2015
Cost of past services during the year	(6)	(6)
Interests expense on discounting	(2)	(2)
Paid contributions	6	6
Paid services	5	5
Actuarial losses (gains)	(3)	(4)
<b>COST OF THE YEAR</b>	<b>0</b>	<b>(1)</b>

**16.2 Average number of employees**

Breakdown of average number of employees	2016	2015
Managerial personnel	1,405	1,369
Supervisors and employees	999	1,150
Production	620	640
<b>TOTAL</b>	<b>3,024</b>	<b>3,159</b>

**16.3 Compensation of executives**

€ millions	2016	2015
<b>Executives bodies <sup>(a)</sup></b>		
Compensation received <sup>(b)</sup>	2	2
Length-of-service award payable on retirement (actuarial value)	1	
Supplementary retirement benefit obligations (actuarial value)	22	12
Value of performance share rights granted during the year <sup>(c)</sup>	2	2
<b>TOTAL</b>	<b>27</b>	<b>16</b>
<b>Administrative bodies</b>		
Compensation received	1	1
<b>TOTAL</b>	<b>1</b>	<b>1</b>

(a) Composed of two corporate officers since December 6, 2016.

(b) Compensation paid by Essilor or any other consolidated subsidiary.

(c) The amounts indicated are the fair-value accounting amounts of the options and stocks in accordance with IFRS. These are, therefore, not real amounts which may be realized upon acquisition of the stock, if vested. It should also be noted that awards of shares are subject to employment and performance conditions.

## NOTE 17.

### EVENTS SUBSEQUENT TO THE END OF THE FISCAL YEARS

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#### Combination of Essilor and Luxottica (excerpt from January 16, 2017 news release)

Essilor and Delfin, the majority shareholder of Luxottica Group, announced on January 16, 2017 the signing of an agreement designed to create an integrated global player in the eyewear industry with the combination of Essilor and Luxottica. Intended to answer the growing needs in visual health, the new group will propose a comprehensive offering combining a strong brand portfolio, global distribution capabilities and complementary expertise in prescription lenses, prescription frames and sunglasses.

The transaction would entail a strategic combination of Essilor's and Luxottica's businesses consisting of: (i) Delfin contributing its entire stake in Luxottica (approx. 62%) to Essilor in return for newly-issued Essilor shares to be approved by the Essilor shareholders' meeting, on the basis of the Exchange Ratio of 0.461 Essilor shares for 1 Luxottica share, and (ii) Essilor subsequently making a mandatory public exchange offer, in accordance with the provisions of Italian Law, to acquire all of the remaining issued and outstanding shares of Luxottica pursuant to the same Exchange Ratio and with a view to delist Luxottica's shares.

Based on the 2015 financial statements of the two companies, the new entity would represent net revenue in excess of €15 billion, net EBITDA of approx. €3.5 billion, and more than 140,000 employees.

The transaction is expected to close in H2 2017, subject to satisfaction of several conditions precedent, including the approval of the transaction by Essilor shareholders convened for a general meeting, and by holders of double voting rights convened for a special meeting, as well as clearance from the relevant competition authorities.

#### Acquisitions

The Group is preparing to enter **Ethiopia** by signing an agreement to take a majority holding in **Sun Optical Technologies**, a prescription laboratory with revenue of just over €1 million. Completion of this transaction is subject to final approval by local authorities.

## NOTE 18. RESULTS (AND OTHER CHARACTERISTIC ITEMS) OF THE LAST FIVE FISCAL YEARS

Capital at year-end € millions	2016	2015	2014	2013	2012
Share capital	39	39	39	39	39
Number of ordinary shares outstanding	218,507,701	216,456,440	215,892,528	214,699,498	214,724,040
of which treasury shares	2,046,140	2,860,098	3,959,921	4,454,406	4,387,477

Transactions and results of the year € millions	2016	2015	2014	2013	2012
Net revenue	888	897	830	801	738
Profit before tax and calculated expenses (amortization and provisions)	722	664	750	373	445
Income tax expense	66	22	(0)	1	11
Employee profit-sharing due for the year	586	587	694	326	407
Profit after tax and calculated expenses (amortization and provisions)	237	216	216	198	185

Earning per share €	2016	2015	2014	2013	2012
Earnings per share, after tax and employee profit-sharing, but before calculated expenses (amortization and provisions), excluding treasury shares	3.03	3.01	3.54	1.77	2.06
Earnings per share, after tax and employee profit-sharing, calculated expenses (amortization and provisions), excluding treasury shares	2.71	2.75	3.27	1.55	1.94
Net dividend per ordinary share	1.50 <sup>(a)</sup>	1.11	1.02	0.94	0.88

(a) Subject to the decision of the Shareholders' Meeting of May 11, 2017.

Personnel € millions, except for average number of employees	2016	2015	2014	2013	2012
Average number of employees in the year	3,024	3,159	3,305	3,425	3,457
Total payroll	172	176	176	172	168
Total benefits	104	108	100	98	97

## 3.9 Statutory Auditors' Report on the financial statements

### For the year ended December 31, 2016

*This is a free translation into English of the Statutory Auditors' report issued in French and it is provided solely for the convenience of English-speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered*

*for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- ▶ the audit of the accompanying financial statements of ESSILOR INTERNATIONAL;

- ▶ the justification of our assessments;
- ▶ the specific verifications and information required by law.

These 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 financial statements

We conducted our audit in accordance with professional 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates

made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

### II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- ▶ your Company's balance sheet show financial assets for a net amount of €7,351 million. Note 1.6 «Accounting principles – Financial assets» to the financial statements sets out the recognition methods applied to financial assets as well as the

approach used to measure their impairment. We examined the methods used and assessed the reasonableness of the estimations made by your Company to measure these assets.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to 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 financial statements.

Concerning the information given in accordance with the requirements of Article L.225-102-1 of the French Commercial Code (Code de commerce) relating to remuneration and

benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Courbevoie, March 3, 2017

The Statutory Auditors  
*French original signed by:*

**PricewaterhouseCoopers Audit**  
Olivier Lotz

**Mazars**  
Daniel Escudeiro

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SOCIAL,  
ENVIRONMENTAL AND  
SOCIETAL INFORMATION





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# IN BRIEF

## FOREWORD

“Engaging with all our stakeholders and innovating constantly, on a large scale, to develop new products and business models that help meet the world’s vision protection and vision correction needs have been the cornerstones of our success for close to 170 years. Essilor’s mission to improve lives by improving sight, combined with the company’s unique principles and values, are at the heart of the Group’s long-term commitment to sustainable development. Our 64,000 employees are driven by the desire to contribute to a constantly developing society and to help tackle social and ecological issues. Since 2013, Essilor’s Mission Division has been the standard-bearer of this commitment. Our inclusive business models and philanthropic initiatives reached a milestone this year when we provided access to eyeglasses to more than three million people previously excluded from any kind of vision care. Essilor is also fully committed to the United Nations 2030 Agenda. In 2016 we assessed the extent to which our Mission, our social and environmental objectives, and our value chain contribute to the Sustainable Development Goals. What we learned validated our sustainable development roadmap and highlighted the Group’s major positive social impact.

Our strong growth in recent years and our leadership position constantly encourage us to raise our standards ever higher in terms of our commitment to working responsibly. This year, we stepped up our initiatives in key areas such as human rights and climate change adaptation, and set a clear roadmap based on the main pillars of our sustainable development strategy. These are presented in detail in this document. Lastly, we have continued to improve the organization of our non-financial reporting so that we can evaluate our actions and report on our progress on an ongoing basis. We are proud that our approach has been recognized by the most stringent non-financial-assessment bodies, and namely the Dow Jones Sustainability Indices, World and Europe which included Essilor in 2016.

For all of these reasons, I am pleased to renew our long-term commitment to the ten principles of the UN Global Compact, both in our strategy and in our day-to-day operations, and to share our progress in this chapter of our 2016 Registration Document. ”

**Hubert SAGNIÈRES**

Chairman and Chief Executive Officer

As of December 31, 2016, Essilor was included in the following non-financial indices: DJSI World & Europe, MSCI World ESG & SRI and World Low Carbon Leader, FTSE4Good, STOXX Global ESG Leaders, ECPI Leaders and Ethibel Sustainability Indices Excellence Europe & Global.

Essilor also participates voluntarily in the disclosure of CDP, an international, independent non-profit organization that assesses companies’ efforts to measure and reduce their greenhouse gas emissions and water footprint. In 2016, the CDP recognized the ongoing progress made by Essilor in these areas, rating it B for carbon footprint management and A- for efficient water use.

In addition, US magazine Forbes ranked the Group among the World’s Most Innovative Companies for the sixth year running and Essilor named n°5 in Newsweek’s 2016 Green Ranking.



INTRODUCTION

## 4.1 Essilor's approach to sustainable development

### 4.1.1 The value chain and stakeholders

Essilor's approach to sustainable development is based on consideration of the environmental, social and societal impacts of its business activities on the various stakeholders along the value chain.

#### Value chain

Throughout the Essilor value chain, from product design to marketing, the Company's business activities impact on the environment and on society at large. The nature and magnitude of these impacts differ according to the Group's five main business activities:

- ▶ **production plants:** The Group has 33 production plants across 17 countries. Each year, they produce more than 500 million lenses via lens polymerization or resin injection molding. The production plants account for the majority of direct environmental impacts because of the chemical products and raw materials that they use, the energy they consume, the emissions they generate and the waste they produce. Given the concentration of impacts, Essilor places the emphasis on environmental actions, with the management of water and energy and the processing of waste, as well as on occupational health and safety measures;
- ▶ **distribution centers:** Essilor has 16 distribution centers in 13 countries. Situated close to manufacturing units, the role of these centers is to coordinate the logistics flows between suppliers and customers. Most of the impacts of these centers are therefore felt in terms of greenhouse gas emissions from transportation (air and road freight, etc.). Furthermore, the high concentration of employees and the nature of their activities also demand extreme vigilance in terms of occupational health and safety;
- ▶ **prescription laboratories:** The Group has 490 laboratories, edging facilities and local distribution centers which are major sources of local jobs. As the final link in the value chain, surfacing and coating finished lenses before they are marketed to professional customers, prescription laboratories are crucial for ensuring product quality and conformity. The environmental footprint of the prescription laboratories is fragmented and limited, and derives primarily from the use of chemical products and the consumption of energy and water;

- ▶ **optical retailers and chains:** The Group is a supplier for optical retailers and chains worldwide and sells optical products online (contact lenses, prescription eyeglasses and sunglasses) through several local websites, serving a rapidly expanding global distribution channel;
- ▶ **operating, R&D and administrative divisions:** A limited portion of the Group's employees works in registered offices, R&D centers, and operating and administrative divisions. While the social impact of these facilities is very significant, the environmental impact is low (energy from buildings, paper, greenhouse gas emissions associated with business travel, electrical and electronic waste, etc.).

See Section 1.3.1.3 of this document.

#### Ecosystem

Essilor has daily interaction with a whole host of stakeholders throughout the world. Engaging with them is therefore at the heart of the Group's sustainable development strategy. Essilor strives to understand each component of its value chain and to adapt to the constant evolution of its ecosystem. As the significance and handling of social and environmental issues differ between countries, relations with stakeholders are generally managed locally, under the responsibility of the senior management of the legal entities. Essilor has introduced a "guide to partnership" for its business partners that delineates Essilor's role and responsibilities and those of the partner, facilitating transparent and effective working relations. Moreover, all employees are actively encouraged to apply the Essilor Principles and Values in their interactions with stakeholders.

Depending on the stakeholder concerned, Essilor's dealings with them have a variety of objectives:

- ▶ to listen, by setting up a consultation process for the purpose of anticipating developments in business, the market and regulations, to manage risks and to identify opportunities;
- ▶ to engage in dialogue in order to involve stakeholders in strategic decisions, through customer satisfaction surveys, employee opinion polls, organizing forums and training, etc.;



# 4

## SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

### 4.1 Essilor's approach to sustainable development

- ▶ to inform, by providing reliable factual data via different kinds of communication tools adapted for each stakeholder (brochures, website, annual reviews, questionnaire responses, various requests, etc.);
- ▶ to contribute to development by conducting partnership projects, particularly in the fields of health and the environment, with support for patients' associations, humanitarian aid programs and partnerships with universities.

Stakeholder relations are therefore key for the Group, as they bring and create positive impacts. The new issues arising from their needs and viewpoints fuel the Group's strategy and operations. Essilor is aware of what is at stake and strives for continuous improvement to maintain a relationship of trust with its stakeholders. The Group documents and addresses its stakeholders' main concerns. The table below presents the key points.

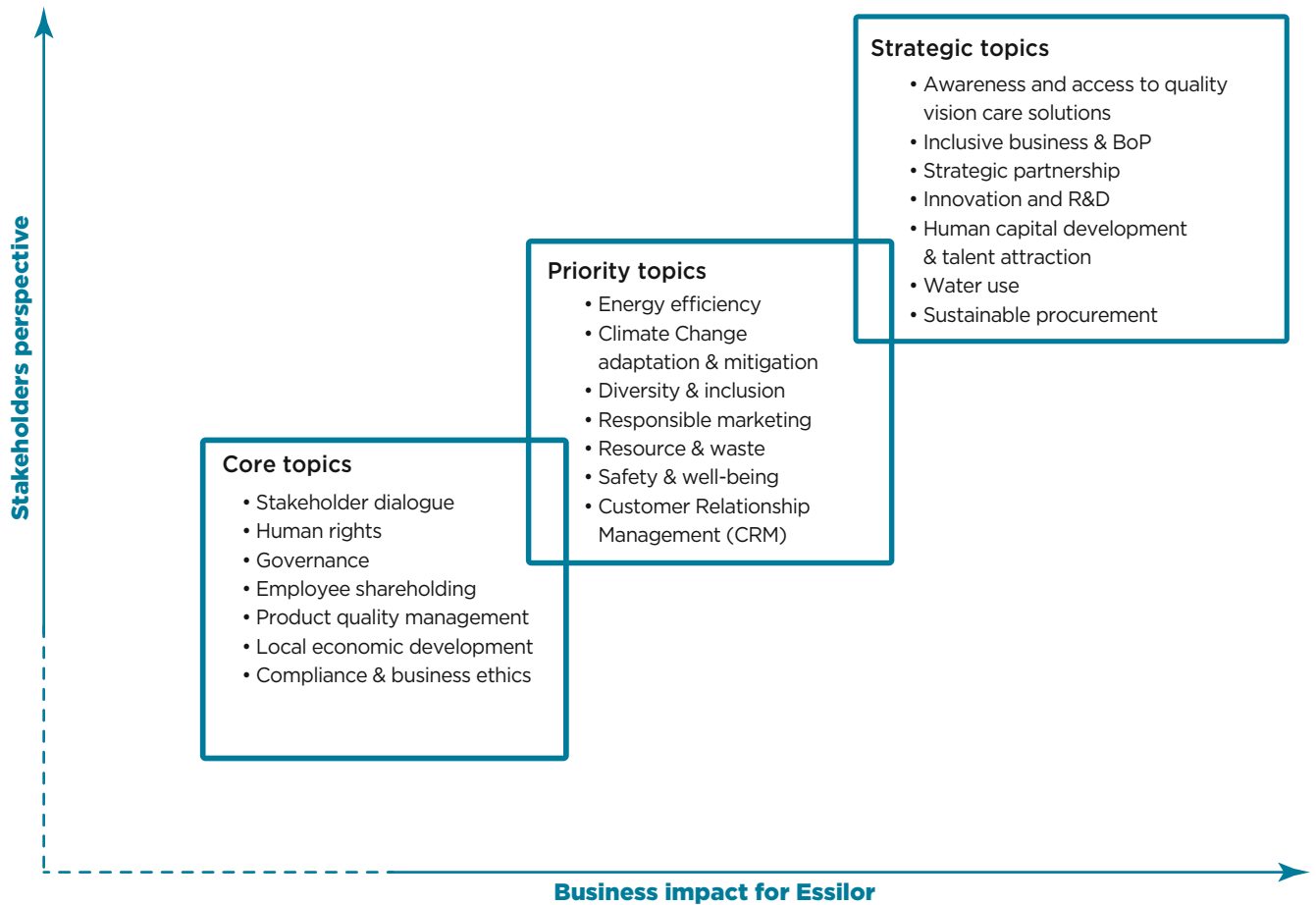
Main stakeholders	Main issues
Employees & representative organizations	Quality of working conditions Recruitment / Attracting and retaining talent Skills development Equal opportunities, diversity and inclusion
Business partners	Shared commitment to social and environmental concerns Collaboration on innovation and development Integrity in business relations
Clients & Prescribers	Offering high quality, innovative products Responsible marketing / Transparency and validation of the benefits of Essilor lenses Integrity in business relations Sustainable purchasing
Consumers	Product quality and efficiency Sustainable purchasing Innovation to cater for new visual health needs resulting from societal trends (digitalization, urbanization, etc.)
Shareholders, investors and rating agencies	Governance Transparency and evaluation of non-financial activity Management of CSR risks
Suppliers	Integrity in business and adherence to regulations Constructive collaboration Sustainable procurement & supplier CSR audit
NGOs and consumer organizations	Dialogue & Partnership Communication – Transparency (on social initiatives, environmental footprint, product performance, etc.) Sponsorship & philanthropy
Educational institutions	Cooperation for research and innovation Attracting and developing talent
Public authorities & governments	Social and economic impact Contribution to visual health and the inclusive economy Fair business practices Dialogue & Education
Local communities	Quality of life: Provide quality vision for all Social and economic impact (jobs, support for the local economy and inclusive business) Raising awareness

4.1.2 Essilor’s sustainable development priorities

**Materiality assessment**

For the past two years, the Group has based the definition and development of its sustainable development strategy on a materiality assessment in order to continually anticipate and prioritize stakeholder requirements, identify new risks and opportunities related to social and environmental issues, focus reporting and non-financial publications on the overarching issues, and ensure the Group’s reporting further complies with international standards.

In 2016, regulatory changes and input from our stakeholders (key customer accounts, investors, new UN development targets, etc.) confirmed the priority and strategic direction of the actions undertaken by the Group Mission Division, strengthened the need for sustainable purchasing, and highlighted three main issues: the circular economy (see Section 4.5.5), climate change (see Section 4.5.4) and human rights (see Section 4.6.2). The Group has updated the materiality matrix below based on the above elements.



Note:

Strategic: key themes linked to the development of Essilor business model.

Priority: key subjects for Essilor’s short, medium and long term value creation.

Core: pillars of Essilor’s business culture.

# 4

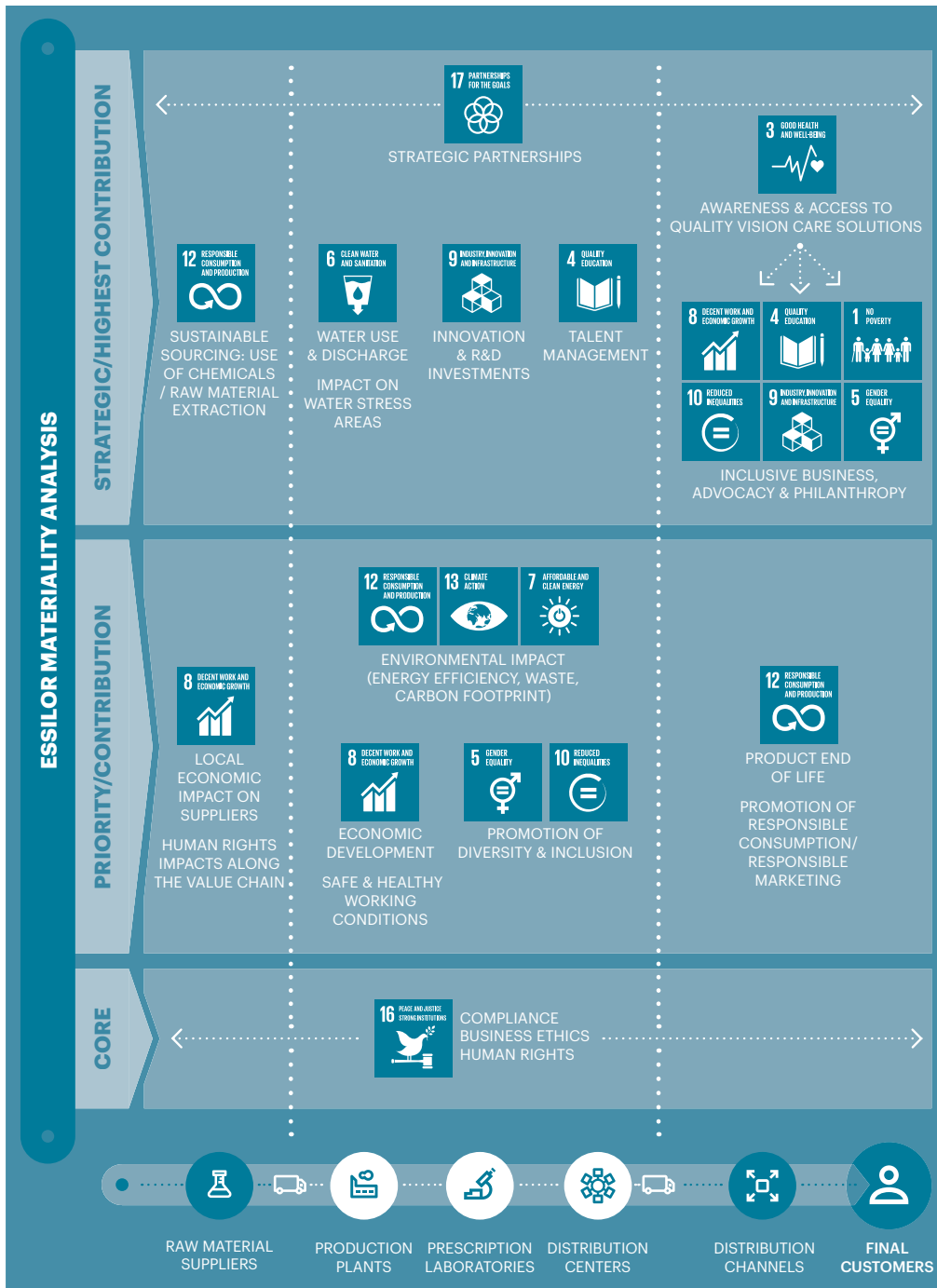
## SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

### 4.1 Essilor's approach to sustainable development

#### UN Sustainable Development Goals.

In September 2015, 193 countries adopted the United Nations 2030 Agenda for Sustainable Development. This Agenda has 17 core goals and 169 targets. The Sustainable Development Goals (SDGs), which entered into force in January 2016, are a global call for action to eradicate poverty, protect the planet and ensure prosperity for all. The involvement of civil society, the private sector and ordinary citizens is crucial to the success of these goals.

Essilor is fully involved in this effort through its Mission. The Group therefore assessed its contribution by mapping 13 SDGs according to two dimensions: its sustainable development program (see the materiality matrix) and its value chain.



This confirmed the Group's positive contribution to the SDGs, especially through its Mission, and validated the strategic objectives of the Group's sustainable development roadmap. See Section "Sustainability" and "Mission" on Essilor.com

**4.1.3 Sustainable development strategy and associated commitments**

On the basis of the 2016 materiality study, supplemented by an analysis of the Group's contribution to the SDGs, Essilor has strengthened its sustainable development strategy, which is still organized centered around the Group's mission and three supporting pillars, by specifying the actions it will take in certain key areas (see details on [www.essilor.com](http://www.essilor.com)):

**Group Mission: Improve lives by improving sight**

In line with its Mission, the Group is committed to the global challenge of helping to correct, protect and prevent risks to the visual health of the planet's seven billion inhabitants. To this end, Essilor has identified four levers of action: raising awareness, product and service innovation, inclusive business and strategic giving. See Section 4.3 of this document.

**1. Caring for people**

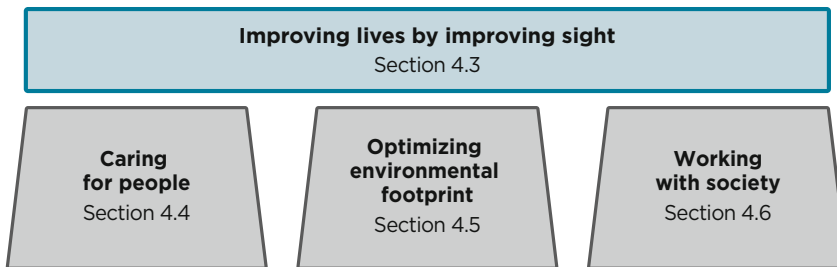
The Group's employees are the leading players in and contributors to Essilor's sustainable development. The Group's employment policy is structured around four program areas: ensuring employee health, safety and quality working conditions; training, developing skills and talents; integrating employees and all forms of diversity; and lastly, promoting employee shareholding and consulting staff through practices for dialogue between management and employees. See Section 4.4 of this document.

**2. Optimizing environmental footprint**

Despite an environmental footprint that is fragmented and limited in comparison to industrial processing activities, Essilor strives to reduce its impacts. Based on continuously improving environmental management processes, actions are focused on reducing water use, improving energy efficiency, reducing the carbon footprint, adapting to climate change and lastly, reducing and recovering waste. See Section 4.5 of this document.

**3. Working with society**

As a leader in its sector, the Group has made a commitment to introducing preventive and vigilance mechanisms to ensure respect for human rights and the rules of integrity in the conduct of business. Essilor joins forces with its suppliers in its approach to sustainable development via a policy of sustainable purchasing and also gets involved with local communities to contribute to their development. Furthermore, Essilor takes care to market products with stated levels of quality and performance that meet customers' needs most effectively. See Section 4.6 of this document.



## 4.2 Governance and management of sustainable development

### 4.2.1 The CSR Committee

Set up in 2013, the CSR Committee reports directly to the Board of Directors. It is chaired by an Independent Director and comprises three members (the Chairman and Chief Executive Officer and two Directors). The Chief Mission Officer is also invited to attend meetings as a guest.

The CSR Committee met three times in 2016, with an attendance rate of 100%. In its supervisory role, it was consulted primarily on:

- ▶ the progress made in "Essilor's Mission" Department activities and, in particular, the development of new, innovative, inclusive business models through the "2.5 New Vision Generation" entity;
- ▶ the review of the sustainable development strategic roadmap and the key measures to be implemented;
- ▶ the evaluation of the direct and indirect economic and societal impacts of Mission activities;
- ▶ the perception of Essilor's non-financial performance by recognized appraisers;
- ▶ the assessment of the main CSR risks;
- ▶ the review of the reports published regarding CSR and especially pursuant to regulatory obligations under the French Grenelle 2 law.

See Section 2.2.2.6 of this document.

### 4.2.2 The Sustainable Development Department

Essilor has opted for a strong management support to drive environmental, social and corporate governance challenges. Accordingly, the Sustainable Development Department reports to the Chief Mission Officer, who in turn reports directly to the Chairman and Chief Executive Officer.

The role of the Sustainable Development Department is to coordinate the associated actions taken by the various functional departments (Environment-Health-Safety, Human Resources, Marketing, etc.) and the three main geographic areas of North America, Europe and the rest of the world (Asia / Latin America / Middle East / Russia / Africa), with the following main responsibilities:

- ▶ define and deploy Group Sustainable Development program;
- ▶ steer the non-financial reporting and lead the community of correspondents in various countries and functions;
- ▶ provide expertise to Group entities in their deliberations on CSR, the implementation of associated action plans and responding to questions from key accounts or other stakeholders;
- ▶ communicate on Essilor's initiatives, contribute to the public debate on the challenges of sustainable development and engage in dialogue with stakeholders;
- ▶ engage employees in the approach to sustainable development through training and employee recognition measures (e.g., EHS Awards).

The Sustainable Development Department oversees a Global Steering Committee that brings together all the major functional and geographic divisions to coordinate the deployment of the Group's sustainable development roadmap, report best practices and discuss cross-cutting issues such as human rights, reporting, and responsible marketing.

Lastly, the Sustainable Development Department is regularly consulted by the CSR Committee.



### 4.2.3 Organization of non-financial reporting

The aim of non-financial reporting is to provide Essilor with a tool for managing and measuring the effectiveness of its sustainable development program, as well as ensuring compliance with the French Grenelle 2 law and with the principal CSR reporting standards.

#### Organization and protocol

Essilor collects environmental, social and societal data using a software application named "Sustainability" that replicates the structure of the Group's unified financial reporting system. "Sustainability" has similar procedures for consolidating financial information and a specific glossary outlining the indicators and their definitions. A network of multidisciplinary contributors (from Human Resources Department, Environment-Health-Safety Department, etc.) reports information, which is reviewed by the Financial Departments of each entity and then checked and consolidated at Group level by the Sustainable Development Department.

A non-financial reporting campaign is organized annually to consolidate data from different departments. In 2016, the reporting protocol, that describes the reporting process and the definitions of associated indicators, was updated to take account of regulatory changes (Update of Grenelle 2 law, Article 173 of the French law on energy transition for green growth) and stakeholder requirements. New environmental and social indicators have been created and all definitions harmonized so that non-financial performance can be better managed and appraised. In addition, the protocol is now available in five languages, French, Chinese, English, Portuguese and Spanish, to facilitate the work of subsidiary staffs and improve data quality. See Section 4.7 of this document.

#### Scope of reporting

The reference scope of reporting is currently all Essilor entities and subsidiaries that have been in the Group for more than one year. Against a backdrop of strong growth, the Group is continuing to gradually integrate recent financially consolidated companies to its non-financial reporting scope.

The Group made considerable progress in this area in 2016, most notably by incorporating recently acquired entities. The coverage rate is now 91.9%, expressed as full time equivalent employees (FTEs), exceeding its goal of 85% by 2017. See Section 4.7 of this document.

#### Reporting period

To optimize the organization, coordination and integration of financial and non-financial reports, Essilor collected the majority of its social, environmental and societal information over a period of 12 months from October 1, 2015 to September 30, 2016. However, certain information was collected during the calendar year from January 1, 2016 to December 31, 2016; this is followed in the text or the indicator tables by a superscript at sign<sup>(®)</sup>.

#### Compliance and standards

Essilor has made public its social, environmental and societal information since 2002, in accordance with the French NRE law of May 2001. The Group has been compliant with the Article 225 of the French Grenelle 2 law since 2012 and continues to follow the guidelines of the Global Reporting Initiative Standards. See Section 4.7 of this document.

The information presented in this chapter has been reviewed by KPMG, a Third-Party Independent Organization, in accordance with the regulations related to Article 225 of the Grenelle 2 Law. See in Section 4.8 of this document the Report of the Independent Third-Party Organization for further details.

## ESSILOR MISSION

## 4.3 Improve lives by improving sight

Providing everyone, everywhere, with access to quality vision care is Essilor's biggest challenge in terms of sustainable development. This challenge lies at the point of intersection between the Group's economic activity and its social contribution with the major positive impacts on the quality of life that comes with better vision.

This Mission **to improve lives by improving sight** encourages the Group to keep serving more countries and people to ensure equal access to vision care for all.

Accordingly, Essilor designs, manufactures and markets an extensive range of vision care solutions intended to correct, protect and prevent risks to visual health for the planet's seven billion inhabitants. Action on four fronts helps to fulfill this Mission: 1) make as many people as possible aware of the importance of good vision; 2) innovate responsibly for current and future customer needs; 3) develop inclusive business models; and lastly, 4) drive strategic giving initiatives.

### 4.3.1 Raising awareness of the importance of good vision

The main reason that large numbers of people are lacking the visual correction they need is primarily a lack of awareness of vision problems: many of them have never had an eye test or been able to see properly.

To address this, Essilor is investing at local, national and international level to raise awareness of the importance of visual health. The measures adopted take the form of:

- ▶ public events, such as "Think About Your Eyes™" in the United States and the United Kingdom, organized in partnership with players in the sector or directly by local Essilor entities. In 2016, several campaigns were conducted, especially in India and the United Kingdom, to raise public awareness of the importance of good vision for driving;
- ▶ creation of consumer information websites to educate on the importance of regular eye tests, protecting one's eyes from the damage caused by UV light (e.g. [www.eyes-and-sun.com](http://www.eyes-and-sun.com)), and how to choose frames to suit one's face (e.g. [www.mavumeslunettes.fr](http://www.mavumeslunettes.fr));
- ▶ regular eye exam campaigns, arranged at local level by Essilor subsidiaries or by the Group's philanthropic organizations. In addition, the Group contributes to World Sight Day each year, organizing events and public information campaigns. On World Sight Day in 2016, Essilor led a global campaign called "Love to see change™" ([www.lovetoseechange.com](http://www.lovetoseechange.com)) in more than 50 countries;
- ▶ support for initiatives for gathering statistical data to convince governments to invest in programs to improve visual health. In 2016, Essilor joined the ranks of the new Eyelliance coalition, contributing to a report published by the World Economic Forum. This report demonstrated that investing in access to vision correction would lead to considerable gains in terms of economic and social development, entirely in line with the SDGs.

In 2012, Essilor lent its support to the founding of the **Vision Impact Institute**. The Institute's aim is to highlight the importance of visual health and the benefits of proper visual correction in everyday life (in academic achievement, social integration, business productivity, etc.). Its mission is to examine and then communicate the results of relevant scientific studies and to work with networks of influence to guide changes in public health policy.

The Institute is governed by a consultative committee of four independent members focusing on two objectives: to accelerate the production of new studies on visual health, particularly in areas where there is a dearth of data, and to reach an ever-broader audience on these topics.

Since it was founded, the Institute has launched a website – [www.visionimpactinstitute.org](http://www.visionimpactinstitute.org) – providing a single database of 200 peer-reviewed reports and studies to prove the need for advances in visual correction and visual health in general. This year, 66 new studies were published and the website was translated into a new language, Spanish, in addition to the English, Chinese and Portuguese versions already available.

In 2016 the Institute was actively engaged in raising awareness among the global population of the importance of visual health. Its work is illustrated in the following two examples:

- ▶ in India, the Institute supported media events that led to dialogue with government departments on conducting awareness programs for students and drivers;
- ▶ in the United States, the Institute created a multi-stakeholder partnership called "Kids See: Success", aimed at providing every child with an eye exam prior to entering kindergarten.

### 4.3.2 Sustainable innovation to cater for customers' current and future needs

Innovation is the linchpin of the Group's growth strategy and central to Essilor's model. It is a major differentiating factor and applies to products, services, business models and governance structure. As such, it characterizes the unique way the Group carries out its Mission.

To respond to market trends in visual health driven in particular by a number of major social trends (population aging, use of digital technology, new "Base of the Pyramid", or BoP, consumers, etc.), Essilor devotes a significant proportion of its revenue to research and innovation each year. In 2016 it spent €214 million before research tax credits.

The Group's research is focused on understanding the needs of consumers and professional customers from the optical industry across the three dimensions of visual health, which are: visual correction, the protection of eyes and the prevention of eye diseases. The structure of Essilor's global R&D organization comprises five Centers for Innovation & Technologies, at the heart of the major current and future markets and close to centers of international expertise. It operates as a collaborative, creative network, fostering synergies, speeding up execution and promoting the emergence of new applications. This approach has resulted in Forbes magazine ranking Essilor as one of the 100 most innovative companies in the world for the sixth consecutive year. See Section 1.5.3 of this document.

Essilor has expanded its culture of global innovation through gradual integration of the challenges of sustainable development. For the Group, as well as being compliant with regulations, innovation must be:

- ▶ **Collaborative.** This means that stakeholders (universities, research centers, suppliers, customers, professional associations, etc.) can be involved from design through to the launch of the innovation. Essilor has developed more than 20 partnerships with universities and public research organizations, including the Vision Institute in Paris, CNRS, Inserm, Polytechnique Montréal, and the universities of Shanghai and Wenzhou in China. The Group has also formed joint ventures with other manufacturers, such as Nikon in Japan with Nikon-Essilor International Joint Research Center (NEIJRC). In addition, the Group relies on open innovation, such as the See Change Challenge launched in 2016 by its 2.5 New Vision Generation™ program. See Section 4.3.3 of this document;

- ▶ **Eco-designed.** Essilor endeavors to develop products with an ever-reducing impact on the environment by analyzing the product's life cycle, giving preference to eco-design, working with its suppliers (purchasing raw materials with less environmental impact, low-carbon logistics, etc.) and optimizing the production processes. For example, Essilor now only promotes lighter, more resistant and more environmentally friendly corrective lenses that are manufactured from thermosetting resins or thermoplastic materials. As such, the Airwear® corrective lenses are made from a material that can be recycled at the end of its life cycle to produce items other than corrective lenses. Furthermore, no new chemical component requiring toxicology tests is used in the Group's innovations. Lastly, Essilor does not conduct any tests on animals;
- ▶ **Transparent.** To guide end users in their choices as effectively as possible, Essilor is careful to provide high quality, relevant information on new products. By working with visual health professionals, training them and providing them with technical documentation and informative materials, Essilor ensures that its products are promoted in a compliant way. See Section 4.6.4 of this document;
- ▶ **Accessible to all.** For the Group, any innovation must support its Mission. New products are therefore developed to address specific or even local issues (such as population aging, the emergence of a middle class in high-growth countries, or the development of digital technology) and reach as many people as possible. To provide more complete protection against harmful blue light and UV, both of which contribute to age-related vision loss, the Group introduced the Eye Protect System™ innovation in 2016. This innovative system integrates filtering properties directly into the lens itself for maximum protection. For the 2.5 billion people without visual correction living mainly in emerging countries with limited visual health structures and complex logistics chains, Essilor has developed Ready-to-Clip™, a range of symmetrical, interchangeable lenses that can be fitted instantly in a wide range of frames. This enables consumers on low incomes to buy an affordable pair of glasses locally, immediately after their eye test, avoiding any issues with logistics and order tracking.

### 4.3.3 Development of inclusive business models

A large number of individuals suffer from poor vision because they cannot access eye care professionals in the rural communities or urban areas where they live.

Reaching people on low incomes, often designated as Base of the Pyramid (BoP) consumers, requires a totally different and innovative approach in terms of products, pricing and distribution. Training micro-entrepreneurs in primary vision care is one of the

keys to expanding access to good vision. It also helps create local jobs and combat poverty.

The challenge is to find sustainable economic models that will continue to support communities as they develop and their correction needs evolve.

Since 2013, Essilor has leveraged significant resources to develop and roll out solutions that focus on empowering local

# 4

## SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

### 4.3 Improve lives by improving sight

communities, by transferring skills and creating jobs that require qualified labor and setting up infrastructures where basic vision care can be dispensed. These solutions imply close collaboration with local organizations, hence Essilor is co-constructing partnerships with NGOs, social entrepreneurs and regional or national governments for its inclusive business models. This provides the Group with a better understanding of local needs and obstacles to build a framework for ensuring long-term sustainability projects. The Group aims to improve 50 million lives at the BoP by 2020.

To this end, Essilor has created two dedicated complementary structures:

- ▶ **the “BoP Innovation Lab”**, supported by the Singapore Economic Development Board, evaluates and provides advice on inclusive business models. As an incubator, it helps to accelerate projects and to strengthen relationships with social enterprises, foundations and public and private development funds. It works in close collaboration with Essilor’s inclusive business structure, 2.5 New Vision Generation™ (see paragraphs below), on selecting programs, evaluating their social impacts, any adaptations that may be necessary and the development of new products, solutions and business models in line with the needs of BoP consumers. In 2016, Essilor launched an open innovation challenge to develop new technologies for measuring visual defects in populations lacking access to vision correction. The challenge led to collaboration between the Group’s entire ecosystem (startups, universities, application developers, eye care professionals, etc.) in a bid to develop low-cost, easy-to-use and easy-to-deploy solutions in 2017;
- ▶ **the “2.5 New Vision Generation™” (“2.5 NVG”)** business structure leverages dedicated sales and logistics teams in

key geographical areas of Asia, Latin America and Africa. It focuses on the adaptation and local deployment of solutions for BoP customers so as to create an initial network of infrastructure and vision care micro-entrepreneurs (“Primary Vision Care Providers”). These poorly served communities often lack access to vision care facilities. Essilor’s goal is to create 25,000 primary vision care providers by 2020. This implies agile, scalable business models. For example, in India, where the 2.5 NVG structure originated, Essilor has developed the Eye Mitra™ (“friends of the eyes” in Sanskrit) program with the aim of training under-employed villagers as vision technicians. They receive training and the equipment needed to start a “micro-business” carrying out eye exams and dispensing eyeglasses for the inhabitants of rural or semi-urban areas. In 2016 there were 2,500 Eye Mitra™ partners. An impact assessment highlighted the major socio-economic contributions of this program (see Section 4.6.5), which also won the award for best sustainable development film in the “Transforming Society” category at the tve’s Global Sustainability Film Awards in the United Kingdom in 2016.

Based on the expertise acquired from the Eye Mitra™ program, the 2.5 NVG teams also developed the Vision Ambassador™ program, which is designed to train individuals to screen for near-vision problems in adults over the age of 45 and sell over-the-counter reading glasses as a complementary business. At the end of 2016, the program had more than 1,000 partners of Vision Ambassador™ in five countries: China, Brazil, India, Vietnam and Ivory Coast.

In 2016, the 2.5 NVG structure ramped up its development and now distributes its products across 30 countries, thereby increasing its impact. Almost 2.2 million people were fitted with eyeglasses, compared with 1.2 million in 2015 and 300,000 in 2014.

#### 4.3.4 Strategic giving

Essilor continued to deploy its philanthropy initiatives around the world in 2016, considering that it is a duty to provide the most disadvantaged individuals, who live below the international poverty line, with the vision care that they need.

Essilor’s philanthropic activities include awareness-raising campaigns, eye exams, donations of lenses and frames, and funding for local programs led by charities, health care voluntary organizations or institutional partners. As such, the Group works with many NGOs, including Lions Clubs International, Brien Holden Vision Institute, Optometry Giving Sight, Samusocial de Paris, Secours Populaire Français, Sight Savers, Standing Voice, and Orbis International.

To carry out these various initiatives through to completion, the Group has established a Foundation (Essilor Vision Foundation), with legal entities in seven countries and in 2015 launched the Vision For Life™ funds in France and in the United States which finance programs around the world with long-term impact. The Group’s goal for 2020 is to provide €30 million in funding to philanthropy programs related to access to vision care.

In 2016, thanks to the Group’s own philanthropic initiatives and those of its partners, some 150 programs in almost 50 countries provided vision screenings for over one million people and eyeglasses for 300,000. One thousand Group employees were involved in this effort on a volunteer basis. Group subsidiaries also donated 700,000 pairs of eyeglasses to two NGOs, Restoring Vision and Kids Right to Sight, taking the total number of beneficiaries of free eyeglasses to more than a million in 2016.

#### Essilor Vision Foundation™

Following the establishment in 2007 of the Essilor Vision Foundation in the United States, the Group extended its impact by establishing foundations in India, Singapore and China. In 2016 the Foundation was established in Canada, Australia and New Zealand.

Some examples of projects in 2016:

- ▶ in the United States, one child in four has a vision problem that affects learning. According to the Center for Disease Control and Prevention, vision impairment is one of the most common disabling conditions in children in the United States. The Foundation operates in every state through more than 50 partnerships with other NGOs and works with more than 900 schools to bridge the gap between vision care needs and vision care access. One of its flagship programs, Kids Vision For Life™, provides direct vision care in schools by offering eye exams. A mobile clinic with facilities to create eyeglasses on-site means that most students leave with their own pair of eyeglasses the day of the exam. Every year, more than 30,000 students have free access to this service;
- ▶ in China, the Essilor Foundation rolled out a number of programs aimed at children in 279 schools in five provinces and provided eye exams to more than 200,000 children. The "Eye Do" program, designed to train teachers to conduct a vision diagnosis, was awarded the prize for best philanthropy program by the China Charity Festival;
- ▶ in India, 300,000 people in 15 provinces were given free screening, including 175,000 children. Almost 100,000 individuals received UV protection equipment in the most exposed areas;
- ▶ for the rest of the Asian region, the Foundation rolled out programs in nine countries, raising awareness and providing free vision screenings to more than 100,000 people;
- ▶ lastly, in Australia and New Zealand, more than 30 initiatives were conducted in schools, with almost 3,000 children screened for vision problems. These initiatives were reported by local media and helped educate millions of people about the importance of good vision for academic success.

Meanwhile, under the Special Olympics Opening Eyes global program supported by Essilor, the Special Olympics and Lions Club International, the Essilor Foundation has screened more than 180,000 children with intellectual disabilities since 2002. In 2016, a total of 139 events took place around the world, with more than 24,000 athletes screened. More than 12,000 of them received eyeglasses and 11,000 received sunglasses.

### Vision For Life™

Created in January 2015, Vision For Life™ (the Essilor Social Impact endowment fund in France and the non-profit-making Essilor Social Impact Fund in the United States) aims to accelerate initiatives that tackle the global challenge of poor vision by raising awareness, developing skills in regions with no access to the most basic visual health solutions, supporting the creation of infrastructure such as vision centers and improving access to vision care. Essilor has made an initial contribution of €30 million to these two structures, making it the world's largest strategic giving program dedicated to eliminating Uncorrected Refractive Error.

The projects to which support was provided included the following strategic initiatives in 2016:

- ▶ in France, the numerous initiatives undertaken in 2015 with health care partners, humanitarian associations and public sector organizations continued.

The emphasis was on providing help to very underprivileged populations, with partners such as the Secours Populaire Français, a non-profit organization devoted to fighting poverty and discrimination in France and beyond, and the Samusocial de Paris humanitarian emergency service. A number of awareness-raising initiatives took place throughout the year in addition to campaigns on ophthalmic examination and essential equipment in the majority of cases.

A large-scale educational campaign that also involved vision testing took place during the Salon Jeunes d'Avenirs youth career fair, educating more than 10,000 young school or college leavers about the importance of good vision for their future.

Some 2,000 young people received an eye exam at the fair, and almost 50% of them were diagnosed as having a vision problem requiring an ophthalmologic follow-up. For those with insufficient social security coverage, the program Vision for Life™ allowed them to be examined by an ophthalmologist and fitted with eyeglasses.

All of this was made possible through the establishment in 2015 of a "PASS-0" unit, which provides access to ophthalmology care for people without medical insurance, in an Adolphe de Rothschild Foundation health care center. This was supplemented in 2016 with a PASS-0 unit for the Hôtel Dieu hospital in Paris, managed by the Paris Public Hospital Network (AP-HP – Assistance Publique – Hôpitaux de Paris), with sponsorship from the Vision For Life™ program. These new facilities, the largest in France in the field of ophthalmology, have allowed 3,000 underprivileged individuals to be seen for a full vision care pathway and the provision of optical equipment if required.

Plans to extend access to facilities outside Paris and the Île-de-France region, *i.e.* to the rest of France, in the next two years are under discussion.

Lastly, a pilot project with the French Ministry of Education to train doctors and nurses at the Académie de Paris in how best to teach students, children and parents about vision has been approved and will be implemented in February 2017. It will focus on providing them with special tools to better educate all concerned about the importance of good vision for academic success;

- ▶ in Africa, projects have been carried out in six countries, including Côte d'Ivoire, Algeria, Morocco and Tanzania, as part of a three-year program signed with the British NGO Standing Voice to provide high-quality sunglasses to 4,200 albino children to protect their eyes from UV light. Forty percent of these children have been diagnosed with a fairly serious vision problem and will also receive appropriate corrective and protective eyeglasses.

Lastly, in Ethiopia, almost 180,000 individuals have been screened over the last three years under a partnership with British NGO Vision Aid Overseas and with the support of UK Aid.

## SOCIAL INFORMATION

## 4.4 Caring for people

Essilor's success is deeply intertwined with the 63,676 employees throughout the world who, irrespective of their role and the work that they do, are committed to developing and marketing the innovative products and services that contribute to the Group's Mission: to improve lives by improving sight.

With a history dating back almost 170 years, the Group has a unique corporate culture that is based on strong values established in all areas and subsidiaries of the business: entrepreneurship, respect for others and mutual trust, and a spirit of cooperation, diversity and innovation.

Through its human resources policy, Essilor also hopes to encourage the development and personal fulfillment of its employees, by offering them opportunities for growth as part of

a global, diversified, multicultural and multilocal Group. This aim entails a working environment that respects their physical and moral integrity and ensures equal treatment at all times.

By putting these conditions in place, Essilor is able to develop the employability of its staff (in particular, by making it easy for them to access training throughout their career and by broadening their roles and experience with increased autonomy and responsibility), and to attract and retain talent.

Essilor's employee shareholding structure is a key characteristic of the Group's social policy. It not only benefits employees but also shareholders by aligning their common interests regarding the Company's performance and the value created as a result.

### Total workforce and breakdown of employees by geographical area, gender, function and age

As of December 31, 2016, Essilor had 63,676 full time equivalent employees worldwide using the financial consolidation method. The average workforce for 2016 was 63,107 (full time equivalent employees corresponding to the amount reported for consolidated personnel costs for the period).

		2016	2015	2014
<b>Total workforce (FTEs) at the end of the period</b>		63,676 <sup>(a)</sup>	60,883 <sup>(a)</sup>	58,032 <sup>(a)</sup>
<b>Average workforce (FTEs) in 2016</b>		63,107 <sup>(a)</sup>	60,503 <sup>(a)</sup>	58,480 <sup>(a)</sup>
<b>Breakdown of the workforce (FTEs) "at end of period" by geographical area</b>	North America	13,476 <sup>(a)</sup> (21.2%)	12,456 <sup>(a)</sup> (20.5%)	12,105 <sup>(a)</sup> (20.9%)
	Europe	12,141 <sup>(a)</sup> (19.1%)	10,613 <sup>(a)</sup> (17.4%)	10,029 <sup>(a)</sup> (17.3%)
	Latin America / Africa / Asia / Australia / Middle East / Russia	38,059 <sup>(a)</sup> (59.7%)	37,814 <sup>(a)</sup> (62.1%)	35,898 <sup>(a)</sup> (61.8%)

Note: FTE = Full Time Equivalent employees.

	2016	2015	2014
<b>Workforce (FTEs) covered by 2016 reporting on the period</b>	57,985	51,787	40,371
<b>Reporting Coverage</b>	91.9%	85.6%	69.0%
<b>Number of employees (headcount) covered by 2016 reporting on the period</b>	61,995	51,787	40,371

Note: The workforce covered by the reporting is the average number of FTEs calculated over the period from October 1st, 2015 to September 30th, 2016.

Reporting coverage is calculated based on Group total average workforce (FTEs). Reporting coverage increased from 85.1% in 2015 to 91.9% in 2016, a significant rise due to the integration of new reporting entities.

The increase in workforce (FTEs and Headcount) reported is mainly due to the expansion of the scope of consolidation, which accounts for 18% of the total reported number of employees. Eliminating the impact in the scope of consolidation, there was no significant change in the workforce compared with the previous year.

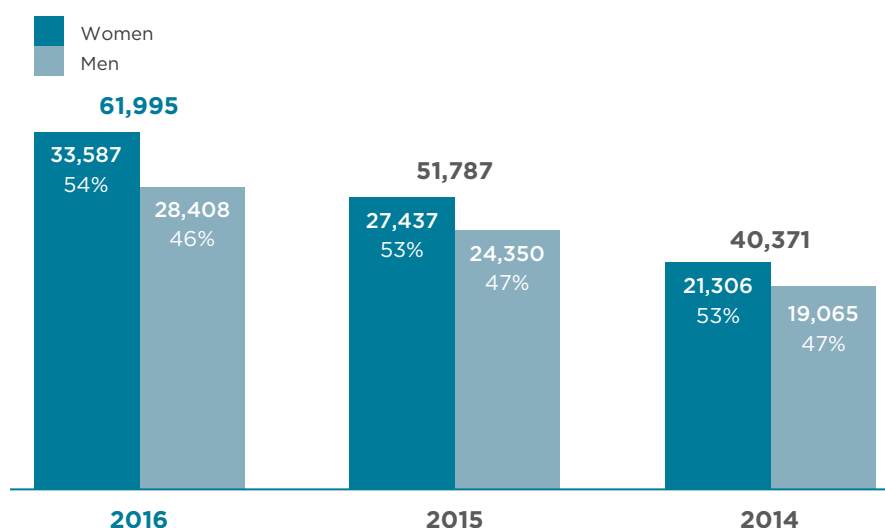
The difference between FTE and Headcount numbers of 2016 is due to the integration of one entity who has a specific business model using part time employees.

All the detail workforce information below (workforce breakdown by gender, workforce breakdown by function, workforce breakdown by age, new hires, layoffs and turnover) and reporting coverage rate per indicator are based on average number of employees (headcount) covered by 2016 reporting on the period.



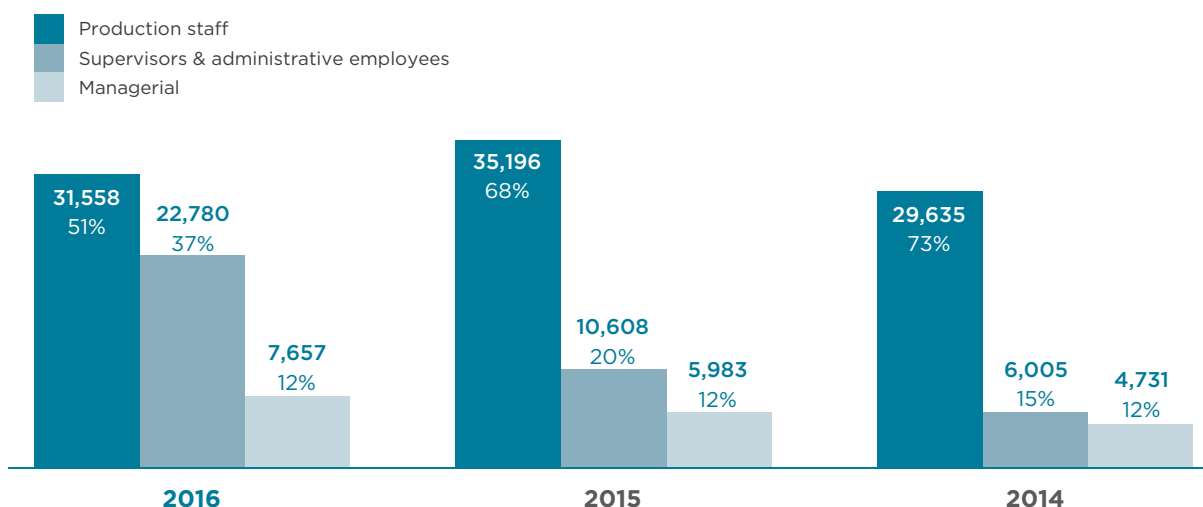
Workforce breakdown by gender

		2016	2015	2014
Breakdown of the workforce by gender (based on the workforce covered by reporting)	Women	33,587 (54.2%)	27,437 (53.0%)	21,306 (52.8%)
	Men	28,408 (45.8%)	24,350 (47.0%)	19,065 (47.2%)



Workforce breakdown by function

		2016	2015	2014
Breakdown of the workforce by function (based on the workforce covered by reporting)	Production staff	31,558 50.9%	35,196 68.0%	29,635 73.4%
	Supervisors and administrative employees	22,780 36.7%	10,608 20.4%	6,005 14.9%
	Managerial personnel	7,657 12.4%	5,983 11.6%	4,731 11.7%



Note: Workforce breakdown by function is based on the total number of employees covered by the reporting for 2016. According to the Group's definition, "Production staff" includes workers working on production sites; "Supervisors and administrative employees" includes individuals who have management responsibility and/or is employed in an office. Lastly, "Managerial personnel" comprises Executive Directors, managers and experts. The population of "production staff" has decreased compared with previous year. The decrease between 2016 and 2015 was mainly due to the lack of data from a subsidiary in Asia in 2016 reporting and an error of mis-classification from an American entity in 2015. Due to limited information of previous year, we did not restate the numbers of 2015. The population of "supervisors and administrative employees" increased significantly mainly due to the integration of a large number of non-production sites in the reporting of 2016. It is also a reflection of the enriched business model of Essilor, with the increase of sunglasses & readers distribution and online business.

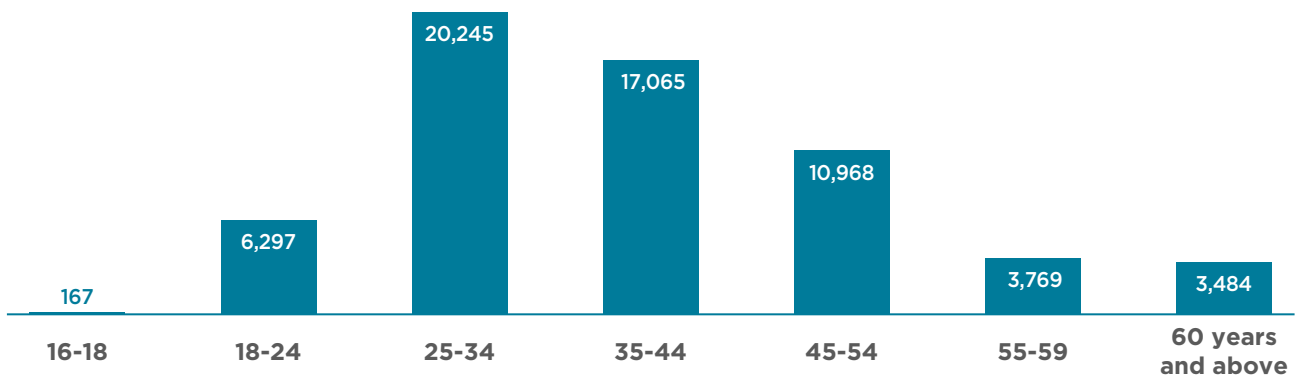
# 4

## SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

### 4.4 Caring for people

#### Workforce breakdown by age

		2016		2015		2014	
<b>Breakdown of the workforce by age group (based on the workforce covered by reporting)</b>	16 to 18 years	167	(0.27%)	161	(0.31%)	177	(0.44%)
	18 to 24 years	6,297	(10.16%)	5,644	(10.90%)	3,839	(9.51%)
	25 to 34 years	20,245	(32.65%)	16,537	(31.93%)	12,112	(30.00%)
	35 to 44 years	17,065	(27.53%)	14,179	(27.38%)	11,623	(28.79%)
	45 to 54 years	10,968	(17.69%)	8,946	(17.28%)	7,941	(19.67%)
	55 to 59 years	3,769	(6.08%)	3,341	(6.45%)	2,850	(7.06%)
	60 years and over	3,484	(5.62%)	2,979	(5.75%)	1,829	(4.53%)



Note: The reported workforce under 18 years old is mainly from entities in China and Brazil where the minimum legal working age is 16. The other, very limited, cases are trainees or apprentices whose employment is compliant with local regulation.

#### New hires, layoffs and turnover

	2016	2015	2014
<b>Total new hires</b>	14,548	NA	NA

Note: First year of publication of this indicator. Reported data are based on an identical scope to the workforce covered by 2016 reporting on the period.

	2016	2015	2014
<b>Total layoffs</b>	1,632	NA	NA

Note: First year of publication of this indicator. The reporting coverage is 98.5%.

	2016	2015	2014
<b>Voluntary turnover rate</b>	10.0%	10.0%	8.9%

Note: As part of the continuous improvement in reporting for 2016, the Group further updated its method for calculating turnover to make it more relevant and representative. Turnover rate is now calculated as a weighted average based on an expanded sample which represents 68.1% of the workforce covered by 2016 reporting. The turnover rate indicated in this document is based on voluntary departures (resignation) from the Group.

#### Salary changes

Total salaries in 2016: €2,142 million <sup>(@)</sup>  
 Total salaries in 2015: €2,045 million <sup>(@)</sup>  
 Total salaries in 2014: €1,743 million <sup>(@)</sup>  
 2016-2015 change: +4.74%

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).



**4.4.1 Ensuring health and safety with a quality working environment**

Maintaining the health of all employees and offering them a quality working environment are priorities for Essilor. This involves preventing accidents and occupational illnesses, taking measures to minimize the severity of accidents and the implementation of corrective action plans to prevent repetition. In addition to the human factor, the accident may involve significant direct costs (related to absences and temporary replacement staff, fines, contributions and increased insurance costs) and indirect costs (a drop in productivity and disruption to services). Essilor, its employees and their representatives therefore have a mutual interest in working together to reduce accidents to a minimum.

**Health and safety in the workplace**

Action plans have been implemented with specific objectives and targets for better prevention and reduction of occupational health and safety risks.

In collaboration with the Human Resources Department, the Global EHS (Environment-Health-Safety) Department, including experts in occupational health and safety, the management of chemical products and ergonomics, leads the Group’s approach to health and safety. It defines the annual targets and is supported by a network of EHS coordinators at the Group’s main sites, to whom

it provides assistance and technical operational support, such as standard procedures, action plans and on-site audits. To improve safety and reduce workplace accidents to zero, the Group aims to reduce by 30% the frequency rate by 2020.

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.

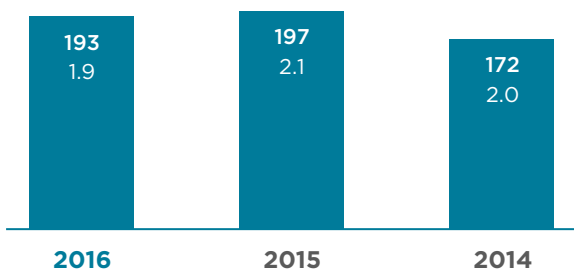
As of December 31, 2016, the production facilities in Brazil (1), China (1), the United States (1), France (2), Ireland (1), Mexico (1), the Philippines (2) and Thailand (1) were OHSAS 18001-certified. As a result, the percentage of certified environmental management systems in the Group’s upstream production plants was 83% (10/12).

The development and launch of new products now includes a new process called Stages & Gates to coordinate the work of the various departments, from design to deployment at production sites. The process includes occupational health and safety and environmental requirements in an effort to prevent occupational illnesses and accidents and reduce environmental impact. These requirements pertain to safe machines and processes, ergonomic workstations, chemicals management, regulatory aspects and change management, among other topics.

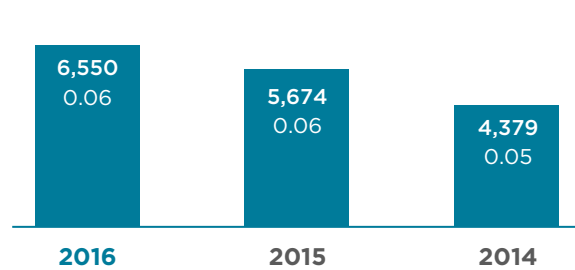
Health & safety indicators

	2016	2015	2014
Work-related injuries with lost work time	193	197	172
Work-related injuries without lost work time	333	431	338
Fatal accidents	0	0	0
Lost work days due to work-related injuries with lost work time	6,550	5,674	4,379
Frequency rate of work-related injuries with lost work time for the period	1.9	2.1	2.0
Severity rate of work-related injuries with lost work time for the period	0.06	0.06	0.05

Accidents with lost work time (Frequency rate)



Lost work days (Severity rate)



Note: Reporting of work-related injuries is based on entities where the Group Health and Safety standards and policy are applied and the reporting coverage in 2016 was 74.8% of total number of employees reported. There was a slight reduction in injury frequency rate, and severity rates of working accidents with lost work time remain at the same level.

### Occupational illnesses

Identifying and monitoring the possible occurrence of occupational illnesses is the task of each entity and the number of cases has not been consolidated due to the difference between local regulations. 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.

Because the manufacturing of lenses involves the use of numerous chemicals, including some hazardous substances, a

special emphasis is placed on chemical management with a focus on preventing employee exposure. Based on a risk assessment approach, preventive and protective actions consist of substitution programs led at Group level, engineering measures like fume and vapor extraction systems, automated filling machine or redesigned workstations, dedicated training sessions and specially adapted personal protective equipment. The effectiveness of such actions is verified by periodic sampling and analysis or via continuous monitoring, plus appropriate medical surveillance of employees.

These programs were continued in 2016.

### Absenteeism

	2016	2015	2014
<b>Absenteeism rate</b>	3.4%	5.1%	4.8%

*Note: As part of the continuous improvement in reporting for 2016, the Group further updated its method for calculating absenteeism rate to make it more relevant and representative. Absenteeism rate is now calculated as a weighted average based on the number of lost work days reported. The coverage rate of absenteeism rate is 70.4% of the total workforce covered by 2016 reporting.*

### Organization of working hours

Working hours vary considerably within the Essilor group. Each legal entity has the autonomy to decide the most appropriate working hours. For that reason, Essilor does not disclose the consolidated data regarding working hours.

The Group promotes flexibility initiatives in the organization of work (part-time, teleworking, etc.). Local decisions in terms of the organization of working hours are based primarily on adapting to customers' needs, discussions with employees and their representative bodies, compliance with local regulations and optimizing operational efficiency.

## 4.4.2 Training and the development of skills and talent

With a rapidly growing international business, a presence in emerging countries, areas of specific know-how and growth in new segments, training and the development of skills and talents are strategic challenges for the Group. It may be difficult to hire and retain trained, experienced employees, particularly in competitive areas of the labor market and in emerging countries. This situation affects all levels of employees (workers, supervisors and managers) and calls for specific measures. In consequence, such measures have a prominent role in Essilor's human resources policy.

Developing employees' skills and employability is both an essential criterion for operational efficiency to support the Group's growth, and a sustainable commitment by the employer towards its staff.

Training also supports internal mobility and helps in building fulfilling career paths, and Essilor has a strong commitment to its employees in both these respects.

Essilor created its training schemes and mechanisms for identifying and developing talent from very early on. Today, there are a number of initiatives taking place in training and talent management.

### Training and development

The Essilor group has set up a flexible and consistent training platform that aims to support the growth of the Group (e-commerce, sun, etc.) while meeting the needs of individuals and teams in terms of employability.

At the Group level, a specific team is responsible for devising, rolling out and overseeing training, and constantly updates content to best support the organization's new key themes. Training on Group level falls into three categories:

#### **Essilor University, an online training platform**

Distance learning (e-learning) provides complete access to general-interest content or content that is designed for new hires. Programs where employees take responsibility for their own development are also offered.

In 2016, Essilor University (Essilor U) added a new dimension to its talent development with the introduction of a modern, online training and administration tool that connected more than 16,000 new employees around the world from all Group entities, including key partners. Essilor University is now accessible to more than 32,000 employees who are offered training initiatives to support the Group's development at all levels: global, regional and local. These initiatives will be strengthened in 2017 with more content, broader curricula and improved access from mobile devices (smartphones and tablets). The Group's goal is to ensure all employees to have access to Essilor U by 2020.

The offer has been redesigned in line with the Group's fundamental principles: its Mission, Strategy, Leadership, Finance, Regulatory Compliance, Optics, and Products. It is also structured around the need for skills in key functions. The content library has been upgraded with new content offered in several languages. In 2016, more than 43,800 courses have been completed. The availability of more content, either online-only or in combination with other programs, has boosted career development opportunities and given more concrete expression to the "digital" aspect of learning, encouraging each employee to play an active role in their own development.

### Managerial career paths

There are three classroom-based training programs on offer for Group managerial staff:

- ▶ 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, finance, innovation and change management) as part of a learning program that focuses on the Group's management methods and approaches. Organized in three major regions, the program is run in partnership with three prestigious management schools: ESSEC (France), Nanyang Business School (Singapore) and McCombs School of Business (USA). It has a common curriculum to which an appropriate local component is added to help with the acquisition of new theories and sharing of internal practices. In 2017, a Chinese-language program will be offered to employees and partners in China, Taiwan and Hong Kong;
- ▶ 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 dual purpose. Firstly, it develops a strategic approach for steering change in an environment where analyzing value creation is essential and where innovation plays a key role in the relationship with customers and consumers. Secondly, it focuses in particular on personal development and managing teams or projects in a global context. This program has been put together in partnership with Thunderbird School of Global Management (USA);
- ▶ a new **Senior Management Program (SMP)** in conjunction with INSEAD was delivered in 2016. Aimed primarily at managers who play a direct role in developing and conducting management strategy, it has two key objectives: firstly, to maximize value created from strategic agility, innovation and managing partnerships and negotiation, and secondly to achieve organizational efficiency by managing complex structures, analyzing value and optimizing commitment.

To complement the aforementioned business management programs, a special leadership program, **Transition from Manager to Leader (TML)**, was revisited and rolled out on a regional basis to meet a growing demand from managerial staff. Its goal is to help them to develop as leaders, to make an impact and to coach their teams in respect for the Group's values. They receive guidance

from coaches so as to identify their strengths and work on their areas for development, also with support from their peers.

In 2016, 158 managers took part in the GMP (at least one per region), 33 in the AMP, and 22 in the SMP. In addition, 45 managerial staff participated in the TML, making a total of 258.

### Programs for specific topics, business areas and regions

To cater for the specific needs of a region or a business area or address an operational constraint (*e.g.*, a community of experts who are dispersed throughout the world), specific training programs are devised by the subsidiaries and the Group function.

- ▶ **"Grow Your Team"** – Devised by the Group's Operations Department, this program aims to strengthen management practices and management excellence (lean manufacturing, etc.). It involves the entire management chain and is designed not only to create momentum for learning and cohesion based on shared management principles but also to develop a culture of feedback for collective improvement and increased commitment, and enhance employees' performance and personal development. The course was developed centrally and is being rolled out with local trainers in conjunction with the entire HR structure.

In 2016, almost 370 managers were enrolled in this program, which involved classroom sessions, online modules supported by Harvard Manage Mentor®, joint-development between peers, and ongoing managerial support.

- ▶ **"LOFT"** – The purpose of the LOFT (Learning Organization For Tomorrow) program launched in 2007 is to promote the exchange of best practices and the generation of shared know-how. Since then, an organizational structure for learning has been introduced, with trainers in laboratories and on production sites who are trained as trainers and then train their colleagues at their workstations. Content is now managed in conjunction with Essilor University.
- ▶ **"EVE"** – The EVE program, created in 2010 by French multinational food products company Danone, is a leadership program for women which aims to contribute to the development of strong, inspiring individuals in sufficient numbers to bring change to the business. Essilor has joined forces with other sponsor companies and in 2016 took part in sessions organized in France and China.

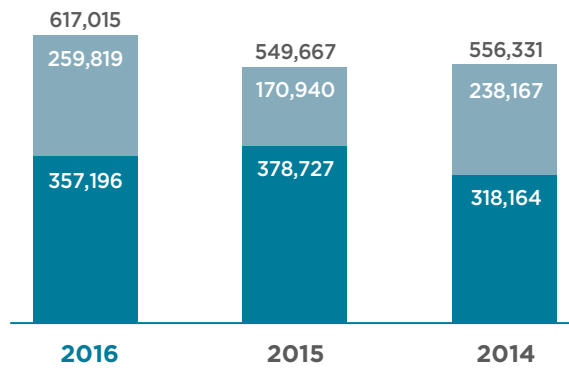
In 2017, Essilor will continue to connect more employees to Essilor University, stepping up the training offer and communicating best practices in an effort to enhance the digital learning culture of each employee. The Group will include more partners in its training and development network to bring even more consistency to the Group's initiatives. Essilor will also continue to devise innovative solutions tailored to the needs expressed or perceived by the business units. These solutions will be closely related to the development of skills and talent at both the local and the global level.

**Total number of local training hours**

To monitor overall local training activity within the Group, the subsidiaries are asked to assess the “Number of training hours” indicator for production staff and all other management positions (supervisors, administrative employees and managerial personnel).

	2016	2015	2014
Number of training hours for production employees	357,196	378,727	318,164
Number of training hours for non-production employees	259,819	170,940	238,167
<b>TOTAL</b>	<b>617,015</b>	<b>549,667</b>	<b>556,331</b>

■ Local training for production employees  
■ Local training for non-production employees



Note: The process of continuous improvement in the quality of the data made it possible to identify a reporting error in 2015 from a subsidiary of the Group. The 2015 data has been restated to ensure consistency of information. The reporting coverage of local training information covers 63.9% of the total headcount reported.

**Talent management**

In order to attract, develop and retain talent, in 2016 Essilor's Talent Management Department continued with the rollout of a comprehensive approach built on several lines of action:

- ▶ develop “employer branding”: maintain a regular presence on the international campuses of top-ranking management schools (INSEAD, ESSEC, HEC, NUS, NTU, SMU, CEIBS, etc.) through presentations on the Group's activities, job and career fairs, leading a case study on Essilor, and so on. This is in addition to action on LinkedIn™;
- ▶ drive and coordinate talent management through the worldwide implementation of shared performance analysis

software for all managerial staff, to identify areas for personal development, possible individual career development and succession plans for key positions;

- ▶ use the e-Talent software as a comprehensive talent management tool to appraise performance, review talent and prepare succession plans at the global level;
- ▶ incorporate a hiring module directly in LinkedIn™ to manage vacant positions, both internal and external. In 2017, a platform dedicated to mobility will be also introduced;
- ▶ develop the COMET Project, which is an accelerator for talented young employees in the Group, and help them with their career plans.

**4.4.3 Employee integration and inclusion of all forms of diversity**

The promotion of diversity, one of Essilor's five values, has contributed to international expansion, product and service innovation, performance, and exceptional growth for the Group. Encouraging diversity in all its forms is also a means of fostering personal initiative and the development and professional growth of Essilor's employees. This culture of diversity and inclusion is also a key factor for success in integrating newly acquired companies.

Essilor firmly believes that getting the best ideas and different perspectives is crucial to the Group's success and therefore is committed to developing an inclusive work environment that

promotes diversity. Inclusion begins with the Group's ability to welcome new employees, introduce them to the Group's culture and strategy, respect the uniqueness of each individual, and promote the value created at Essilor when all these different profiles work together.

**Integrating new employees**

At the Group level, integration efforts in 2016 included opening Essilor University to more than 32,000 employees. The goal is to connect even more group or partner-company employees in 2017.

An induction program is made available to new employees when their account is created. The program also appears in a special section of the Group’s intranet site and contains information on the foundations of Essilor’s business, its Mission and Principles and Values, and key points regarding safety and regulatory compliance. It allows each new employee to feel that they are fully involved in helping to achieve the Group’s goals.

There are a number of induction initiatives at the regional level, such as the Somos Essilor program in Brazil, the Y.Essilor initiative for trainees and interns in France, and the 90-day Smart Start program in the USA which is aimed at providing more information on the optics sector, the Essilor group, the Essilor of America subsidiary, and the participant’s business area.

**Challenges, priorities and key themes of the diversity and inclusion policy**

The main challenges of Essilor’s diversity and inclusion policy are guaranteeing equal opportunities; supporting geographical expansion and adapting to local cultures; optimizing the organization; and using the Group’s social, human and cultural diversity to drive economic performance.

Most importantly, it is a broad approach that covers all aspects of diversity. Essilor also adopts a thematic approach to:

- ▶ cultural diversity to ensure that teams better reflect markets and customers in terms of cultures and nationalities;
- ▶ gender diversity, one of the goals of which is to increase the representation of women in the Group’s senior executive positions;
- ▶ inter-generational diversity to develop a pool of young talent, draw on the experience of older workers and strengthen the effective collaboration between all Group employees, regardless of their age.

To drive this process, the Group’s “Diversity, Let’s Aim Higher” program launched a year ago has four key priorities:

- ▶ to follow changes in the situation through relative indicators, including for gender, age, nationality, participation in training, and new hires. This allows the Group to identify action points and progress made, such as the percentage of women in the AMP (Advanced Management Program), which increased from 11% in 2012 to 39% in 2016;
- ▶ to encourage local teams to be more active when it comes to diversity; since 2016, the month of March has been dedicated to diversity and inclusion; many subsidiaries involve their staff in breakfasts on the theme of gender diversity, evening events with traditional costumes and food from different cultures, quizzes on diversity, exhibitions to raise awareness of

disability, etc. In addition, the development of internal women’s networks is continuing: following positive feedback from the USA and France, a new network was established in 2016 at Clearly in Canada and another will be created in Singapore in the first half of 2017;

- ▶ to enhance the HR and management processes so that there is richer diversity and greater benefits as a result: for every new job offer for a key position, whether internal or external, there must be a woman on the shortlist who meets the desired profile; in some countries, such as France, any job offered externally must first be publicized with firms specializing in finding jobs for people with disabilities; at the Group level, a quarterly discussion committee (the Best Practices D&I Committee) is set up and comprises some 15 “local diversity ambassadors”; local initiatives also exist, such as the IDEA Committee – Inclusion & Diversity @ Essilor of America – introduced in early 2016. Composed of 12 leaders, it is sponsored by the President of the North America region and decides on, adapts and announces the Inclusion & Diversity strategy in the USA;
- ▶ to introduce initiatives to support the professional development of all employees: the “Female Leadership” program, such as the EVE program initiated by Danone and in which Essilor has participated since its creation five years ago; special curricula to attract and develop young talent in the United States, Europe and Asia; rollout of training courses on diversity and unconscious bias for large numbers of people, with pilot courses targeting all managers in France and all employees in the United States.

**Measures taken to promote the employment and integration of people with disabilities**

The Group pays keen attention to the issue of disability. Efforts made within the Group are reflected around the world in awareness campaigns and training initiatives, actions to promote fair and sustainable recruitment, job security for people with disabilities, and the development of a purchasing policy that involves the protected worker sector. For example, Servioptica, a business partner in Colombia, received an award from the United Nations in December 2016 in recognition of its good employment practices for people with disabilities.

Similarly, Essilor entities have introduced measures to promote the employment and integration of people with disabilities. Recruitment procedures allow such individuals to access genuine job opportunities. All reasonable efforts are made to make a workstation suitable for and accessible to an individual with a disability. Essilor does not engage in any discrimination based on a person’s disability in respect of employment, the job itself or promotional opportunities.

	2016	2015	2014
Number of employees with a disability	577	466	437
Percentage of employees with a disability	0.9%	0.9%	1.1%
Number of associated jobs created	137	81	20

Note: In 2016, the Group has aligned the Group definition of disability. The data for 2015 and 2014 were restated according to the new Group definition. The reporting coverage rate is 98.7% of the Group’s total workforce. The increase of number of employee with disability and associated job creation are mainly due to the expansion of reporting scope.



In France and since 2007, Essilor has signed four collective bargaining agreements on the continued employment of people with disabilities and their integration within the Group. In France, Essilor is a member of two non-profit associations that support the inclusion of people with disabilities, "Club Handicap & Compétences" and "Club Être", sharing best practices and taking part in think tanks on the issue with other stakeholders. This commitment by the Company and its social partners to the practical implementation of a sustainable, coherent proactive policy, is reflected in an increase in the employment rate for employees with disabilities, from 3.44% in 2007 to 5.36% in 2015.

The fourth collective bargaining agreement on the integration and continued employment of people with disabilities was signed in late 2015 for a term of three years, from 2016 to 2018.

This agreement, implemented by Essilor's Mission Handicap and a network of 21 internal officers, is structured around four main lines of action:

- ▶ continued employment of Essilor staff with disabilities, through the use of a range of appropriate aids;

- ▶ rollout of a sustainable recruitment plan with decisions based on objective skills-related criteria;
- ▶ developing the use of the protected worker sector;
- ▶ continuing with training, awareness and communication efforts in respect of disability.

#### Anti-discrimination policy

Essilor has implemented a specific procedure that is invoked in the event of employees reporting allegations of discrimination. Such issues may relate to a job or to an occupation. The few allegations brought to the Group each year and which have triggered the procedure to classify incidents of discrimination (on average two to five a year Group-wide) have not been proven.

	2016	2015	2014
Total number of recognized incidents of discrimination	0	0	0

#### 4.4.4 Employee shareholding & management / employee consultation

As a result of its culture, which is heavily influenced by its origins, its history and its two-fold economic and human goal, the Group promotes employee profit-sharing, particularly through shareholding and encourages dialogue between management and employees regardless of whether they are covered by a collective bargaining agreement. All Group employees have access to health and social security cover, which varies according to local characteristics.

The practices for management / employee dialogue also allow Essilor and its staff to manage necessary changes in the organizational structure with ease. This capacity for dialogue is essential to safeguard the agility of the Company, business continuity even in case of grievances, and the excellent reputation that Essilor enjoys amongst all its stakeholders.

##### Employees – Essilor's main shareholder

Since its founding, Essilor has been committed to a strong internal shareholding policy, and today nearly one in four employees hold shares in the Group. Employees are Essilor's main shareholder, and this has given rise to an original method of governance that encourages dialogue and involves employees in the Group's key decisions. It also means that the interests of employees are

aligned with those of shareholders. The employee shareholding is multi-faceted and tailored to the legal framework of each country. Valoptec Association, a non-profit association under the French law of 1901, brings together more than 8,500 active and retired employee shareholders. Internal shareholders have the largest single shareholding in the Group.

Essilor International's Employee Shareholding Department sets up and manages employee shareholding plans in most part of Essilor group companies. In 2016, new plans were set up with the Group's partners in Turkey and Canada.

The Group decided to launch a plan to roll out and extend employee shareholding on a global scale so that employees would continue to be involved in the Group's development and success on a long-term and broader basis. Eventually, Essilor expects 50% of employees to become shareholders in the Company. This goal to develop and further strengthen the shareholding culture includes all the Group's host countries and all employees, regardless of their professional status.

As of December 31, 2016, employees and equity partners held 8.4% of the share capital and 14.5% of voting rights.

Note that all Essilor shareholders who keep their registered shares for at least two years have a double voting right.

	2016	2015	2014
Number of employee shareholders	13,557 <sup>(a)</sup>	12,944 <sup>(a)</sup>	12,558 <sup>(a)</sup>
Percentage of employee shareholders	21.5%	21.4%	21.5%

*Note: Data concern only active employee shareholders on December 31st, 2016. Percentage calculation is based on an average of 63,107 employees for the full year 2016. The disclosure of 2015 included both active employee shareholders and retired employee shareholders. To keep the data consistency, 2015 number has been restated*



**Organization of dialogue between management and employees**

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. Dialogue between management and employees varies widely within the Essilor group. Each legal entity has complete autonomy to decide on the most appropriate labor-related dialogue. Labor-related dialogue is generally organized by employee representatives through any means possible 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 Dialogue and Information Committee (EEDIC) in Europe; the Group Committee in France; 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.

Numerous initiatives are conducted in the countries of operation in the spirit of labor-related dialogue that the Company embodies.

Staff negotiations vary from one establishment to another, but Essilor consistently promotes these throughout the world as a factor in employee satisfaction. Global staff opinion polls continue to be conducted periodically within the Group.

In late 2015, the Group launched its fifth employee opinion poll, which achieved a high response rate of nearly 80%. The poll revealed that 93% of employees said they were satisfied working at Essilor and that the average satisfaction rate for all questions combined was 85%. These results had improved over the previous survey.

**Overview of collective agreements**

There are a vast number of collective bargaining agreements per legal entity, each of which has the autonomy to implement collective bargaining agreements according to the regulations in force.

The majority of collective bargaining agreements pertain to the introduction of long-term benefits (medical coverage, pensions, diversity and disability, life insurance, etc.) as well as short-term benefits (performance bonuses, distribution of performance shares, shareholding, etc.), allowing the Group to attract and retain employees who contribute to its performance by virtue of their expertise and talent. Agreements signed on such issues typically have a broader framework in respect of general working conditions and therefore include occupational health and safety.

	2016	2015	2014
% of subsidiaries with collective bargaining agreements	41%	36%	N/A

*Note: The percentage of subsidiaries that have signed collective bargaining agreements has increased due to the increase in reporting coverage, which has risen from 63.7% to 73.3% in 2016.*

**Compliance with the freedom of association and the right to collective bargaining**

Essilor complies with International Labor Organization Fundamental Conventions No. 87 on freedom of association and protection of the right to organize convention, and No. 98 on the

right to organize and collective bargaining. To date, no activity has been identified as presenting a compliance risk in this area.

## ENVIRONMENTAL INFORMATION

## 4.5 Optimizing environmental footprint

In the mid-20<sup>th</sup> century, Essilor revolutionized the optics industry, substantially reduced its environmental footprint through the introduction of the ORMA lens (for ORganic MAterial®). This would replace the mineral lens and lead to the abandonment of manufacturing methods that were far more polluting. Since this innovation, the environmental impact of production activities has been significantly reduced and is now limited to water and energy

consumption, special-waste management and water discharge treatment. The materials and chemical products used in the production process are subject to stringent regulations in terms of environmental protection and are supplied by industries with good environmental practices that enable the associated impacts to be controlled.

Given the operational, financial and reputational challenges associated with the environment, Essilor has set five priorities:

1. Strengthen environmental management processes.
2. Reduce water consumption and guarantee supply.
3. Improve the energy efficiency of manufacturing and transportation processes.
4. Decrease the carbon footprint and adapt to climate change.
5. Limit waste generation and optimize recycling.

Responsibility for overseeing the Group's environmental impact reduction program lies with the Global EHS Department. To fulfill

this responsibility, it relies on a network of EHS coordinators who are present on the production sites.

### 4.5.1 Strengthening environmental management

#### Environmental assessment and certification

Given its industrial activities, historically, Essilor has implemented environmental management systems that conform to the ISO 14001:2004 standard. Since December 31, 2005, the Essilor mass production sites in Brazil (1), China (1), the United States (1), France (2), Ireland (1), Mexico (1), the Philippines (2) and Thailand (1) have all been certified to ISO 14001. Some Essilor partners are also ISO 14001-certified, such as Nikon Essilor in Japan.

As a result, the percentage of certified environmental management systems of the Group's upstream production facilities was 83% (10/12). In 2016, inspection audits were carried out as planned.

Furthermore, some of the most significant prescription and service laboratories and distribution centers in terms of volume of throughput have also introduced and maintain ISO 14001-certified environmental management systems where this is relevant.

#### Environmental training

In 2016, in addition to the training and awareness-raising initiatives inherent in ISO 14001-certified systems, the various entities saw the delivery of numerous training courses on aspects of environmental management. The Global EHS Department continued with the rollout of a program to raise partners' awareness of the EHS policy and management tools via Essilor University (e-learning) and dedicated seminars.

#### Provisions and guarantees for environmental risk

Essilor made no provision for environmental risks in 2016.

	2016	2015	2014
Monetary value of significant fines	0	0	0



**Noise pollution**

No complaints about noise, odor or any other form of specific pollution were received in 2016.

**Biodiversity & land use**

Finding potential significant impacts on biodiversity is one of the aims of the environmental management systems. Essilor has drawn up a biodiversity mapping of the majority of its sites

worldwide, to be updated in 2017. Four sites are located within an area of biodiversity interest. The biodiversity audit of one of these sites by an external company showed that there was no significant potential impact and no significant dependency in respect of biodiversity and ecological services for this site and the activities taking place there.

Essilor carries out its business in industrial buildings, usually located in existing industrial areas or commercial premises. Land is therefore not used in the Group's operations per se, but rather is associated with the buildings the Group occupies.

**4.5.2 Reducing water use**

**Management of water**

The mass production plants and the prescription laboratories use considerable quantities of water for lens machining, surfacing and rinsing operations. However, net water consumption is not significant since the water used in the production processes is subsequently treated and returned in near-equal volume, excepting leaks, a low level of evaporation and everyday site consumption.

Access to high quality water for production operations is an essential factor in ensuring the quality of the finished and semi-finished lenses that the Company distributes. Most Group sites are generally located in industrial or urban areas where access to water is provided by local authorities. They are dependent on these local authority managed utilities.

Water is also used in sanitary networks. A number of entities use recycled production water or collected rainwater for sanitary networks.

The Group has a few sites located in areas of water stress, such as in India (EMIL) and Mexico (SOFI). The Group may be faced with restrictions on water withdrawals imposed by local authorities, an increase in the cost of water and potentially, questions from local stakeholders who are also dependent on water resources. To mitigate these water-related risks, sites are introducing more stringent water-management programs and setting specific water-reduction targets. In this case, the Group fosters and sustains the conditions for dialogue between public sector services, water suppliers and NGOs to anticipate changes in the availability and cost of water, so as to adjust production.

Aware of its impact on the environment, Essilor has voluntarily contributed to the work of the CDP regarding its water footprint. The Group was awarded an A- rating for its efforts and ongoing

investments, demonstrating its leadership in the management of its water footprint. Essilor aims to continue these efforts by reducing by 20% its water use per good lens produced by 2020 on a scope that represents the majority of its water impacts.

**Reduction program**

To ensure a more effective rollout of initiatives to reduce the consumption of natural resources, Essilor has launched the "Reboost" program, which aims to define and roll out Group performance standards, along with associated field projects, to reduce the main environmental impacts.

The following actions have been taken within the "Reboost Water" program:

- ▶ a water mapping of the main mass production sites and laboratories;
- ▶ a comparison of the sites' water performance with the benchmark process, or "water model";
- ▶ a medium-term plan for reduction by water use operation.

As part of "Reboost Water", each region has to define its own Water roadmap, a process which is overseen at Group level.

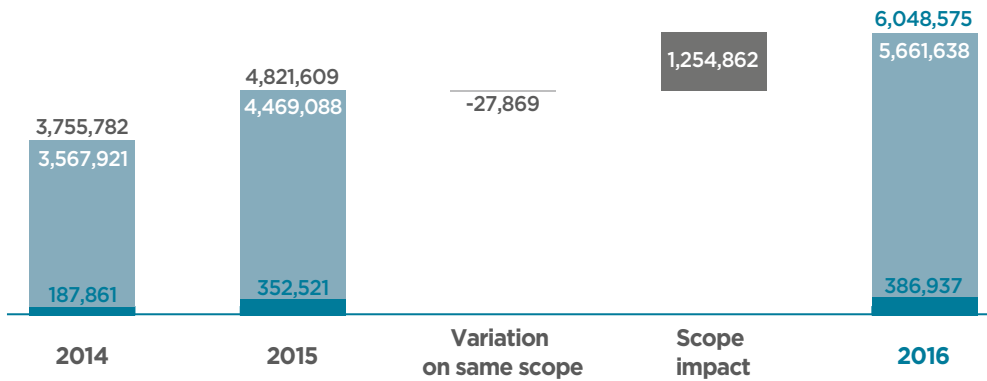
In 2016, the water use of the first sites to participate in the Reboost program decreased. The scope of the Reboost program's action has now been extended to all mass production sites and export laboratories, as well as to the 15 largest prescription laboratories. The program has focused in particular on coating machines, implementing solutions to reduce and reuse water. The Group has also installed smart meters at its main sites. The ultimate goal is to equip some 50 sites with these solutions. In 2017, the EHS Department will roll out eco-design and eco-driving solutions across the entire scope of the "Reboost Water" program.



Water Withdrawals (m³)

		2016	2015	2014
<b>Water Withdrawals (m³)</b>		6,048,575	4,821,609	3,755,782
Breakdowns by source	Municipal water	5,661,638	4,469,088	3,567,921
	Natural water	386,937	352,521	187,861

■ Natural source  
■ Municipal source



Note: The increase in water withdrawals in 2016 is mainly due to the expansion of the scope of reporting. The data reported this year covers 85.1% of the total number of employees reported.  
 On the basis of the scope of reporting for 2015, water withdrawals decreased by less than 1%. The impact of the expansion in the scope of consolidation between 2015 and 2016 accounts for 20.7% of total reported water withdrawals of 2016.

Water discharge control program

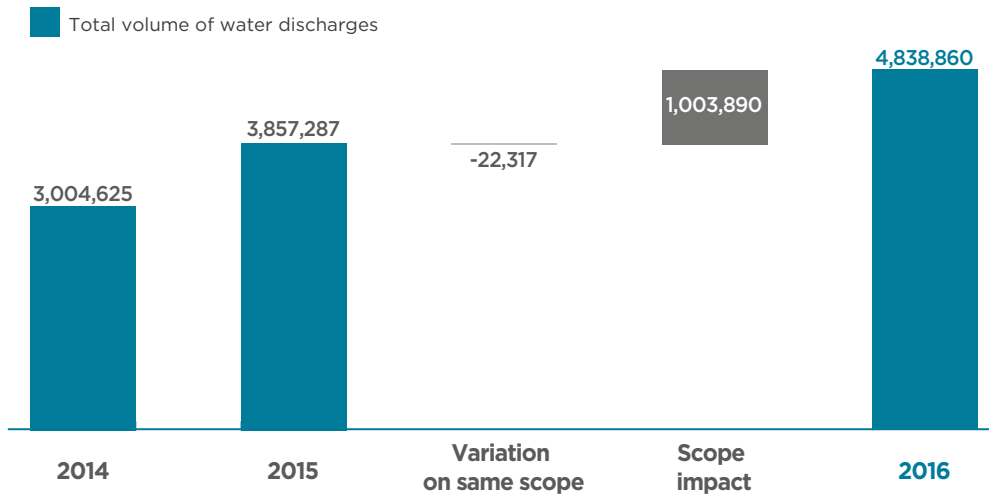
The prevention and reduction of water discharges are taken into account whenever relevant. This involves investing in wastewater treatment systems, from single or combined filtering, neutralization, settling and degreasing processes to complete processing units, purification plants or similar treatment facilities. These measures are designed to reduce loads in existing effluent, which, in the case of prescription laboratories, are essentially suspended solids related to surfacing that are filtered at the job site and sent to a dump as solid waste.

The Group controls the quality of its water discharges. Suspended materials, COD, five-day BOD, heavy metals and other general criteria like pH or other more specific indicators depending on the requirements of local water agencies are monitored locally through the environmental management systems.

In 2016, the Group had only two incidents related to water discharge in Thailand. The impact was non-significant and remediation plan has been put in place. One of the lessons learned was that the measures taken to reduce water withdrawals led to an increased concentration of pollutants. The Group has implemented measures for more accurate monitoring of wastewater. Meanwhile, Essilor has introduced the "Wastewater Model" program, on the same scope as Reboost Water, to compare sites' performance to the benchmark process and facilitate the rollout of initiatives designed to control water discharge. The program has identified the action that must be taken to avoid such incidents in the future.

Essilor also continued to invest in water treatment plants, particularly in China, on the three production sites in Danyang. The Group had more than 85 water treatment plants in 2016.

	2016	2015	2014
<b>TOTAL VOLUME OF WATER DISCHARGED (m³)</b>	<b>4,838,860</b>	<b>3,857,287</b>	<b>3,004,625</b>



Note: To improve the comprehensiveness of its reporting, the Group updated the methodology for calculating water discharges in 2016. The volume of water discharges is calculated from the difference between water withdrawals and water consumption. Essilor's water consumption is mainly due to evaporation during the manufacturing process. Knowing the percentage of water consumption of different manufacturing operations and geographic regions can vary from one mass production plant or prescription laboratory to another, we estimated the Group level of water consumption at 20% of the water withdrawals based on the Group's expertise and reinforced on the basis of a sample of entities accounting for 75% of the Group workforce. That is to say, the volume of water discharges of the Group is estimated to be 80% of the Group water withdrawals. Data for 2014 and 2015 have been recalculated using the same methodology.

### 4.5.3 Energy efficiency in production and distribution

#### Energy & Production

Compared with industrial transformation processes, the energy requirement for manufacturing finished and semi-finished lenses is minimal. However, Essilor is committed to improving its energy efficiency, as reflected in a steady fall in energy consumption over the last 15 years.

Beyond Essilor's corporate commitment, energy efficiency is also a lever for cost reduction, since energy accounts for a significant proportion of operational costs. The action plans implemented also allow the Company to control the rise in energy costs and increase its ability to avoid interruptions to or restrictions on energy supply in particular business regions. Lastly, energy efficiency helps to reduce direct greenhouse gas emissions.

As with water, the Reboost program incorporates energy efficiency initiatives. Reboost Energy now incorporates three areas of focus:

- ▶ review of the energy consumption of manufacturing processes, looking at compressed air facilities, heat chambers, vacuum processing machines, etc.;
- ▶ raising awareness among technicians and maintenance teams and providing them with training. One of the three online

training sessions available on the Essilor Academy – Save Energy (EASE) intranet site is designed to provide training and a continuous flow of information on good practices, and monitor energy saving technological developments;

- ▶ improving the energy efficiency of existing buildings.

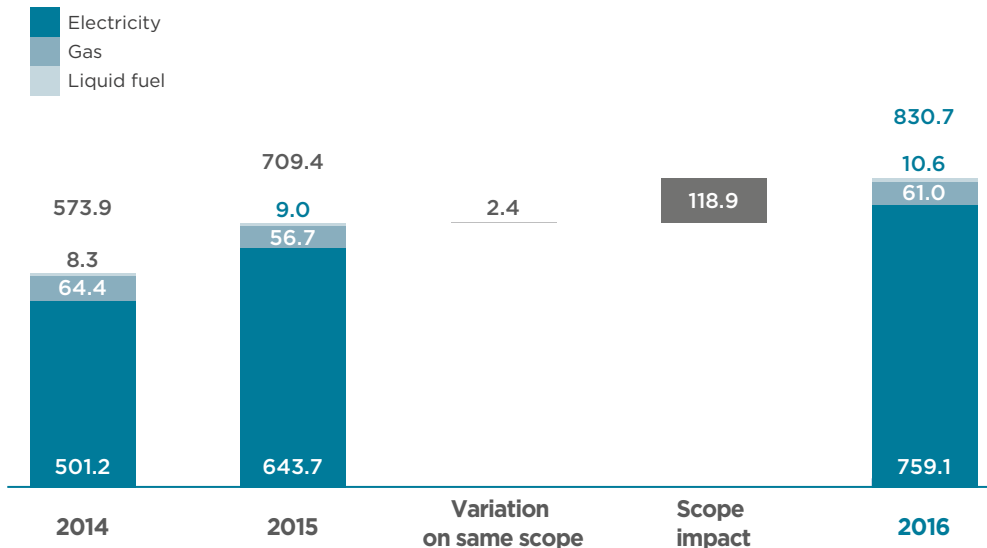
With regard to the associated energy mix, to date it is still difficult for most sites to use renewable energies, except in countries where these are available and offered as an option to industrial customers by energy providers. This year, for instance, the Dudley site increased the percentage of renewable energies in its energy mix to 21%.

The Reboost Energy program will continue in 2017 and beyond, with a goal of 15% reduction in energy intensity per good lens produced by 2020 on a scope that represents the majority of its energy impacts.

The program is led by an internal committee of energy experts whose goal is to (i) share best practices, (ii) report on proven solutions / innovations (for production processes as well as for non-process equipment and process operating parameters), and (iii) prioritize the solutions to be deployed throughout the Group based on the criteria of simplicity, costs and expected benefits).

Direct energy consumption by primary energy source

		2016	2015	2014
<b>Total consumption</b> (units: GWh)		830.7	709.4	573.9
Breakdown by type	Electricity	759.1	643.7	501.2
	Gas	61.0	56.7	64.4
	Liquid fuel	10.6	9.0	8.3



Note: The increase in total energy consumption is mainly due to the expansion of the scope of reporting. The associated coverage in 2016 was 88.6% of the total number of employees reported. In like-for-like terms, energy consumption increased by less than 1%. The impact of the expansion in the scope of consolidation from 2015 to 2016 accounts for 14.3% of total reported energy consumption of 2016.

Energy & transportation

Energy use in transportation is assessed on the basis of three categories: primary (flows to a distribution center or offshore prescription laboratory, regardless of the point of origin), secondary (flows to a subsidiary, regardless of the point of origin),

and tertiary (flows to the customer, regardless of the point of origin).

All categories of transportation were reviewed in 2016; they are reflected in the indicator for greenhouse gas emissions as metric tons of CO<sub>2</sub> equivalent emitted. See section below.

4.5.4 A limited carbon footprint

Building on the Paris Agreement and United Nations COP22 conference, Essilor renewed its commitment to limit its greenhouse gas emissions and maintain its position as a low-carbon business. The Group's growth strategy also includes plans to accelerate the reduction of its environmental impact, including the carbon footprint of its operations. Essilor has set a goal of reducing the energy intensity of its production (see Section 4.5.3) and is working on the upstream section of the value chain in partnership with its suppliers to improve its products' environmental profile (by reducing packaging, eco-design for instance) and help combat climate change.

Essilor created a first mapping of the carbon footprint along its value chain, including product usage, in order to identify the significant producers of greenhouse gas generated as a result of the Group's business. It appears that the two key producers are: (i) the lens manufacturing plants and prescription laboratories

(ii) the act of transporting items between the plants, the laboratories and the customers. Essilor actively monitored the footprint of these two most significant carbon producers and set up an action plan to reduce its energy consumption (see Section 4.5.3) and its greenhouse gas emissions.

Despite the fact that the Group's greenhouse gas emissions are largely "indirect" (Scope 2 and 3 of the GHG Protocol. See Section 4.7), reducing the carbon footprint provides an opportunity to reduce associated costs (of energy and transportation), limit energy dependence, although modest, anticipate the application of binding agreements on climate (with taxes, quotas, etc.) and fulfill expectations in this area from investors or financial institutions and key accounts.

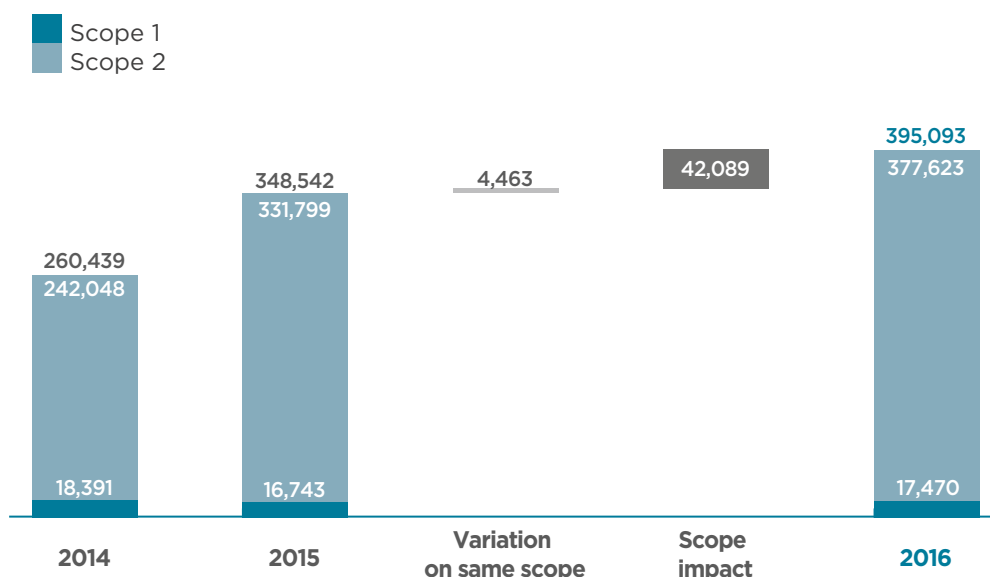
Lastly, analysis of the consequences of climate change on Essilor's business plays a part in controlling associated operational risks on the Group's production sites and those of its strategic suppliers.

In 2015, Essilor expanded the scope of reporting for its greenhouse gas emissions and revised the associated calculation methodology. The Group updated the main conversion factors according to the databases of the Agence française de l'Environnement et

de la Maîtrise de l'Énergie, the French Environment and Energy Management Agency ([www.ademe.fr](http://www.ademe.fr)) and the International Energy Agency ([www.iea.org](http://www.iea.org)) and reviewed the reporting framework for the transportation of lenses.

Direct and indirect greenhouse gas emissions deriving from energy consumption (Scope 1 and 2)

	2016	2015	2014
<b>TOTAL SCOPE 1 + 2 EMISSIONS (UNITS: T CO<sub>2</sub>-EQ)</b>	<b>395,093</b>	<b>348,542</b>	<b>260,439</b>
<b>Scope 1</b>	<b>17,470</b>	<b>16,743</b>	<b>18,391</b>
Gas	13,661	13,841	15,702
Liquid fuel	3,809	2,902	2,689
<b>Scope 2</b>	<b>377,623</b>	<b>331,799</b>	<b>242,048</b>
Electricity	377,623	331,799	242,048



Note: The increase in GHG emissions is mainly due to the expansion of the scope of reporting, with an impact of 10.7% of the total reported emissions. If the impact of the change in the scope of consolidation is discounted, Group GHG emissions increased by only 1.3% due to the slight increase of energy consumption. The scope of coverage of the GHG emission is 88.6%, same as energy consumption. See Section 4.5.3.

Indirect greenhouse gas emissions deriving from transportation (Scope 3)

Three main areas of emissions have been defined:

- ▶ primary transportation (flows to a distribution center or offshore prescription laboratory, regardless of the point of origin);
- ▶ secondary transportation (flows to a subsidiary, regardless of the point of origin);
- ▶ tertiary transportation (flows to the customer, regardless of the point of origin).

In 2015, to focus on its material issues, the Group has defined a referent reporting scope in terms of volume and geographical coverage, covering all the three types of transportation.

In 2016 and on the same scope as 2015, Group emissions increased by less than 1%, remained at same level compared to

previous year. Simultaneously and within the Group continuous improvement approach, Essilor has extended the analysis of its carbon footprint by including new subsidiaries and new products (consumables and instruments) in its annual reporting. The increase of reporting scope represents 7.4% of the 2016 total GHG Scope 3 emissions reported.

The 2016 emissions cover 25 mass production plants, five offshore prescription laboratories and 13 distribution centers, representing 81% of the locations with international transportation flows.

The Group will continue to optimize its supply chain by promoting regional flows between production plants and prescription laboratories, extending the use of maritime transport instead of air transport and engaging logistics subcontractors regarding the use of less polluting transport methods.

		2016	2015	2014
<b>TOTAL SCOPE 3 EMISSIONS ASSOCIATED WITH TRANSPORTATION</b> (UNITS: T CO <sub>2</sub> -EQ)		<b>226,371</b>	<b>207,915</b>	<b>155,390</b>
Development factors	Impact related to transported volume	209,578	207,915	
	Impact of reporting scope expansion	16,793		

Note: The process of continuous improvement in the quality of the data made it possible to identify a reporting error in 2015 from a distribution center of the Group. The 2015 data has been restated to ensure consistency of information.

### Adapting to the consequences of climate change

As a signatory to the United Nations Caring for Climate initiative and cognizant of the consequences of climatic change, Essilor has gradually been incorporating climate change-related objectives into its operations. The Group assesses these risks and integrates them into its overall risk management strategy so that it can seek the most appropriate solutions. The main risks identified are:

- ▶ the increased frequency and intensity of precipitations that could slow down the production process;
- ▶ the volatility of energy and raw material costs;
- ▶ severe weather events (cyclones, hurricanes and typhoons) that could damage sites and slow down the supply chain;
- ▶ episodes of extreme drought that could affect the availability of resources.

Faced with the consequences of climate change, Essilor has defined two key areas of concern:

- ▶ risk management in operations: from the initial stages preceding the potential acquisition of a new partner to the implementation of specific action plans in environmental management systems, the Group strives to identify all possible risks, including the risks of natural disasters related to climate change. Essilor wants to protect against such risks as much as possible and react early and optimally should they occur. To this end, the Group pays particular attention to the locations of its industrial facilities;
- ▶ changes in the product offer: needs 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 sufficient precision. However, the protective function of the corrective lens may be incorporated, particularly as a response to the harmful nature of ultraviolet light in general, which is filtered by Xperio® lenses and several other ranges of sun lenses with different E-SPF® index values.

### 4.5.5 A circular economy approach to raw material optimization and waste management

Essilor mainly uses resins, monomers, minerals and chemical products in the manufacture of lenses. It also buys in packaging products (cardboard, plastic casing, plastic film, etc.).

	2016	2015	2014
Materials used (tons)	18,000 <sup>(a)</sup>	16,700 <sup>(a)</sup>	15,726 <sup>(a)</sup>

Note: resins, monomers, minerals.

Environmental impact studies show that Essilor's business activities present no risks of air, water or soil discharges that could seriously affect the environment. However, these activities generate special waste, which must be handled and processed in a particular way.

For many years, Essilor has pursued an approach that aims both to improve production yields (through quality management, continuous improvement, eco-design, etc.) and to promote a process known as the "3Rs": Reduce the volume of materials used in the various processes (manufacturing and distribution), and Reuse and Recycle raw materials and packaging. To cite a few examples by way of illustration:

- ▶ the use of cupless cardboard boxes; these offer a number of benefits, including dispensing with the plastic cup previously used for the semi-finished lens, without altering the level of protection;

- ▶ the development by the Equipment Division of a system for blocking lenses in surfacing operations which breaks with existing technologies and paves the way for the gradual replacement by all market players of conventional blocking systems, some of which use metal alloys;
- ▶ the compacting of polycarbonate shavings and residues from the surfacing process to reduce the weight of waste and recover water, which is then filtered and reinjected into the prescription laboratory's in-house system;
- ▶ partnerships with waste managers for incineration of waste with recovery of the energy;
- ▶ recycling by subcontractors of certain used effluents (oils, acids etc.), for reuse in Group facilities.

Essilor is pursuing this as part of a more comprehensive circular economy approach. For instance, in 2016 the Group developed

reusable shuttle bins, or “Bulkpacks,” to transport items between production plants and laboratories, significantly reducing packaging waste. Essilor also analyzed the amount of waste generated by its main plants, export laboratories and 15 largest prescription laboratories, allowing it to map the quantity and type of waste, along with associated treatment solutions. It became apparent that existing local waste-treatment measures play an important role when it comes to managing waste sorting at Group sites.

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 objectives and targets for the reduction of existing discharges.

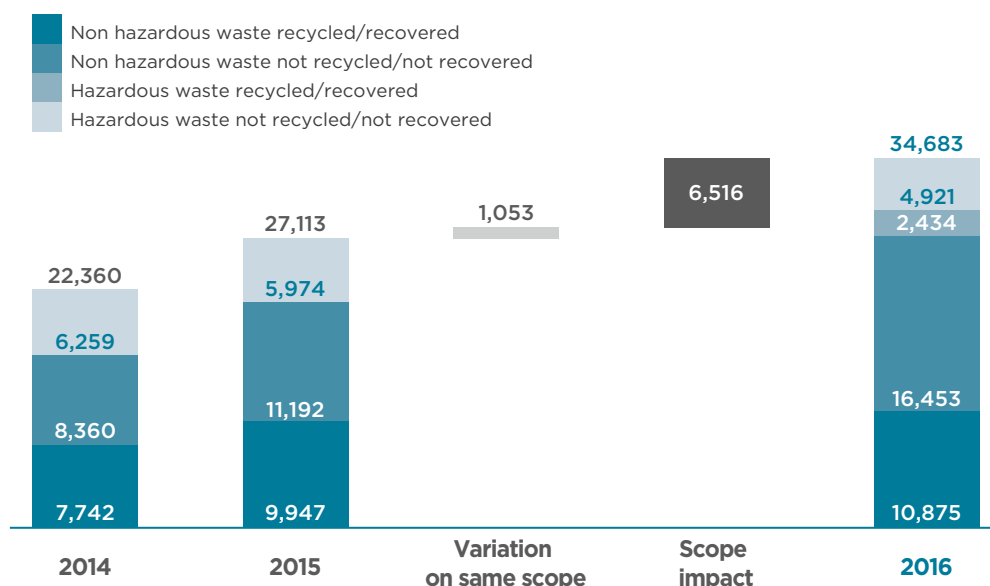
The possibility of discharges into soil that would be likely to impact the environment, even slightly, has been assessed and has led to the implementation of appropriate prevention measures, such as retention devices to deal with accidental spills or the outfitting and special management of chemical storage premises.

Essilor entities also have a waste sorting system to manage their ordinary and special industrial waste. This waste is recorded and taken away by certified specialist companies.

Lastly, Essilor believes that combating food waste is a collective challenge, even if it is not a challenge for the Group in the context of its own activities. However, the Group still educates its employees about this issue.

**Total volume of waste**

	2016	2015	2014
<b>TOTAL WASTE (UNITS: T)</b>	<b>34,683</b>	<b>27,113</b>	<b>22,360</b>
<b>Ordinary (non-hazardous) waste</b>	<b>27,328</b>	<b>21,139</b>	<b>16,101</b>
Recycled / Recovered	10,875	9,947	7,741
Not recycled / not recovered	16,453	11,192	8,360
<b>Special (hazardous) waste</b>	<b>7,355</b>	<b>5,974</b>	<b>6,259</b>
Recycled / Recovered	2,434	N/A	N/A
Not recycled / not recovered	4,921	N/A	N/A



Note: The hazardous / non-hazardous waste was classified according to local classification systems of different entities. The reporting coverage for waste is 77.3% of the total number of employees reported. The increase in the quantity of waste is mainly due to the expansion of the scope of reporting, with an impact of 18.8% of total reported waste of 2016. Disregarding the scope impact, waste increased slightly by 3.9%.

**Accidental spills**

	2016	2015	2014
Number of accidental spills	2	2	0

Note: In 2016, there were two accidental chemical spills, one in Brazil and one in the Philippines. The spills were dealt with immediately and had no significant environmental or social impact. Actions and remediation plans were implemented.



## SOCIETAL INFORMATION

### 4.6 Working with Society

As Essilor has grown internationally, it has based its success on the proper consideration of local impacts, dialogue with stakeholders and the creation of shared value with partners, suppliers, governments and local communities. The establishment of Essilor sites provides access to meaningful jobs in a buoyant sector and generates significant direct and indirect income. The Group's Principles & Values are the foundation of all business relations, ensuring fair and honest collaboration which is transparent for stakeholders.

As a signatory of the Global Compact, Essilor has undertaken to promote the ten universally accepted principles relating to human rights, labor standards, the environment and the fight

against corruption. Essilor also contributes to the United Nations Sustainable Development Goals through its Mission.

Within Essilor's scope of consolidation, this undertaking is reflected in internal control procedures to prevent, detect and remedy any situations that undermine integrity and the principle of free competition as well as in employee management procedures that comply with best practices. With its partners, the Group ensures that it does not work with entities that fail to respect the provision of decent working conditions for their employees, employ people below the local legal age or prohibit employee representation.

#### 4.6.1 Fair business practices

Given the diversity of the countries in which Essilor operates, the Company has to remain vigilant to changes in local labor and environmental regulations.

This requires a specific organizational structure, ongoing monitoring and close collaboration between the Legal Affairs, HR and Environment / Operations functions.

Given its business activity and its commitment as a responsible company, Essilor has to combat all forms of corruption and fraud, particularly in geographic areas that are sensitive to this type of risk.

This entails devising a system to prevent risks of corruption and training employees in how to apply it properly, in compliance with local regulations and the Essilor *Principles and Values*. In 2016, the Group strengthened this commitment by appointing a Chief Compliance Officer.

Lastly, as a major player in its market in association with its policy of external growth, Essilor is highly vigilant with regard to compliance with competition rules and takes care to prevent conflicts of interest.

To promote fairness in its business practices, Essilor International has introduced procedures which are formalized in a number of documents:

- ▶ the Essilor *Principles and Values* are a formal record of the general guidelines to be followed by every employee;
- ▶ the Minimum Control Standards (MCS) formally enshrine 75 internal controls which are generally considered to be the most crucial to have in place. The brochures explaining these procedures to employees have been translated into 33 languages. The MCS also form the basis of the annual self-assessment questionnaire for internal control;

- ▶ the Group Standards Guide, which brings together the various rules of internal control covering the main Group-level organizational processes;
- ▶ detailed rules and policies (local, regional and/or Group level);
- ▶ *ad hoc* working groups devoted to the implementation of specific regulations, such as REACH, UK Bribery, the Modern Slavery Act and California Proposition 65;
- ▶ development of a formal compliance and competition law program;
- ▶ preparation of a formal Group-wide guide to prevent corruption, explaining the rules and principles to be observed throughout the Group in addition to local laws.

#### Prevention of corruption

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.

Tools for training on and raising awareness of the different forms of corruption have been rolled out via audio kits available on the intranet; training in local languages is provided as a suite of programs for raising awareness which are gradually cascaded from the Group's Executive Committee. With infrequent exceptions as a result of very recent hires or other extraordinary events, all Directors of the Group have been made aware of and trained in the prevention of corruption and conflicts of interest, via e-learning.



### Compliance with competition rules

The Group's legal risk prevention policy is structured around the three main risks associated with its business activity. As such, for Essilor, a major player in its market, compliance with the rules of

competition law and commercial practices is an essential pillar of its risk prevention policy. The compliance program has been formally established and its rollout allows the Group to promote and reinforce good competition law practices in trade relations with Group partners and stakeholders.

## 4.6.2 Commitments and actions dedicated to the respect and promotion of human rights

### A Mission that helps promote human rights

Seeing well is essential for daily wellbeing and good quality of life. Good vision allows an individual to acquire knowledge, access employment and integrate socially within their environment. This is why Essilor teams around the world join forces to "improve lives by improving sight" and serve the 2.5 billion people with uncorrected vision. Essilor contributes to one of the fundamental rights of access to vision care through its Mission, activities and organizational structure. Its expertise, global presence and capacity for innovation have resulted in more than a billion people worldwide becoming wearers of Essilor products.

### Operations and the respect for human rights

Essilor operates in some "sensitive" geographic regions, where regulations and the implementation of laws on human rights may be poor. Despite this, Essilor has an ongoing commitment to prevent any potentially adverse impacts on human rights, or avoid contributing to such impacts through its activities, and to take remedial action should this occur.

It is a process that requires constant improvements to the Group's policies, commitments, procedures and actions in order to remain vigilant at all times. Essilor's commitment to the respect and promotion of human rights was marked by its signing of the United Nations Global Compact in 2003, a commitment that has been renewed every year since. Signature of this Global Compact is supported at the highest level in the Company, by the Chairman and Chief Executive Officer. Essilor's sustainable approach to doing business therefore now includes gradually incorporating the 10 principles of the Global Compact concerning human rights, working conditions, the environment and the fight against corruption.

The development in recent years of international human rights standards has led Essilor to update its approach. Since 2010 and the adoption of several international laws, human rights must be a core focus of any responsible corporate policy. Accordingly, Essilor decided to base its sustainable development strategy on the United Nations Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the Modern Slavery Act and the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. More generally, Essilor makes every effort to ensure that its activities comply with the International Bill of Human Rights and the principles on fundamental rights set out in the ILO's Declaration on Fundamental Principles and Rights at Work.

In 2014 the Group created a map of the human rights-related risks in its activities. This led to a better understanding of the challenges involved in each type of activity (lenses, equipment, Sunglasses & Readers) and geographic region, as well as the human rights that Essilor could impact. On the basis of that analysis, Essilor spent several months working with human rights experts to formulate a vigilance plan for the years ahead.

With regard to the areas marked for improvement, Essilor will:

- ▶ roll out the alert system existing in North and South America across the entire Group. This system allows employees to report any concerns they may have, including on human rights, via a secure website;
- ▶ step up the training of Group employees on human rights through dedicated e-learning modules on the Essilor University platform;
- ▶ monitor suppliers' commitment to the Essilor Supplier Charter, one of the four pillars of which is the respect of human rights and labor standards. See Section 4.6.3.

## 4.6.3 Sustainable purchasing in supplier relations

As essential partners for its business activity and growth, the Group maintains mutually beneficial relations with its suppliers and subcontractors and supports their performance by assisting them in their international development. Essilor therefore seeks to establish constructive dialogue with them and develop a durable, balanced relationship with respect for ethics and social and environmental issues.

The Purchasing Department bases its supplier relationships on its Supplier Sustainability Program (SSP), which has two components.

The first is **sustainable purchasing**, the goal of which is to assess suppliers' CSR performance by ensuring that:

- ▶ all suppliers and subcontractors comply with the principles set out in the Supplier Charter (see Essilor.com), and from a contractual standpoint, that they comply with general purchasing conditions in terms of respect for human rights (forced labor, child labor, etc.). These conditions include, in particular, clauses on the requirement to comply with the ILO's Fundamental Conventions and with local legislation, especially as regards minimum salary, working time, health and safety and the environment;
- ▶ the CSR performance of suppliers and subcontractors (representing 80% of overall expenditure) conforms to the Group's requirements. In this regard, the Purchasing Department assesses their performance by means of a shared evaluation platform run by EcoVadis. Launched in 2016, the platform aims to cover 80% of targeted suppliers by 2020;
- ▶ risk management is addressed by regular, systematic assessments of all strategic suppliers. In the event of suspicion, the Purchasing Department will trigger on-site audits and may require suppliers to take remedial action if the risk is proven.

The second component is **responsible purchasing**, the goal of which is to relay Essilor's Mission and encourage its suppliers to embark on initiatives, alone or with others, that will have a positive impact on people and the environment. The following are some examples:

- ▶ *disabled purchasing program* (contractual commitment to give at least 25% of Group business to the protected worker sector).
- ▶ *local sourcing* (local economic development in disadvantaged regions).
- ▶ *eco-design* (development of cardboard-only packaging instead of a mix of cardboard and plastic, such as the "Cupless®" concept).
- ▶ *use of biosourced materials* in the manufacture of frames.

The Group aims to perform external CSR audits with all strategic suppliers, and to ensure that all preferred suppliers comply with the principles of the Essilor Supplier Charter by 2020.

#### 4.6.4 Sustainable product marketing

Essilor has to market products with stated levels of quality and performance that meet customers' needs most effectively.

##### Quality & Customer satisfaction

The ongoing improvement in the satisfaction of the Group's customers is driven in particular by product and service quality control. This is a major factor when it comes to guaranteeing stable costs, limiting legal risks and strengthening the Group's reputation.

The Quality and Customer Satisfaction Department reports directly to the Senior Vice President, Global Engineering and in

conjunction with the Group's innovation platform. It has three key aims:

- ▶ to satisfy customers, in terms of products and services, taking into account the diversity and variation of expectations, in accordance with customer segments;
- ▶ to improve the effectiveness and consistency of internal processes, aligning them with the overall strategic objectives and measuring their efficiency;
- ▶ to represent the Essilor group on standardization bodies and promote the interests of consumers on these bodies (e.g., ISO).

	2016	2015	2014
Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	0	0	0

##### Responsible marketing

Essilor's responsibility is to communicate clearly and honestly the visual care benefits of its products, in compliance with the regulations. This transparency is at the heart of the relationship of trust that Essilor has built with its customers and helps to build an intangible asset for the Company. To this end, the action taken by the Group comprises three working areas:

- ▶ responsible marketing initiatives aim to ensure that product-related communication is accurate and complies with the regulations on advertising. This responsibility extends to local authorities and consumer associations who put questions to Essilor's customers on potential disparities with the stated benefits of the products; Essilor has developed a platform

containing marketing packages and models approved at Group level and that can be used by all entities, guaranteeing overall consistency;

- ▶ secondly, the Company is active in ensuring that the sales networks provide honest, accurate information to customers on the benefits of Essilor products. Regular training (classroom or online) is provided for the sales force and eye care professionals to remind them of the current standards and the rules of integrity in customer relations. Each of the Group's distribution subsidiaries monitors its own compliance with local applicable laws, standards and voluntary codes. The benefits of Group products are based on extensive wearer tests and use tests either in real life or under experimental conditions;

▶ lastly, honest communication also calls for transparency in the public positions that the Company adopts in its dealings with the authorities and professional associations and for the consistency of these positions with the targets for sustainable development. In accordance with French law, the Company has no political involvement. It works with its local public sector stakeholders and participates in the development of international standards and in other work relating to its areas

of business. It also belongs to professional associations for its industry whose mission is to improve awareness of the importance of good vision. The Group is a member of ASNAV, Association Interprofessionnelle pour l'Amélioration de la Vue (interprofessional association for improving vision), of GIF0, a French optical industry group, of the EUROM 1 European optical industry group and of the Vision Council in the United States.

#### 4.6.5 Direct and indirect socioeconomic contribution

Essilor stimulates local economies with its industrial activities, purchasing, and business partnerships, creates direct and indirect employment, develops local skills and expertise, and generates taxes and duties.

The first lever for action was to prioritize local employment. The Group encourages the local recruitment of management teams in its subsidiaries and, more generally, enforces the principle of local decision-making.

The Group also generates significant business flows with its local suppliers by preferring short supply chains for products and services outside the scope of central referencing.

Local distributors of products and services referenced by Group contracts also benefit from the local economic impact of the Group's purchasing. The result is a balanced situation, the Group estimating that 50% of its procurement is sourced centrally and 50% locally.

The Group's economic value breaks down into many components (revenue, operating expenses, employee expenses, donations, taxes and duties, dividends, etc.) that are itemized in this 2016 Registration Document.

**Essilor's socio-economic footprint** for fiscal year 2016 can be summarized by the following items in descending order of importance:

- ▶ revenue: €7,115 million;
- ▶ trade payables: €2,300 million;
- ▶ employees / compensation: €2,142 million;
- ▶ taxes and duties: €285 million, representing an effective tax rate of 24.5%;
- ▶ shareholders: €277 million; and
- ▶ financial expenses: €54 million.

Over and above its economic contribution, Essilor's mission helps to improve the quality of life and the productivity of millions of individuals by correcting their sight. A key contributor to this shared value creation, the Group's 2.5 NVG Division deploys inclusive business models to provide local vision correction at an affordable price for low-income populations in 30 countries in Asia, Latin America and Africa. (See Section 4.3)

Essilor has appointed a third-party expert to measure the social impact of its Eye Mitra™ program, which aims to provide primary eye care to populations in rural and semi-urban areas of India through the development of local micro-enterprises by individuals who are underemployed. The challenge is considerable: in 2013, it was estimated that 550 million people in India needed visual correction and the associated overall productivity loss was estimated at US\$37 billion a year.

Conducted in six provinces of the Uttar Pradesh region in north-east India, the study identifies three main impacts:

- ▶ a boost to the local economy, with an average of US\$770 in income generated for suppliers and SMEs for each participant in the Eye Mitra™ program;
- ▶ an increase in income of 64% for Eye Mitra™ partners, who also feel more respected in their community;
- ▶ growth in productivity for 59% of new eyeglass wearers\*, who gain an average of one-and-a-half hours a day in their day-to-day tasks (\* Note: 75% of people who buy their glasses from an Eye Mitra™ are doing so for the first time).

Lastly, besides the actions targeting its core business and led by the Mission teams (2.5 NVG and Essilor Vision Foundation), several Group entities conduct other charitable initiatives that generally involve issues of public health, education and integration.

## 4.7 Methodology note & correspondence tables

### 4.7.1 Methodology note

#### Scope of reporting

According to the Group reporting protocol, new entities acquired for less than one year are granted with one year to be integrated into the Group reporting system. Based on this criterion, Essilor group has the ambition to reach 100% reporting coverage rate by 2020. In 2016, reporting coverage was 91.9%, based on FTEs, significantly increased from the coverage of previous years and in line with our ambition for 2020. Reporting coverage of each indicator has been specified in the footnote of each indicator.

#### Calculated Indicators

As defined in the Group's reporting protocol:

- ▶ the frequency rate is calculated as "Number of work-related injuries with lost days x 1,000,000 / Total number of worked hours during the reporting period"; total number of worked hours is theoretical worked hours based on calculation of scheduled working days and average number of hours worked per day;
- ▶ the severity rate is calculated as "Total number of lost work days (calendar day) x 1,000 / Total number of worked hours during the reporting period"; total number of worked hours is theoretical worked hours based on calculation of scheduled working days and average number of hours worked per day;
- ▶ the voluntary turnover rate is calculated as "total number of voluntary departures (resignation) / average number of employees during the reporting period";
- ▶ the absenteeism rate is calculated as "total number of lost days (working day) / total scheduled working days of all the employees during the reporting period".

#### Method for calculating GHG emissions

In accordance with the GHG Protocol, the accounting and reporting standard for greenhouse gas emissions (<http://www.ghgprotocol.org>), information on GHG emissions is communicated on the basis of three scopes: Scope 1, 2 and 3.

In 2016, the Group continued to follow the GHG Protocol standard and used the databases of the Agence française de l'Environnement et de la Maîtrise de l'Énergie ([www.ademe.fr/](http://www.ademe.fr/)) and the International Energy Agency ([www.iea.org/](http://www.iea.org/)) for conversion factors.

**Scope 1** – This corresponds to direct emissions resulting from the on-site combustion of fossil fuels such as gas or fuel oil. The GHG conversion factors were in accordance with the ADEME database (<http://bilans-ges.ademe.fr/>):

- ▶ Gas: 244 gCO<sub>2</sub>e / kWh LCV;
- ▶ Liquid fuel: 324 gCO<sub>2</sub>e / kWh LCV.

**Scope 2** – This relates to indirect emissions associated with the electricity consumption required for manufacturing and machining lenses. The Scope 2 emission was calculated according to the location-based method of the GHG Protocol. The conversion factors for electricity were updated in 2015 based on figures provided by the ADEME database.

The conversion factors for the main countries where Essilor is a consumer of electricity are:

- ▶ China: 766 gCO<sub>2</sub>e / kWh;
- ▶ United States: 522 gCO<sub>2</sub>e / kWh;
- ▶ France: 82 gCO<sub>2</sub>e / kWh;
- ▶ Thailand: 513 gCO<sub>2</sub>e / kWh;
- ▶ Philippines: 481 gCO<sub>2</sub>e / kWh.

**Scope 3** – This corresponds to other indirect emissions related to the transportation of lenses. For lens logistics, Essilor redefined the various types of transportation and freight in 2015 to include journeys between Essilor sites and airports, ports or railway stations.

Transportation is classified as follows:

- ▶ primary transportation (flows to a distribution center or offshore prescription laboratory, regardless of the point of origin);
- ▶ secondary transportation (flows to a subsidiary, regardless of the point of origin);
- ▶ tertiary transportation (flows to the customer, regardless of the point of origin).

The scope of reporting covers all the three types of transportation, and Essilor managed to integrate the transportation of new products (instrument and consumable) in the reporting of 2016.

4.7.2 Correspondence table for the criteria of the Grenelle 2 law





	Reference
<b>SOCIAL</b>	
<b>Employment</b>	
Total headcount and distribution by gender, by age and by geographic zone	4.4
Recruitments and redundancies	4.4
Remuneration and their evolution	4.4 and 4.6.5
<b>Organization of labor</b>	
Working time organization	4.4.1
Absenteeism	4.4.1
<b>Labor / management relations</b>	
Organization of social dialogue including information procedures, consultation and negotiation with the employees	4.4.4
Summary of collective agreements	4.4.4
<b>Health and safety</b>	
Occupational health and safety conditions	4.4.1
Summary of collective agreements signed with trade unions or worker representatives on work place health and safety	4.4.4
Occupational accidents, including accident frequency and severity, and occupational diseases	4.4.1
<b>Training</b>	
Policies implemented regarding training	4.4.2
Total number of training hours	4.4.2
<b>Equal opportunities</b>	
Measures implemented to promote gender equality	4.4.3
Measures implemented to promote employment and integration of disabled people	4.4.3
Policy against discriminations	4.4.3
<b>Promotion and upholding of the Fundamental Conventions of the International Labor Organization on</b>	
The freedom of association and recognition of the right to collective bargaining	4.4.4 and 4.6.2
The elimination of discrimination in respect of employment and occupation	4.4.3 and 4.6.2
The elimination of all forms of forced labor	4.6.2 and 4.6.3
The abolition of child labor	4.6.2 and 4.6.3
<b>ENVIRONMENT</b>	
<b>General environmental policy</b>	
The organization of the Company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues	4.5.1
Information and training measures for employees regarding the protection of the environment	4.5.1
Resources allocated to prevention of environmental risks and pollution	4.5.1
Amount of provisions and guarantees for environmental risks, unless such information is likely to cause serious prejudice to the Company in an ongoing litigation	4.5.1
<b>Pollution</b>	
Measures of prevention, reduction or repair of discharges into the air, water and ground, impacting severely the environment	4.5.1, 4.5.2, 4.5.4 and 4.5.5
Consideration of noise and of any other activity specific pollution	4.5.1
<b>Circular economy</b>	
<b>i) Waste prevention and management</b>	
Measures of prevention, recycling, reuse, other forms of recovery and disposal of waste	4.5.5
Actions against food waste	4.5.5



	Reference
<b>ii) Sustainable use of resources</b>	
Water consumption and water supply adapted to local constraints	4.5.2
Consumption of raw materials and measures implemented to improve efficiency in their use	4.5.5
Energy consumption and measures implemented to improve energy efficiency and renewable energy use	4.5.3
Land use	4.5.1
<b>Climate change</b>	
Significant greenhouse gas emissions items generated as a result of the Group's activity, particularly by the use of goods and services they provide	4.5.4
Adaptation to consequences of climate change	4.5.4
<b>Biodiversity protection</b>	
Measures implemented to protect and conserve the biodiversity	4.5.1
<b>SOCIETAL</b>	
<b>Regional, economic and social impact of the Company's activities</b>	
Impact on employment and regional development	4.6.5, 4.3.3 and 4.3.4
Impact on local populations	4.6.5, 4.3.3 and 4.3.4
<b>Relations with stakeholders, including associations of integration, educational institutes, associations for the protection of the Environment, consumers organization and local populations</b>	
Conditions of the dialogue with stakeholders	4.1.1
Actions of partnership and sponsorship	4.3.1, 4.3.3, 4.3.4
<b>Subcontractors and suppliers</b>	
Integration of social and environmental issues into the Company procurement policy	4.6.3
Importance of subcontracting and consideration, in the relationship with subcontractors and suppliers of their social and environmental responsibility	4.6.3
<b>Fair practices</b>	
Action implemented against corruption	4.6.1
Measures implemented to promote consumers health and safety	4.3.1, 4.3.2 and 4.6.4
<b>Other initiatives undertaken to promote human rights</b>	
Other actions implemented to promote Human Rights	4.6.2 and 4.6.3





**4.7.3 Correspondence table for the Guidelines of the Global Reporting Initiative Standards**

Following the recommendations of the Global Reporting Initiative Standards, United Nation Global Compact (UNGC) Principles and United Nation Sustainable Development Goals (SDGs), all the indicators and information disclosed in this chapter have been reviewed and audited by KPMG.

GRI Standards	UNGC Principles	SDGs	Topic	Reference
<b>GENERAL DISCLOSURES (THE LIST OF GENERAL DISCLOSURES HAS BEEN PREPARED IN ACCORDANCE WITH THE “CORE” OPTION)</b>				
<b>Organizational profile</b>				
102-1			Name of the organization.	5.1.1
102-2			A description of the organization’s activities and primary trademarks, products, and services.	1.3
102-3			Location of the organization’s headquarters.	5.1.1
102-4			Number of countries where the organization operates, and the names of countries where it has significant operations and/or that are relevant to the topics covered in the report.	1.3.1.3
102-5			Nature of ownership and legal form.	5.1.3 and 5.2.1.1
102-6			Report the markets served (including geographic breakdown, sectors served and types of customers and beneficiaries).	1.2, 1.3 and 1.5.1
102-7			Scale of the organization, including total number of employees, number of operations, net sales, total capitalization, quantity of products or services provided.	Key figures in the introduction to the Registration Document and 3.3
102-8	Principle 6		Detailed information on employees and other workers.	4.4
102-9			A description of the organization’s supply chain, including its main elements as they relate to the organization’s activities, primary brands, products, and services.	1.3.1.3 and 4.1.1
102-10			Significant changes to the organization’s size, structure, ownership, or supply chain.	1.5.1, 1.5.2, 1.5.3 and 1.5.4
102-11			Whether and how the organization applies the Precautionary Principle or approach.	2.2.3.3 and 4.6.4
102-12			A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes, or which it endorses.	Methodology note in Chapter 4 and Section 4.6.1
102-13			A list of the main memberships of industry or other associations, and national or international advocacy organizations.	4.3.1 and 4.3.4
<b>Strategy</b>				
102-14			A statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy for addressing sustainability.	Introduction Chapter 4
<b>Ethics and integrity</b>				
102-16	Principle 10		A description of the organization’s values, principles, standards, and norms of behavior.	4.6.1
<b>Governance</b>				
102-18			Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	2.1 and 4.2.1










GRI Standards	UNGC Principles	SDGs	Topic	Reference
<b>Stakeholder engagement</b>				
102-40			Provide a list of stakeholder groups engaged by the organization.	4.1.1
102-41	Principle 3		Report the percentage of total employees covered by collective bargaining agreements.	4.4.4
102-42			Report the basis for identification and selection of stakeholders with whom to engage.	4.1.1
102-43			Report the organization's approach to stakeholder engagement.	4.1.1
102-44			Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns.	4.1.1
<b>Reporting practice</b>				
102-45			a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not considered by the report.	Note 2.2 of Chapter 3
102-46			a. An explanation of the process for defining the report content and the topic Boundaries. b. An explanation of how the organization has implemented the Reporting Principles for defining report content.	4.2.3 and 4.7.1
102-47			A list of the material topics identified in the process for defining report content.	4.1.2
102-48			The effect of any restatements of information given in previous reports, and the reasons for such restatements.	4.4 and 4.5
102-49			Significant changes from previous reporting periods in the list of material topics and topic Boundaries.	4.2.3
102-50			Reporting period for the information provided.	4.2.3
102-51			Date of the most recent previous report (if any).	2015 Registration Document covering fiscal year 2015
102-52			Reporting cycle (such as annual, biennial).	4.2.3
102-53			Provide the contact point for questions regarding the report or its contents.	invest@essilor.com
102-54			Claims of reporting in accordance with the GRI Standards.	4.7.3
102-55			The GRI content index, which specifies each of the GRI Standards used and lists all disclosures included in the report.	4.7.3
102-56			Report the organization's policy and current practice with regard to seeking external assurance for the report.	4.8
<b>MATERIAL TOPICS (THE LIST OF MATERIAL TOPICS INCLUDED IN THE REPORT)</b>				
103-1			a. An explanation of why the topic is material. b. The Boundary for the material topic, which includes a description of where the impacts occur and the organization's involvement with the impacts. c. Any specific limitation regarding the topic Boundary.	4.1 of the 2014 Registration Document and 4.1.2
103-2	Principle 1 Principle 8		For each material topic, the reporting organization shall report. a. An explanation of how the organization manages the topic. b. A statement of the purpose of the management approach. c. A description of the following, if the management approach includes that component (Policies, Commitments, Goals and targets, Responsibilities, Resources, Grievance mechanisms, Specific actions, such as processes, projects, programs and initiatives).	Description of the managerial approach for each issue
103-3			For each material topic, the reporting organization shall report an explanation of how the organization evaluates the management approach.	Description of the managerial approach for each issue



GRI Standards	UNGC Principles	SDGs	Topic	Reference
<b>SPECIFIC STANDARD DISCLOSURES</b>				
<b>Economic Performance</b>				
201-1			Direct economic value generated and distributed.	4.6.5
201-2	Principle 7		Financial implications and other risks and opportunities for the organization's activities due to climate change.	4.5.4
<b>Indirect Economic Impacts</b>				
203-1			Infrastructure investments and services supported.	4.3, 4.3.1, 4.3.2, 4.3.3, 4.3.4 and 2015 "See Change Report"
203-2			Significant indirect economic impacts.	4.3, 4.3.1, 4.3.3, 4.3.4, 4.6.5 and 2015 "See Change Report"
<b>Anti-corruption</b>				
205-2	Principle 10		Communication and training on anti-corruption policies and procedures.	4.6.1
<b>Anti-competitive Behavior</b>				
206-1			Legal actions for anti-competitive behavior, anti-trust, and monopoly practices.	Note 26 of Section 3.4, 4.6.1
<b>Materials</b>				
301-1			Materials used by weight or volume.	4.5.5
<b>Energy</b>				
302-1	Principle 7 Principle 8		Energy consumption within the organization.	4.5.3
302-2	Principle 8		Energy consumption outside of the organization.	4.5.3
302-5	Principle 8 Principle 9		Reductions in energy requirements of products and services.	4.3.2
<b>Water</b>				
303-1	Principle 7 Principle 8		Water withdrawal by source, both a total figure for 'volume of water withdrawn' and a breakdown of this figure by each of the sources listed.	4.5.2
303-2	Principle 8		Water sources significantly affected by withdrawal of water.	4.5.2
<b>Biodiversity</b>				
304-1	Principle 8		Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	4.5.1
<b>Emissions</b>				
305-1	Principle 7 Principle 8		Direct greenhouse gas (GHG) emissions (Scope 1).	4.5.4
305-2	Principle 7 Principle 8		Energy indirect greenhouse gas (GHG) emissions (Scope 2). Report gross location-based energy indirect (Scope 2) GHG emissions in metric tons of CO <sub>2</sub> equivalent, and gross market-based energy indirect (Scope 2) GHG emissions if applicable. Report standards, methodologies, assumptions, and/or calculation tools used.	4.5.4
305-3	Principle 7 Principle 8		Other indirect greenhouse gas (GHG) emissions (Scope 3).	4.5.4

GRI Standards	UNGC Principles	SDGs	Topic	Reference
<b>Effluents and waste</b>				
306-1	Principle 8		Total water discharge by quality and destination.	4.5.2
306-2	Principle 8		Total weight of waste by type and disposal method, with the breakdown of hazardous waste and non-hazardous waste; the breakdown of these figures by disposal methods (e.g., reuse, recycling, composting) is to be reported where applicable.	4.5.5
306-3	Principle 8		Total number and volume of significant spills.	4.5.5
<b>Environmental Compliance</b>				
307-1	Principle 8		Non-compliance with environmental laws and regulations.	4.5.1
<b>Employment</b>				
401-1	Principle 6		New employee hires and employee turnover.	4.4
<b>Occupational health and safety</b>				
403-2			Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	4.4.1
<b>Training and education</b>				
404-1	Principle 6		Average hours of training per year per employee by gender, and by employee category.	4.4.2
404-2			Programs for upgrading employee skills and transition assistance programs.	4.4.2
<b>Diversity and equal opportunities</b>				
405-1	Principle 6		Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	2.2.1.1 and 4.4
<b>Non-discrimination</b>				
406-1	Principle 6		Incidents of discrimination and corrective actions taken.	4.4.3
<b>Child Labor</b>				
408-1	Principle 5		Operations and suppliers at significant risk for incidents of child labor, and measures to contribute to the elimination of all forms of child labor.	4.6.2 and 4.6.3
<b>Forced or Compulsory Labor</b>				
409-1	Principle 4		Operations and suppliers at significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	4.6.2 and 4.6.3
<b>Local Communities</b>				
413-2	Principle 1		Operations with significant actual and potential negative impacts on local communities.	4.5.2 and 4.5.4
<b>Supplier social assessment</b>				
414-2	Principle 2		Negative social impacts in the supply chain and actions taken.	4.6.2 and 4.6.3

GRI Standards	UNGC Principles	SDGs	Topic	Reference
<b>Customer Health and Safety</b>				
416-1		 	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	4.3.2 and 4.6.4
416-2			Total number of incidents of non-compliance with the regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	4.6.4
<b>Marketing and Labelling</b>				
417-3			Total number of incidents of non-compliance with the regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes.	4.6.4
<b>Socioeconomic Compliance</b>				
419-1			Non-compliance with laws and/or regulations in the social and economic area.	4.6.4

## 4.8 Report by the Statutory Auditor, appointed as independent third party, on the consolidated human resources, environmental and social information included in the management report

*This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

**For the year ended December 31st, 2016**

To the Shareholders,

In our capacity as Statutory Auditor of Essilor International Company, appointed as independent third party and certified by COFRAC under number 3-1049 <sup>(1)</sup>, we hereby report to you on the consolidated human resources, environmental and social

information for the year ended December 31<sup>st</sup>, 2016, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

### Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in

accordance with the guidelines used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request at the company's head office.

### Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L.822-11 of the French Commercial Code. In addition, we have implemented a system of quality

control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

### Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- ▶ attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- ▶ express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved five persons and was conducted between August 2016 and February 2017 during a nine week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and concerning our conclusion on

the fairness of CSR Information, in accordance with ISAE 3000 <sup>(2)</sup> and with the professional doctrine of the CNCC (Compagnie Nationale des Commissaires aux Comptes).

#### 1. Attestation regarding the completeness of CSR Information

##### *Nature and scope of our work*

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

(1) "Whose scope is available at [www.cofrac.fr](http://www.cofrac.fr)".

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

4.8 Report by the Statutory Auditor, appointed as independent third party, on the consolidated human resources, environmental and social information included in the management report

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in the paragraph 4.7 of the management report.

**Conclusion**

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information has been disclosed in the management report.

**2. Conclusion on the fairness of CSR Information**

**Nature and scope of our work**

We conducted around fifteen interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- ▶ assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- ▶ verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important <sup>(1)</sup>:

- ▶ at the consolidation level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- ▶ at the level of a representative sample of entities selected by us <sup>(2)</sup> on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied and to identify potential undisclosed data, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents.

The selected sample represents 32% of headcount considered as material data of social issues and between 22% and 39% of environmental data considered as material data of environmental issues (Cf. the list of environmental indicators listed in footnotes of page 3).

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

**Conclusion**

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Paris – La Défense, February 13, 2017

French original signed by:

**KPMG S.A.**

**Philippe Arnaud**  
Partner  
Sustainability Services

**Alphonse Delaroque**  
Partner

(1) Labour indicators: total headcount and breakdown of workforce by gender and by age, number of recruitments, number of redundancies, frequency rate of workplace accidents with lost days, number of training hours.

Environmental indicators: energy consumption, GHG emissions related to energy consumption (scope 1 and 2), GHG emissions from transportation (scope 3), volume of water withdrawals, volume of water discharged, use of raw materials consumption: standards substrates, other substrates, waste production.

Qualitative information: Occupational health and safety conditions, Policies implemented regarding training, Measures implemented to promote gender equality, The organization of the company to integrate environmental issues and, if appropriate, the assessments and certification process regarding environmental issues, Territorial, economic and social impact of the company activity regarding regional employment and development and on the local populations, Measures implemented to promote consumers health and safety, Integration of social and environmental issues into the company procurement policy, Importance of subcontracting and consideration, in the relationship with subcontractors and suppliers of their social and environmental responsibility.

(2) EOA Dallas (United States), SOFI (Mexico), ECOI (Mexico), ECOII (Mexico), Essilor India Pvt Ltd (India), Essilor Manufacturing India Pvt Ltd (India), GKB RX Lens Private Ltd (India), EOLT (Thailand), Transitions Optical Thailand (Thailand), EMTC (Thailand), Essilor International BBGR (labour indicators, France).

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INFORMATION ABOUT  
THE COMPANY,  
ITS SHARE CAPITAL  
AND STOCK OWNERSHIP



## 5.1 THE COMPANY

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## 5.2 SHARE CAPITAL

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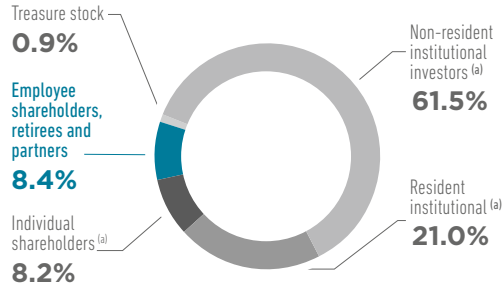
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# IN BRIEF

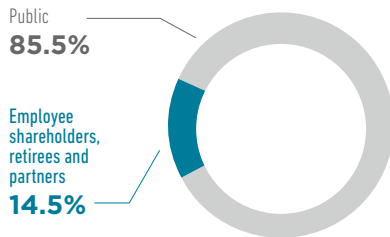
## DISTRIBUTION OF SHARE CAPITAL AT DECEMBER 31, 2016

Number of outstanding shares: **218.5 million**



## DISTRIBUTION OF VOTING RIGHTS AT DECEMBER 31, 2016

Number of voting rights: **233.2 million**



(a) Estimates at December 31, 2016.



**18,351**  
Internal shareholders<sup>(b)</sup>  
in 59 countries representing

**8.2%**  
of share capital<sup>(b)</sup>

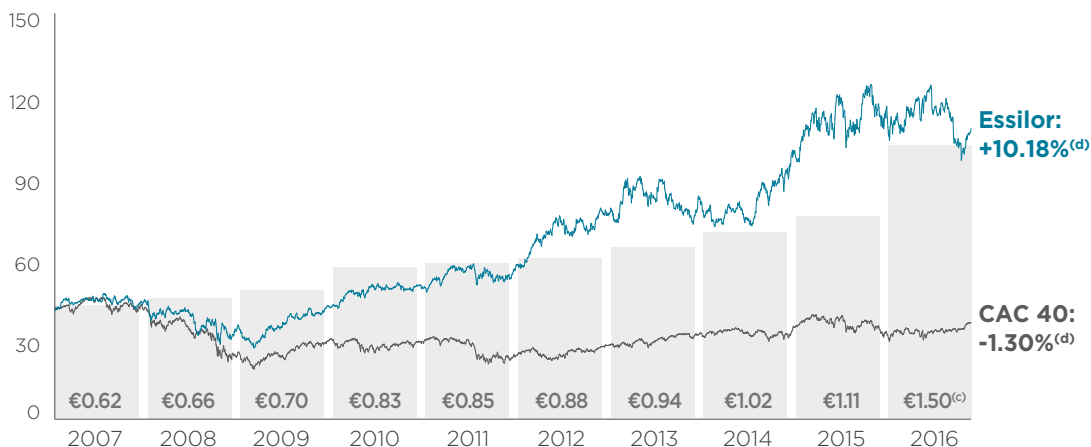
**14.2%**  
of voting rights

(b) Current, former and retired employees.

## SHARE PRICE AND DIVIDEND

In €

The CAC 40 graph has been rebased to the Essilor share price at January 1, 2007



(c) Subject to the decision of the Shareholders' Meeting of May 11, 2017.

(d) Average annualized growth rate.



## 5.1 The Company

### 5.1.1 Company name and registered office

The name of the Company is Essilor International (Compagnie Générale d'Optique), hereinafter "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 3250B (Essilor) and 7010Z (registered office).

### 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 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 and other protective equipment, lenses and contact lenses;
- ▶ design and/or manufacture, purchase, sell and/or market any and all ophthalmic optics 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, programs and related services;
- ▶ undertake 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, auditing, 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 by any other means.

### 5.1.5 Conditions governing changes in the share 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 of each year.

### 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 all payments due for such shares have been met.

Shareholders' Meetings are called and conduct business in accordance with the applicable laws and regulations.

Since the Shareholders' Meeting of May 11, 2012, "pure" or "administered" registered shareholders have the option of receiving their invitation and/or the preparatory documents for the Shareholders' Meeting 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 second business day before the meeting date;
- ▶ holders of bearer shares must be listed as the shareholder of record at midnight, Paris time, on the second 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 second business day before the meeting date;
- ▶ shareholders may be represented by their spouse, another shareholder or an individual or legal entity of their choosing in accordance with applicable laws and regulations, particularly those stipulated in Article L.225-106 I of the French Commercial Code. Each shareholder present or represented at the meeting has a number of votes equal to the number of shares represented, directly or by proxy, without limitation.

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. However, if the sale occurs before midnight, Paris time, on the second business day before the meeting, the Company shall accordingly invalidate or amend, as appropriate, the postal voting form, proxy or attendance card or certificate of ownership. 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 second business day before 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 submit their vote in accordance with the applicable laws and regulations.

#### Pre-meeting disclosure of temporary holdings

Pursuant to their legal obligations, any individual or legal entity (with the exception of those referred to in Article L.233-7, Section IV, paragraph 3 of the French Commercial Code) who, as a result of one or more temporary sales or similar transactions as defined in Article L.225-126 of the French Commercial Code, individually or jointly owns shares representing more than 0.5% of the voting rights of the Company, must inform the Company and the Autorité des Marchés Financiers (AMF) of the number of shares owned temporarily, no later than midnight, Paris time, on the second business day before the Shareholders' Meeting.

Disclosures and statements can be sent to the Company at the following address: [Invest@essilor.com](mailto:Invest@essilor.com)

Any undisclosed shares held temporarily as defined above will be stripped of voting rights for that Shareholders' Meeting and at all other Shareholders' Meetings until the shares held temporarily are sold or returned.

The email must contain the following information:

- ▶ name or company name and a contact person (name, position, telephone number, email address);
- ▶ identity of the seller (name or company name);
- ▶ type of transaction;
- ▶ number of shares acquired in the transaction;
- ▶ ISIN code of the shares listed on Euronext Paris;
- ▶ transaction expiration date;
- ▶ voting agreement (if any).

This information will be published on the Company's website.

### 2017 Shareholders' Meeting

The Combined Ordinary and Extraordinary Shareholders' Meeting will be convened on Thursday, May 11, 2017.

For information about the financial authorizations to be put to the vote at the Extraordinary Shareholders' Meeting of Thursday, May 11, 2017, see Section 5.2.1.4.

For information about the proposed renewal of the share buyback program, to be put to the vote at the Ordinary Shareholders' Meeting of Thursday, May 11, 2017, see Section 5.2.2.3, "Share buyback programs."

### 5.1.8 Disclosure threshold provisions

In addition to the statutory disclosures, the Company's bylaws state that any individual or legal entity who, acting alone or in concert with others, directly or indirectly, owns 1% of the voting rights must inform the Company thereof within five days, by registered letter with return receipt requested, sent to the Company's registered office. The same formalities are required whenever a shareholder exceeds or falls below the threshold in further increments 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-mentioned thresholds.

Any undisclosed shares in excess of the above-mentioned disclosure thresholds will be stripped of voting rights in accordance with the law at the request of one or more shareholders together holding at least 5% of the share capital at the time of the meeting.

## 5.2 Share capital

### 5.2.1 Changes in the share capital

#### 5.2.1.1 Breakdown of the share capital in 2016

At December 31, 2016	Number of shares	%	Number of voting rights	%
<b>Internal shareholding</b>				
<b>(Current, former and retired employees)</b>				
▶ Valoptec International FCPE	4,521,311	2.1%	9,042,622	3.9%
▶ Essilor group five- and seven-year FCPE	4,699,413	2.1%	8,982,303	3.9%
▶ Fund reserved for foreign employees	841,032	0.4%	884,900	0.3%
▶ Pure registered shares or administered shares held by employees	7,891,968	3.6%	14,153,454	6.1%
<b>SUBTOTAL</b>	<b>17,953,724</b>	<b>8.2%</b>	<b>33,063,279</b>	<b>14.2%</b>
<b>Partner shareholding <sup>(a)</sup></b>				
Pure registered shares or administered shares held by partners	344,240	0.2%	687,480	0.3%
<b>SUBTOTAL</b>	<b>18,297,964</b>	<b>8.4%</b>	<b>33,750,759</b>	<b>14.5%</b>
<b>Treasury shares</b>				
▶ Treasury shares	2,046,140	0.94%		
▶ Liquidity contract				
<b>SUBTOTAL</b>	<b>2,046,140</b>	<b>0.94%</b>		
<b>PUBLIC</b>	<b>198,163,597</b>	<b>90.7%</b>	<b>199,410,478</b>	<b>85.5%</b>
<b>TOTAL</b>	<b>218,507,701</b>	<b>100%</b>	<b>233,161,237</b>	<b>100%</b>

(a) Partner shareholding designates the portion of Essilor International shares held by employees, managers, and any former employees and former managers of the companies in which Essilor International held an investment interest that was thereafter fully divested.

At December 31, 2016, the share capital amounted to €39,331,386.18, divided into 218,507,701 fully paid-up ordinary shares, each with a par value of €0.18.

Taking into account the double voting rights attached to registered shares held for at least two years and the absence of voting rights attached to treasury shares, the total number of exercisable voting rights attached to the Company's share capital at December 31, 2016 was 233,161,237.

Changes in the share capital during the fiscal year were as follows:

- ▶ €284,184.60 capital increase, excluding original issue premium, corresponding to the issue of 1,578,804 new shares, each with a par value of €0.18 resulting from the payment of dividends in shares;

- ▶ €59,750.10 capital increase, excluding original issue premium, corresponding to the issue of 331,945 new shares, each with a par value of €0.18 subscribed by the Essilor group five- and seven-year mutual funds (FCPE);
- ▶ €25,292.16 capital increase, excluding original issue premium, corresponding to the issue of 140,512 new shares, each with a par value of €0.18 resulting from the exercise of stock options.

To the Company's knowledge, there is no shareholder who directly, indirectly or in concert, holds 5% or more of the voting rights at December 31, 2016. There was no material change in the shareholder situation as at Tuesday, January 31, 2017.

### Maximum dilution at year-end

Taking into account all shares that could be issued after Saturday, December 31, 2016 due to the exercise of the existing options, regardless of their exercise prices, the maximum dilution of the share capital would be as follows:

December 31, 2016	In number of shares	%	In number of voting rights	%
Share capital position at the end of the year	218,507,701		233,161,237	
Options for subscription of existing shares	490,845	0.2%	490,845	0.2%
Outstanding rights to existing performance shares	4,345,803	1.9%	4,345,803	1.8%
<b>TOTAL POTENTIAL DILUTION</b>	<b>4,836,648</b>	<b>2.1%</b>	<b>4,836,648</b>	<b>2.0%</b>
Total diluted capital at the end of the year	223,344,349		237,997,885	

The breakdown of changes in share capital in 2016 is presented in Note 10 to the consolidated financial statements (Section 3.4) and Note 12 to the annual financial statements for the fiscal year (Section 3.8).

### 5.2.1.2 Breakdown of the share capital in 2015 and 2014

Thursday, December 31, 2015	Number of shares	%	Number of voting rights	%
<b>Internal shareholding</b>				
<b>(Current, former and retired employees)</b>				
▶ FCPE Valoptec International	4,748,023	2.2%	9,483,751	4.1%
▶ FCPE Essilor group five- and seven-years	4,642,163	2.1%	8,964,929	3.9%
▶ Fund reserved for foreign employees	841,052	0.4%	870,359	0.4%
▶ Pure registered shares or administered shares held by employees	7,411,239	3.4%	12,855,536	5.6%
<b>SUBTOTAL</b>	<b>17,642,477</b>	<b>8.2%</b>	<b>32,174,575</b>	<b>14%</b>
<b>Partner shareholding <sup>(a)</sup></b>				
Pure registered shares or administered shares held by employees	343,240	0.2%	686,480	0.3%
<b>SUBTOTAL</b>	<b>17,985,717</b>	<b>8.3%</b>	<b>32,861,055</b>	<b>14.3%</b>
<b>Treasury shares</b>				
▶ Treasury shares	2,860,098	1.3%		
▶ Liquidity contract				
<b>SUBTOTAL</b>	<b>2,860,098</b>	<b>1.3%</b>		
<b>PUBLIC</b>	<b>195,610,625</b>	<b>90.4%</b>	<b>196,947,451</b>	<b>85.7%</b>
<b>TOTAL</b>	<b>216,456,440</b>	<b>100%</b>	<b>229,808,506</b>	<b>100%</b>

(a) Partner shareholding designates the portion of Essilor International shares held by employees, managers, and any former employees and former managers of the companies in which Essilor International held an investment interest that was thereafter fully divested.

Wednesday, December 31, 2014	Number of shares	%	Number of voting rights	%
<b>Internal shareholding</b>				
<b>(Current, former and retired employees)</b>				
▶ FCPE Valoptec International	5,138,786	2.4%	10,212,138	4.5%
▶ FCPE Essilor group five- and seven-years	4,850,547	2.2%	9,300,092	4.1%
▶ Fund reserved for foreign employees	771,871	0.4%	792,079	0.3%
▶ Pure registered shares or administered shares held by employees	6,995,113	3.2%	12,205,511	5.3%
<b>SUBTOTAL</b>	<b>17,756,317</b>	<b>8.2%</b>	<b>32,509,820</b>	<b>14.2%</b>
<b>Partner shareholding <sup>(a)</sup></b>				
Pure registered shares or administered shares held by employees	343,240	0.2%	686,480	0.3%
<b>SUBTOTAL</b>	<b>18,099,557</b>	<b>8.4%</b>	<b>33,196,300</b>	<b>14.5%</b>
<b>Treasury shares</b>				
▶ Treasury shares	3,959,921	1.8%		
▶ Liquidity contract				
<b>SUBTOTAL</b>	<b>3,959,921</b>	<b>1.8%</b>		
<b>PUBLIC</b>	<b>193,833,050</b>	<b>89.8%</b>	<b>195,372,367</b>	<b>85.5%</b>
<b>TOTAL</b>	<b>215,892,528</b>	<b>100%</b>	<b>228,568,667</b>	<b>100%</b>

(a) Partner shareholding designates the portion of Essilor International shares held by employees, managers, and any former employees and former managers of the companies in which Essilor International held an investment interest that was thereafter fully divested.

## 5.2.1.3 History of the share capital

Change in share capital over the last five years € thousands	Number of shares	Nominal	Issue premium	Successive amounts of nominal capital	Cumulative number of shares of the Company
<b>SHARE CAPITAL AT DECEMBER 31, 2011</b>				<b>38,527</b>	<b>214,038,296</b>
Share subscription reserved to the Essilor group mutual funds (FCPE)	385,354	69	21,927	38,596	214,423,650
Exercise of stock 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
Incorporation of reserves for capital increase				38,650	214,724,040
<b>SHARE CAPITAL AT DECEMBER 31, 2012</b>				<b>38,650</b>	<b>214,724,040</b>
Share subscription reserved to the Essilor group FCPE	377,407	68	23,267	38,719	215,101,447
Exercise of subscription option	1,098,051	198	44,800	38,916	216,199,498
Cancellation of treasury shares	(1,500,000)	(270)	(77,530)	38,646	214,699,498
Incorporation of reserves for capital increase				38,646	214,699,498
<b>SHARE CAPITAL AT DECEMBER 31, 2013</b>				<b>38,646</b>	<b>214,699,498</b>
Share subscription reserved to the Essilor group mutual funds (FCPE)	337,182	61	23,451	38,707	215,036,680
Exercise of subscription option	855,848	154	34,840	38,861	215,892,528
Cancellation of treasury shares				38,861	215,892,528
Incorporation of reserves for capital increase				38,861	215,892,528
<b>SHARE CAPITAL AT DECEMBER 31, 2014</b>				<b>38,861</b>	<b>215,892,528</b>
Share subscription reserved for the Essilor group FCPE	257,057	46	24,901	38,907	216,149,585
Exercise of subscription option	306,855	55	14,531	38,962	216,456,440
Cancellation of treasury shares				38,962	216,456,440
Incorporation of reserves for capital increase				38,962	216,456,440
<b>SHARE CAPITAL AT DECEMBER 31, 2015</b>				<b>38,962</b>	<b>216,456,440</b>
dividend payment in shares	1,578,804	284	157,722	39,246	218,035,244
Share subscription reserved for the Essilor group FCPE	331,945	59.75	26,489	39,306	218,367,189
exercise of stock options	140,512	25.29	6,944	39,331	218,507,701
Cancellation of treasury shares				39,331	218,507,701
Incorporation of reserves for capital increase				39,331	218,507,701
<b>SHARE CAPITAL AT DECEMBER 31, 2016</b>				<b>39,331</b>	<b>218,507,701</b>

### 5.2.1.4 Delegations and authorizations granted to the Board of Directors

#### Summary of delegations from the Shareholders' Meeting

##### Summary table of currently valid delegations <sup>(1)</sup>

Issued capital and unissued authorized capital: the table below summarizes the currently valid delegations granted by the Shareholders' Meetings of May 5, 2015 and May 11, 2016 to the Board of Directors relating to share capital, and indicates the use of these delegations.

Nature of the delegation	Date of the Shareholders' Meeting (resolution no.)	Duration (expiration date)	Maximum amount authorized	Use at 12/31/2016
<b>Capital increases for employees and corporate directors and officers</b>				
Capital increase reserved for employees	May 11, 2016 (12 <sup>th</sup> )	21 months (February 10, 2018)	1.5% of share capital (at date of issue)	0.15%
Award of bonus shares (performance shares) to employees and corporate directors and officers	May 5, 2015 (14 <sup>th</sup> )	38 months (July 4, 2018)	2.5% of share capital (at date of award)	1.27%
Award of share subscription options for employees	May 5, 2015 (15 <sup>th</sup> )	38 months (July 4, 2018)	1% of share capital (at the date of award)	0.10%
<b>Share capital increases</b>				
Increase in share capital by the issue of shares with preferential subscription rights	May 11, 2016 (13 <sup>th</sup> )	26 months (July 10, 2018)	1/3 of share capital (at date of SM) €1,500 million for loan securities	None
Capital increase by issue of shares without preferential subscription right	May 11, 2016 (14 <sup>th</sup> )	26 months (July 10, 2018)	10% of share capital (at date of SM) €1 billion for loan securities	None
Award of shares to qualified investors or to a limited circle of investors (Art. L.411-2 II French Monetary and Financial Code)	May 11, 2016 (15 <sup>th</sup> )	26 months (July 10, 2018)	10% of share capital (at date of SM) €1.2 billion for loan securities	None
Over-allotment option (applicable pursuant to resolutions 13, 14, 15)	May 11, 2016 (16 <sup>th</sup> )	26 months (July 10, 2018)	15% of initial issue	None
Capital increase by contribution in-kind of shares	May 11, 2016 (17 <sup>th</sup> )	26 months (July 10, 2018)	10% of share capital (at date of SM)	None
Issue of shares according to price procedures alternate to those set under resolutions 17 and 20	May 11, 2016 (18 <sup>th</sup> )	26 months (July 10, 2018)	10% of share capital (at date of SM)	None
Overall limitation of authorizations without preferential subscription right or reserved for in-kind contributors (14, 15, 16, 17, 18)	May 11, 2016 (19 <sup>th</sup> )	26 months (July 10, 2018)	10% of share capital (at date of SM) This ceiling is applied on the overall limit of one third of the share capital (resolution no. 16)	None
Capital increase by incorporation of reserves, profits, premiums or other	May 11, 2016 (20 <sup>th</sup> )	26 months (July 10, 2018)	€500 million	None
<b>Company's repurchase of its own shares</b>				
Company's purchase of its own shares	May 11, 2016 (10 <sup>th</sup> )	18 months (November 10, 2017)	10% of share capital (at date of purchases)	0.13%
<b>Reduction of share capital by cancellation of treasury shares</b>				
Cancellation of shares acquired by the Company pursuant to Article L.225-209 of the French Commercial Code	May 11, 2016 (11 <sup>th</sup> )	24 months (May 10, 2018)	10% of the share capital on the day of the cancellation by periods of 24 months	None

(1) Article L.225-100 of the French Commercial Code.

### Financial authorizations to be put to the vote at the Extraordinary Shareholders' Meeting of May 11, 2017

The Board of Directors recommends that the Shareholders' Meeting delegate it the authority to carry out capital increases reserved for members of a company savings plan and to offer a subscription of stock options to the employees of the Essilor Group

outside of France up to 1.5% of share capital, with the period of these authorizations set at 26 and 18 months respectively.

For information about the proposed renewal of the share buyback program, to be put to the vote at the Shareholders' Meeting of May 11, 2017, see Section 5.2.2.3, "Share buyback programs."

## 5.2.2 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).

The Essilor share is included in the following indices: CAC 40, SBF 120, CAC All-Tradable, Euronext 100, EURO STOXX 50, STOXX All Europe 100, FTSEurofirst 300, MSCI World and MSCI Europe.

The Essilor share is also included in several indices that specialize in socially responsible investment:

- ▶ FTSE4Good, published by the *Financial Times* and the *London Stock Exchange* (FTSE);
- ▶ Ethibel Excellence Global et Europe;
- ▶ ECPI Indices;

- ▶ DJSI World & Europe;
- ▶ STOXX Global ESG Leaders;
- ▶ MSCI World ESG & SRI and World Low Carbon Leader.

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). This is composed of all stocks in the CAC All-Tradable Index with a significant employee shareholder base, *i.e.* where at least 3% of the share capital is held by more than one-quarter of the employees in France. For more information about employee share ownership, refer to Section 5.2.6.3.

The shares are freely transferable and cannot be jointly owned.

### 5.2.2.1 Key stock market data

(Source: Reuters, Bloomberg and Euronext)

	Share price (€)		Closing price	Number of outstanding shares at December 31	Market capitalization at December 31 <sup>(a)</sup> (€ millions)
	In session Higher	In session Lower			
<b>2016</b>	<b>124.55</b>	<b>93.41</b>	<b>107.35</b>	<b>218,507,701</b>	<b>22.242</b>
2015	125.15	88.72	115.05	216,456,440	22,379
2014	93.26	70.51	92.68	215,892,528	17,942
2013	89.99	71.90	77.28	214,699,498	14,882
2012	78.24	54.50	76.02	214,724,040	14,578
2011	57.72	46.61	54.55	214,038,296	10,968
2010	51.17	40.84	48.18	211,655,342	9,741
2009	42.00	26.08	41.75	215,509,972	8,395

(a) Used for the CAC 40 index.



### 5.2.2.2 Share prices and trading volumes

(Sources: Bloomberg, Reuters and Euronext Paris)

Stock markets: Euronext Paris, Turquoise, Bats Europe, Chi-x Alternative, Equiduct, London Stock Exchange, SmartPool, Acquis Exchange and XAQU.

	Volume of transactions (millions of shares)	Volume of transactions, in capital (€ millions)	Market price, (€)	
			In session Higher	In session Lower
<b>2015</b>				
September	23.01	2,475	111.95	102.45
October	19.05	2,124	120.90	105.00
November	14.25	1,822	124.55	118.10
December	18.81	2,195	125.15	111.70
<b>2016</b>				
January	19.94	2,214	114.35	106.20
February	19.30	2,136	116.10	102.10
March	19.56	2,147	116.50	105.50
April	18.63	2,055	116.60	104.80
May	15.80	1,806	118.75	110.75
June	21.04	2,425	120.10	106.50
July	14.94	1,787	124.55	112.40
August	14.11	1,699	116.45	110.65
September	17.76	2,053	119.15	112.15
October	22.83	2,464	117.05	100.95
November	28.90	2,880	104.20	93.41
December	19.93	2,050	107.35	97.00
<b>2017</b>				
January	35.22	3,871	121.15	101.45

### 5.2.2.3 Share buyback programs

In May 2016, the Shareholders' Meeting renewed the Board of Directors' authorization to buy back its own ordinary shares representing up to 10% of the Company's share capital on the date of purchase, as allowed under Articles L.225-209 *et seq.* of the French Commercial Code, for a term of 18 months expiring on November 10, 2017.

In application of the provisions of Article L.225-211 French Commercial Code, the Board of Directors indicates that during the year 2016, it made use of the authorization granted by the Combined Shareholders' Meeting of May 5, 2015 and then of that granted by the Combined Shareholders' Meeting of May 11, 2016.

The main objective of this program was to cover programs for employees.

#### Share buyback transactions

In accordance with Article L.225-211 of the French Commercial Code, no shares were reallocated in 2016.

For this purpose, the Company acquired 299,490 shares between January 1 and December 31, 2016 at the gross Average Price of €102.06 and did not sell any on the market. The Average Price of the trading fees (including pretax commissions) was three centimes per share, bringing the average net purchase price to €102.09. At December 31, 2016, Essilor held a total of 2,046,140 treasury shares, *i.e.* 0.94% of the capital. The par value of these shares was €368,305.20 and their book value was €167.5 million (*i.e.* an average net cost of €81.85 per share).

#### Liquidity contract

The Company was not a party to any liquidity contracts in 2016.

	<b>2016</b>
	<b>Treasury shares</b>
<b>Number of shares at the beginning of period – January 1</b>	<b>2,860,098</b>
Purchase options exercised	
Delivery of performance shares	(1,113,448)
Conversions of convertible bonds with delivery	
Cancellation of treasury shares	
Purchase of treasury shares	299,490
<b>Number of shares at the end of the period – December 31</b>	<b>2,046,140</b>
<b>Position at Tuesday, January 31, 2017</b>	
Percentage of capital held directly or indirectly as treasury shares	0.94%
Number of shares canceled in the preceding 24 months	0
Number of shares held in portfolio	2,045,772
Book value of the portfolio (€)	167,437,153
Market value of the portfolio <sup>(a)</sup> (€)	221,761,685

(a) Based on the closing price at January 31, 2017.

	Gross cumulative flows from March 1, 2016 to January 31, 2017			Open positions at January 31, 2017						
	Buying	Selling	Cancellations	Open positions – buying			Open positions – selling			
				Calls bought	Puts sold	Forward buys	Calls bought	Puts sold	Forward Sales	
Number of shares	299,490									
Average maximum maturity										
Average Price of transaction (€)	102.06									
Amounts (€)	30,566,842									

### Renewal of the financial authorization to implement a share buyback program

In accordance with Article 241-2 of the AMF General Regulations, the Shareholders' Meeting of Thursday, May 11, 2017 is asked to renew the authorization to buy back shares solely for the purposes set out below. The actual order in which the buyback authorization will be used will be based on needs and opportunities.

The main objectives of the program will be:

- ▶ to cover the stock purchase option plans or other allotments of shares intended for employees, including the award of bonus shares set forth in Articles L.225-197-1 *et seq.* of the French Commercial Code, for Group senior managers and employees;
- ▶ to buy shares for cancellation, notably in order to offset the dilutive impact of the exercise of stock subscription options by Group senior managers and employees;
- ▶ to potentially hedge debt securities that can be converted into or exchanged for Company shares, by buying shares for delivery (in the case of delivery of existing shares when exercising the conversion right) or by buying shares for cancellation (in the case of new shares created when exercising the conversion right);
- ▶ to ensure the liquidity of the Company's shares under a liquidity contract in accordance with Commission delegated regulation (EU)2016/1052 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programs and stabilization measures
- ▶ the subsequent use of the shares in exchange or presentation as consideration for future external growth operations up to a maximum of 5% of the share capital;
- ▶ to implement any market practice that may be acknowledged by regulations or the *Autorité des Marchés Financiers* or any other objective allowed by the Law.

The shares held under the buyback program may not represent more than 10% of the Company's share capital at any given time.

Main characteristics of the new buyback program:

- ▶ securities concerned: Essilor International ordinary shares (traded on Euronext Paris in Compartment A);
- ▶ maximum percentage of the share capital that may be held according to the resolution tabled at the Combined Ordinary and Extraordinary Shareholders' Meeting of May 11, 2017: 10% of the share capital, or, for example, 21,850,770 shares based on the share capital as at Saturday, December 31, 2016;
- ▶ maximum percentage of the share capital that may be bought back, taking into account the number of treasury shares held as at Saturday, December 31, 2016: 9.06% of the share capital, that is, for example  $[21,850,770 - 2,046,140 = 19,804,630]$  shares based on the share capital as at December 31, 2016;
- ▶ maximum purchase price per share: €145 (as adjusted if necessary to take into account the effects of any transactions involving the share capital).

The shares may be purchased, sold or transferred and paid for by any appropriate method on the regulated market or over the counter (including through straight purchases, or 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 maximum term of 18 months expiring on Saturday, November 10, 2018.

#### 5.2.2.4 Share cancellations and capital reductions

The Combined Shareholders' Meeting of the Company of Wednesday, May 11, 2016 authorized the Board of Directors to reduce the share capital by canceling all or some of the treasury shares held by the Company, provided that the number of shares canceled during any 24-month period does not exceed 10% of the total share capital. In 2016, Essilor International did not cancel any shares.

### 5.2.3 Essilor stock and rights held by members of the management, governance and supervisory bodies

#### Position at December 31, 2016

	Employee members and corporate directors and officers of the Board of Directors					
	Hubert SAGNIÈRES	Laurent VACHEROT	Yi HE	Juliette FAVRE	Maureen CAVANAGH	Franck HENRIONNET
Shares	293,116	207,316	25,242	3,312	2,704	2,314
Rights to performance shares						
▶ November 25, 2013	45,000		2,200		2,000	
▶ December 20, 2013						
▶ November 25, 2014	40,000		2,200		2,000	
▶ December 19, 2014						
▶ December 2, 2015	35,000	30,000	1,870	765	1,700	85
▶ December 18, 2015				20		20
▶ September 22, 2016	35,000	32,005	1,875	770	1,705	90
▶ December 19, 2016	35,000	15	1,875	15		15

#### Independent Directors

At December 31, 2016, the Independent Directors did not hold any stock subscription options or rights to performance shares. They held 11,692 Essilor shares.

### 5.2.4 Stock subscription options

Stock subscription options, if exercised, trigger the issuance of new ordinary shares in Essilor.

As at December 31, 2016, the total number of shares that may be created as a result of stock subscription options exercised was 490,845.

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 options granted.

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 5.2.5) and can be canceled if the target is not met.

Date of award <sup>(a)</sup>	Number of options awarded	Of which the Executive Committee	Subscription price (€)	Number of shares outstanding at December 31, 2016	Number of shares outstanding at January 31, 2017
November 26, 2009 <sup>(b)</sup>	1,579,120	314,160	38.96		
November 25, 2010 <sup>(b)</sup>	634,760		48.01	59,056	48,075
November 24, 2011 <sup>(b)</sup>	85,620		52.27	6,280	5,280
November 27, 2012 <sup>(b)</sup>	81,760		71.35	37,193	31,450
November 25, 2013 <sup>(b)</sup>	87,880		77.29	63,016	60,116
November 25, 2014 <sup>(b)</sup>	121,505	21,000	87.16	111,445	110,378
December 2, 2015 <sup>(b)</sup>	100,023	13,500	121.32	97,868	97,868
September 22, 2016 <sup>(b)</sup>	119,392		114.88	115,987	115,675
<b>TOTAL</b>	<b>2,810,060</b>	<b>348,660</b>		<b>490,845</b>	<b>468,842</b>

(a) Plans prior to that of November 26, 2009 have no more subscription options outstanding.

(b) Capped performance plans.

The position regarding stock subscription options is presented below:

Information is provided only for those award plans for which options are currently outstanding.

	At December 31, 2016	Of which in 2016	January 31, 2017	Of which in 2017
Options awarded <sup>(a)</sup>	2,810,060	119,392	2,810,060	
Options canceled <sup>(a)</sup>	371,711	91,666	373,344	1,633
Options exercised <sup>(a)</sup>	1,947,504	140,512	1,967,874	20,370
Options remaining <sup>(a) and (b)</sup>	490,845		468,842	

(a) Plans from November 26, 2009 to September 22, 2016.

(b) I.e. 0.22% of the share capital at December 31, 2016.

## 5.2.5 Performance shares

If the rights to performance shares are exercised, grantees will be awarded either existing or new ordinary shares in Essilor.

At its meeting of November 22, 2006, the Board of Directors decided to set up the Company's first performance share award 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 subscription options offering an equivalent potential gain;
- ▶ the grant system makes it easier for grantees to keep their shares, unlike 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 terms of the performance share awards 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.

### 5.2.5.1 Vesting conditions for shares and holding obligation

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

Performance shares awarded between 2006 and 2016 inclusive are governed by performance share plan regulations with conditions that have changed since 2006.

Since 2010, the final award of performance shares is contingent on:

- ▶ 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 grantees and their loyalty to the Company;
- ▶ an obligation to hold vested shares to strengthen the convergence between the interests of employee shareholders and external shareholders;
- ▶ stricter conditions for corporate officers.

**Performance condition**

For the 2012 to 2014 plans, the vesting of shares and the number of shares vested are subject to a performance condition based on the annualized growth of the Essilor share price over a period of between two and six years (from N+2 to N+6) from their grant date:

At the time they are awarded, the Initial Reference Share Price (equal to the average of the 20 opening prices preceding the grant date) is determined.

Two years after the award (N+2), an Average Share Price is calculated, equal to the average of the opening prices for the three months preceding the date of the second anniversary of the award.

Starting from the 2015 plans: the vesting of shares and the number of shares vested are subject to a performance condition based on the annualized growth of the Essilor share price over a period of between three and six years (from N+3 to N+6) from their grant date:

At the time they are awarded, the Initial Reference Share Price (equal to the average of the 20 opening prices preceding the grant date) is determined.

Three years after the award (N+3), an Average Share Price is calculated, equal to the average of the opening prices for the three months preceding the date of the third anniversary of the award.

If the increase between the Average Share Price and the Initial Reference Share Price is:

- ▶ **greater than 22.5%** (i.e., annualized growth<sup>(1)</sup> of 7%), all shares initially awarded will vest provided that the employment condition is met (detailed in the section "Employment condition");
- ▶ **greater than 6.1% and less than 22.5%** (corresponding to annualized growth<sup>(1)</sup> greater than or equal to 2% and less than 7%), some of the shares initially awarded will vest provided that the employment condition is also met (detailed in the section "Employment condition");
- ▶ **less than 6.1%** (i.e., annualized growth of less than 2%), no shares will vest. In this case, a further performance assessment will be carried out three months later with annualized share price benchmarks of between 2% and 7%. This measurement of performance may be repeated until the sixth anniversary of the grant date (N+6).

The first time that the annualized increase between the Average Share Price and the Initial Reference Share Price crosses the 2% threshold (as an annualized increase) is when the number of shares vested is determined, even if the annualized increase subsequently rises. Over time, the minimum threshold (growth of the share price) to be reached in order to receive a minimum number of Essilor shares will increase: 6.1% at N+3, 8.2% at N+4... 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 will not receive any Essilor shares.

**Employment condition**

Plans from 2012 to 2014: for French tax residents, the award of shares is subject to the grantee'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.

For non-French tax residents, the employment condition is set:

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

Starting from the 2015 plans: for French tax residents, the acquisition of shares is subject to the grantee's employment with the Group on the date the performance condition is achieved, which may occur between the third anniversary and the sixth anniversary of the award.

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

- ▶ on the fourth anniversary of the award if the achievement of the performance condition occurs between the third and fourth anniversary;
- ▶ on the date that the performance condition is met, if that day occurs after the fourth anniversary of the award.

This employment condition is waived in the event of the grantee's death, disability, lay-off or retirement of the beneficiary.

**Holding condition**

Plans from 2012 to 2014: Once the performance condition is achieved, the shares acquired must be kept. French tax residents may sell the shares acquired no earlier than the sixth anniversary of the initial award. For non-French tax 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 6 to the consolidated financial statements (Section 3.4).

Starting from 2015 plans: Once the performance condition is achieved, the shares acquired must be kept. French tax residents may sell the shares acquired no earlier than the fifth anniversary of the initial award. All shares acquired are only available to non-French tax residents after the fourth anniversary of their initial award. Refer also to Note 5 to the consolidated financial statements (Section 3.4).

(1) For the 2012 to 2014 plans: Calculation formula:  $(\text{Average Price} / \text{Initial Price})^{(1/N)} - 1$  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.

2015 plan: Calculation formula:  $(\text{Average Price} / \text{Initial Price})^{(1/N)} - 1$  where N is the number of years between the award and the performance measurement date. N=3 then, if the performance condition is not achieved, 3.25 and so on up to a maximum of six.

## 5.2.5.2 Outstanding rights to performance shares

Date of award <sup>(a)</sup>	Number of rights awarded	Of which the Executive Committee	Initial Reference Share Price (useful for evaluating performance) (€)	Number of rights outstanding at December 31, 2016	Number of rights outstanding at January 31, 2017
November 27, 2012	1,176,340		71.35		
December 14, 2012	98,640		71.35		
November 25, 2013	1,279,460	161,000	77.29	704,880	704,735
December 20, 2013	96,880		77.29	280	260
November 25, 2014	1,448,464	197,500	87.16	888,229	887,219
December 19, 2014	96,440		87.16	240	240
December 02, 2015	1,251,533	305,900	121.32	1,230,458	1,229,159
December 18, 2015	91,620	280	121.32	86,060	85,540
September 22, 2016	1,372,233	320,420	114.88	1,367,826	1,365,976
December 19, 2016	67,830	195	99.97	67,830	67,830
<b>TOTAL</b>	<b>6,979,440</b>	<b>1,724,425</b>		<b>4,345,803</b>	<b>4,340,959</b>

(a) Plans prior to that of November 27, 2012 no longer have the right to acquire performance shares.

Rights to performance shares are presented below:

	At December 31, 2016	Of which in 2016	At January 31, 2017	Of which in 2017
Rights granted <sup>(a)</sup>	6,979,440	1,440,063	6,979,440	
Rights canceled <sup>(a)</sup>	315,419	106,969	319,895	4,476
Rights exercised <sup>(a)</sup>	2,318,218	1,113,448	2,318,586	368
Rights outstanding <sup>(a) et (b)</sup>	4,345,803		4,340,959	

(a) Plans from November 27, 2012 to December 19, 2016.

(b) i.e. 1.99% of the share capital at December 31, 2016.

## 5.2.5.3 Grant and exercise of stock options during the year

## Award and exercise:

- ▶ share subscription options;
- ▶ share purchase options;
- ▶ performance share rights;  
granted to non-corporate directors and officers.

	Total number	Average weighted price (€)	Expiration date	Related plans
<b>Options granted during the 2016 fiscal year</b> by the issuer and by any company included in the scope of award of options, to the ten employees of the issuer and of any company included in this scope, of which the number of options thus granted is the highest (overall information)	24,281	114,88	09/22/2023	09/22/2016
<b>Rights to performance shares granted during the 2016 fiscal year</b> by the issuer and by any company included in the scope of award of options, to the ten employees of the issuer and of any company included in this scope, of which the number of options thus granted is the highest (overall information)	169,932 75	114,88 99,97	09/22/2022 12/19/2022	09/22/2016 12/19/2016
<b>Options held</b> on the issuer and the companies referred to above, <b>exercised during</b> the fiscal year 2016 by the ten employees of the issuer and of these companies, of which the number of options thus granted is the highest (overall information)	32,448	60,79		11/26/2009 11/25/2010 11/27/2012 11/25/2013 11/25/2014



#### 5.2.5.4 History of awards of stock subscription options and rights to performance shares

For more information about performance shares, also refer to Section 5.2.5, "Performance shares."

Plan	11/26/2009	11/25/2010	11/24/2011
Date of Shareholders' Meeting	May 11, 2007	May 11, 2010	May 11, 2010
Date of Board of Directors Meeting	November 26, 2009	November 25, 2010	November 24, 2011
Type of plan	Capped share subscription option plan, performance <sup>(a)</sup>	Capped share subscription option plan, performance <sup>(a)</sup>	Capped share subscription options plan, performance <sup>(a)</sup>
Total number of shares that can be subscribed or purchased	Maximum 1,579,120	Maximum 634,760	Maximum 85,620
By the corporate directors and officers	230,000		
▶ Xavier Fontanet	80,000		
▶ Hubert Sagnières	150,000		
By the top 10 employee beneficiaries	194,000	75,000	28,300
Point of departure of exercise	November 28, 2011	November 26, 2012	November 25, 2013
Date of expiration	11/26/2016 or 2017	November 25, 2017	November 24, 2018
Price of subscription or purchase (€)	38,960	48,010	52,270
Number of beneficiaries	2,412	1,362	232
Exercise procedures <sup>(b)</sup>	Non-residents and residents: prohibition on exercise until completion of performance. Next, next month 50% in the third year and the balance in the following years. Cancellation possible.	Non-residents and residents: prohibition on exercise until completion of performance. Next, next month 50% in the third year and the balance in the following years. Cancellation possible.	Non-residents and residents: prohibition on exercise until completion of performance. Next, next month 50% in the third year and the balance in the following years. Cancellation possible.
Number of shares subscribed at December 31, 2016	1,316,171	506,220	66,460
Subscription options or rights to performance shares canceled	262,949	69,484	12,880
Subscription options or rights to performance shares remaining		59,056	6,280

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and may be canceled if this condition is not reached.

(b) The vesting of subscription options is subject to a performance condition based on the annualized growth in the market price of the Essilor share. A second performance condition applies specifically to the corporate directors and officers: the number of vested options may be reduced in the case of an average rate of accomplishment of variable remuneration objectives of less than 100%.

Plan	11/27/2012	11/27/2012	12/14/2012	11/25/2013	11/25/2013
Date of Shareholders' Meeting	May 11, 2012	May 11, 2012	May 11, 2012	May 11, 2012	May 11, 2012
Date of Board of Directors Meeting	November 27, 2012	November 27, 2012	November 27, 2012	November 25, 2013	November 25, 2013
Type of plan	Capped share subscription options plan, performance <sup>(a)</sup>	Rights to performance shares	Rights to performance shares (France Collective Plan)	Capped share subscription options plan, performance <sup>(a)</sup>	Rights to performance shares
Total number of shares that can be subscribed or purchased	Maximum 81,760	Maximum 1,176,340	Maximum 98,640	Maximum 87,880	Maximum 1,279,460
By the corporate directors and officers		45,000	20		45,000
► Xavier Fontanet					
► Hubert Sagnières		45,000	20		45,000
By the top 10 employee beneficiaries	32,900	193,750	120	34,350	201,500
Point of departure of the financial period	November 27, 2014	Residents: November 27, 2014 Non-residents: November 27, 2016 <sup>(c)</sup>	Residents: December 14, 2014 Non-residents: December 14, 2016 <sup>(d)</sup>	November 25, 2015 <sup>(e)</sup>	November 25, 2015 <sup>(f)</sup>
Date of end of plan	November 27, 2019	November 27, 2018 or 2020	December 14, 2018 or 2020	November 25, 2020	November 25, 2019 or 2021
Price of subscription or purchase (€)	71,350	NS <sup>(b)</sup>	NS <sup>(b)</sup>	77.29	NS <sup>(b)</sup>
Number of beneficiaries	216	5,035	4,932	248	5,775
Exercise procedures	Non-residents and residents: prohibition on exercise until completion of performance. Next, next month 50% in the third year and the balance in the following years. Cancellation possible.	Non-residents: award subject to performance. Cancellation possible. 50% sellable on award, 50% blocked until November 27, 2018 or 2020 depending on the date of final award. Residents: award subject to performance. Cancellation possible. Sellable starting November 27, 2018 or 2020 depending on the date of final award	Non-residents: award subject to performance. Cancellation possible. 50% sellable on award, 50% blocked until December 14, 2018 or 2020 depending on the date of final award. Residents: award subject to performance. Cancellation possible. Sellable starting December 14, 2018 or 2020 depending on the date of final award	Non-residents and residents: prohibition on exercise until completion of performance. Next, next month 50% in the third year and the balance in the following years. Cancellation possible.	Non-residents: award subject to performance. Cancellation possible. 50% sellable on award, 50% blocked until November 25, 2019 or 2021 depending on the date of final award. Residents: award subject to performance. Cancellation possible. Sellable starting November 25, 2019 or 2021 depending on the date of final award
Number of shares subscribed at December 31, 2016	37,222	1,076,300	88,320	19,421	481,150
Subscription options or rights to performance shares canceled	7,345	100,040	10,320	5,443	93,430
Subscription options or rights to performance shares remaining	37,193			63,016	704,880

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and maybe canceled if this condition is not reached.

(b) If the performance shares are awarded, they will be produced and taken from the inventory of treasury shares held by the Company.

(c) For non-residents, the shares may be awarded as soon as November 27, 2016.

(d) For non-residents, the shares may be awarded as soon as December 14, 2016.

(e) The options may be awarded when the calculated annualized average is greater than 2% compared to the price of €77.29.

(f) The shares may be awarded to residents when the calculated annualized average is greater than 2% compared to the price of €77.29. For non-residents, the shares may be allocated as soon as Saturday, November 25, 2017.

Plan	12/20/2013	11/25/2014	11/25/2014	12/19/2014
Date of Shareholders' Meeting	May 11, 2012	May 11, 2012	May 11, 2012	May 11, 2012
Date of Board of Directors Meeting	November 25, 2013	November 25, 2014	November 25, 2014	November 25, 2014
Type of plan	Rights to performance shares (France Collective Plan)	Capped share subscription options plan, performance <sup>(a)</sup>	Rights to performance shares	Rights to performance shares (France Collective Plan)
Total number of shares that can be subscribed or purchased	Maximum 96,880	Maximum 121,505	Maximum 1,448,464	Maximum 96,440
By the corporate directors and officers	20		40,000	
▶ Xavier Fontanet				
▶ Hubert Sagnières	20		40,000	
By the top 10 employee beneficiaries	120	59,900	238,600	200
Point of departure of the financial period	December 20, 2015 <sup>(c)</sup>	November 25, 2016 <sup>(d)</sup>	November 25, 2016 <sup>(e)</sup>	December 19, 2016 <sup>(f)</sup>
Date of end of plan	December 20, 2019 or 2021	November 25, 2021	November 25, 2020 or 2022	December 19, 2020 or 2022
Price of subscription or purchase (€)	NS <sup>(b)</sup>	87.16	NS <sup>(b)</sup>	NS <sup>(b)</sup>
Number of beneficiaries	4,844	256	6,410	4,822
Exercise procedures	Non-residents: award subject to performance. Cancellation possible. 50% sellable on award, 50% blocked until December 20, 2019 or 2021 depending on the vesting date. Residents: award subject to performance. Cancellation possible. Sellable starting December 20, 2019 or 2021 depending on the vesting date.	Non-residents and residents: prohibition on exercise until completion of performance. Next, next month 50% in the third year and the balance in the following years. Cancellation possible.	Non-residents: award subject to performance. Cancellation possible. 50% sellable on award, 50% blocked until November 25, 2020 or 2022 depending on the date of final award. Residents: award subject to performance. Cancellation possible. Sellable starting November 25, 2020 or 2022 depending on the vesting date.	Non-residents: award subject to performance. Cancellation possible. 50% sellable on award, 50% blocked until December 19, 2020 or 2022 depending on the date of final award. Residents: award subject to performance. Cancellation possible. Sellable starting December 19, 2020 or 2022 depending on the date of final award.
Number of shares subscribed at December 31, 2016	86,020	2,010	499,035	85,480
Subscription options or rights to performance shares canceled	10,580	8,050	61,200	10,720
Subscription options or rights to performance shares remaining	280	111,445	888,229	240

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and may be canceled if this condition is not reached.

(b) If the performance shares are awarded, they will be produced and taken from the inventory of treasury shares held by the Company.

(c) The shares may be awarded to residents when the calculated annualized average is greater than 2% compared to the price of €77.29. For non-residents, the shares may be allocated as soon as Wednesday, December 20, 2017.

(d) The options may be awarded when the calculated annualized average is greater than 2% compared to the price of €87.16.

(e) The shares may be awarded to residents when the calculated annualized average is greater than 2% compared to the price of €87.16. For non-residents, the shares may be awarded as soon as November 25, 2018.

(f) The shares may be awarded to residents when the calculated annualized average is greater than 2% compared to the price of €87.16. For non-residents, the shares may be awarded as soon as Wednesday, December 19, 2018.

(g) In the case of death or invalidity, the total of options can be exercised immediately.

Plan	12/2/2015	12/2/2015	12/18/2015
Date of Shareholders' Meeting	May 05, 2015	May 05, 2015	May 05, 2015
Date of Board of Directors Meeting	December 02, 2015	December 02, 2015	December 18, 2015
Type of plan	Capped share subscription option plan, performance <sup>(a)</sup>	Rights to performance shares	Rights to performance shares (France Collective Plan)
Total number of shares that can be subscribed or purchased	Maximum 100,023	Maximum 1,251,533	Maximum 91,620
By the corporate directors and officers		35,000	
▶ Xavier Fontanet			
▶ Hubert Sagnières		35,000	
By the top 10 employee beneficiaries	43,549	181,170	100
Point of departure of exercise	December 2, 2018 <sup>(c)</sup>	December 2, 2018 <sup>(d)</sup>	December 18, 2018 <sup>(e)</sup>
Date of end of plan	December 02, 2022	December 2, 2020 or 2023	December 18, 2020 or 2023
Price of subscription or purchase (€)	121.32	NS <sup>(b)</sup>	NS <sup>(b)</sup>
Number of beneficiaries	283	6,744	4,581
Exercise procedures	Non-residents and residents: prohibition on exercise until completion of performance. Then, a maximum of 100% in the fourth year. Cancellation possible.	Non-residents: award subject to performance. Cancellation possible. 100% sellable on award on December 2, 2019 or 2021 depending on the vesting date.  Residents: Award subject to performance. Cancellation possible. 100% sellable starting December 2, 2020 or 2023 depending on the vesting date.	No non-residents on this plan Residents: award subject to performance. Cancellation possible. 100% sellable starting December 18, 2020 or 2023 depending on the date of final award.
Number of shares subscribed at December 31, 2016		735 <sup>(f)</sup>	1,140 <sup>(f)</sup>
Subscription options or rights to performance shares canceled	2,155	20,340	4,420
Subscription options or rights to performance shares remaining	97,868	1,230,458	86,060

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and maybe canceled if this condition is not reached.

(b) If the performance shares are awarded, they will be produced and taken from the inventory of treasury shares held by the Company.

(c) The options may be allocated when the calculated annualized average is greater than 2% compared to the price of €121.32.

(d) The shares may be allocated to residents when the calculated annualized average is greater than 2% compared to the price of €121.32. For non-residents, the shares may be allocated as soon as December 2, 2019.

(e) The shares may be allocated to residents when the calculated annualized average is greater than 2% compared to the price of €121.32.

(f) Shares become fully vested in the case of death or invalidity.

Plan	09/22/2016	09/22/2016	12/19/2016
Date of Shareholders' Meeting	May 05, 2015	May 05, 2015	May 05, 2015
Date of Board of Directors Meeting	September 22, 2016	September 22, 2016	December 06, 2016
Type of plan	Share subscription option plan, performance <sup>(a)</sup>	Rights to performance shares	Rights to performance shares (France Collective Plan)
Total number of shares that can be subscribed or purchased	Maximum 119,392	Maximum 1,372,233	Maximum 67,830
By the corporate directors and officers		67,005	15
▶ Xavier Fontanet			
▶ Hubert Sagnières		35,000	
▶ Laurent Vacherot		32,005	15
By the top 10 employee beneficiaries	24,281	169,932	75
Point of departure of the financial period	September 22, 2019 <sup>(c)</sup>	September 22, 2019 <sup>(d)</sup>	December 19, 2019 <sup>(e)</sup>
Date of end of plan	September 22, 2023	September 22, 2022	December 19, 2022
Price of subscription or purchase (€)	114.88	NS <sup>(b)</sup>	NS <sup>(b)</sup>
Number of beneficiaries	810	11,227	4,523
Exercise procedures	Non-residents and residents: subject to employment condition: 100% after three years: exercise prohibited until attainment of performance objectives. Then, a maximum of 100% in the fourth year. Cancellation possible.	Non-residents: award subject to condition of employment and performance. Cancellation possible. 100% sellable on award at September 22, 2020. Residents: award subject to performance. Cancellation possible. 100% sellable starting September 22, 2021 depending on the vesting date.	No non-residents on this plan Residents: award subject to condition of employment and performance. Cancellation possible. 100% sellable for the registered shares starting on December 19, 2021, for the FCPE Plan starting December 2024 or 2026 depending on the vesting date.
Number of shares subscribed at December 31, 2016		38 <sup>(f)</sup>	
Subscription options or rights to performance shares canceled	3,405	4,369	
Subscription options or rights to performance shares remaining	115,987	1,367,826	67,830

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and maybe canceled if this condition is not reached.

(b) If the performance shares are awarded, they will be produced and taken from the inventory of treasury shares held by the Company.

(c) The options may be awarded when the calculated annualized average is greater than 2% compared to the price of €114.88.

(d) The shares may be awarded to residents when the calculated annualized average is greater than 2% compared to the price of €114.88.

For non-residents, the shares may be awarded as soon as September 22, 2019.

(e) The shares may be awarded to residents when the calculated annualized average is greater than 2% compared to the price of €99.97.

(f) Shares become fully vested in the case of death or invalidity.

## 5.2.6 Stock ownership

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 securities that, now or in the future, carry the right to vote at Shareholders' Meetings.

To the Company's knowledge, there are no shareholders that directly, indirectly or in concert, hold 5% or more of the voting rights.

### Breaches of legal thresholds

During the 2016 fiscal year, no legal threshold was declared to have been crossed upward or downward.

### 5.2.6.1 Different 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 capital increase through the capitalization of reserves, profits or issue premiums, the registered bonus shares awarded to a shareholder in respect of existing 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 absorbing 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 an Extraordinary Shareholders' Meeting unless this decision is first approved by a special meeting of holders of shares with double voting rights.

At December 31, 2016, the Company's bylaws did not contain any restrictions on the exercise of voting rights.

### 5.2.6.2 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 French 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 French Commercial Code:

- ▶ internal shareholders own 8.4% of the Company's share capital and 14.5% of the voting rights. They may exercise these voting rights directly or give proxy to the representatives of the Essilor seven-year FCPE and representatives of the Valoptec Association.

To the best of the Company's knowledge, there are no shareholders' pacts, preemptive rights agreements or other agreements that may, at a subsequent date, result in a change in control of the Company.

### 5.2.6.3 Employee shareholding

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 savings. It offers various possibilities for investment in plans or funds in various countries.

As a result of these systems, 18,351 internal shareholders of the Group currently own Essilor shares. They represent 8.2% of the share capital and 14.2% of the 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 French Purchasing Stock Plans (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 and are either issued through a capital increase or bought directly on the market. The shares are subject to a locking period of between two and seven years, depending on the country.

- ▶ FCPEs affected: FCPE Valoptec International, Essilor group five-year FCPE, Essilor group seven-year FCPE, FCPE Essilor International.
- ▶ Shareholdings outside of France: Essilor Shareholding Plan (USA), Australian Shareholding Plan, Share Incentive Plan (UK), Irish Shareholding Plan, ESPP Korea.
- ▶ Direct share purchase plans: South Africa, Germany, Austria, Belgium, Brazil, Canada, China, Denmark, United Arab Emirates, Spain, Estonia, Finland, Hong Kong, Hungary, India, Indonesia, Ireland, Italy, Laos, Malaysia, Mexico, Norway, the Netherlands, the Philippines, Portugal, Czech Republic, Romania, Singapore, Sweden, Switzerland, the United Kingdom, Taiwan, Thailand, and Turkey.

#### *Stock 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 in 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.

## 5.2.7 Dividend policy

The Company has not established a dividend policy. Every year, the dividend is recommended by the Board of Directors for approval by the Shareholders' Meeting.

### 2017 dividend in respect of fiscal year 2016

For fiscal year 2016, the Board of Directors will recommend to the Shareholders' Meeting of May 11, 2017, a 35.1% increase in the net dividend to €1.50 per share from €1.11 per share for the previous year.

The recommended dividend represents 40% of consolidated net profit attributable to Group equity holders and reflects the Group's solid performance in 2016.

The dividend will be paid after May 19, 2017. It will be paid in cash.

### History of the overall dividend distribution and growth

Total dividends for 2016 and the previous six years were as follows:

€ millions	Net income Group share	Amount distributed	Pay out ratio	Net dividend (€)	Pay out date
2016	813	325 <sup>(a)</sup>	40%	1.50 <sup>(a)</sup>	05/19/2017
2015	757	237	31%	1.11	06/08/2016
2014	642 <sup>(b)</sup>	216	34%	1.02	05/21/2015
2013	593	198	33%	0.94	05/27/2014
2012	584	185	32%	0.88	06/04/2013
2011	506	177	35%	0.85	05/29/2012
2010	462	173	37%	0.83	05/19/2011

(a) Based on treasury shares held at January 31, 2017 and contingent upon approval by the Shareholders' General Meeting on May 11, 2017.

(b) Adjusted to include non-recurring elements related principally to the 2014 acquisition of Transitions Optical, Coastal.com and Costa.

Dividends not claimed within five years will lapse, in accordance with the law.

### Institution paying the Company's dividends

CACEIS Corporate Trust, 14, rue Rouget-de-Lisle, 92862 Issy-les-Moulineaux, France – Tel: +33 (1) 57 78 00 00.



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ADDITIONAL  
INFORMATION ABOUT  
THE REGISTRATION  
DOCUMENT





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# IN BRIEF

## COMPANY NAME

The Company's name is Essilor International (Compagnie Générale d'Optique), hereinafter "Essilor," the "Company" or the "Group."

## MARKET-RELATED INFORMATION

Unless otherwise stated:

- ▶ information on market positions is based on volumes sold;
- ▶ marketing information relating to the market and the ophthalmic industry or Essilor's positions comes from Essilor and from internal assessments and studies, which may be based on external market surveys.

## THIRD-PARTY INFORMATION

When information comes from a third-party, it has been accurately reproduced and, as far as the Company is aware and able to ascertain from the information published by such third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

## PERSONS RESPONSIBLE

**Hubert Sagnières,**  
Chairman and Chief Executive Officer

## STATUTORY AUDITORS

**PricewaterhouseCoopers Audit**  
63, rue de Villiers  
92208 Neuilly-sur-Seine

**Mazars**  
61, rue Henri-Regnault  
92075 Paris-La Défense Cedex

## TRADEMARKS

Essilor®, Orma®, Varilux®, Varilux Comfort®, Varilux® S™ Series, Varilux® E Series™, Varilux®, Physio®, Varilux® Liberty™, Crizal®, Previncia®, Eyezen™, Eyezen™ Lite, E-SPF®, Eye Protect System™, Xperio®, Airwear®, M'EyeFit®, Neksia®, Delta 2™, I-Tronics™, Nautilus™, Kolor Up™, Eyedrive™, Foster Grant®, Gargoyles®, Magnivision®, Corinne McCormack®, Item 8™, Sight Station™, Ryders Eyewear®, Solar Shield®, Freedom Polarized™, Suuna™, Monkey Monkey™, Suntech Optics™, Polinelli®, Costa®, Transitions®, Transitions® Signature™, Transitions® XTRActive®, Flash To Mirror™ Activated by Transitions®, EyeBuyDirect™, Frames Direct™, Coastal™, Clearly™, Lensway™, Coolwinks™, Coastal Vision™, Think About Your Eyes™, Love To See Change™, 2.5 New Vision Generation™, 2.5 NVG™, Eye Mitra™, Ready-to-Clip™, Vision Ambassador™, Essilor Vision Foundation™, Vision for Life™, Kids Vision for Life™ are trademarks of the Essilor Group.

Vision Impact Institute™ is a trademark of Vision Impact Institute.

Bolon™, Molsion™ et Prosun™ are trademarks of Xiamen Yarui Optical Co. Ltd.

Kodak® is a trademark of Eastman Kodak Company.

Nikon® is a trademark of Nikon Corporation.

Shamir® is a trademark of Shamir Optical Industry Ltd.

Osse™ and Mustang™ are trademarks of Merve Optik.

Ironman® is a trademark of the World Triathlon Corporation. Nine West® is a trademark of Nine West Development LLC. Dockers® and Levi's® are trademarks of Levi Strauss & Co. Reebok® is a trademark of Reebok International Limited. Hello Kitty® is a trademark of Sanrio, Inc. Disney® is a trademark of Disney Consumer Products, Inc. Karen Millen® is a trademark of Karen Millen Fashion Limited. French Connection™ is a trademark of French Connection Limited.

## 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 significance.

I declare that, to my knowledge, the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, financial position and earnings of the Company (as well as those of the companies forming part of the consolidated group). The information presented in Management Report, which is detailed in the concordance table in paragraph 6.4.3. presents

fairly the changes in business, results and financial position of the Company and the consolidated group, as well as a description of their principal risks and contingencies, as well as a description of their principal risks and contingencies.

I have obtained a letter from the Auditors stating that they have completed their assignment which included verifying the information bearing on the financial situation and historical accounts presented in this reference document, and that they have read the entire reference document.

Charenton-le-Pont, Thursday, March 30, 2017

**Hubert Sagnières**

## 6.2 Statutory Auditors

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### 6.2.1 Incumbent and alternate Statutory Auditors

#### *Incumbent*

##### PricewaterhouseCoopers Audit

63, rue de Villiers  
92208 Neuilly-sur-Seine

First appointed: Tuesday, June 14, 1983.

Reappointed by the Shareholders' Meeting of May 16, 2013 for a term of six years.

PricewaterhouseCoopers Audit is represented by Olivier Lotz (registered member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*).

The Alternate Auditor for PricewaterhouseCoopers Audit is Étienne Boris (registered member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*).

##### Mazars

61, rue Henri-Regnault  
92075 Paris-La Défense Cedex

First appointed: May 11, 2007.

Reappointed by the Shareholders' Meeting of May 16, 2013 for a term of six years.

Mazars is represented by Daniel Escudeiro (registered member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*).

The Alternate Auditor for Mazars is Jean-Louis Simon (registered member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*).

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### 6.2.2 Resignation or non-renewal

No Auditors resigned in 2016.

## 6.3 Publicly available documents

The bylaws and other corporate documents are available for consultation at the Company's registered office (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 registered office. Registration Document and Annual

Report will be available at the Shareholders' Meeting called to approve for the fiscal year 2016 the annual financial statements on May 11, 2017.

Essilor regularly provides its shareholders with transparent, accessible information about the Group, its activities and its financial results via a large range of resources.

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### Information published by the Company in the past year

Documents published in the BALO may be viewed at <http://balo.journal-officiel.gouv.fr/>

Search with company name: Essilor International or SIREN number: 712049618.

The Group's website [www.essilor.com](http://www.essilor.com) also contains the following public information.

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 analyst meetings, when available;

- ▶ financial press releases and, when available, audio webcasts of conference calls;
- ▶ Annual Reports and Registration Documents (containing historical financial information about the Company) for the last five years;
- ▶ information on Shareholders' Meetings, including notices of meeting, draft resolutions, instructions on how to attend meetings and the results of voting on resolutions;
- ▶ information on sustainable development.

## 6.4 Cross-reference tables

### 6.4.1 Registration Document

The following regulated information described in Article 221-1 of the AMF's General Regulations is provided in this document:

- ▶ the Annual Financial Report;
- ▶ the information concerning Auditors' fees;
- ▶ the 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.

<b>1</b>	<b>Persons Responsible</b>	<b>page 273</b>	<b>Chap. 6.1</b>
<b>2</b>	<b>Statutory Auditors</b>	<b>page 274</b>	<b>Chap. 6.2</b>
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<b>9</b>	<b>Operating and Financial Review</b>		
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10.2	Cash flows	page 116	Section 3.3.5
10.3	Information on borrowing requirements and funding structure	page 149	Section 3 Note 20
10.4	Restrictions on the use of capital resources		N/A
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<b>11</b>	<b>Research and development, patents and licenses</b>	<b>page 20</b>	<b>§ 1.5.3</b>
<b>12</b>	<b>Trend Information</b>	<b>pages 108 and 161</b>	<b>Chap. 3.2 and Chap. 3 Note 30</b>
<b>13</b>	<b>Profit Forecasts or Estimates</b>		<b>N/A</b>
<b>14</b>	<b>Management, Governance and Supervisory Bodies and Senior Management</b>		
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The information presented in this Registration Document has been prepared primarily by the Corporate Finance Department, the Corporate Legal Department and Essilor International Department of Investor Relations.

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SEEING THE WORLD BETTER

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A French Limited Company (*Société Anonyme*)

with capital of €39,331,386.18

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