2017 REGISTRATION DOCUMENT

ESSILOR

SEEING THE WORLD BETTER

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The Registration Documents and releases cited are available at:
@ Investors / Publications
www.essilor.com

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

** Includes the report on the compensation policy of Executive Corporate Officers subject to the approval of shareholders as of April 24, 2018.*

ESSILOR

SEEING THE WORLD BETTER

2017 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 27, 2018, under number D.18-0193 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.

2017 KEY FIGURES

7,490
Revenue in €m

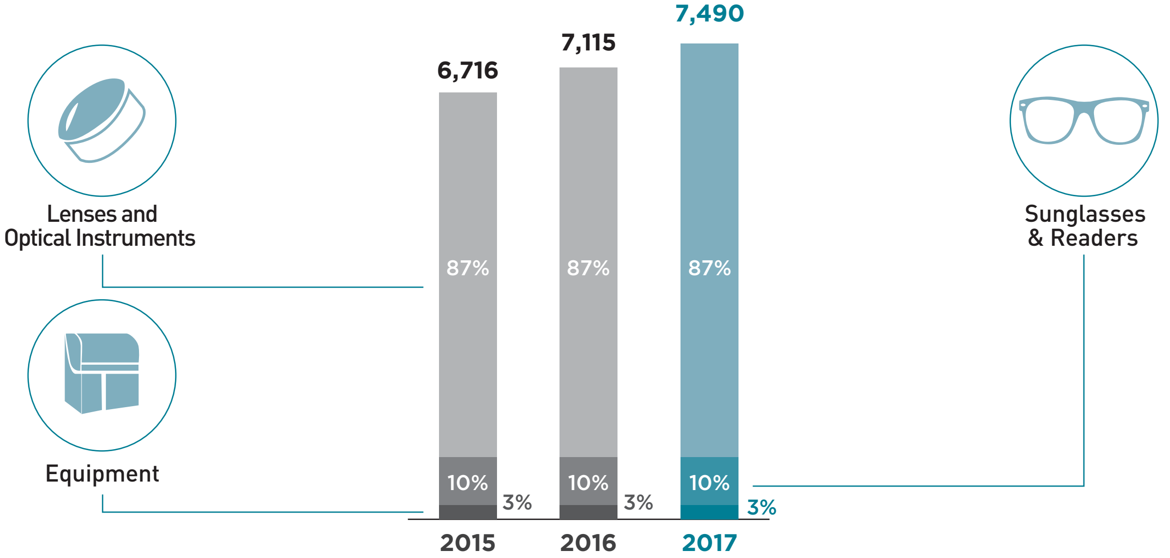
833
Adjusted[(a)] Net Profit attributable to equity holders

66,918
Employees across five continents

34
Plants worldwide

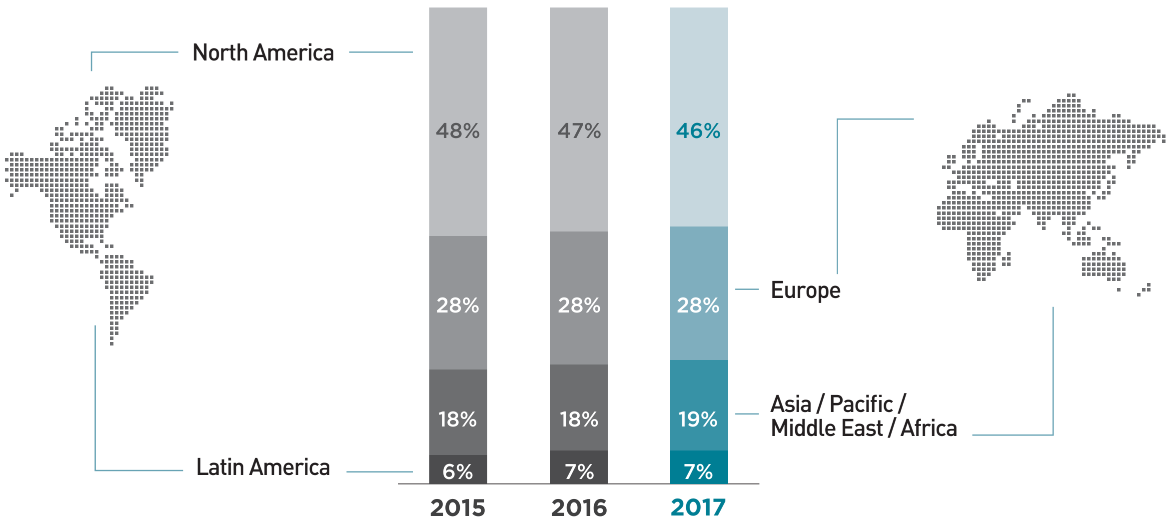
Revenue by operating segment

€ millions and as a % of total Group revenue



Revenue by Region, across all business divisions

As a % of total Group Revenue



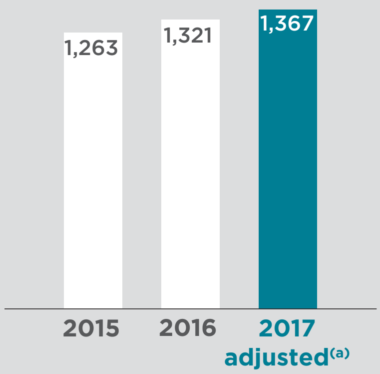
9
new partnerships or acquisitions around the world
(representing a combined full-year revenue of €87m)

481
prescription Laboratories and edging facilities

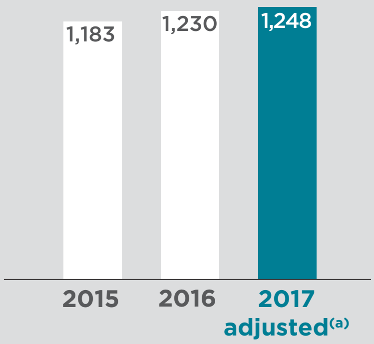
8,780
patents[d] and

8,775
trademarks[d]

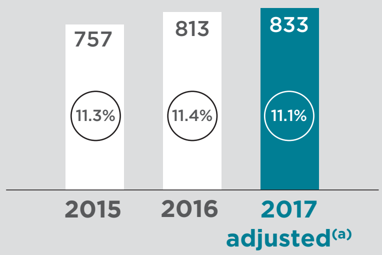
Contribution from operations[b]
€ millions



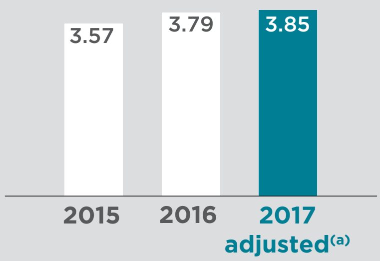
Operating Profit
€ millions



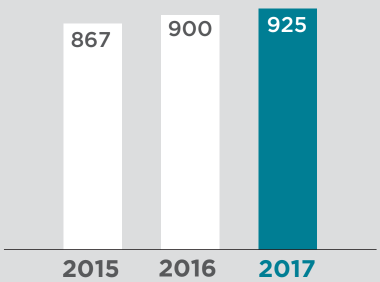
Net profit attributable to equity holders +2.5%
€ millions and as a % of revenue



Earnings per share
€



Free Cash flow[c]
€ millions



SHARE PRICE EVOLUTION OVER THE PAST 10 YEARS

+10.2%*
for Essilor

-0.6%*
for CAC 40

**CAGR: Compound Annual Growth Rate.*

(a) There are two main types of adjustment items. First, expenses associated with the planned combination with Luxottica, and, second, the positive effects of tax changes in the United States and France. The reported accounts and a reconciliation of the reported accounts to the adjusted accounts are provided in chapter 3.
(b) Contribution from operations: Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs, and other operating expenses).
(c) Net cash from operating activities less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.
(d) Pending or granted / registered.

1

CHAPTER

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 revenue of around **€7.5 billion** in 2017. The Group markets its products in more than **100 countries** and employs approximately **67,000** people.

The Group has **34 plants, 481 prescription laboratories** and edging facilities and four 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®
Crizal®
Transitions®
Eyezen™
Xperio
FOSTER GRANT®
BOLON 暴龙
COSTA

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* *2017 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 Ophtalmiques 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 specialisation 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 antireflective, antismudge and antiscratch 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 21st 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® Prevencia® 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 2000-2010 decade was marked by major strategic partnerships, in particular with 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.

1.1.5 A bigger playing field

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™, Molsion™ and Prosun™ 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 Mission Officer in charge of coordinating and strengthening all of the Group's CSR initiatives (see Section 4.2.1. of this document).

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) and expanded in China by taking 50% stake in Photosynthesis Group, which markets sunglasses and corrective lenses under a range of banners including MJS.

In 2017, Essilor and Delfin, the majority shareholder in Luxottica, announced on January 16 that they had signed an agreement to create an integrated global player in the eyewear industry with the combination between Essilor and Luxottica. The transaction is subject to satisfaction of several conditions precedent (see Chapter 7 Combination between Essilor and Luxottica).

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.

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

According to data available to the Group, the world industry for ophthalmic optics represents approximately 1.35 billion lenses per year[1], or approximately 677 million consumers per year[1].

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.

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

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

(1) *Essilor estimates, 2017*

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, antiscratch, antireflective, antismudge, antistatic, antifog and other coatings.

Essilor operates in this segment and owns 481 prescription laboratories and edging facilities around the world.

Essilor's Equipment business also designs equipment ranges (primarily machines for surfacing and antireflective 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 market segments. The Company estimates its position to be approximately 25%(1) 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 86.7% of consolidated revenue in 2017, or close to €6.5 billion.

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 better vision, preserve and protect their eyesight and improve their lens wearing experience.

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

- Varilux® and its progressive lens range, including the Varilux® X series™ launched in 2017;
- Crizal® and its range of antireflective, antismudge and antistatic lenses, including Crizal® Sapphire™ 360°, introduced in 2017;
- Transitions® and its photochromic lenses (that darken on exposure to UV light), including the new generation Transitions® Signature™ (2013) and Transitions® Xtractive® (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 brands used under licensing agreements with Nikon Corporation and Eastman Kodak, respectively.

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.

The Company has also been working for several years to develop solutions for **online sales** of optical products including contact lenses, prescription eyewear and sunglasses to better serve the fast-growing online retail channel. This effort is supported by a number of local websites currently covering countries such as:

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

1.3.1.2 Positioning

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

The global ophthalmic optics industry represents a total of about 1.35 billion lenses(1) a year, or some 677 million consumers(1), and production worth close to €12 billion(1).

This industry is highly fragmented and served primarily 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 factors including demand from fast-growing economies where vision correction needs continue to be unmet, the aging of the world's population and the development of new offerings intended to meet an increasing number of visual needs. In 2017, the global ophthalmic optics industry expanded by slightly over 3%, according to Essilor's estimates, with volumes driven primarily by Asia.

(1) Essilor estimates, 2017.

The **online segment** is worth around €5.4 billion[(1)] per annum. In 2017, Essilor generated revenue of €440 million[(2)] in this segment, an increase of 39%[(1)] at constant exchange rates. Europe and North America contributed 88%[(1)] of this revenue and the rest of the world 12%[(1)] . The Company is in line with its goal of generating between €400 million and €500 million of revenue in this segment by 2018.

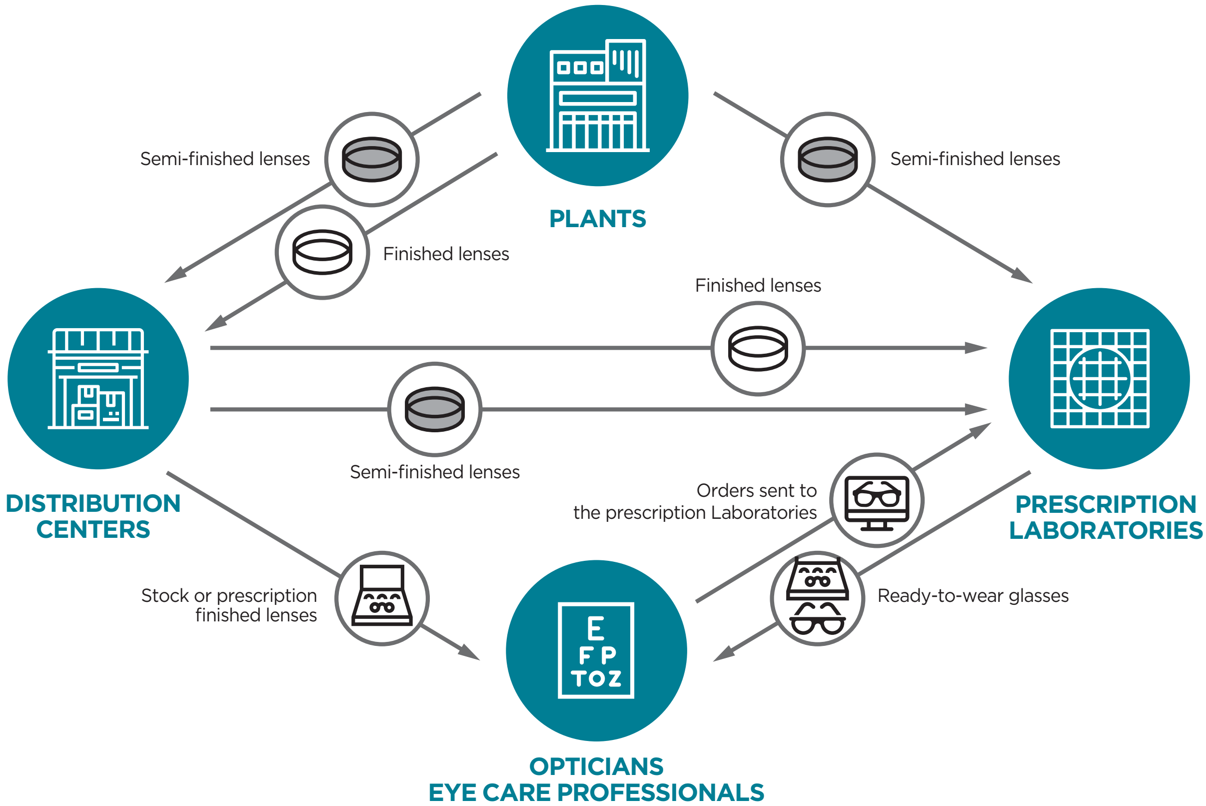
Essilor's customers are:

- 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.

1.3.1.3 Organization and facilities

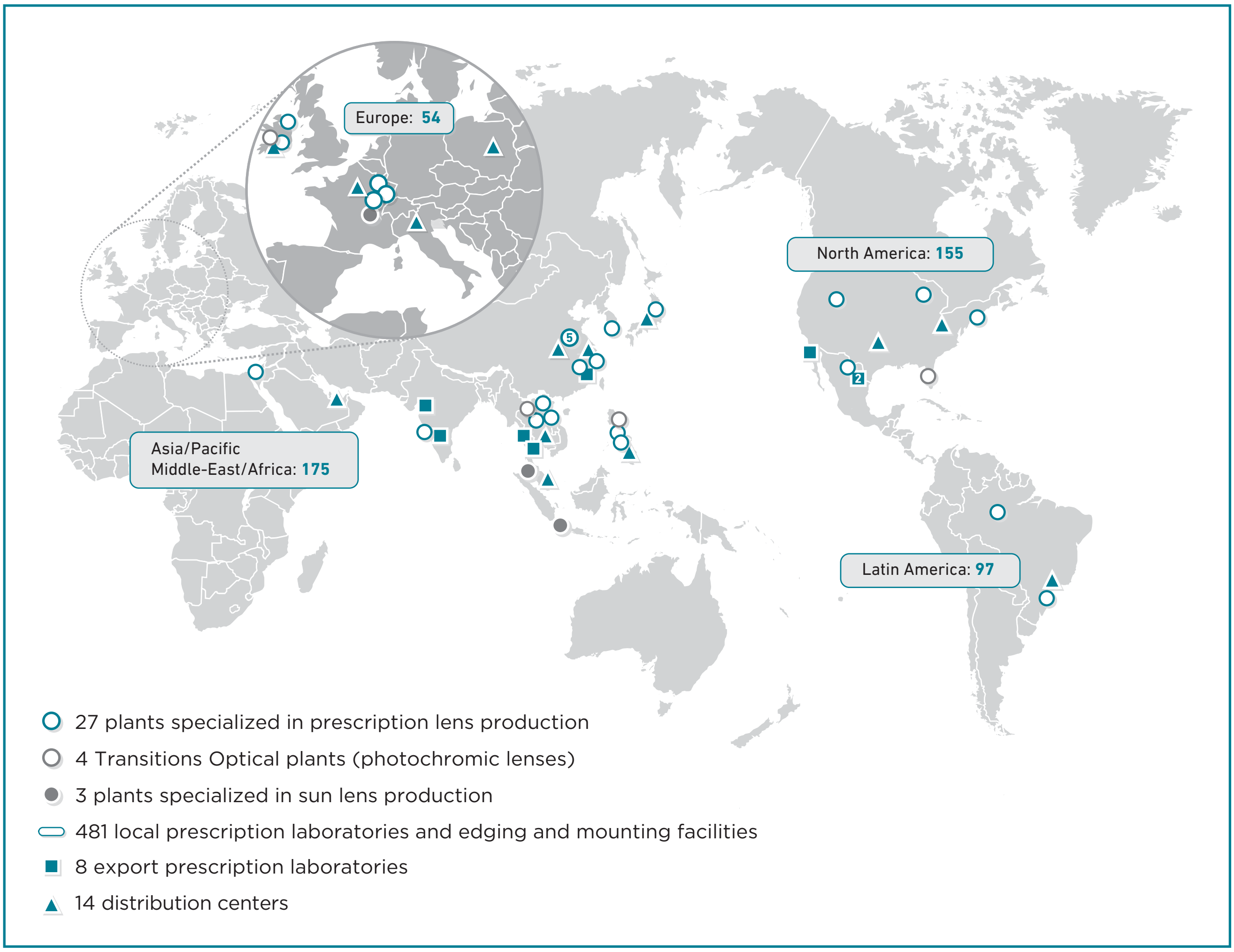
BUSINESS PROCESS

Essilor's business process is designed as a complete network. The Group is involved in every step, from product manufacture to 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) Essilor estimates, 2017.
(2) 2017. figures compiled from online sales of the Company's BtoC websites and from online sales recorded by the Sunglasses & Readers Division. Essilor estimates.

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 34 plants at December 31, 2017.

Geographical distribution of the 34 plants owned by the Essilor and its partners at December 31, 2017

(Date of consolidation)

	North America: 5	Latin America: 2	Europe: 7	Asia/Middle East: 20
14 Essilor plants	**United States:** Dudley, Massachusetts (1995) Salt Lake City, Utah (2003) **Mexico:** Chihuahua (1985)	**Brazil:** Manaus (1989)	**France:** Ligny-en-Barrois Les Battants (1959) Dijon (1972) Sézanne (1974) Bellegarde-sur-Valserine (2003)* **Ireland:** Ennis (1991)	**China:** Shanghai (1997) **Laos:** Savannakhet (2013) **Philippines:** Mariveles (1980) Laguna (1999) **Thailand:** Bangkok (1990)
4 Transitions Optical plants	**United States:** Pinellas Park, Florida (2014)		**Ireland:** Tuam (2014)	**Philippines:** Laguna (2014) **Thailand:** Amphoe Phan Thong (2014)
16 plants operated in partnership or recently acquired by the Company	**United States:** X-Cel Optical, Sauk Rapids, Minnesota (2012)	**Brazil:** Segment Produtos Oftalmicos, São Paulo (2015)	**United Kingdom:** Crossbows Optical (2010)	**China:** Essilor Korea *via* its subsidiary Chemilens, JiaXing (2006) ILT Danyang, Danyang (2010) Wanxin Optical, Danyang (2010) Youli Optics, Danyang (2011) Seeworld Optical, Danyang (2012) Jiangsu Creasky Optical, Danyang (2017) **India:** GKB Vision, Bardez, Goa (2015) **Indonesia:** Polycore, Karawang (2013)* **Israel:** Shamir Optical, Kibbutz Shamir (2011) **Japan:** Nikon-Essilor, Nasu (2000) **Malaysia:** Polycore, Johor Baru (2013)* **South Korea:** Essilor Korea *via* its subsidiary Chemiglas, Yangsan (2002) **Vietnam:** Essilor Korea *via* its subsidiary Chemiglas, Dai An (2013)

* *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, 2017, the Company's prescription laboratories and edging facilities were located as follows:

North America	155
Europe	54
Asia/Pacific/Middle East/Africa	175
Latin America	97

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 fourteen centers worldwide: seven in Asia, four in Europe, two in North America and one 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 2017, or €226 million.

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

1.3.2.2 Positioning

Essilor estimates that the global market for prescription laboratory equipment and consumables is worth around €600 million[1].

Satisloh is one of the world's leading manufacturers of surfacing machines and anti-reflective coating units. Its expertise is globally recognized in the market place. The acquisition of SCL International in 2016 has rounded out its offer in hard-coating machines. The combination of machines and consumables enables Satisloh to provide end-to-end solutions 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) *Essilor estimates, 2017*

1.3.3 Sunglasses & Readers

1.3.3.1 Overview

The Sunglasses & Readers Division accounted for 10.2% of consolidated revenue in 2017, or €766 million. It markets non-prescription sunglasses and reading glasses.

The division comprises several companies, each having a portfolio of well-known brands:

- FGX International and its subsidiaries, which markets readers and sunglasses under both proprietary and licensed brands. Proprietary brands include Foster Grant®, Freedom Polarised™, Gargoyles®, Magnivision®, Corinne McCormack®, Monkey Monkey™, Ryders Eyewear™, SolarShield® and Suuna™. Licensed brands 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™ brands;
- Merve, which markets sunglasses in Turkey with a portfolio of proprietary brands such as Ossé™ and Mustang™;
- Photosynthesis Group, which markets sunglasses and corrective glasses in China and Southeast Asia under several brands including MJS.

By 2018, Essilor expects to generate €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 sun lens business.

1.3.3.2 Positioning

The organized non-prescription sunglasses industry represents 630 to 680 million[1] pairs and around €7 billion[1] 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 market represents around 330 million[1] pairs and close to €1.5 billion[1] in sales per year (sell-out value).

Among the companies in the Sunglasses & Readers Division, FGX International is one of the main US segment players 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 one of the largest Chinese manufacturers of mid-tier sunglasses.

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

(1) Essilor estimates, 2017

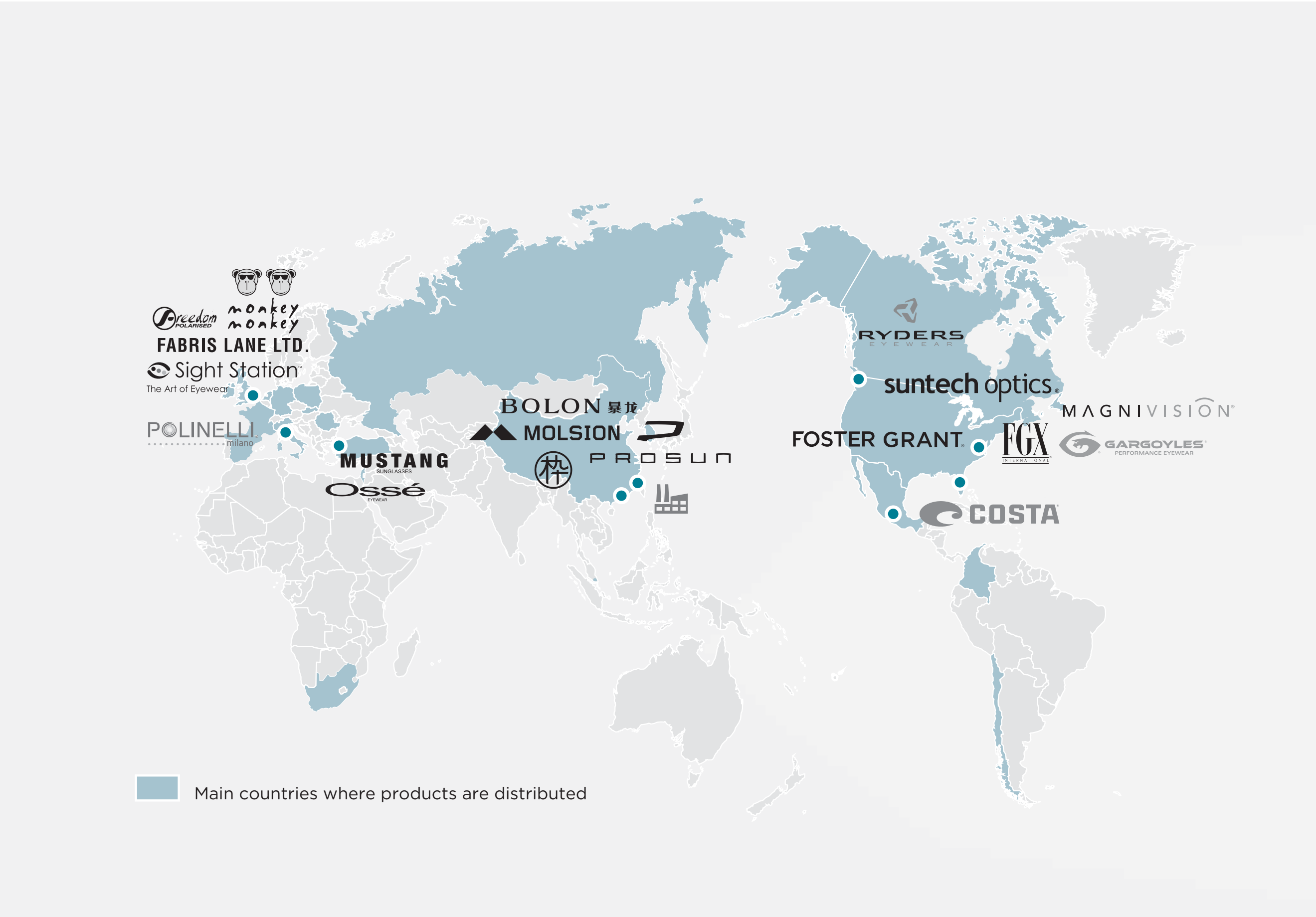
1.3.3.3 Organization and facilities

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:

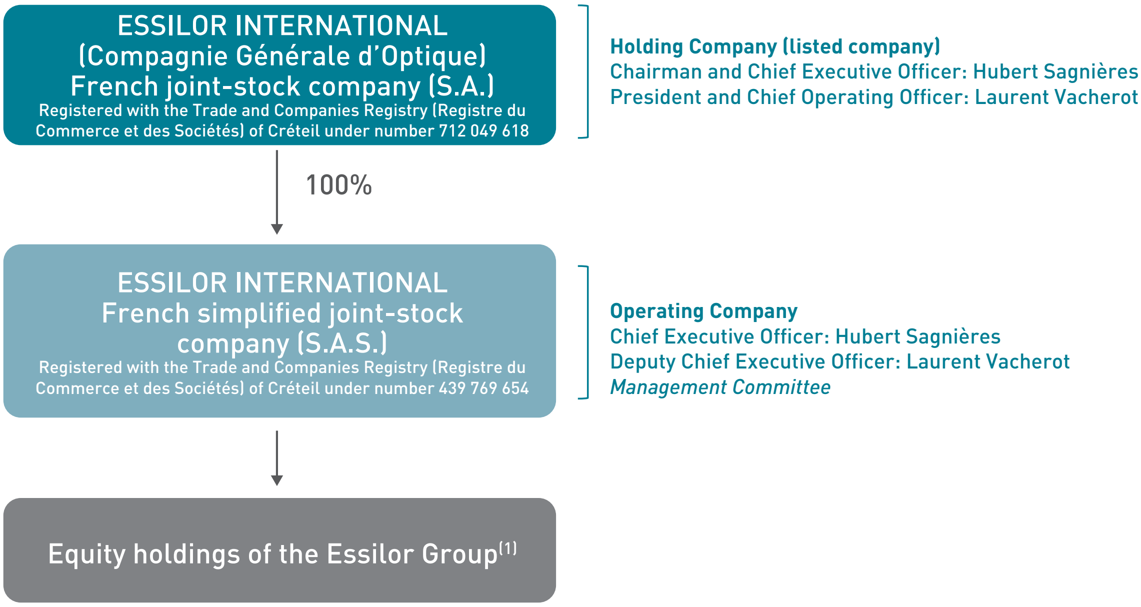
- FGX International is in Smithfield, Rhode Island, United States;
- Costa is in Daytona Beach, Florida, United States;
- Xiamen Yarui Optical is in Xiamen, southeastern China;
- Merve is in Istanbul, Turkey;
- Photosynthesis Group is in Hong-Kong.

Xiamen Yarui Optical (the owner of the Bolon™, Molsion™ and Prosun™ trademarks) has a production plant in Xiamen in southeastern China.



1.4 Simplified organizational chart as of December 31, 2017

The simplified organizational chart below shows the overall legal structure of the Essilor Group.



(1) Excluding the following subsidiaries: Essilor India Private Limited (EIPL), Essilor Manufacturing India Private Limited (EMIL), Essilor Korea Co. Ltd., Onbitt Co. Ltd., for which ESSILOR INTERNATIONAL (Compagnie Générale d'Optique) is shareholder

Essilor International (Compagnie Générale d'Optique)

Essilor International (Compagnie Générale d'Optique) is Essilor's holding company. The Company functions primarily as a holding company that directly or indirectly owns the companies comprising the Group. Essilor International (Compagnie Générale d'Optique) is a French *société anonyme* (public limited company) whose registered office is located at 147, rue de Paris, 94220 Charenton-le-Pont, France, and which is listed in the Créteil Trade and Companies Register under number 712 049 618.

Essilor International

Essilor International (formerly known as "Delamare Sovra") is the company receiving the Hive Down[1] that was completed on November 1, 2017. Essilor International is a French *société par actions simplifiée* (simplified joint stock company) whose registered office is located at 147, rue de Paris, 94220 Charenton-le-Pont, France, and which is listed in the Créteil Trade and Companies Register under number 439 769 654.

Consolidated subsidiaries

The list of the main fully consolidated Group companies and subsidiaries is shown in Note 29 to the consolidated financial statements.

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.

(1) Contribution by Essilor of substantially all its businesses (subject to the apport-scission regime) to a wholly-owned subsidiary of Essilor: Delamare Sovra, which was renamed "Essilor International" before the completion of the Hive Down (i.e., on November 1, 2017). For more information, see Chapter 7 on the presentation of the combination transactions and main stages.

As of January 1, 2018, the Management Committee had 10 members.

Jayanth	BHUVARAGHAN	Chief Mission Officer
Jean	CARRIER	Chief Operating Officer
Hilary	HALPER	Chief Financial Officer
Frédéric	MATHIEU	Corporate Senior Vice President, Human Resources
Bernhard	NUESSER	President, Online
Hubert	SAGNIERES	Chairman and Chief Executive Officer
Paul	du SAILLANT	Chief Operating Officer
Jeremy	TEO	Chief Strategy Officer
Eric	THOREUX	President Sun, Readers and China
Laurent	VACHEROT	President and Chief Operating Officer

1.5 Strategic vision

More than 2.5 billion people lack access to vision correction and 6 billion do not have the vision protection they need. The optical market is being buoyed by structural demand driven by the many unmet visual needs linked to a growing and aging global population, the rapidly rising prevalence of myopia, changing lifestyles, increasing urbanization and new technologies.

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 Company'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 Company 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 and 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).

The proposed strategic combination with Luxottica is completely in line with Essilor's mission and will allow it to be carried out across the globe with even more energy and resources.

1.6 Essilor in 2017

Notes

A. Like-for-like growth: Growth at constant scope and exchange rates. See definition in Note 2.4 to the consolidated financial statements included in Chapter 3 of this document.

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

Essilor began writing a new chapter in its history in 2017 with the announcement on January 16 of its planned combination with Luxottica (see chapter 7 Combination between Essilor and Luxottica).

The Company also continued to implement its strategy throughout the year by developing and bringing new products to market, further expanding its geographic footprint and continuously broadening its scope of operations.

Highlights of the 2017 fiscal year included:

- A sharp acceleration in fourth quarter like-for-like revenue growth at 5.1%;
- Good overall performance at the Lenses and Optical Instruments Division, primarily reflecting accelerated growth in the United States in the second half and strong online sales. These positive trends offset weakness in some countries, particularly Australia and Brazil;
- Global rollouts of the new Varilux® X series™ progressive lens, the new Crizal® Sapphire™ 360° antireflective lens and the Eye Protect System™ innovation, which sets a new standard for protection against UV rays and harmful blue-violet light;
- Further development of the Sunglasses & Readers Division characterized by solid growth in the United States and the integration of Photosynthesis Group in China;
- Robust growth at the Equipment Division, driven by positive momentum in the optical industry and the appetite of many players for new lens manufacturing technologies;
- The completion of nine partnerships or acquisitions representing combined full-year revenue of close to €87 million;
- Significant free cash flow generation[(1)] at €925 million that allowed Essilor to make significant progress in reducing its net debt.

1.6.1 2017 Consolidated Revenue

Revenue *€ millions*	2017	2016	Change (reported)	Change (like-for-like (A))	Scope effect	Currency effect
Lenses and Optical Instruments	**6,498**	**6,218**	**+4.5%**	**+3.4%**	**+2.4%**	**-1.3%**
North America	2,805	2,707	+3.6%	+4.1%	+1.4%	-1.9%
Europe	2,015	1,905	+5.7%	+2.4%	+4.0%	-0.6%
Asia/Pacific/Middle East/Africa	1,192	1,138	+4.7%	+5.1%	+2.0%	-2.3%
Latin America	486	468	+4.0%	-0.9%	+2.8%	+2.0%
Sunglasses & Readers	**766**	**685**	**+12.0%**	**+0.1%**	**+14.8%**	**-3.0%**
Equipment	**226**	**212**	**+6.4%**	**+5.8%**	**+2.0%**	**-1.4%**
TOTAL	**7,490**	**7,115**	**+5.3%**	**+3.1%**	**+3.6%**	**-1.4%**

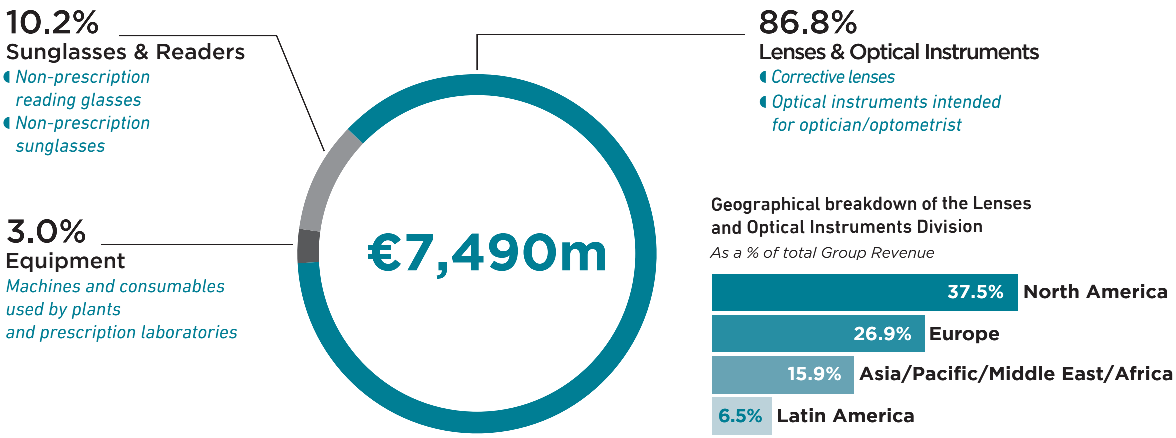
(1) *Net cash from operating activities less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.*

Change in revenue in fast-growing[1] and developed countries

Revenue generated by fast-growing countries[1] amounted to €1,825 million, or 24.4% of the Company's revenue, while revenue generated in developed countries amounted to €5,665 million.

Revenue *€ millions*	2017	2016	Change (reported)	Like-for-like growth (A)	Growth at constant exchange rates
Fast-growing countries[1]	1,825	1,641	+11.2%	+4.2%	+12.0%
Developed countries	5,665	5,474	+3.5%	+2.8%	+5.1%
TOTAL	**7,490**	**7,115**	**+5.3%**	**+3.1%**	**+6.7%**

BREAKDOWN OF 2017 REVENUE BY OPERATING SEGMENT AND BY REGION



Change in revenue from 2016 to 2017

	Reported change	Change (like-for-like (A))	Scope effect	Currency effect
€ millions	375.0	224.0	253.7	(102.7)
As a %	+5.3%	+3.1%	+3.6%	-1.4%

In 2017, consolidated revenue totaled €7,490 million, an increase of 6.7% excluding currency effects.

On a like-for-like basis **(A)**, sales increased by 3.1%, with momentum picking up between the first half (+2.5%) and second half (+3.8%).

The consolidation scope effect (+3.6%) reflected contribution from bolt-on acquisitions **(B)** completed primarily in 2016, but also in 2017.

More than half of the exchange rate effect (negative 1.4%) reflected the US dollar's depreciation against the euro during the year. The rest was mostly due to declines in the value of the British pound, Chinese yuan and Turkish lira, partially offset by the strengthening of the Brazilian real and Russian ruble.

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

1.6.2 Revenue by operating segment and by region

1.6.2.1 Lenses and Optical Instruments

The Lenses & Optical Instruments Division delivered like-for-like growth **(A)** of 3.4% in 2017 for total sales of €6,498 million.

NORTH AMERICA

Like-for-like growth **(A)** was 4.1% in North America, which represented an improvement over prior year levels. Performance was driven primarily by Company initiatives as market conditions remained subdued throughout the year.

In the United States, the Company's core lens business gained momentum through the launch of innovative products and the ongoing deployment of strategic initiatives that allowed for enhanced customer engagement. In conjunction with the launch of the Varilux® X series™ lens, Essilor introduced in the latter part of the year the "Ultimate Lens Package"[(1)], a premium solution intended both for progressive and single-vision lens wearers. It was very well received by independent eyecare professionals and consumers alike. Strategic initiatives focused on independent eyecare professionals, including alliances (Vision Source, PERC/IVA and Optiport) and business solutions (Essilor Experts), further boosted performance. Essilor's key account business continued to experience strong demand for innovative lens offerings, including blue-light-filtering technology, as well as integrated supply chain solutions. The Company also benefited from exposure to faster growing retail groups. Contact lens distribution activities contributed to growth throughout the year.

In Canada, revenue rose slightly.

EUROPE

Like-for-like **(A)** revenue growth of 2.4% in Europe was fueled mainly by new products, an effective multi-network strategy and good results from the instruments and e-commerce activities.

The primary drivers of this growth included the launch during the spring of the new Varilux® X series™ progressive lens, which translated into sustained gains for premium and custom products, as well as strong volume growth for Transitions® photochromic lenses.

Results were mixed across different countries and distribution channels. Alongside Eastern Europe, Russia and Scandinavia, Italy was among the countries that saw the strongest growth in the region thanks to a better product mix with independent opticians. Revenue was flat in Germany, Benelux and France, where the market was affected by longer optical services reimbursement frequencies. In these countries, distribution networks like Novacel and Nika were particularly buoyant. Sales in the United Kingdom and Spain were slightly dampened by a less supportive economic environment.

ASIA/PACIFIC/MIDDLE EAST/AFRICA

In the Asia/Pacific/Middle East/Africa region, like-for-like growth **(A)** of 5.1% reflected robust domestic sales in fast-growing markets, partly offset by slower export growth and declining activity in Australia. In China, domestic sales rose by more than 10% driven by strong growth in mid-range product lines, lenses offering protection from harmful blue-violet light and Eyezen™ lenses. India delivered more mixed results in its domestic market, with buoyant sales of progressive and photochromic lenses achieved against a backdrop of monetary and fiscal upheaval. In Korea, the Company's commercial initiatives drove sales of progressive lenses and Transitions® products. Growth in Southeast Asia and Turkey was very strong, while trends in the Middle East and Africa were more mixed. Japan benefited, quarter after quarter, from an improvement in sales and product mix with independent opticians and optical chains.

LATIN AMERICA

Revenue in Latin America was broadly flat in 2017 (-0.9% like-for-like **(A)**), with a sharp decline in sales in Brazil cancelling out increases in Spanish-speaking countries in the region.

Due to unfavorable economic conditions in Brazil, the country's optical industry was hit by sharply lower foot traffic in optical shops, notably impacting the premium segment. For Essilor, this translated into a decline in sales of Crizal® antireflective lenses and Varilux® progressive lenses, though momentum picked up for the latter in the second half of the year. The repositioning of the Transitions® photochromic lenses with a more attractive value proposition helped sustain sales volumes and enhanced the brand's presence. Under these challenging market conditions, the prescription laboratories saw a small increase in revenue.

Spanish-speaking countries, which now contribute more than half of revenue in the region, continued to post strong gains despite some setbacks. For instance, steady sales growth in Mexico throughout the first half of the year was hindered by the impact of natural disasters on local retailers and the Company's supply chain starting in September. Growth in Colombia was close to 10%, driven in part by increased sales of value-added lenses. Argentina delivered the best performance in the region, and Chile and Costa Rica both kept a healthy dynamic.

(1) Varilux® X series™ lenses + Crizal® Sapphire™ 360° UV + Transitions® Signature® VII for progressive wearers. Eyezen™ lenses + Crizal® Sapphire™ 360° UV + Transitions® Signature® VII lenses for single-vision wearers

INSTRUMENTS

A part of the Lenses and Optical Instruments Division, the Instruments business markets tools for use by optometrists and opticians. It achieved like-for-like **(A)** revenue growth of 8.5% in 2017 thanks to strong sales momentum across all geographies and product lines.

The lens edging-mounting business saw record sales of edgers. The business was boosted by the success of entry-level and mid-range machines, particularly in fast-growing markets with the Delta 2™ compact edging station, and by the launch of the new Pro-E™ 600 edger designed for labs managing high volumes, including online sellers.

Business was very brisk on the optometry side (refraction and diagnostic devices) thanks to new contracts for diagnostic machine sales to key accounts and the launch of a new diagnostic and refraction instrument, Wave Analyzer Cornea 700. This new instrument allows opticians to customize optical equipment thanks to comprehensive exams of the anterior chamber of the eye (measurement of visual performance by day and night, symptoms of visual fatigue, glare sensitivity, etc.).

Sales of in-store measurement instruments were also very strong, notably the measurement columns marketed by French company IVS that enable stores to offer personalized lenses.

E-COMMERCE BUSINESSES

Also part of the Lenses and Optical Instruments Division, the e-commerce businesses delivered like-for-like growth **(A)** of around 13% in 2017. Growth in North America reflected the continued success of the EyeBuyDirect™ business model for prescription lenses in the United States as well as a rebound in Clearly™ sales during the second half. In Europe, robust sales growth was recorded by Vision Direct™ for contact lenses and by Glasses Direct™ for prescription glasses. In Scandinavia, the activities of online contact lens retailers LensOn® (acquired in 2016 with MyOptique Group) and LensWay™ were combined during the year. The online businesses in Brazil (eÓtica and e-lens), China (Coastal Vision™) and India (Coolwinks™) all continued to experience rapid growth.

1.6.2.2 Sunglasses & Readers

The Sunglasses & Readers Division saw like-for-like **(A)** sales growth of 0.1% in 2017.

In North America, revenue ended the year up slightly at FGX International. Sales to consumers measured in stores trended higher both for readers and sunglasses. FGX also renewed contracts with several major customers and enjoyed shelf space gains. Lastly, FGX's international sales were buoyant.

Costa delivered the best performance of the existing Sunwear brands in the American market in 2017. Despite the toll of the hurricanes that swept through the regions of the United States where the brand is widely sold, a proactive policy of developing ties with new customers and independent opticians continued to pay off. Costa also expanded further into the northeast and central part of the country and positioned itself to step up its growth in California in 2018.

In China, Xiamen Yarui Optical (Bolon™) saw its revenue contract in 2017. The company continued to implement its strategic action plan during the year to improve its situation and bolster the Bolon™ and Molsion™ brands. This action plan involves reducing and optimizing inventories at distributors, redefining terms of sale and leveraging greater insight into consumer purchases from retailers. Additional human resources were brought on board, and the company continued to expand its business in ASEAN and on the internet. Meanwhile, Photosynthesis Group (MJS) delivered good results for its first year as part of the group and opened 250 new stores, bringing the year-end total to 1,200.

In Turkey, Merve continued to do well with its Ossé™ and Mustang™ brands.

1.6.2.3 Equipment

Revenue at the Equipment Division increased by 5.8% like-for-like **(A)**. This growth was driven primarily by sales of VFT-Orbit 2™ digital generators and Multi-FLEX™ polishers in Europe, which were buoyed by fresh investments and upgrades to existing production lines. In Asia, the addition of new production capacity, notably in the form of complete laboratories, fueled strong sales of digital surfacing machines, polishers and coating machines as well as a surge in services business. Gains were recorded in Latin America after several midsize labs switched to digital surfacing. Sales in the United States were flat for the year, though a sharp increase in orders for generators and polishers in the last quarter drove up the backlog for the division, which bodes well for the early months of 2018.

1.6.2.4 Exceptional factors

No exceptional factors influenced the Company's main businesses or markets in 2017.

1.6.3 Research and Development

1.6.3.1 Innovation a cornerstone of the Company's strategy

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

Every year, the Company allocates a significant portion of its revenue to research and innovation. In 2017, this investment amounted to €217 million before the deduction of research tax credits.

Essilor improves upon its products each year, either through internal innovation or by leveraging technologies from other industries.

1.6.3.2 A consumer-focused approach to innovation

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

The R&D teams develop innovative technical solutions, products, processes and services to meet individual vision needs around the world. Changes in consumer lifestyles, including new visual demands (digital device use, etc.), as well as longer life expectancy, give rise to major R&D challenges for the vision care sector. As a result of these shifts, new needs are emerging linked to pathologies such as cataracts and age-related macular degeneration.

Consequently, in 2016, Essilor reorganized its R&D to align with a new segmentation of consumers, split into five categories, and with four businesses and areas of expertise:

Consumer categories	Businesses and areas of expertise
Children andolescents (under 18)	Technology and Market Watch;
Young adults (19-45);	Life and Vision Sciences;
Midlife (45-65);	Technology and Engineering Solutions;
Seniors (65 and older);	Smart Vision Solutions.
Next Vision Generation (people with uncorrected vision).	

For each consumer category, the new products introduced to 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.).

As part of the launch of the new Varilux® X series™ progressive lens in 2017, the Company developed new methodologies for testing its products with consumers. One example is the HouseLab™ methodology, which makes it possible to observe wearers in real-life situations and learn from their experiences.

1.6.3.3 A global network built around four R&D centers

Essilor has about 450 researchers working at its four R&D facilities: one R&D Center in Ireland dedicated to photochromic lenses and three Innovation and Technologies Centers in Europe (in Créteil, France), the United States (Dallas) and Asia (Singapore) which develop new products and work to identify and forge the best possible research partnerships.

Essilor also has a development and testing center in Danyang, China, which assesses, compares and improves the performance of products made by its Chinese partners.

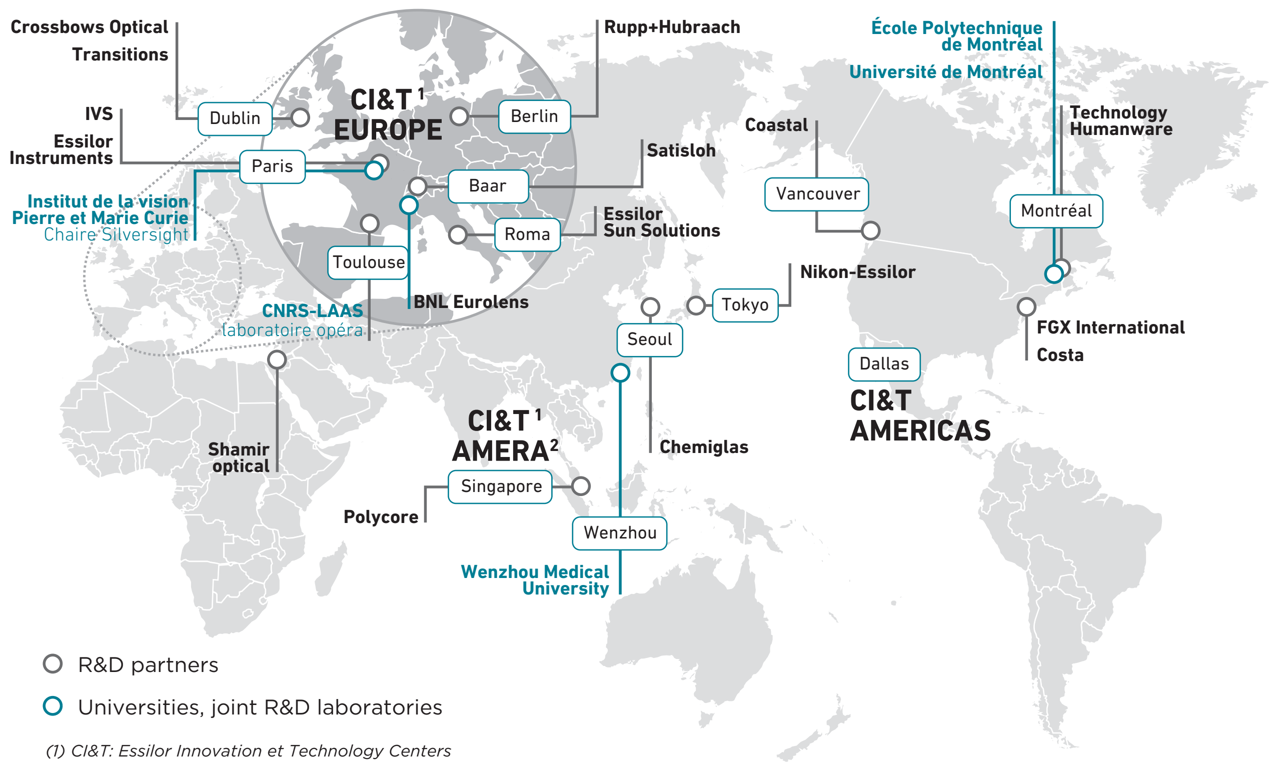
1.6.3.4 R&D partnerships focusing on innovation

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

It has forged several partnerships 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 in Paris focusing on the role light plays in the onset and development of myopia;
- A laboratory run jointly with Wenzhou University in China to study myopia in children;
- A research chair for coatings and surface engineering with *École Polytechnique de Montréal* and three other industrial partners;
- A research chair set up with the University of Montreal to study the vision of presbyopes during mobility;
- A research laboratory run jointly with CNRS-LAAS in France, “Opera”, focusing on lenses and eyeglasses with active and connected functions.

A GLOBAL R&D ORGANIZATION CONNECTED TO RENOWNED INDUSTRIAL AND ACADEMIC EXPERTS



(1) CI&T: Essilor Innovation et Technology Centers
(2) AMERA: Asia, Middle East, Russia, Africa

1.6.3.5 Patents, trademarks and domain names

At the end of 2017, the Essilor Group, including all of its subsidiaries and partners that it controls(1), held:

- 1,780 patent families each representing an invention protected in France and around the world (8,780 pending or granted patents);
- 1,955 brand families each representing a trademark protected in France and around the world (8,775 pending or registered trademarks);
- 2,952 domain names;
- 578 designs and models.

During the year, Essilor filed 143 new patent applications and filed 113 new trademark families as well as 290 new domain names.

Essilor’s dynamic approach to innovation is supported and strengthened by an equally proactive intellectual property policy, both upstream, to drive innovation, and downstream, to enhance protections of individual patents, brands, models and copyrights.

(1) Including subsidiaries that are not wholly-owned.

Another priority is to prevent patent infringement, notably by providing each employee with a best practice guide and patent infringement reporting tools. The Intellectual Property Department offers IP awareness training courses to many employees to encourage them to create, protect and defend Essilor's intellectual property across the globe.

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

1.6.3.6 New products launched in 2017

The main launches involved, firstly, the global rollout of the 2016 innovations and, secondly, the introduction of new products in 2017.

Expanding the Varilux® progressive lens range, Essilor introduced the **Varilux® X series™** lens in 2017 to meet the new expectations of presbyopes, particularly Generation X consumers born between 1965 and 1980. These consumers are very active in their personal and professional lives and they are digitally connected. The Varilux® X series™ lenses leverage the Xtend™ technology, an innovative design notably in the near vision range in the lower part of the lens, to resolve a recurring and common problem with many progressive lenses: the need for wearers to move their head to find the right angle for optimal vision. This technology, combined with a new calculation engine, allows Essilor to design lenses with even greater precision so wearers can see clearly at different distances with one gaze direction, especially in the "arm's length vision" range where most everyday activities occur. Nearly 3,000 presbyopes across the world participated in the development of this new lens through focus groups, video selfies and wearer testing. The Varilux® X series™ lens was launched in Europe in April 2017 and then rolled out to all other regions of the world starting from the second half of the year. It won a *Silmo d'Or* in the *Vision* category at the *Salon Mondial de l'Optique* (SILMO) trade show in Paris in October 2017.

Another highlight of the year was the launch, in the Crizal® antireflective lens range, of the **Crizal® Sapphire™ 360º** lens. It features a new 360° multi-angular technology that sharply reduces reflections from any angle of light, resulting in greater comfort for the wearer while preserving the aesthetic of the lens. The Crizal® Sapphire™ 360° UV lens was launched in the United States in September 2017, at the same time as the Varilux® X series™ lens, as part of the "Ultimate Lens Package"(1). It will be rolled out worldwide in 2018.

In 2017, the Company also expanded its range of products for users of digital devices with the launches of the **Pulseo™** lens at BBGR in Europe and the **Eyezen™ 0** lens in the US, a new version of the Eyezen™ lens intended in particular for the youngsters. The lens provides comfort, offers a great optical precision, and protects from harmful blue-violet light coming from screens.

Over the course of the year, Essilor moved ahead with the global rollout of the **Eye Protect System™** innovation. Thanks to small molecules embedded in the material, this lens provides protection from UV and harmful blue-violet light with no trade-off in terms of reflection or tint. This innovation was also rolled out across the Company's other networks, notably Nikon®, which launched its Blue Secure™ technology in 2017.

In the Transitions® photochromic lens range, Essilor continued to roll out its new **Transitions® Style Colors** line in 2017, a collection of four new colors (sapphire, amethyst, amber and emerald), and the **Flash To Mirror™ Activated by Transitions®** lens, in which the coating takes on a mirror effect in the presence of UV light.

In France, Essilor launched **Essilor® Vivalite™** lens for those who have had cataract surgery. This lens, which combines the benefits of the Eye Protect System™, Transitions® XTRActive® and Crizal® Prevencia® added-values, protects from glare in most situations, including through the windshield of a car, and provides optimal protection from harmful blue-violet light.

- The Company also continued to work to develop new **instruments**, tools and sales support services for opticians and optometrists. It notably expanded its range of lens edging-mounting instruments with the initial rollout of **Pro-E™ 600**, a new Essilor-designed edger for labs that process large volumes.

New products launched late in 2016 were also rolled out by the **Equipment** Division, notably the new generation of **Multi-FLEX™** polishers and the new **VFT-orbit 2™** digital generator.

To support the launch of these new products and increase brand awareness, the Company continued its **consumer marketing** efforts. Spending on consumer marketing across all businesses (lenses, Sunglasses & Readers and e-commerce) was close to €200 million in 2017, most of it devoted to the corrective lens brands (Crizal®, Varilux® and Transitions®). This expenditure was focused on some 20 countries globally.

(1) Package includes the Varilux® X series™ lens and the Crizal® Sapphire™ 360° UV and Transitions® Signature® VII added-values for wearers of progressive lenses and the Eyezen™+ lens and the Crizal® Sapphire™ 360° UV and Transitions® Signature® VII added-values for wearers of single vision lenses.

1.6.3.7 Other R&D highlights of 2017

During the year, the Company selected a winner of its "See Change Challenge". Launched in June 2016, this global innovation challenge was about discovering and developing low-cost solutions for measuring vision problems that can help facilitate access to care for populations with uncorrected vision. The winner of the challenge, the TEAMS Design Inc. USA agency, proposed "QuickCheck", a small mechanical diagnostic and refraction device that can be manufactured anywhere inexpensively. It will be rolled out on a pilot basis in 2018 in countries where Essilor has developed inclusive business models, particularly in rural areas where there are no traditional distribution channels.

The Company also continued its research into longer-term innovation in 2017, notably smart eyewear. A number of initiatives have been put into place in recent years in the following four research areas:

- Frames connected to applications that can measure, analyze and share personal data;
- Glasses whose transmission rate is electronically controlled so they can be quickly adapted to all light conditions;
- Glasses with vision correction that can be adapted to different situations;
- Glasses that can display images to improve the lives of wearers.

1.6.4 Production and Supply Chain

1.6.4.1 The steps in the lens manufacturing process

Essilor's **production plants** produce finished single-vision lenses as well as semi-finished lenses (only the front surface is finished). In general, the finished lenses are for simple eyesight correction such as myopia, hyperopia and some astigmatism. Semi-finished lenses are intended for more complex corrections including presbyopia.

The Company's **prescription laboratories** finish the semi-finished lenses to the specifications of opticians/optometrists. They handle surfacing, polishing, coatings (multilayer and antireflective) and edging-mounting. This "customization" allows Essilor to address the very large number of correction combinations possible, particularly for presbyopia. In the latter case, the labs build multiple correction zones into the lenses for vision at different distances.

Finished and semi-finished lenses manufactured in the production plants are sent to the **distribution centers** which ship them to the distribution subsidiaries, prescription laboratories and edging-mounting facilities.

1.6.4.2 Essilor's manufacturing and supply chain

Essilor oversees every aspect of its lens businesses, from manufacturing through to delivery to stores. It has a network of production plants, prescription laboratories, edging-mounting facilities and distribution centers that serve eyecare professionals across the globe (independent opticians/optometrists, cooperatives, central purchasing agencies and retail optical chains).

As of December 31, 2017, Essilor and its partners operated **34 production facilities worldwide** including one new partner plant, Jiangsu Creasky Optical, which is located in Danyang China and has been included in the scope of consolidation since January 1, 2017. Twenty-seven of these facilities produce prescription lenses, four photochromic lenses and three non-prescription sun lenses.

The Company has a **network of 481 prescription laboratories and edging-mounting facilities around the world**, including 8 large export laboratories that make lenses primarily for the Asian, European and North American markets.

In addition, Essilor has **5 integrated lens and frame platforms** in Bangkok (Thailand), Dallas (United States), Shanghai (China) and Warsaw (Poland). It also has a dedicated e-tailing unit in Danyang (China). These platforms were developed to support the integrated services offered to key accounts, which include lens production, frame management on behalf of clients and, in some cases, the edging-mounting of lenses in frames.

Lastly, Essilor has **14 distribution centers**.

Essilor's supply chain covers all product and lens flows across the globe, from production plants to central logistics hubs and prescription labs through to retail eyecare outlets. It offers unrivalled ability to simultaneously manage flows both of stock lenses (finished lenses completed in the production plants) and custom prescription lenses (semi-finished lenses produced in plants and then sent to prescription laboratories for surfacing and coating). All in all, Essilor's supply chain handles more than 3,000 lens flows per day and more than 1 million SKUs.

	North America	Europe	Asia/Pacific/Middle East/Africa	Latin America
34 **production plants**	5	7	20	2
481 **prescription laboratories** and edging-mounting facilities	155	54	175	97
Including 8 large **export laboratories**			5	3
5 integrated lens and frame platforms	1	1	3	
14 **distribution centers**	2	4	7	1

1.6.4.3 Key figures

	At December 31, 2016	At December 31, 2017
Output from Essilor plants and partner facilities (a)	c. 508 million prescription lenses c. 32 million non-prescription sun lenses	c. 540 million prescription lenses c. 30 million non-prescription sun lenses
Lenses coated and surfaced in the prescription laboratories	c. 129 million lenses (b)	c. 135 million lenses (b)
Inventory days (c)	5.4 months	5.1 months (d)

(a) Includes photochromic lenses made by Transitions Optical and sold to other lens manufacturers.
(b) Excluding acquisitions and partnerships finalized during the year.
(c) Number of days of consumption current inventory levels can sustain.
(d) Same consolidation scope as in 2016.

- Production volumes have risen primarily thanks to increased global demand, especially for mid-range products, and to the insourcing of a portion of the lenses previously sourced from other lens manufacturers;
- In terms of materials, polycarbonate lens output volumes were buoyant during the year and production of 1.56 index and high-index lenses was up sharply versus 2016, notably reflecting strong demand from Asian markets;
- Essilor continued to work to reduce inventory levels in 2017. It made more progress in terms of inventory days and inventory value, even as output increased. Further efforts were notably made to site inventory as close as possible to end-markets. This helps reduce the amount of semi-finished products in inventory at the plants while also unleashing new synergies in flows between mass production, the laboratories and the Transitions Optical plants.

1.6.4.4 Highlights of the year

NEW PRODUCTS

The operations teams worked on several product launches in 2017, particularly the global rollout of the Eye Protect System™ lens and launches of the Varilux® X series™ and Crizal® Sapphire™ 360º lenses.

The Eye Protect System™ lens, which protects the eyes from UV rays and harmful blue-violet light, was developed thanks to Transitions Optical's expertise. This clear lens is made using a different technology than traditional antireflective lenses, one that involves adding molecules into the material to allow it to provide optimal protection with no yellow tint or residual color reflection.

Given the sophisticated data required for each Varilux® X series™ lens, it was necessary to create a new system for calculating optical design and lens production parameters (blocking, surfacing, polishing, etc.). The adoption of this new system by all of the Company's prescription laboratories worldwide *via* cloud technology made the rollout of the Varilux® X series™ lens faster, less expensive and more secure. This adoption process will be used for future rollouts of new progressive lenses.

Several teams from operations and global engineering, along with many people from the production plants and prescription laboratories, also worked to roll out the new Crizal® Sapphire™ 360º antireflective lens across the Company's plants. They played a vital role in mastering this new technology and ensuring that the new lens could be produced to the same quality standards with short lead times at all production facilities.

CAPITAL EXPENDITURE AND THE INTEGRATION OF NEW TECHNOLOGIES

Capital spending in 2017 notably focused on transferring photochromic lens production lines or opening new ones to site them as close as possible to the Group's main production facilities in Brazil, Mexico and Thailand. A line specializing in polarized photochromic lenses was also transferred at the Transitions Optical plant in Ireland.

The Company initiated a two-year investment program in 2017 to support the integration of new technologies at some 30 prescription laboratories that handle high volumes. For instance, new Alloy Replacement Technology (ART) blocking machines developed by Satisloh were installed at the BBGR laboratory in Provins, France, and more will be introduced at other labs in Europe, the United States and Canada in 2018.

Essilor also created an optical frame management tool called GLOBE, which makes it possible to encode the characteristics of tens of thousands of frames. Data for this new infrastructure is provided by the laboratories in Dallas (United States), Warsaw (Poland) and Bangkok (Thailand), which have set up "Frame Centers of Excellence" where frames are inventoried, photographed and traced.

Work continued in 2017 on the development of the frame inventory management system. New functionalities were incorporated into it for the rollout of the "Frame Dream" program used to manage planograms of frames for independent opticians/optometrists in the United States.

Essilor implemented various pilot initiatives in 2017 around the Industry 4.0 concept. A fully automated and connected laboratory fitted with the latest technologies from Satisloh was built on the Essilor of America campus in Dallas (United States). All of the antireflective coating machines at the Essilor lab in Warsaw, Poland were connected in order to identify and measure parameters potentially affecting their performance and thus to optimize production.

MINIMIZING THE ENVIRONMENTAL FOOTPRINT OF THE PRODUCTION PLANTS AND LABORATORIES

In 2017, the Essilor production plants pursued efforts to reduce their water and energy consumption, in keeping with the Company's objectives of achieving by 2020 a 20% reduction in water use per lens produced and a 15% cut in energy intensity per lens produced relative to the 2015 levels.

During the year, solutions were notably introduced to reduce water consumption and reuse water in coating machines at the Company's 50 largest production facilities. Other initiatives focused on reducing energy consumption by antireflective coating machines.

1.6.5 Activities supporting the Company's mission

All the Company's activities are grounded in its mission of improving lives by improving sight. In 2017, Essilor announced its ambition to eradicate uncorrected poor vision in one generation and to ensure that each person on the planet can see clearly.

To this end, it has taken a series of initiatives to better serve all 7.4 billion people in the world, 2.5 billion of whom still suffer from uncorrected poor vision. These initiatives are being carried out in partnership with a large number of organizations in many countries. In 2017, they allowed the Company to provide corrective solutions to 4.5 million people directly and to another 1.2 million people through the coalitions in which it participates. This performance was made possible thanks to actions taken in three key areas:

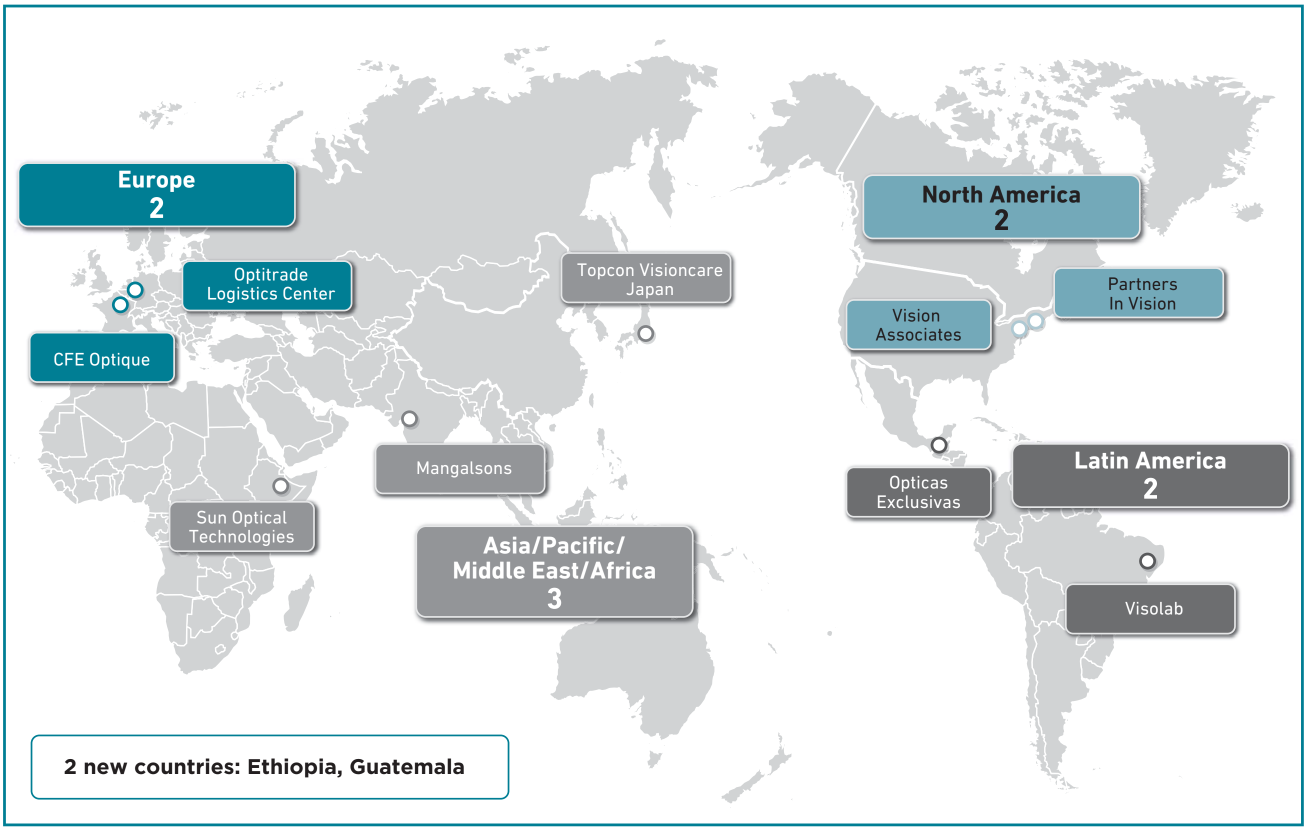
- **Raising awareness of the importance of good vision.** The Company entered into a three-year partnership with the International Automobile Federation (FIA) to promote good vision as a pillar of road safety. To further support this theme, it launched a vision care program for drivers working for "Grab", the leading on-demand transportation platform in Southeast Asia. For World Sight Day, Essilor launched the #PutVisionFirst™ campaign in more than 50 countries to encourage people to get their vision checked regularly by an eyecare professional;
- **Development of inclusive business models.** In its effort to facilitate access to basic vision care, "2.5 New Vision Generation™" (2.5 NVG) had already helped train more than 5,700 primary vision care providers in ten countries at the end of 2017. 2.5 NVG's vision solutions, adapted to local needs since they make it possible to offer eye tests and deliver glasses on the spot, are now distributed in 45 countries. Several new countries were added to the list during the year: Bangladesh, where Essilor was selected to provide vision care to almost 100,000 low-income people; Liberia, where the Company joined a coalition, which signed a four-year agreement to promote equal access to vision care; and Indonesia, where Essilor has begun to design new business models;
- **Strategic giving.** Initiatives in this area, designed to benefit those living below the international poverty line, are carried out through the Essilor Vision Foundation™, the Vision For Life™ fund (in France) and the nonprofit Essilor Social Impact Fund (in the United States).

In addition to these initiatives, Essilor International made in 2017 a one-time contribution for €19 million to mission-related programs focused on eradicating poor vision worldwide.

1.6.6 Acquisitions and Partnerships

The Company completed nine transactions in 2017, representing combined full-year revenue of close to €87 million.

9 ACQUISITIONS AND PARTNERSHIPS COMPLETED IN 2017



Company	Country	Business	Full-year revenue	% held	Consoli-dated from
	Lenses & Optical Instruments – North America				
Partners In Vision, Inc.	United States	Service platform for eyecare professionals	ND*	100%	June 1, 2017
Vision Associates, Inc.	United States		ND*	60%	May 1, 2017
	Lenses & Optical Instruments – Europe				
CFE Optique	France	Distributor of optical products (ophthalmic lenses, frames and instruments) to opticians in Central and Western Africa	c.€2.5 million	100%	Sept. 1, 2017
Optitrade Logistics Center (OLC)	Netherlands	Distribution platform for Optitrade, a purchasing alliance representing some 650 optical stores in the Netherlands	ND*	50.2%	February 1, 2017
	Lenses & Optical Instruments – Asia/Pacific/Middle East/Africa				
Sun Optical Technologies	Ethiopia	Prescription laboratory	€1 million	51%	January 1, 2018
Mangalsons Optics PTE Ltd	India	Distributor of plastic and glass lenses, sunglasses and prescription frames	c.460 million Indian rupees	50%	February 1, 2017
Topcon Visioncare Japan (TVJ)	Japan	Distributor of Topcon's optometry line and Essilor's lens finishing line to opticians in Japan	ND*	Raised from 10% to 51%	March 1, 2017
	Lenses & Optical Instruments – Latin America				
Visolab Produtos Opticos Ltda	Brazil	Prescription laboratory located in the State of Sergipe	c.22 million Brazilian real	51%	February 1, 2017
Opticas Exclusivas	Guatemala	Integrated prescription laboratory operating around 50 optical stores	ND*	70%	April 1, 2017

* *Not disclosed.*

All of the above companies will be fully consolidated by Essilor from the date they are added to the scope of consolidation.

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 3.3.3.

1.6.7 Investments made in 2017 and planned for 2018

1.6.7.1 Investments made

€ millions	2017	2016	2015
Property, plant & equipment and intangible assets (gross of disposals)	308	294	327
Depreciation	375	439	400
Financial investments net of cash acquired	334	706	780
Purchase of treasury shares	0	31	0

1.6.7.2 Capital expenditure

In the industrial sector, capital expenditure net of the proceeds from asset sales were €282 million (4% of revenue), compared to €273 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 (€194 million, of which €61 million for Europe, €40 million for North America and €93 million for the rest of the world), Sunglasses & Readers (€82 million) and Equipment (€6 million).

1.6.7.3 Financial investments

Financial investments net of cash acquired amounted to €334 million in 2017, compared to €706 million in 2016. These investments include, on the one hand, the acquisitions made during the year, in particular Vision Associates and Partners in Vision in the US as well as Creasky in China, Opticas Exclusivas in Guatemala and Visolab in Brazil, and, on the other, price supplements on transactions made prior to 2017.

The Company did not buy back any of its own shares in 2017 (€31 million in 2016).

See Section 3.1.3.

1.6.7.4 Main outstanding investments

Capital expenditure committed but not completed amounted to €100 million at December 31, 2017, corresponding mainly to pending industrial equipment orders. This amount can be broken down as follows: €30 million for Europe, €35 million for North America and €35 million for the rest of the world.

1.6.7.5 Main future investments

In 2018, the Company will continue its capital expenditure in production and prescription.

In the area of finance, the Company will pursue its external growth strategy and may be required to invest in its own shares as part of its share buyback program, as described in Section 5.2.2.3.

1.7 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

MAIN RISKS FACTORS TO WHICH THE GROUP BELIEVES THAT IT IS EXPOSED

RISKS AFFECTING ESSILOR AND ITS BUSINESS	
Operationnal Risk	Innovation and customers 'expectations
	External growth
	Clients (eye care professional)/suppliers
	Supply chain
	Evolution in the optical industry
	International and Geographic locations
	Information system
Market risks	Liquidity risk
	Currency risk
	Interest rate risk
	Counterparty risk
	Risk attached to shares and other financial instruments
Legal Risks	Protection of the intellectual property rights
	Changes to laws or regulations
	Competition law
	Environment, Health and safety
	Material claims and litigation, proceedings, arbitration
Insurance	
RISKS RELATED TO THE COMBINATION WITH LUXOTTICA(1)	

(1) Please refer to chapter 7: presentation of the combination and the main milestones

1.7.1 Risks affecting Essilor and its business

1.7.1.1 Operating Risks

INNOVATION AND CUSTOMERS' EXPECTATIONS

Risks identified	Risk monitoring and management
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.	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, etc. Today, innovation takes new forms, combining technology and understanding of consumer needs. Essilor devotes a significant proportion of its revenue to research and innovation each year. In 2017 it spent €217 million, before the deduction of research tax credits. Cf. Chapter 1 Section 1.6.3.1 and Chapter 4 Section 4.3.2.
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.	Essilor prioritizes consumer needs. Therefore, innovation is closely linked to marketing. The Group's Innovation and Technology Centers work directly with markets on upstream research and development activity. Downstream, researchers work with the marketing teams and "Global Engineering" Department to quickly make innovations available to consumers. In 2017, Essilor developed five road maps based on new consumer segmentation (cf. Section 1.6.3.2 and Chapter 4 Section 4.3.2).

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.

In order to minimize this risk, for all of these consumer categories, the new products sold on the market result from a process of gradually selecting ideas and concepts ("Stage Gate Process") and involving a large number of cross-company stakeholders within the Group (marketing, operations, subsidiaries, etc.).

In 2017, as part of the launch of the new progressive lens Varilux® X series™, the Group developed new methodologies for testing its products on consumers. Amongst these, the new House Lab™ allows for lens wearers to be observed while taking part in everyday tasks and lessons to be learned from their experiences.

To help launch its new products and strengthen brand awareness, the Group has continued to boost its marketing activities with consumers. Total consumer marketing expenses reached approximately €200 million in 2017 (Chapter 1 Section 1.6.3.6 "New products launched in 2017").

EXTERNAL GROWTH

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 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 in Luxottica S.p.A ("Luxottica"), a leader in the design, manufacturing and distribution of fashion, luxury and sports eyewear. In accordance with this agreement, Delfin will contribute its entire stake (approximately 62%) in Luxottica to Essilor in return for newly-issued Essilor shares, and subsequently Essilor (renamed EssilorLuxottica following the contribution of Luxottica shares by Delfin) will 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.

The Group has put in place a monitoring process for acquisitions, which includes:

- setting up multidisciplinary teams to prepare projects and perform the due diligence work;
- a review by the Board of Directors' of acquisitions that represent significant amounts or fall outside the scope of the Group's usual business activities, and of the conditions for their execution and integration.
- Business units are responsible for the execution of the integration plan (including synergies, key employees' retention, adherence to Essilor principles and policies, systems integration…)

A post acquisitions review is regularly carried out by the Board of Directors.

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 2018, but remains subject to the satisfaction of the final contingent conditions, including clearances from relevant competition authorities. Although many of the contingent conditions have been lifted or satisfied, 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 to any business combination, as described in "–If we are not successful in completing and integrating strategic acquisitions to expand or complement our business, our future profitability and growth could be at risk," joint ventures bear further risks as a function of the Group's partnership interest. Certain of the Group's business activities are conducted, or may in the future be conducted, through joint venture entities in which it shares 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 of operations and financial condition.	The Group has put in place, on a situation by situation basis, a monitoring process for minority interests.
CLIENTS (EYE CARE PROFESSIONAL)/SUPPLIERS	
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. 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.	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.
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, Authorisation 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.	In order to minimize this risk, Essilor selects monitors and supervises its key suppliers. Furthermore, it develops and implements procedures to ensure sufficient supply of materials and services, as well as business continuity plans that specify alternative suppliers.

SUPPLY CHAIN

Risk	Risk management
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.). This 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.	We utilize a large network of production plants and distribution centers around the world, in addition to almost 500 laboratories throughout the world. This setup enables Essilor to minimize the effects of incidents affecting one or more sites, as production may be moved to other sites. In 2017, we carried on implementing our business continuity plans namely by continuing to put in place alternative supply solutions for each product.

EVOLUTION IN THE OPTICAL INDUSTRY

Risk	Risk management
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 breakdown of sales by geographic region is shown in the key figures and in the Chapter 1 Section 1.6.1.
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.	Essilor's presence in multiple markets around the world helps to limit exposure.

INTERNATIONAL AND GEOGRAPHICAL LOCATION

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 some of our products, thereby 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. Adverse economic developments affecting demand in one or several of our key markets could have a significant adverse effect on our business, net profit and financial position.	Essilor's presence in multiple markets around the world helps limit exposure to economic conditions in any given market or region. Furthermore, Essilor relies in particular on (i) its reporting system to monitor its activity and the potential impact of economic conditions in the countries where it is present, and (ii) being well organized so that it may take the necessary action (adapting its activity or organization, restructuring if necessary).
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; Essilor operates in certain countries that may be subject to economic and financial sanctions imposed namely by American and European Regulations. These regulations prohibit or regulate certain transactions with specific financial institutions, companies and parties. If the Company and/or its subsidiaries failed to comply with these regulations, Essilor could face criminal sanctions and/or significant financial penalties; - regulation regarding personal data protection; - regulations and the quality of products and their marketing; - 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.	The breakdown of sales by geographic region is shown in Key figures and in Chapter 1 Section 1.6.1. Essilor relies in particular on (i) its reporting system to monitor its activity and the potential impact of economic conditions in countries where it is present, and (ii) being well organized so that it may take the necessary action. As part of its risk prevention and management role and within its budgetary constraints, the management of the compliance unit, under the authority of the Group Chief Compliance Officer, designs compliance programs that help embed a culture of compliance throughout the Group; compliance managers, in close collaboration with other departments (Human Resources, Legal, Audit, Sustainable Development, Finance, Operations), assess risks and implement actions prescribed by the applicable law (e.g. corruption and money laundering, personal data protection, economic and financial sanctions, etc.). An internal Ethics and Compliance Committee regularly monitors these activities. A whistleblowing process is in place. The Legal Department is also involved in risk management and in proactively raising awareness among the Group's senior managers and implementing legal solutions to strengthen the framework of control and good governance. The Group Chief Legal Officer regularly reports on the results of awareness-raising activities, as well as any legal risks and recommended steps to be taken (e.g. audits, implementation of compliance programs, good practices guide). These results are presented to the Management Committee and the Audit & Risk Committee. Similarly, at the local level, the legal team regularly meets with subsidiary Management Committees to report on compliance actions being implemented, as well as areas for improvement.

INFORMATION SYSTEM

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.

To minimize the risk exposure, Essilor put in place a system security audit program, as well as a Disaster Recovery Plan for the most significant data centers. As for the main datacenter, a secondary site has been put in place to handle any failure of the primary data center. Data is backed up twice in the primary data center and once in the secondary data center. The WAN and internet connections are backed up in both data centers.

Furthermore, Essilor has introduced an Information and Communication Technologies Code of Practice which was disseminated at a worldwide level within Essilor group.

1.7.1.2 Market risks

The Group's policy is to limit the impact of market risks on its results and cash flows. The Group Treasury Department, which reports to the Finance Department, is responsible for risk management. The role of the Financial Risk Committee is to determine and validate the financial risk management policy, identify and assess risks, and validate and monitor hedges. The Committee is made up of members of the Group Finance Department and the Internal Audit Department and meets once a month.

Liquidity risk The Group's activities expose it to the risk that its sources of liquidity may be insufficient to cover its financing needs. The Group aims to have a permanent source of liquidity to ensure its independence and growth. More details on liquidity risk are given in Chapter 3.4 - Note 23 of the consolidated financial statements.	The Group generates substantial, and steadily growing, cash flow and has also implemented a financing policy to guarantee low-cost funding capacity at all times. This policy is based on diversified funding sources, recourse to medium and long term financing, debt maturities spread over time and committed banking lines of credit. The bulk of the long term financing and credit lines are assumed by the parent company, which, in turn refinances its subsidiaries. Certain companies may however opt to arrange their own financing locally when local regulations impede intra-Group financing.
Currency risk The Group's businesses expose it to risks related to fluctuations in the foreign currencies in which sales and expenses are denominated. Essilor's exposure to currency risk and associated hedges is examined in Note 23 of the consolidated financial statements (Chapter 3.4.)	Currency hedging is coordinated and managed by Essilor International. The Group seeks to limit the impact of currency risk by focusing firstly on natural hedges then by hedging its residual transactional exposure via forward currency purchases and sales or currency options. Foreign exchange transactions are carried out for the sole purpose of hedging currency risks arising from business activities. The Group never carries out foreign exchange transactions without any underlying physical flows.
Interest rate risk Due to its international presence, the Group is exposed to the risk of interest rate hikes which increase the Group's financial expenses linked to variable rate debt. Interest rate risk is detailed in Chapter 3.4 – Note 23 to the consolidated financial statements.	The aim of the Group's interest rate management policy is to minimize financing costs while limiting the volatility of finance charges caused by changes in interest rates. The bulk of Group debt is maintained at fixed rates set either at the time when issued or through hedging instruments. Almost all of the Group's financing, and thus interest-rate risk management, is centralized at the parent company level. Interest rate risk on financial liabilities is structurally limited.
Counterparty risk The Group is exposed to credit and counterparty risk, i.e., the risk that a client (or a bank) defaults on its contractual obligations, which would result in a financial loss for the Group. A counterparty default may result in loss in value (the case of non-payment of an asset) or liquidity (the case of inability to draw on an unused line of credit).	To limit this risk, the Group only deals with top-tier financial institutions with the best credit ratings, while maintaining a good degree of diversification. Note 23 to the consolidated financial statements, Chapter 3.4, lists the credit ratings of the Group's counterparties.
Risk attached to shares and other financial instruments The Company does not hold any quoted shares for a significant amount. This risk is presented in Note 23 of the consolidated financial statements.	

1.7.1.3 Legal Risk

PROTECTION OF THE INTELLECTUAL PROPRIETARY RIGHTS

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 domain names, trademarks, patents and copyrights), as well as laws pertaining to 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; each of these elements plays 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.

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 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.

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 the importance of protecting and respecting patents, trademarks and other intellectual property rights, and the protection of our trade secrets.

Essilor embeds good practices to minimize this risk, particularly in relation to confidentiality, the use of IT systems and social networks. Essilor strives to protect its innovations in the best way possible and in a timely manner, while taking care not to infringe upon third party rights.

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.

CHANGES TO LAWS OR REGULATIONS

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. Essilor operates in different markets and must comply not only with local legislation but also extra-territorial laws on preventing corruption and money laundering, laws on personal data protection, as well as regulations related to economic and financial sanctions. Therefore, it is exposed to the risk of compliance violations.	This risk is prevented and minimized thanks to a dedicated organization, the management of the aforementioned Compliance Unit (*cf.* risk above) consisting of a team of experts and a network of expert correspondents across the Group. Compliance actions and the formalization of compliance programs, including financial compliance and CSR, are regularly reported to the Audit and Risk Committee and to the CSR Committee. (*cf.* Chapter 2 Section 2.1.2.6).

COMPETITION LAW

Our businesses are subject to various competition laws and regulations, any violation of which could lead to serious harm for the Group and have adverse effects on its businesses and earnings. The Group is subject to the competition laws in the countries where it operates, even more so as the global leader in the ophthalmic lens industry, and has the leading position in certain markets. Violations of the legislative corpus, whether actual or alleged, could affect the Group's reputation and could lead to investigations by the competition authorities in one or more countries, and/or legal proceedings by these authorities, competitors or customers. This may result in criminal or civil sanctions having significant adverse financial and reputational consequences.	We have established a competition law unit within the Legal Department which, working closely with the Compliance Department, prepares and rolls out a compliance policy regarding competition across the Group. Relying on the network of lawyers and specialists, this department provides training, reviews commercial practices and carries out verification work.

ENVIRONNEMENTAL, HEATH AND SAFETY

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.

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.

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.

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 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.

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MATERIAL CLAIMS AND LITIGATION, PROCEEDINGS, ARBITRATION

ALLEGED ANTI-COMPETITIVE PRACTICES

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 appealed the attachment order, but the appeal was dismissed; the Authority’s enquiry is continuing.

GROUP ACTIONS

Transitions

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 ruling on July 1, 2016, the court dismissed part of Vision-Ease’s action; in 2017, the parties reached a compromise on the remaining claims.

Costa

Two class actions were filed during the second half of 2017 against our subsidiary Costa del Mar Inc. – one in Florida, the other in Texas – on the basis of so-called false claims regarding the product repair policy. Essilor disputes the merits of these actions.

E-COMMERCE

The College of Optometrists of Ontario, together with the College of Opticians, have sought an injunction intended to have all home deliveries of ophthalmic products declared illegal. The plaintiffs obtained a judgment in their favor on January 11, 2018. Essilor has filed an appeal.

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. Its claims having being dismissed in 2016, Hoya filed an appeal. Furthermore, in July 2016, 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 US patents (an equivalent to the Japanese patent that was the subject of the case in Japan).

The parties have been reconciled and reached a compromise in the second half of 2017.

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 continues 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 18 and 24 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.

1.7.1.4 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.

Insurance policies compliant with local regulations are taken out by subsidiaries in areas such as car insurance and workplace accident insurance (*e.g. Workers' compensation, Employer's Liability* (EPL), etc.). These 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, the 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 claim was recorded in 2017 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.

1.7.2 Risks related to the combination with Luxottica

1.7.2.1 Equity risk

Following completion of the Contribution, Delfin will hold between 31% and 38%(1), approximately, of the share capital of the company resulting from the Combination, with voting rights capped at 31%(2), and it will become its largest shareholder. Following the Offer to be launched by EssilorLuxottica to acquire all outstanding Luxottica shares, Delfin's stake would decrease to a minimum of 31% of EssilorLuxottica's share capital, depending on the take-up rate of the Offer (the 31% being calculated on a fully diluted basis assuming a 100% Offer take-up rate). Its voting rights and those of the other shareholders would be capped at 31%, in accordance with a formula described in EssilorLuxottica's draft bylaws and approved by the Essilor General Meeting on May 12, 2017 (this draft of the future bylaws of EssilorLuxottica also includes the new company name "EssilorLuxottica", an update of the company mission and the abolition of voting rights). Delfin is also subject to the standstill commitment, according to which Delfin has agreed under the Combination Agreement not to tender a public offer for the EssilorLuxottica shares for a period of ten (10) years from the date of signature of the Combination Agreement, provided that no party (acting alone or in concert) holds, directly or indirectly, more than twenty percent (20%) of the share capital or voting rights of EssilorLuxottica, or announces its intention to make a public offer for EssilorLuxottica shares (the "**Standstill Commitment**"). Despite the ceiling and the Standstill Commitment, Delfin's voting rights at future Shareholders' Meetings would be substantial. Depending on the level of shareholder participation in the various General Meetings of the company resulting from the Combination, its holding could allow Delfin to exercise a significant influence on decisions submitted to a vote of the shareholders, such as the appointment or dismissal of Directors, or the approval of annual financial statements. In this respect, it should be noted that, if Delfin's opportunity to exercise its voting rights on governance issues will be limited during the period between the date of completion of the Contribution until the date of the Annual General Meeting of Shareholders called to approve the EssilorLuxottica 2020 financial statements, in accordance with the terms of the Combination Agreement, such restrictions will no longer exist thereafter. In addition, Delfin's holding could have the effect of delaying, deferring or preventing a future change in control of the company resulting from the Combination and could discourage future takeover bids for the company resulting from the Combination unless these happen to be supported by Delfin.

1.7.2.2 The issuance of new shares, including in connection with the Contribution and the Offer, will dilute the holdings of existing shareholders

In connection with the Contribution, it is contemplated that Essilor will issue new shares to Delfin in exchange for its entire stake in Luxottica, as described in the Chapter 7 "Presentation of the Transaction" of this Document. In the subsequent Offer, Essilor, which will be renamed EssilorLuxottica will issue new shares to acquire all of the remaining issued and outstanding shares of Luxottica. Each would represent a significant increase in the number of Essilor shares (which, following the contemplated Contribution, will be EssilorLuxottica shares) outstanding and admitted to trading on the regulated market of Euronext Paris. Essilor (and, following the contemplated Contribution, EssilorLuxottica) may also issue additional shares or equity-related instruments in the future, in order to finance its operations or to compensate its Directors, executives and employees, which could further dilute the holdings of current shareholders. Any increase or anticipated increase in the number of equity instruments outstanding, in particular a significant increase, such as that anticipated in connection with the Contribution and the Offer, could have an adverse impact on the market price of the relevant shares and could dilute the voting rights of existing shareholders.

(1) On a fully diluted basis.
(2) In accordance with a formula described in EssilorLuxottica's draft by laws as approved by the Essilor General Meeting on May 11, 2017.

1.7.2.3 Completion of the Combination is subject to several conditions precedent, which could prevent or delay it

Completion of the Contribution, and by extension, the Combination, is subject to several conditions precedent, as indicated here after. Some of the conditions precedents are beyond the control of Essilor and Luxottica. No guarantee can be given that the conditions precedent to the Contribution and the Combination will be satisfied or lifted in good time, or will be satisfied or lifted at all. Any failure or delay in meeting the conditions precedent could prevent or delay completion of the Combination, which would reduce the synergies and benefits that Essilor expects to obtain in connection with the Combination and the successful integration of its activities with those of Luxottica.

In particular, as of the date of this document, the Contribution remains subject to the approvals from the competition authorities of China and Brazil. The authorities concerned may impose measures or conditions, such as the sale of assets or businesses of Essilor and/or Luxottica, and no guarantee can be given that Essilor and Luxottica will obtain the necessary agreements, decisions and approvals of these authorities. In addition, any conditions and disposals required by these authorities could have a material adverse effect on EssilorLuxottica's business, operating results, financial position and prospects;

The Contribution and Sale, a transaction in which Essilor created a new subsidiary and contributed practically all of its operating activities and interests to New Essilor International, was completed on November 1, 2017.

1.7.2.4 Integration of the Essilor group and Luxottica group activities could fail and thereby disrupt operations or incur costs

The expected benefits from the proposed Combination will largely depend on the successful integration of the Essilor group's operations with those of the Luxottica group. The Combination will involve the integration of two large and complex groups that currently perform a wide range of activities and operate independently. The companies may encounter significant difficulties in implementing an integration plan, some of which may not have been foreseen or may be beyond the control of Essilor and Luxottica, including the following issues:

- discrepancies between the standards, controls, procedures and rules, the corporate culture and organization of the Essilor group and the Luxottica group, and the need to integrate and harmonize the different operational systems and procedures specific to both companies, such as their financial and accounting systems and other computer systems;
- if the Offer is not sufficiently taken up to allow Essilor to implement the squeeze-out procedure, the presence of minority shareholders within Luxottica could make certain integration measures more burdensome, more complex or costly to implement.

In addition, the integration process will be long and complex. The management of both companies will have to devote considerable time and resources to this task. This task could distract management's attention and resources from other strategic opportunities and day-to-day operational management during the integration process. The integration efforts could also result in significant costs, which could have a material adverse effect on the financial position and results of operations of the company resulting from the Combination. Any failure of the expected integration could have a negative impact on the operations, financial situation and profitability of the company resulting from the Combination.

1.7.2.5 The Combination may not lead to the achievement of some or all of the synergies expected in the medium term

Essilor expects the Combination to lead to significant value creation in the medium term and subsequently as described in this document in Chapter 7, mainly due to revenue synergies from increased sales and a boost to innovation. Essilor also expects significant cost synergies to come from the Combination, particularly in the supply chain and in general and administrative expenses. There can be no assurance that expected revenue or cost synergies exist or will be achieved within the expected timeframe, as the achievement and potential scope of the expected synergies depends on a range of factors and assumptions, many of which are beyond the control of Essilor and Luxottica. Essilor's ability to achieve the expected synergies could be compromised by materialization of one or more of the risks associated with Essilor's business as described in Section 1.7 "Risk Factors" of this document. In addition, the costs associated with achieving these synergies could be higher than expected or unforeseen additional costs greater than the expected synergies could arise, resulting in a reduction in value for shareholders. Failure to achieve the expected synergies and/or control the cost increases associated with this project could have a material adverse effect on EssilorLuxottica's business, operating results, financial position and prospects.

1.7.2.6 The uncertainty associated with the proposed Transaction could have a negative impact on relationships of the companies with their strategic partners, suppliers, customers and employees

During the transitional period between the announcement of the planned Combination and its completion, the Combination will be subject to significant uncertainty that could have a negative effect on relationships with certain customers, strategic partners and employees of Essilor and Luxottica. Some strategic partners, suppliers or customers may decide to delay operational or strategic decisions pending greater certainty about the results of the Transaction. In addition, some of Essilor's customers are distributors competing with Luxottica's retail activities. The Combination could lead such customers to decide to work with other suppliers or distributors or have a negative impact on Essilor's relationships with these customers. Such adverse effects on the companies' relationships could have a negative impact on Essilor's revenue, earnings and cash flow from operations (and, after completion of the proposed Contribution, those of EssilorLuxottica) and on the Essilor share price.

As part of the Combination, EssilorLuxottica could face new claims and new disputes, in particular from partners and suppliers of the Essilor group or the Luxottica group, or from investors in connection with the Contribution and/or the Offer.

1.7.2.7 The company resulting from the Combination may not be able to retain key executives and staff or put in place the proposed governance structure

The success of the company resulting from the Combination will depend largely on its ability to retain key executives and staff of Essilor and Luxottica and their subsidiaries. Any difficulty encountered by EssilorLuxottica in attracting and retaining such key personnel, due in part to uncertainty or difficulties related to the integration of the two companies, could prevent it from achieving its overall objectives. In addition, the Combination Agreement provides for a proposed corporate governance structure in the company resulting from the Combination (see Section 2.1 of this document) but the implementation of this structure is uncertain and could fail or have negative impacts on the managers of the company resulting from the Combination, namely because of the absence of a casting vote by the Chairman and Chief Executive Officer of EssilorLuxottica, who will have powers equal to those of the Vice Chairman and Deputy Chief Executive Officer of EssilorLuxottica; this could lead to delays or difficulties in the event of strategic or operational disagreements. For example, EssilorLuxottica's Chairman and Chief Executive Officer and EssilorLuxottica's Vice Chairman and Deputy Chief Executive Officer will both have the power to convene EssilorLuxottica's Board of Directors. Any inability to retain key management and personnel, or to successfully implement the proposed governance and management structure, could have a material impact on operations, operating results, financial position and prospects.

1.7.2.8 Certain Essilor financial and commercial agreements contain change of control clauses that could be invoked by the co-contracting parties

In the course of its operations and financing, Essilor has entered into certain contracts containing change of control clauses that include obligations to obtain approval from the co-contracting party or in the case of certain financing documents – include an early redemption right granted to investors. The Combination could potentially trigger some of these changes of control provisions and have a range of adverse effects, including the termination of contracts resulting in immediate payment of amounts owed by Essilor or the obligation to make changes to contracts. Payment obligations arising from such clauses could have a negative impact on EssilorLuxottica's business, results and financial position. In addition, Essilor might be unable to obtain the consent of the co-contracting party, or may have to agree to terms potentially less favorable than the previous ones in order to obtain said consent. If one or more of these risks materialize, they could have considerable impact on EssilorLuxottica's business, results of operations, financial position and prospects.

1.7.2.9 In the future, Essilor's credit rating might be revised. Currently, Essilor has a long-term credit rating of A2 from Moody's and a short-term credit rating of A1-P1 from Moody's and Standard & Poor's

Although it is expected that the Combination will lead to an improvement in its financial picture, it cannot be guaranteed that Essilor's credit rating will be maintained, since it depends on a third party evaluation. In the future, rating agencies could assign to EssilorLuxottica or to debt securities issued by EssilorLuxottica a lower rating than Essilor's current rating. Such a downgrade could increase EssilorLuxottica's financing costs. In such a case, EssilorLuxottica could be constrained in the pursuit of certain acquisitions or capital expenditures, the increased costs of financing projects no longer meeting their investment criteria. This could have a negative impact on EssilorLuxottica's growth potential, operating results and financial position.

1.7.2.10 Essilor did not have the opportunity to conduct a thorough due diligence and liabilities unknown to Luxottica could have a negative impact on its business and operating results

Negotiations between Essilor and Luxottica were conducted on the basis of publicly available information for each of the parties and mutual voluntary disclosure between the parties, and neither Essilor nor Delfin nor Luxottica conducted detailed due diligence on one another before entering into the Combination Agreement. Therefore, after completion of the Contribution, contingent liabilities could arise at Essilor or Luxottica and have a negative impact on profitability, operating income, financial position, market capitalization and the price of EssilorLuxottica shares; such liabilities might have been discovered by Essilor, Delfin or Luxottica, had a full due diligence been performed.

1.7.2.11 The results and financial position of the company resulting from the Combination could be significantly different from those presented or suggested in the unaudited pro forma financial information published previously

During the 2017 fiscal year, and as part of Essilor's Combination with Luxottica, Essilor prepared unaudited pro forma financial information for the year ended December 31, 2016[(1)] to illustrate the impact of the Contribution as if it had been completed on January 1, 2016 for the purposes of the pro forma income statement and on December 31, 2016 for the purposes of the pro forma balance sheet. This unaudited pro forma financial information has been presented for illustrative purposes only.

This unaudited pro forma financial information is based on assumptions. Since the Contribution has still not been made, it should be recalled that these assumptions and the trends indicated cannot be considered as representative of the results or the performance of EssilorLuxottica in the future. The results and financial position of EssilorLuxottica in the future may differ considerably from those presented or suggested by the unaudited pro forma financial information.

As stated in the previously published pro forma financial information, the parties have determined that Luxottica will be deemed to acquire Essilor from an accounting point of view, although Essilor is the purchaser of the Luxottica shares in connection with the Contribution and the Offer and is the entity that will issue new shares to Luxottica shareholders. As a result, this information has been prepared on the assumption that Luxottica is the accounting acquirer – a conclusion requiring a significant degree of judgment in relation to the IFRS 3 "Business Combinations" standard. The future consolidated financial statements of EssilorLuxottica, if prepared on the basis of the accounting principles historically applied by Luxottica, could also differ significantly from Essilor's historical accounts and may therefore not be directly comparable.

In particular, the preparation of the financial statements of the company resulting from the Combination could result in the recording of a substantially high amount of goodwill, following posting of the acquisition of Essilor's identifiable assets and liabilities. It could also lead to a review of Essilor's assets and liabilities, including intangible assets, and of goodwill, as presented or suggested in the previously published unaudited pro forma financial information. These adjustments could also have an impact on the expected annual amortization charges and have a significant impact on the operating results.

(1) Cf. Section 4.1 of the document with registration number E.17-014 dated April 7, 2017

1.7.2.12 The results of the Offer are uncertain and the company resulting from the Combination may have to commit significant sums in order to acquire all the Luxottica shares

The decision of the Luxottica shareholders on whether or not to contribute their securities to the Offer depends on several factors, and the company resulting from the Combination cannot predict the Offer take-up rate. The shareholders of Luxottica may choose not to participate in the Offer for various reasons, and in particular because the relative market values of the Essilor and Luxottica shares may have changed to such an extent that the Exchange Ratio would no longer be financially attractive (see Paragraph (b) "*The share price of the shares of Luxottica and Essilor that will be exchanged in connection with the Contribution and the Offer may fluctuate, therefore the market price of the consideration exchanged may vary*"). In accordance with Italian law, if EssilorLuxottica holds more than 90% (or any other larger threshold identified by the Italian Financial Markets Authority) of the share capital of Luxottica following the Offer, a "public takeover bid" must be initiated (unless EssilorLuxottica subsequently releases a sufficient number of shares on the market). Pursuant to this "public takeover bid", any holder of Luxottica shares remaining in circulation would have the right to sell its shares to EssilorLuxottica at the same Exchange Ratio as that offered under the Offer or to obtain the cash equivalent of the price (the cash equivalent could be around €2.5 billion[1] according to the assumptions presented in the footnote below). If EssilorLuxottica holds 95% or more of the share capital of Luxottica as a result of the Offer (or, as the case may be, as a result of the "public takeover bid"), (i) as agreed in the Combination Agreement, a "squeeze-out" will be initiated, whereby EssilorLuxottica could acquire and will in effect acquire from all remaining Luxottica shareholders and (ii) for their part, all remaining Luxottica shareholders will have the right to sell to EssilorLuxottica all of their Luxottica shares; in both cases, the sale will be for the same terms as those provided for in the Offer or, at the option of the shareholder, a cash equivalent of the price of the EssilorLuxottica shares offered. If the Offer reaches a sufficiently high take-up rate to trigger a "public takeover bid" and/or a "squeeze-out", the company resulting from the Combination may have to commit significant sums in the event the shareholder exercises an option for a cash equivalent, which could have a significant adverse effect on the liquidity and financial position of the company resulting from the Combination. If the Offer does not achieve a sufficient take-up rate to trigger a "public takeover bid" and/or "squeeze-out", the existence of minority shareholders in Luxottica could complicate the operations and integration of the company resulting from the Combination and could make the objectives of the Combination more difficult to achieve.

1.7.2.13 The structure of the Essilor group and the Luxottica group will be affected by the Combination, which will entail certain tax risks and may have adverse tax consequences

The acquisition of Luxottica shares by Essilor as part of the Contribution and/or the subsequent Offer could have adverse tax consequences for Essilor Luxottica and certain Luxottica group entities (for example, transfer costs, loss or limitation of the right to use certain tax elements such as net operating losses, taxation of capital gains, etc.).

To the extent that the tax laws and regulations of the various jurisdictions in which Essilor's entities are headquartered or engaged in business do not always provide clear or definitive guidelines, the tax treatment of its business, intra-group transactions or reorganizations, past or future, particularly with respect to the Contribution and Sale made prior to the Combination, is or could sometimes be based on interpretations of French or foreign tax laws and regulations. Essilor cannot guarantee that its interpretation of tax treaties or foreign tax regulations and laws will not be challenged by the competent authorities. More generally, any breach of the laws and regulations in force in the countries in which Essilor's companies are headquartered or operate may give rise to adjustments, default interest, fines and penalties. In addition, tax laws and regulations may be subject to changes in their interpretations and their application by the competent authorities, particularly in the context of international and European initiatives (e.g. OECD, G-20, EU).

Following the Combination, all intra-group transactions between Luxottica and Essilor will be subject to the transfer pricing legislation applicable in each country, which could result in increased taxes and a double taxation of EssilorLuxottica.

The organisation of the EssilorLuxottica group following completion of the Combination could lead to tax inefficiencies and/or tax losses. For example, in some jurisdictions, local tax consolidation within local entities of Luxottica and Essilor may not be possible.

The occurrence of one of the events mentioned above could lead to an increase in Essilor's tax burden and have a negative effect on its results or financial position.

(1) *Based on the following assumptions: (i) EssilorLuxottica owns a little over 90% of Luxottica's share capital at the start of the public takeover bid, (ii) the remaining Luxottica shareholders contribute their shares and choose to obtain a cash equivalent and (iii) the price of the EssilorLuxottica shares used to calculate the cash equivalent in accordance with Italian law is €110.4, which would be equal to the average share price over the period from January 2, 2018 to March 26, 2018.*

1.7.2.14 Failure to complete the Combination as a result of termination of the Combination Agreement could have an adverse effect on Essilor's share price and on its operations and financial results

If the Combination does not occur as a result of termination of the Combination Agreement, Essilor's ongoing operations could be adversely affected and, should the expected benefits of completing the Combination fail to materialize, Essilor would be subject to a number of risks, including:

- Essilor could be required, under certain circumstances described in Section 2.2.1 "legal context of the contribution" of the Document E released in 2017, to pay the Termination Fee to Delfin;
- Essilor has incurred and could continue to incur significant costs and expenses in connection with the proposed Business Combination;
- Essilor could suffer the effects of a negative reaction from the financial markets, including a negative effect on its share price;
- Essilor could face negative reactions from customers, regulators and employees; and
- prior to termination, Essilor's management could have committed significant time and resources that would otherwise have been devoted to ongoing operations and other opportunities that could have benefited Essilor.

These risks could materialize and have an adverse effect on Essilor's business, financial position, results and share price.

1.8 Main characteristics of the internal control and risk-management procedures implemented by the Company for the preparation and processing of accounting and financial information

Essilor's internal control system complies with the legal framework applicable to companies listed on Euronext and is modelled on the reference framework for the mechanisms and management of risks and internal controls published by the AMF on July 22, 2010

1.8.1 The Company's 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"). 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 1.7);
- the strong corporate culture.

1.8.2 Organization of internal controls

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 fulfil 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.

1.8.2.1. Main Finance control activities and players

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

Essilor has adopted a Risk Management and Control Framework based on three lines of control (as defined by the French Audit and Internal Control Institute).

The implementation of the control framework related to the operational processes is the first line of control, risk and compliance framework management is the second line of control, the global and independent assurance is the third.

The departments with specific responsibility for monitoring Finance Internal controls are:

- Finance operational at the entity level as "first line of control;
- then the functional departments in charge of specific areas of expertise (such as Business Analysis, Treasury, Consolidation, Internal Control) as "second line of control" and lastly;
- the Internal Audit Department as "third line of control".

The Internal Audit (Audit & Consulting Services) Department role is, within the limits of the resources allocated to it, to evaluate the functioning of the risk management and internal control mechanisms, with a total staff of 27 people and its Director at December 31, 2017. The Director of the Internal Audit Department reports to the President and Chief Operating Officer. The internal audit team also reports on its activities to the Audit and Risk Committee. The Director has neither authority over nor responsibility for the operations he controls.

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, the President and Chief Operating Officer, the Group Finance Department, 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. The Audit and Risk Committee is informed of the most significant issues. Implementation of the recommendations is the responsibility of the audited entities.

The Internal Audit Department oversee the implementation of these recommendations by ensuring that the action plans agreed upon are carried out within the specified time frame.

Since September 2016, Essilor has strengthened its Internal Control organization by creating a new department reporting to the Group Finance Department and whose main role, within the limits of the resources allocated to it, is to establish a specific internal control mechanism designed to enhance the reliability of local and consolidated financial reporting, and 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 implementing action plans identified after external and internal audits revealed shortcomings and as a result of the self-assessment process of internal control related to financial processes (iCare).

To this end, this Group Department based at the registered office in Charenton has set up a network of internal controllers at the regional, country and business-unit levels. In 2017, this network comprised a team of around 15 people covering activities in South America, Central America, Asia Pacific, Europe and North Africa. At the end of 2017, the Group decided to expand the geographic coverage of the network in 2018 to include North America, the Middle East and the rest of Africa.

In addition, an internal-control tool was developed at the end of 2017 with a view to standardizing internal control tasks in each of these regions and thus enables actions to be taken to identify and remedy any control weaknesses in a continuous improvement process. This tool will be rolled out progressively throughout 2018.

The challenges faced by Essilor (the issues inherent to a fast-growing company with a highly-decentralized operating structure) are shared by the main partners of the Internal Audit and Internal Control Departments, i.e. General Management, and the Audit and Risk Committee.

CONSOLIDATION

The Group's consolidated financial statements are prepared by the Group Consolidation 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 Department receives detailed financial statements according to a set schedule, performs an fulll review of the financial statements and makes the adjustments required to prepare 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.

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 works with the Consolidation Department to ensure compliance with procedures related to the application of IFRS standards applying to financial instruments.

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.

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 analyses, 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.

1.8.3 Reference texts, standards, procedures and membership of bodies that structure internal audits

Group Standards Guide

The Group Standards 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 compiles various financial and non-financial internal control elements covering a variety of organizational processes (fixed assets, inventories, sales/customers, cash, purchases, liability provisions/off-balance sheet commitments, tax reporting, R&D and production start-up costs, production accounting, fraud prevention systems, commitment procedures, insurance, personnel and human resources, legal affairs, consolidation, and acquisition of companies, assets and businesses). It also includes a set of ethical criteria that are applicable to the Group as a whole and which are focused on four themes: human rights, working conditions, the working environment and the fight against corruption.

The GSG in English is accessible online 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 Group rules are covered in a specific notification communicated at the time of their inclusion in the manual and their announcement *via* the Intranet.

The application of all GSG rules and procedures is the responsibility of operational and functional managers (in charge of finance and purchasing, etc.) at the local and Group levels.

In 2016, Essilor updated its "Minimum Control Standards" (MCS) guide that sets out, in a simplified format, the 79 internal controls generally considered to be the most critical for all Group entities to have in place. Brochures are available on-line in 33 languages on the Group's intranet site and communicated separately. The MCS form the basis of the 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.

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

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, 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 the Group's consolidated companies and enforced at the three lines 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 and design their audit strategies. 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

CHAPTER

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'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 two representatives of the employee-shareholders and a Director representing employees, ensures a balance of power in relations with the Senior Management.

In December 2017, Essilor was awarded the Grand Prix for its employee shareholding initiatives, at the 13th edition of the FAS Grand Prix (French Federation of associations of employee shareholders and former employees).

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 February 28, 2018)(1)

Hubert SAGNIÈRES,
Chairman and Chief Executive Officer

Philippe ALFROID,
Non-Independent Director

Antoine BERNARD DE SAINT-AFFRIQUE*,
Independent Director

Maureen CAVANAGH,
Director representing employee shareholders

Juliette FAVRE,
Director representing employee shareholders

Louise FRÉCHETTE*,
Independent Director

Bernard HOURS*,
Independent Director

Annette MESSEMER,
Independent Director

Marc ONETTO*,
Independent Director

Olivier PÉCOUX*,
Non-Independent Director

Laurent VACHEROT,
Non-Independent Director

Jeanette WONG*,
Independent Director

Delphine ZABLOCKI,
Director representing employees

13
DIRECTORS

including

6
INDEPENDENT DIRECTORS (2)

3
EMPLOYEES
(two (3) Directors representing employee shareholders and one Director representing employees)

Committees of the Board (on February 28, 2018)(2)

- **Audit and Risk Committee**
- **Appointment and Compensation Committee**
- **Corporate Social Responsibility (CSR) Committee**
- **Strategy Committee**

The Registration Documents and releases cited are available at:
@ Investors / Publications
www.essilor.com

* *Terms of office to be renewed at the Shareholders' Meeting of April 24, 2018*

(1) *Composition of the Board of Directors subsequent to the resignation of Henrietta Fore and Yi HE as of December 31, 2017 and whose replacement will not be proposed because of the imminent completion of the combination with Luxottica, at which time the composition of the Board of Directors will be completely changed (see section 2.1.1.2).*

2) *The Executive Officers and Remuneration Committee and the Nominations Committee have been merged following a decision of the Board of Directors on February 28, 2018.*

3) *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 (6 out of 10) is 60%, pursuant to the AFEP-MEDEF Code.*

(4) *The number of Directors representing employee shareholders was brought to two following the resignation of Yi HE whose term of office within the Board of Directors of Valoptec Association ended.*

2.1 Information on corporate governance

In accordance with the provisions of article L. 225-37 of the French Commercial Code, this report includes information on:

- the composition of the Board of Directors and the description of the diversity policy applied to the members of the Board of Directors, as well as a description of the aims of this policy, its implementation and the results obtained during the financial year;
- the agreements signed between Directors or significant shareholders and a subsidiary;
- the conditions governing the preparation and organization of the work of the Board of Directors during the fiscal year ended December 31, 2017;
- the AFEP-MEDEF Code recommendations[1] to which the Company has referred since 2009 and whose application has been disregarded (section 2.4);
- the restrictions on the powers of the Chief Executive Officer decided by the Board of Directors (section 2.1.3);
- the specific procedures for shareholder participation in Shareholders' Meetings (section 2.2);
- the summary table of current authorizations granted by the Shareholders' Meeting in respect of increases in share capital, and the use made of these authorizations during the financial year (section 2.2.4);
- the information that may have an impact in the event of a public offering (section 2.2.5);
- compensation for Executive Corporate Officers and specifically the compensation policy applicable to the latter and the corresponding resolution submitted for approval by the Shareholders' Meeting of April 24, 2018 (section 2.3).

This report was presented to the Nominations Committee and the Executive Officers and Remuneration Committee during their respective meetings of February 27, 2018 before being submitted to the Board of Directors for approval on February 28, 2018.

This report, which reflects the continuous improvement approach undertaken by the Company over the years, also highlights the specifics of Essilor's governance, which notably promotes dialogue and involves employee shareholders in the major corporate decisions and the Group's mission; employee shareholding is a key element of Essilor's unique governance model and one of the strategic pillars of its long term growth.

(1) *This Code can be viewed online at the following address: http://www.medef.com.*

2.1.1 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.

2.1.1.1 Composition at December 31, 2017

As of December 31, 2017, Essilor's Board of Directors had fifteen members, including three members representing employee shareholders and one member representing employees[(1)]. 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 complete list of the positions of Directors in office as of December 31, 2017 is given, as required by law, in Chapter 2 section 2.5 of this document.

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.

Composition of the Board of Directors at December 31, 2017 [(1)]

15 Directors

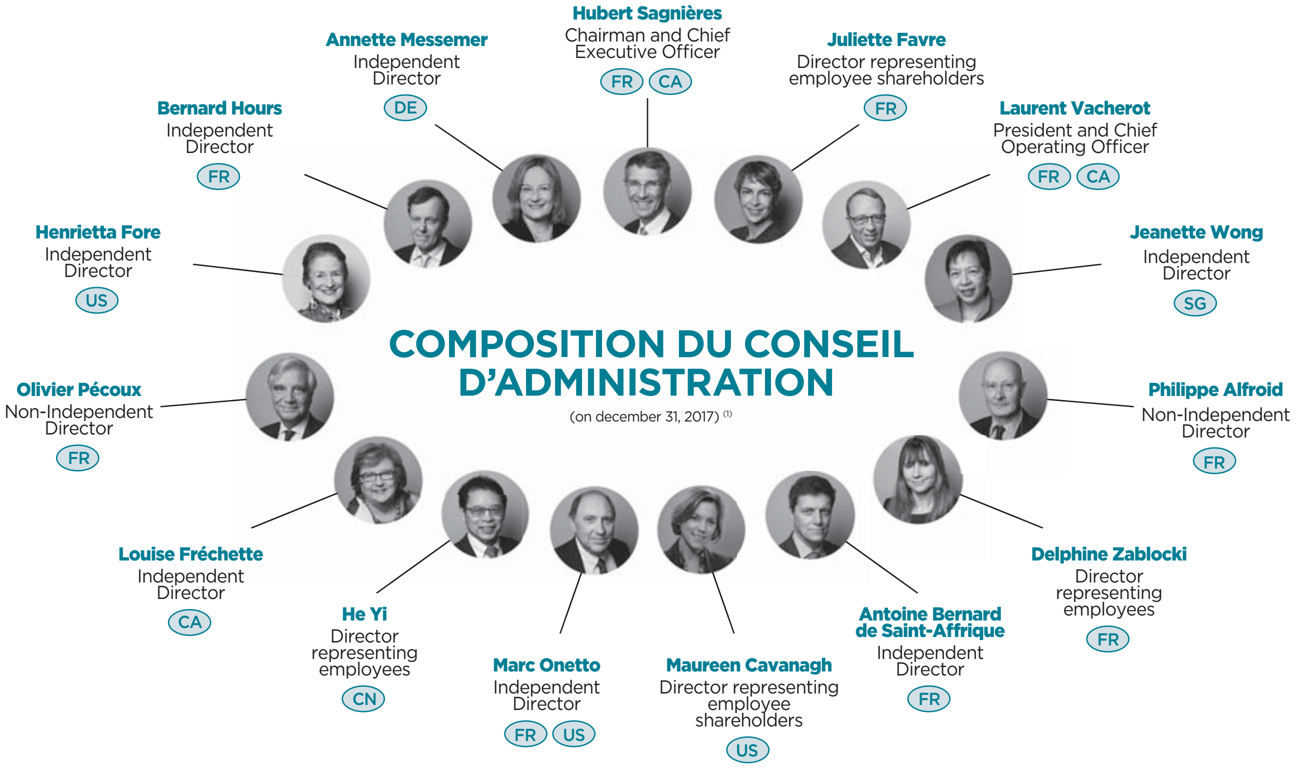
7 Independent Directors

1 Director representing employees

3 Directors representing employee shareholders

6 Women Directors

6 Nationalities



(1) *Following the end of the terms of Henrietta Fore and Yi He on December 31, 2017, the Board of Directors has 13 members, 2 of whom are directors representing the employee shareholders, 5 are women, 6 are independent directors, 5 nationalities.*

2.1.1.2 Changes in the composition of the Board of Directors of Essilor then EssilorLuxottica (new corporate name of Essilor as from the Contribution Completion Date)

CHANGE SUBMITTED FOR APPROVAL OF THE SHAREHOLDERS' MEETING OF APRIL 24, 2018

Proposals submitted for approval by the Shareholders' Meeting of April 24, 2018:

In accordance with the approval of the Shareholders' Meeting of May 11, 2017, the strategic combination between Essilor and Luxottica Group SpA continues to advance. In this context, Essilor will be renamed EssilorLuxottica on the completion date (the "Contribution Completion Date") of the contribution (subject to the apport-scission regime) of all the Luxottica shares held by Delfin S.à.r.l to Essilor, in accordance with the provisions of the contribution agreement dated March 22, 2017 between Delfin and Essilor (the "Contribution").

During the transition period between this Shareholders' Meeting and the Contribution Completion Date, the composition of the Board of Directors will remain unchanged. Therefore, six resolutions relating to the renewal of the following Directors whose terms of office will expire at the end of this Shareholders' Meeting will be proposed to shareholders: Louise Fréchette, Jeanette Wong, Antoine Bernard de Saint-Affrique, Bernard Hours, Marc Onetto, and Olivier Pécoux. Their renewal will be proposed in accordance with article 14 of the bylaws for a new term which will expire on the Contribution Completion Date or, if the completion of the Contribution is not completed, for a three-year term.

As Ms. Henrietta Fore resigned from the Board of Directors at the beginning of the year following her appointment by the United Nations Secretary General to the position of Executive Director of UNICEF, the Board of Directors, upon the recommendation of the Nominations Committee, did not deem relevant to appoint a new Director, so near to the combination with Luxottica. Ms. Henrietta Fore will therefore not be replaced in her role as Director of Essilor. However, she will be replaced for her term of office as Director of EssilorLuxottica that was conferred to her by the Shareholders' Meeting of May 11, 2017 as of the Contribution Completion Date (see Changes in the composition of the Board of Directors of EssilorLuxottica in the next page).

The Board of Directors would like to warmly thank Ms. Henrietta Fore for her contribution to the work of the Board of Directors and the committees over the last two years, and congratulates her for her appointment as Executive Director of UNICEF. he Board of Directors thanks Mr. Yi HE for his contribution to the work of the Board of Directors. His term of office expired on December 31, 2017 and will not be replaced in the light of the upcoming contemplated combination wiht Luxottica

Subject to the approval by the Shareholders' Meeting for these resolutions, **the Board of Directors of Essilor International will be composed until the Contribution Completion Date as follows:**

Hubert Sagnières, Chairman and Chief Executive Officer

Philippe Alfroid,

Antoine Bernard de Saint-Affrique*

Maureen Cavanagh (1)

Juliette Favre (1)

Louise Fréchette*

Bernard Hours*

Annette Messemer*

Marc Onetto*

Olivier Pécoux

Laurent Vacherot (President and Chief Operating Officer)

Jeanette Wong*

Delphine Zablocki (2)

The complete list of the positions of Directors is given, as required by law, in Chapter 2 "Corporate Governance" in section 2.5.

* *Independent Directors.*
(1) *Directors representing employee shareholders.*
(2) *Director representing employees.*

Changes in the composition of the Board of Directors of Essilor (to be renamed EssilorLuxottica) as of the Contribution Completion Date.

As from the Contribution Completion Date, the Board composition of Luxottica (new coporate name of Essilor as from the Contribution Completion Date) as approved by the Shareholders' Meeting of May 11, 2017 will become effective, subject to the modification with regard to the replacement of Ms. Henrietta Fore, who has resigned due to incompatible terms of office. Consequently, the appointment of Ms. Jeanette Wong appointed by Essilor in accordance with the Combination Agreement, will be submitted for shareholder approval.

This term of office will be effective from the Contribution Completion Date and will expire at the end of the 2021 Shareholders' Meeting, called to approve the financial statements for the 2020 fiscal year, in the same way as the other members of EssilorLuxottica's Board of Directors. (New corporate name of Essilor as from the Contribution Completion date).

Subject to approval by the Shareholders' Meeting for these resolutions, the Board of Directors of EssilorLuxottica will be composed from the Contribution Completion Date as follows:

Eight members appointed by Delfin:

- Leonardo Del Vecchio, Chairman and Chief Executive Officer of EssilorLuxottica;
- Three Directors representing Delfin: Romolo Bardin, Giovanni Giallombardo, Francesco Milleri;
- Four Independent Directors: Rafaella Mazzoli, Gianni Mion, Lucia Morselli, Cristina Scocchia.

Eight members appointed by Essilor

- Hubert Sagnières, Vice Chairman and Deputy Chief Executive Officer of EssilorLuxottica;
- A Director representing Valoptec Association: Juliette Favre;
- Four Directors from the current Board of Directors of Essilor: Bernard Hours, Annette Messemer, Olivier Pécoux, Jeanette Wong;
- Two Directors representing employees appointed by the Central Works Council in 2017: Delphine Zablocki and Leonel Ascencao Pereira.

2.1.1.3 Diversity policy applied to the members of the Board of Directors

In order to promote the diversity of Directors' backgrounds, the Nominations Committee has expanded its selection work over the last few years to promote the internationalization of members of the Board of Directors (multiple nationalities), international profiles with members having broad international experience, a better gender balance and a significant proportion of Independent Directors.

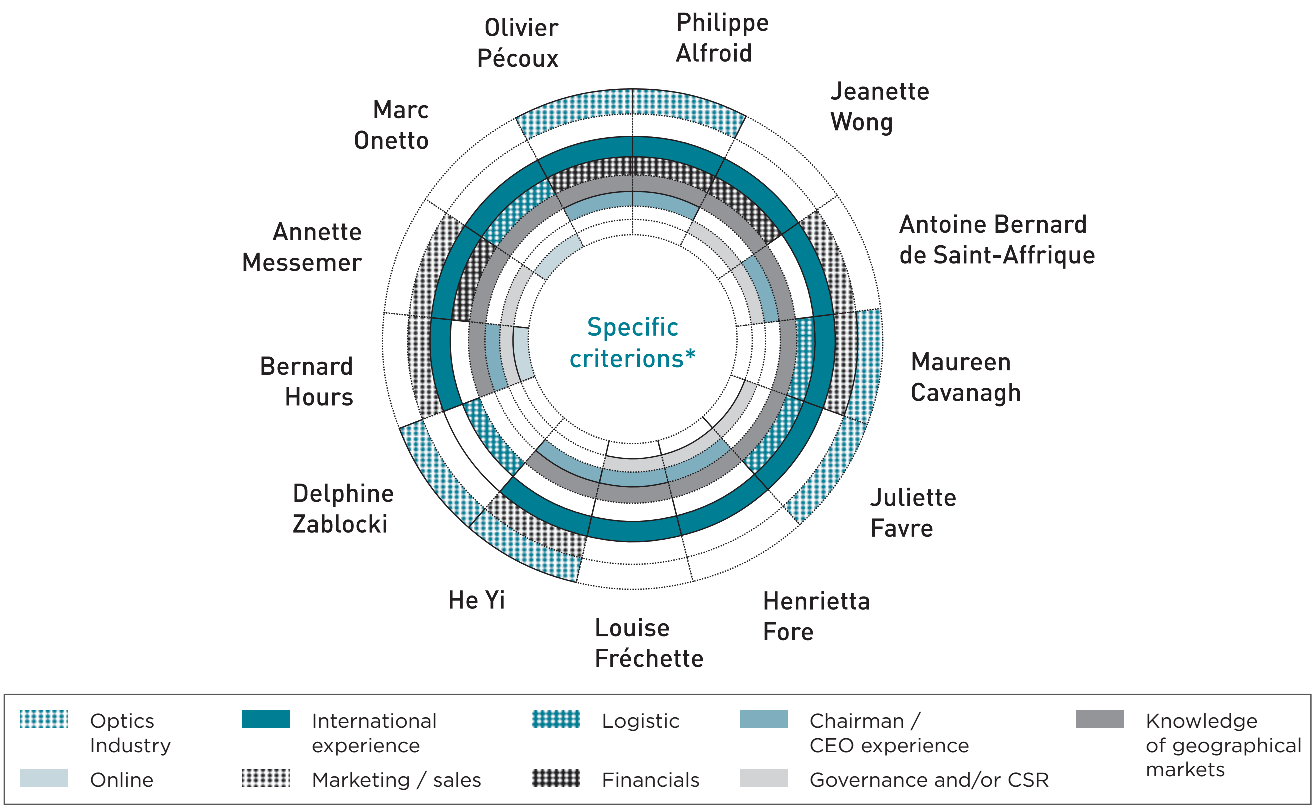
EXPERTISE AND EXPERIENCE OF THE DIRECTORS

Members of the Board of Directors contribute to a variety of areas as illustrated in the mapping below, and specifically:

- providing experience to the Company;
- providing expertise in Essilor International's specific business segments;
- several years' experience in managing international companies, and through this, providing their management expertise and/or experience to the Company;
- or even their expertise in finance, logistics, marketing, e-commerce, etc.

The Board also includes a significant number of Directors with broad international experience.

SKILLS MAPPING



** The fact that a criterion is not represented for a Director does not mean that he doesn't have that particular skill.*

INTERNATIONALIZATION AND INCREASED NUMBER OF WOMEN IN ITS COMPOSITION

Over the last few years, the diversity policy has led the Company to promote:

- an internationalization of the Board of Directors within which five different nationalities were represented as of December 31, 2017 subsequent ot the resignation from Yi He (German, French, Canadian, American, Singaporean);
- balanced gender representation with the presence of five women out of twelve Directors after the resignation from Henrietta Fore and Yi He (excluding the Director representing employees who is not counted, in accordance with the law and the AFEP-MEDEF Code), i.e. 41% according to the Code's rules.

For more details, see the list of directorships and their respective nationalities in Section 2.1.1.1.

AVERAGE AGE OF BOARD MEMBERS

As of December 31, 2017, the Board of Directors had 13 Directors with an average age of 58 years.

DIRECTORS' TERMS

Directors are currently appointed for a term of three years, which may be renewed.

As an exception:

- all of the terms of office of Directors in office that have been appointed by the General Shareholders' Meeting will expire at the final completion of the contribution (subject to the apport-scission regime) of all Luxottica shares held by Delfin to the Company, in accordance with the stipulations of the contribution agreement dated March 22, 2017;
- the term of office of all Directors representing employees appointed between May 11, 2017 and June 30, 2018 is four (4) years, so that the duration of their terms of office covers the duration of the terms of office of EssilorLuxottica's other Directors, whose appointments will be effective from the Contribution Completion Date.

The records pertaining to each Director (Chapter 2, section 2.5) mention the start and end dates of their directorships and the table below notes the date of the latest appointment/renewal for the Directors in office between 2016 and 2018.

Members of the Board of Directors	2016	2017	2018
Hubert Sagnières		x	
Philippe Alfroid		x	
Antoine Bernard de Saint-Affrique			x
Maureen Cavanagh	x		
Juliette Favre	(a)	x	
Henrietta Fore*	(b)		
Louise Fréchette			x
Yi HE*		x	
Bernard Hours			x
Annette Messemer	(b)		
Marc Onetto			x
Olivier Pécoux			x
Laurent Vacherot		x	
Jeanette Wong		(c)	x
Delphine Zablocki		(d)	
TOTAL RENEWALS	**4**	**6**	**6**

X *Renewal of the term of office.*

(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 having been appointed by the Shareholders'Meeting of May 11, 2016.

(c) Ratification of the co-option of Jeanette Wong decided by the Board of Directors – Renewal in 2018.

(d) Delphine Zablocki, Director representing employees, was appointed from October 28, 2017 by the Central Works Council to replace Franck Henrionnet; in accordance with article 12 of the bylaws as amended by the Shareholders' Meeting of May 11, 2017, her term of office is for a duration of four years.

* *End of the term of office on December 31, 2017.*

OBLIGATION OF DIRECTORS APPOINTED BY SHAREHOLDERS' MEETINGS TO HOLD SHARES

In accordance with article 13 of the bylaws in force as of December 31, 2017, each Director appointed by a Shareholders' Meeting 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, Section 2.5) state the number of shares held by each of them.

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 Corporate Officer of the Company or a Group company (or has been during the previous five years);

- such Board member is an Executive Corporate Officer of a company in which the Company holds, either directly or indirectly, a seat on the Board or in which Board membership is held by an employee of the Company designated as such or by a current or former (within the last 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.

The Chairman of the Board of Directors (if the functions are separate from those of the Chief Executive Officer) may not be considered as an Independent Director if he or she receives variable compensation in cash or shares or any compensation linked to the Company or Essilor Group's performance.

Given Essilor Group's structure, the fact that a Company Director has a seat on the Board of Directors of its subsidiary, Essilor International (SAS) does not affect his or her independence.

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 written opinion of the Nominations Committee. Such opinion takes into account:

- the composition of the Company's share capital;
- 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.

As of December 31, 2017, seven Directors can be considered as independent according to the independence criteria set by the AFEP-MEDEF Code, i.e. Antoine Bernard de Saint-Affrique, Henrietta Fore, Louise Fréchette, Bernard Hours, Annette Messemer, Marc Onetto and Jeanette Wong.

As of December 31, 2017, 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 business dealings between Essilor International and Commerzbank AG, where **Ms. Annette Messemer** serves as a Director in the Corporate Clients Division at Commerzbank AG in Frankfurt (Germany) were analyzed. The possibility for Essilor 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 bank represents an insignificant amount of its revenue and is not therefore liable to create a dependent relationship vis-à-vis Essilor.
- 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;
- the absence of financial flows between Essilor and the DBS Bank where **Ms. Jeanette Wong** is Executive Director within DBS Group responsible for Institutional Banking which encompasses Corporate Banking and the "Global Transaction Services" division.

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;
- the three Directors representing employee shareholders: Maureen Cavanagh; Juliette Favre; Yi He;
- the Director representing employees: Delphine Zablocki appointed by the Central Works Council from October 28, 2017 to replace Franck Henrionnet.

Summary table detailing each Director's compliance or non-compliance with regard to the independence criteria of the AFEP-MEDEF Code (updated on December 31, 2017)

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

	AFEP-MEDEF independence criteria						
	Employee or Executive Board Director						
Directors	of Essilor International or a Group company	of Essilor International during the previous five years	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	Has been a Director of Essilor for more than 12 years
Hubert SAGNIÈRES	X						
Philippe ALFROID							X
Antoine Bernard de SAINT-AFFRIQUE							
Maureen CAVANAGH	X						
Henrietta FORE*							
Juliette FAVRE	X						
Louise FRÉCHETTE							
Yi HE*	X						
Bernard HOURS							
Annette MESSEMER							
Marc ONETTO							
Olivier PÉCOUX							X
Laurent VACHEROT	X						
Jeanette WONG							
Delphine ZABLOCKI	X						

Independant Director.

* *Directors whose term of office expired on December 31, 2017.*

2.1.1.4 Directors' ethical awareness and conflicts of interest management

NO POTENTIAL CONFLICTS OF INTEREST

In accordance with the internal rules of the Board of Directors and the Directors' Charter (Section 2.1.2.1), Directors have an obligation to inform the Board of any conflict of interest, even potential, and must abstain from 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.

Extract from the internal rules of the Board of Directors on the management of conflicts of interest

"**1.3 Conflicts of interests**

Any Director (a natural person or permanent representative of a Director which is a legal entity) of the Company is required to comply with the obligations provided for in article 19 of the Code of corporate governance for listed companies established by the AFEP-MEDEF referred to article 3.2 below, the Director's Charter annexed to these Rules of Procedure, as well as the rules mentioned in this section.

Directors must ensure that they do not engage in any activity that would place them in a situation of conflict of interests with the Company.

1.3.1 Situation of conflict of interests

Any Director who is, even potentially, directly or indirectly, through an intermediary or in any other way, in a situation of conflict of interests with regard to the corporate interest, because of his or her duties or other interests he or she may have, informs the Chairperson of the Board of Directors and the Nominations and Remuneration Committee.

It is specified as necessary that a direct or indirect connection to an entity having competing interests to those of the Company may, in addition to the conflict of interests situation that it generates, also raise difficulties with regard to the competition rules. Accordingly, a Director may not, during his or her office, accept, without the authorization of the Board based on a written opinion of the Nominations and Remuneration Committee, a corporate office or executive duties or commitments as a consultant, or any direct or indirect participation within an entity with competing interests to those of the Essilor Group.

In accordance with the legal rules, referred to in article 4.1 below, the Directors and any other person called upon to attend the Board are bound by an obligation of confidentiality with regard to the information given during debates. Regarding non-public information acquired in the course of his or her office, whether it concerns the Company or the Essilor Group, any Director is bound by a genuine obligation of confidentiality which goes beyond the mere obligation of discretion provided by the texts.

1.3.2 Declaration of conflict of interests

At the beginning of his or her office, then every year, at the latest on January 31, each Director declares the links of any kind he or she has, directly or indirectly, through an intermediary or in any other way, with the companies of the Essilor Group, their managers or their competitors, customers, partners or suppliers. He or she addresses it to the Chairperson and Chief Executive Officer and the Nominations and Remuneration Committee, with a copy to the Secretary of the Board.

At any time, any Director may be asked to confirm in writing that he or she is not in a situation of conflict of interest.

In case of occurrence of an event rendering the declaration inaccurate, in whole or in part, or in the event of doubt as to the existence of a conflict of interests, even potential, the Director shall inform the Chairperson and Chief Executive Officer without delay and the Nominations Committee, with a copy to the Secretary of the Board.

In the basis of these declarations, the Nominations and Remuneration Committee, with the assistance, if necessary, of external advisers, draws up a list, Director by Director, of the issues likely to cause conflicts of interests including at least the conflicts of interest each Director is required to report under the Code of corporate governance for listed companies established by the AFEP-MEDEF. The Nominations and Remuneration Committee shall inform the Board of Directors of such list, annually and on each modification, and recall the measures adopted to prevent any risk of conflict of interest.

1.3.3 Policy in case of conflict of interests

In case of conflict of interests situation, even potential, the Concerned Director (as defined below) abstains from participating in the debates and the vote of the corresponding deliberation.

If the situation so requires, the Concerned Director may be required, in accordance with the following paragraphs, not to attend the meeting of the Board during the time of the debates and the vote of said deliberation and not to have access to the documents and information provided to other Directors regarding the concerned issue.

If the agenda of a particular meeting of the Board so requires, the meeting may, upon decision of the Chairperson and Chief Executive Officer, be organized in two parts, one taking place in the presence of the Concerned Director(s), during which no sensitive information, as regards competition law or more generally conflicts of interests, can be discussed, and the other taking place without the presence of these Concerned Directors.

Any decision of the Board of Directors regarding a conflict of interests is reported in the minutes of the Board.

Any difficulty relating to the implementation of this Section 1.3 will be submitted to the Chairperson and Chief Executive Officer and the Nominations Committee. In case of persistent difficulty, the Board of Directors will decide upon recommendation of the Nominations and Remuneration Committee.

1.3.4 Sensitive information from a competition law perspective

No information that is sensitive from a competition law perspective can be disclosed or discussed in the presence of a Director having a conflict of interests due to his or her office or any interest he or she may have in an entity having competing interests to those of the Essilor Group (a **Concerned Director**).

The concept of sensitive information from a competition law perspective is defined as any non-public information that could enable the Concerned Director to understand or influence the Company's strategy, including its commercial strategy, over the markets in which the entity having competing interests to those of the Company and with which the Concerned Director has a connection, including, without limitation, information relating to current or future prices or pricing strategies (including rebates or discounts); detailed information on technology, IT or research and development projects, recent, current or future margins or profitability targets relating to specific products or services; current or future strategic plans, business development projects, including potential mergers and acquisitions contemplated, market shares, market analyzes, including anticipated changes in supply and/or demand and prices.

The risk of exchanging information that is sensitive from a competition law perspective is deemed in all respects to be a conflict of interests within the meaning of this article 1.3."

AGREEMENTS BETWEEN ONE OF THE EXECUTIVE CORPORATE OFFICERS OR ONE OF THE SHAREHOLDERS WITH A FRACTION OF VOTING RIGHTS OVER 10% WITH A SUBSIDIARY OF ESSILOR GROUP (WITH THE EXCEPTION OF AGREEMENTS ON CURRENT OPERATIONS AND SIGNED UNDER NORMAL CONDITIONS)

No agreements coming under the scope of the agreements above were signed during the fiscal year. Note that the Hive-Down of Essilor activities led to the automatic transfer to the subsidiary, Essilor International (SAS) of the suspended employment contracts of Hubert Sagnières and Laurent Vacherot effective from November 1, 2017 (see Chapter 2 section compensation for Executive Corporate Officers).

INSIDER DEALING RULES

Directors are periodically made aware of 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, 2017, 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 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 securities carried out in 2017 by the corporate officers is included in Section 2.3.6.

2.1.2 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.

2.1.2.1 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 as an extension to the Board of Directors' self-assessment carried out in 2017 and by a Board decision on February 28, 2018, describe respectively (i) the operating methods for the Board and the Committees and (ii) the rights and obligations of each Director of Essilor International.

The charter requires each Board member to commit to regularly attending meetings of the Board of Directors and Shareholders' Meetings, to inform the Board of Directors of any potential or actual conflict of interest, and to refrain from participating in the corresponding proceedings, including the work of 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 2017 to the internal rules of the Board and the Charter translate and reflect the governance adjustments made necessary by the completion of the partial contribution of operating assets and of these investments ("Hive Down")[1] from Essilor International (Compagnie Générale d'Optique) to Essilor International (SAS), effective since November 1, 2017.

Some additional changes were approved by the Board of Directors on February 28, 2018 following the decision to merge the Executive Officers and Remuneration Committee and the Nomination Committee.

2.1.2.2 Roles and responsibilities of the Board of Directors

As part of Essilor Group's internal governance rules, the following decisions with regard to the Company or an entity of Essilor Group may not be taken without prior approval from the Board of Directors:

- examination and approval of the annual financial statements and consolidated financial statements;
- approval and modification to Essilor Group's annual budget (including the annual budget allocated to investments);
- approval and modification to Essilor Group's three year strategic plan;

(1) *See Chapter 7 on the combination between Essilor and Luxottica.*

- approval of all significant transactions (such as restructuring or investments) outside of the announced strategy;
- all distributions (of dividends, advances, premiums, reserve or any other) of the Company or its subsidiary, Essilor International (SAS);
- following the proposal by the Nominations and Remuneration Committee, any amendments (or decisions involving an amendment), to the Company's bylaws or those of its subsidiary, Essilor International (SAS) ;
- all decisions with regard to negotiations on a regulated securities market of shares in Essilor group companies;
- all changes in accounting methods and principles, tax principles applicable to Essilor Group (with the exception of mandatory changes resulting from regulatory changes);
- appointment and renewal of the Statutory Auditors for Essilor Group companies, following the proposal by the Audit and Risk Committee;
- approval of (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;
- all lease commitments for new property (including real estate leases) for any entity in the Essilor Group (of non-cancellable leases) which exceeds (i) €10 million per year, if it is included in Essilor Group's annual budget or (ii) €8 million per year in the other cases;
- the signature of any financing (loans, overdraft facilities or debt instruments) exceeding €1 billion and approval of Essilor Group's financing and hedging policy;
- all dissolution, merger, division, contribution or other restructuring transactions (except for intra-Group transactions that do not lead to changes in the direct or indirect investment of the Company in the share capital of the concerned entities) involving an Essilor Group entity;
- approval, setting terms and changes to all profit sharing plans, stock option plans, free share award plans or any other similar collective incentive plan for the benefit of executives and/or employees of Essilor Group.

Moreover, the Board of Directors has the following specific missions:

- decide the criteria to be applied to determine whether Directors are "independent" and review these criteria each year;
- identify the Independent Directors based on recommendations by the Nominations and Remuneration Committee;
- define the methods and organization of general management;
- monitor the implementation of the Board's decisions;
- 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 decisions made by Executive Corporate Officers;
- discuss and, if appropriate, approve the compensation proposed by the Nomination and Remuneration Committee;
- discuss and, if appropriate, approve the appointment of the members of the Board committees on the recommendation of the Nominations Committee;
- discuss and, if appropriate, approve the succession plans for Executive Corporate Officers and the major organizational changes, on the recommendation of the Nominations and Remuneration Committee;
- be informed by the Audit and Risk Committee of the Company's financial and cash position, and commitments;
- be informed in due course of the Company's liquidity position, in order to take decisions on its financing and debt if required;
- review the procedures for identifying, evaluating, auditing and monitoring the Essilor Group's commitments and risks, in coordination with the Audit and Risk Committee and the CSR Committee;
- define the financial communication policy for the market and analysts, applicable to the Essilor Group to ensure that shareholders and investors of Essilor Group have access at the same time to the same information; the Board shall ensure that Essilor Group investors receive relevant, balanced and educational information on the strategy, development model, and long-term outlook of Essilor Group and how significant non-financial issues are taken into account.

The missions of the Company's Board of Directors must be coordinated with those of the Board of Directors of its subsidiary, Essilor International (SAS). Within this framework, the Company's Board of Directors has different rights (such as the right to information or prior authorization) in respect of certain decisions made by the Board of Directors of the subsidiary, Essilor International (SAS) indicated in the list above, such as the distribution of a dividend, amendments to bylaws, acquisition/disposal transactions whose amounts exceed those indicated above.

Conversely, a certain number of decisions made by the Company's Board of Directors are submitted for information, opinion or prior authorization to the Board of Directors of Essilor International (SAS) including, notably, the assessment of the consolidated financial statements, the annual budget of Essilor Group, Essilor Group's strategic plan, the major strategic choices, all decisions on Essilor Group employee share participation plans (employee shareholder plan, profit-sharing plan, stock option plan, free share award plan, or other similar collective incentive plans for the benefit of executives or employees of Essilor Group).

2.1.2.3 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 from the self-assessment are announced by the aforesaid Independent Director, after having previously been shared with the Nominations and Remuneration Committee.

In 2017, 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 and Remuneration Committee following the process described below:

Board of Directors meeting of July 27, 2017
(agenda item regarding the recommendation of the Nominations Committee):

- Review of the process,
- Appointment of the independent director in charge of overseeing the self-assessment,
- Launch of the self-assessment via a questionnaire.

From July 27 to beginning October 2017
(centralization by the Board of Directors' Secretary in conjunction with the independent director appointed by the Board of Directors at its meeting of July 27, 2017)

- Directors' responses to the self-assessment questionnaire,
- Review of responses and preparation of a summary including areas for improvement.

Board of Directors meeting of December 6, 2017
(agenda item reviewed by the Nominations Commitee at its meeting of December 1, 2017)

- Review of the self-assessment summary,
- Review of the qualifications of the independent directors as of December 31, 2017 (summary produced by the independent director in charge of overseeing the self-assessments after review by the Nominations Committee).

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 and the President and Chief Operating Officer.

The results of the 2017 self-assessment highlight a positive overall assessment of the operation of the Board and its Committees as well as the quality of the organization of the Shareholders' Meeting of May 11, 2017.

The quality of the documents, presentations and communication deadlines, and especially the deadline for editing the minutes were areas of satisfaction.

The Directors welcomed the progress made over the last few years regarding the diversification of the composition of the Board of Directors (gender representation, nationalities, international experience, etc.). The Nominations Committee's long-standing commitment is part of the diversity policy applied to the Board of Directors (Chapter 2 Section 2.1.1.3).

In an outlook of continuous progress to enhance governance quality, the Board of Directors welcomes the continued efforts to ensure the coordination between the committees, due in particular to informal meetings and the organization of meetings bringing together both the members of the Audit and Risk Committee and members of the CSR Committee with a common agenda. This approach is a good practice that Directors wish to reinforce. The Board of Directors also wished to restate the importance of the participation of Directors representing employees and Directors representing employee shareholders.

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

2.1.2.4 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 fulfil 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.

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. The internal rules of the Board and the Directors' Charter expressly provide for any new Director to be given a welcome pack including all documents pertaining to the governance of Essilor International and the option of participating in an integration programme.

In 2017, external training was provided to Franck Henrionnet, Director representing employees by the *Institut Français des administrateurs*, entitled "How to be an employee Director".

2.1.2.5 Meetings of the Board of Directors in 2017

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 March 1 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 and President and Chief Operating Officer.

In accordance with the internal rules of the Board, Directors are convened at least seven days prior to each meeting, except in urgent situations where the meeting may be called with 48 hours' notice, subject to the agreement of all Directors. 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 2017.

In 2017, the Board of Directors held eight meetings, with an average duration of three hours.

INCREASED COMMITMENT FROM THE MEMBERS OF THE BOARD OF DIRECTORS

In 2017, Directors met on 31 occasions as part of Board of Directors or Committee Meetings.

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 and Remuneration Committee are contacted 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.

ATTENDANCE OF THE MEMBERS OF THE BOARD OF DIRECTORS

The Company's bylaws state that Directors may participate in exceptional circumstances 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.

Directors using videoconferencing or telecommunication during one of their meetings do not receive Directors' fees, unless decided by the Board of Directors.

Furthermore, all the Directors were present at the Combined Shareholders' Meeting of May 11, 2017.

The table below shows the number of Board and Committee Meetings held during fiscal year 2017, as well as their members as of December 31, 2017 and the individual attendance at each of these meetings. The average attendance of the Directors at Board Meetings was close to 96% for all meetings of the Board and the Committees.

	Board of Directors	Audit and Risk Committee	Executive Officers and Compensation Committee	Nominations Committee	Strategy Committee	CSR Committee
NUMBER OF MEETINGS IN 2017	**8**	**4**	**6**	**5**	**5**	**3**
Participation *(%)*						
Hubert Sagnières	100%				100%	100%
Philippe Alfroid	88%	75%		100%	80%	
Benoît Bazin[a]	100%	100%			100%	
Antoine Bernard de Saint-Affrique	100%	100%[b]			100%	100%[b]
Maureen Cavanagh	100%				100%	
Juliette Favre	100%	100%	100%		100%	100%
Henrietta Fore	88%		100%		80%	
Louise Fréchette	100%				100%	100%
Yi He	88%				80%	
Franck Henrionnet[a]	88%				80%	
Bernard Hours	100%		100%	100%	100%	100%[b]
Annette Messemer	88%	100%[b]			80%	
Marc Onetto	100%		100%			100%
Olivier Pécoux	100%			100%	100%	
Laurent Vacherot[a]	100%					
Jeanette Wong[a]	100%	100%[b]			100%	
Delphine Zablocki[a]	100%				100%	

(a) Directors entering or leaving the Board during the fiscal year (see Director records for additional information in Section 2.5).
(b) Committee members entering or leaving during the fiscal year.

MAJOR ACCOMPLISHMENTS OF THE BOARD OF DIRECTORS IN 2017

The matters discussed by the Board in fiscal year 2017 and the decisions taken covered a wide range of areas, including:

- **business performance:** at each meeting planned in the annual schedule (excluding exceptional meetings convened to deliberate on a strategic transaction), the Chairman and Chief Executive Officer and the President and Chief Operating 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.;
- **2017 budget:** reviewed at one meeting at the beginning of the fiscal year;
- **financial statements:** examination and/or approval of the 2016 annual financial statements and the forecast financial statements, having heard the reports by the Audit and Risk Committee and the Statutory Auditors; on this occasion, the financial position and treasury position were reviewed;
- **external growth:** during each regularly scheduled meeting, the Board receives information about and discusses 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;
- **proposed combination with Luxottica:** the proposal was examined at three specific meetings during which the Board of Directors approved (i) the principle of the combination transaction as well as the terms and conditions as defined in the Combination Agreement signed on January 15, 2017, (ii) the draft contribution agreements relating respectively to the Hive Down, partial contribution of assets between Essilor International (Compagnie générale d'Optique) and Essilor International (formerly Delamare Sovra), (iii) the partial contribution of assets of Luxottica securities by Delfin to Essilor International (Compagnie générale d'Optique) and reviewed and approved the corresponding resolutions submitted to the Combined Shareholders' Meeting of May 11, 2017. The members of the Board of Directors were regularly informed of the transaction's progress;
- **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 to implement the share buyback program authorized by the 17th resolution of the Shareholders' Meeting of May 11, 2017; authorization to issue sureties, endorsements and guarantees and to delegate to the Chairman and Chief Executive Officer, with the option of subdelegation, 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 April 24, 2018;
- **governance:** amendment of the composition of the Committees; update of the internal rules of the Board of Directors and the Directors' Charter; completion of the Board of Directors' annual self-assessment of the Board and review, after examination by the Nominations Committee, of the independence of its members (see Section 2.1.2.3); the organisation of Essilor following Hive Down. With regard to the compensation of Corporate Officers, the Board (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; the Board approved the compensation policy applicable to Executive Corporate Officers which will be submitted for approval by the Shareholders' Meeting of April 24, 2018 and the drafts of the Management Report and this Corporate Governance Report;

- **compliance:** as part of the reports carried out by the Audit and Risk Committee or the CSR Committee separately or jointly, the Board was informed of the "Compliance" roadmap, the compliance programs implemented by the Group Compliance Department under the authority of the Group Chief Compliance Officer, the risk assessment and actions implemented as required by the regulations, in particular for the prevention of corruption and money laundering, personal data protection, economic and financial sanctions (see the activity of the Audit and Risk Committee and the CSR Committee);
- **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; philanthropy initiatives, presentation of the Code of ethics;
- **employee-related issues:** information on Company developments in employee-related matters in 2016 (change in the number of employees, main trade union negotiations, Company policy regarding equal employment opportunities 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 14th, 15th and 16th 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 18th resolution of the Shareholders' Meeting of May 11, 2017, as well as an increase in share capital for foreign employees of subsidiaries outside of France who are members of the Essilor Group's International Employee Shareholder Plan or any equivalent local plan as part of the launch of an international "Plan Boost" offer pursuant to the 19th resolution;
- **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 Compensation 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.

2.1.2.6 Committees of the Board of Directors

On the recommendation of the Nominations and Remuneration 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 March 22, 2017 and the Board's self-assessment of December 6, 2017 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 and Remunerations Committee. Their appointment or renewal, which is proposed by the Nominations and Remunerations Committee, is subject to particularly close scrutiny by the Board of Directors.

As of February 28, 2018, the Audit and Risk Committee was chaired by Annette Messemer.

It also included Philippe Alfroid, 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 prejudice to the responsibilities of Senior Management, the Audit and Risk Committee is tasked with the following missions:

- monitoring the integrity of the financial statements;
- monitoring the process for the preparation of financial information;
- reviewing, as part of the examination of the financial statements, the significant transactions in which a conflict of interest may have occurred;
- monitoring the effectiveness of internal control and risk management systems;
- examining the significant off-balance sheet risks and commitments;
- monitoring the performance, qualifications, independence, and check the incompatibilities of the Statutory Auditors;
- making a recommendation to the Board of Directors concerning the choice of Statutory Auditors to be appointed by the Shareholders' Meeting;
- reviewing the performance of internal audits.

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:

   - review of the half-yearly and annual financial statements and all related documents,
   - 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 how the Company or the Essilor Group 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 or Essilor Group's risk control,
   - drafting 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) the introduction of new procedures,
   - the Audit and Risk Committee and the CSR Committee may also be consulted by the Board about any issues concerning procedures to control non-recurring risks,
   - As indicated above, the Audit and Risk Committee's work on the effectiveness of the main risks must be closely coordinated with that of the CSR Committee, responsible for identifying and managing non-financial risks;
- compliance with legal and statutory requirements:
   - compliance with accounting regulations and proper application of the Company's accounting principles and policies,
   - awareness of major disputes for the year, and their development (this information must be assessed in coordination with the CSR Committee),
   - review of measures to prevent risks related to applicable regulations ("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:
   - make proposals for the appointment of Statutory Auditors for Essilor Group entities,
   - 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,
   - review the rotation regulations applicable to the main partner and evaluation of the need for rotation among the Statutory Auditors of the Company and its main subsidiaries,
   - monitoring of the performance of the Statutory Auditors' assignments, review of their intervention program and the conclusions of their procedures,
   - resolution of potential disagreements between the positions of the Statutory Auditors and Essilor Group's management teams,
   - 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 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 and processing of 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 within the Group.

The Chairman of the Audit and Risk Committee directs the work each year according to his/her assessment of the importance of the different risks, in agreement with Senior Management and the Chairman of the CSR Committee.

The Chairman of the Audit and Risk Committee must regularly coordinate with the Chairpersons of the other committees, and in particular with the Chairman of the CSR Committee, who is responsible for identifying and managing non-financial risks.

Meeting agendas are set by the Chairman of the Committee, in discussions with the CSR Committee, the Board after hearing Senior Management (the Chairman and Chief Executive Officer, the President and Chief Operating Officer).

In accordance with the Internal Rules of the Board of Directors, "the Committee endeavors to meet 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 2017

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 2017 as part of the Board of Directors' self-assessment.

The Audit and Risk Committee met four times (with a participation rate of 96% for the year) and heard the Group Chief Financial Officer, the Group Legal Director, the Group Internal Audit Director, the Chief Compliance Officer, the Corporate Senior Vice President, Human Resources and the Statutory Auditors.

The committee discussed the following topics at these meetings:

- financial statements: review of the 2016 financial statements, 2017 first half-yearly financial statements and the provisional management documents (this review, which was accompanied by a presentation by the Chief Financial Officer on the Company's significant off-balance sheet commitments); and information on the quarterly financial statements; 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 6, 2017;
- proposed combination with Luxottica: review of the mandate agreement signed between Essilor (Compagnie Générale d'Optique) and Rothschild Bank to negotiate the terms and conditions of the combination with Luxottica Group (see special report on regulated agreements and commitments published in the 2016 Registration Document page 100), review of the potential accounting and financial scenarios and consequences associated with the combination with Luxottica, review of the consequences associated with the Hive Down, the organization in subsidies of the operational activities of Essilor International (Compagnie Générale d'Optique) for the benefit of a subsidiary effective since November 1, 2017, presentation of the restrictions on communications due to the proposed combination with Luxottica;
- role of the Statutory Auditors: roadmap of the Statutory Auditors' 2017 audit plan and review of the work and diligence accomplished by the Statutory Auditors, presentation of the changes applicable in 2018 following the European Regulations in matters of audit and specifically with a view to the drafting of new report formats;
- internal audit: presentation of the 2017 internal audit plan as part of the "roadmap" with monitoring of internal and external audit missions, presentation of the internal audit *roadmap*, performance and budget indicators, review of the internal audit activity (measurement of productivity) as well as the self-assessment process for internal control and the associated Group risks, known as "iCare";
- internal control: review of the report on internal control, presentation of the internal control organization in certain countries;
- finance: review of the authorizations in matters of bond issues, review of the share buyback policy, off-balance sheet commitments, financings and rating; the change in IFRS 15, the treasury centralization policy (cash-pooling), post-acquisition review;
- compliance: presentation by the Corporate Senior Vice President, Human Resources of the way in which the "compliance" roadmap is taken into account by the human resources policy; presentation of the "Compliance" roadmap with regard to the good practice guide in terms of the prevention of corruption (including the rollout of the "whistleblowing" procedure), the training programs and their monitoring, the formalization of internal processes for actions implemented in matters of economic sanctions;
- presentation and review of current regulations: European reform of the audit and European Regulation on data protection.

The members of the Audit and Risk Committee also met twice specifically to carry out:

- the examination of the presentations, financial information and assessment reports on the proposed combination with Luxottica before the Board of Directors' meeting that approved the draft contribution agreements with respect to the Hive Down (refer to Chapter 7) and the contribution of Luxottica shares by Delfin to Essilor International (Compagnie générale d'Optique);
- the joint examination with the members of the CSR Committee:
  - of the management of non-financial and compliance risks as well as the organization implemented, the main missions of the Compliance department, the assessment of risks carried out in accordance with the regulations on the prevention of corruption, money-laundering, personal data protection and economic sanctions,
  - the draft Code of ethics before its rollout on a Group level.

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

NOMINATIONS AND REMUNERATION COMMITTEE

Composition

The internal rules of the Board of Directors such as amended by the Board of Directors on February 28, 2018 stipulate that the Nominations and Remuneration Committee is comprised of a minimum of three members, the majority of whom must be appointed from among the Independent Directors. The Chairman is appointed by the Board after approval by the members of the Nominations and Remuneration Committee.

At February 28, 2018, the Nominations and Remuneration Committee was chaired by Bernard Hours and comprised of Marc Onetto and Olivier Pecoux. The Chairman and Chief Executive Officer and a Director representing employee shareholders are involved in the work of the committee. No Executive Corporate Officers is entitled to take part to discussions with respect to the compensation.

Role

As described in the Board's internal rules, the role of the Nominations and Remuneration Committee, as part of the duties of the Board of Directors, make some proposal with respect to the following topics:

- **Nominations:**
  - make recommendations to the Board for the choice of Directors and Committee members, as well as Committee Chairpersons; the Nominations and Remuneration Committee aims to ensure that at least (i) half of the Directors, (ii) two-thirds of the Audit and Risk Committee and, (iii) in principle, the majority of the members of the Nominations and Remuneration Committee are Independent Directors, in accordance with the AFEP-MEDEF Corporate Governance Code for listed companies,

- make recommendations to the Board regarding the appointment of Executive Corporate Officers,
- make recommendations, if appropriate, for the appointment of the Company's main senior managers,
- implement a succession plan for Executive Corporate Officers, if required for the Company's main senior managers, consistent with the existing succession plan at the level of its subsidiary, Essilor International,
- review the main developments in the Company's organization;

Assessment:

- assist the Board in its periodic assessments,
- prepare the Board's self-assessment process, its composition, its organization and its functioning (this also requires a review of its Committees) and steer the self-assessment process, in compliance with the recommendations of the AFEP-MEDEF Corporate Governance Code for listed companies and article 7 of these internal rules,
- assess potential candidates to replace Directors in the event of vacancies, particularly unforeseen vacancies, or to appoint additional Directors,
- formulate proposals to improve the Board's operation (with regard to the organization of meetings, assessment of each Director's performance and the management of Board process changes),
- formulate proposals for the creation of Committees and their respective roles,
- monitor changes in the Company's shareholders and how the Company takes these changes into account, examine shareholder representation (including employee shareholders) in the governance,
- give prior approval to all terms of office outside of the Essilor Group that the Company's Executive Corporate Officers wish to exercise,
- each year, assess individually for each Director whether he/she meets the qualification of Independent Director, in compliance with the criteria described in the AFEP-MEDEF Corporate Governance Code for listed companies and current internal rules,
- each year, prepare a report for the Board of Directors assessing the performance of the Executive Corporate Officers, and if it considers it appropriate, the main Essilor Group managers (corporate finance, internal audit and control, treasury, human resources, investor relations, communications, legal affairs departments),
- meet, as required, the main Essilor managers (Corporate Finance, Group treasury, human resources, investor relations, communications, legal affairs departments);

Governance:

- issue recommendations on best governance practices,
- assess whether the governance practices within Essilor Group comply with the AFEP-MEDEF Corporate Governance Code for listed companies and market practices and monitor compliance with these practices,
- point out when Essilor Group's governance deviates from the AFEP-MEDEF Corporate Governance Code for listed companies and prepare the related explanations,
- prevent and examine situations of conflicts of interest with regard to Directors, Executive Corporate Officers, and if applicable, the Company's main senior managers or shareholders,
- issue recommendations to the Board for all amendments to bylaws or these internal rules (including the Directors' Charter);

Compensations:

- make proposals regarding the compensation policy and the compensation and benefits of the Company's Executive Corporate Officers, and if applicable, the main senior managers (including all compensation elements and their structure),
- make recommendations on the budget and terms for the distribution of the Directors' fees allocated to Directors, taking into account their attendance,
- ensure compliance with the compensation policy, its structure and elements with the legal requirements and the AFEP-MEDEF Corporate Governance Code for listed companies,
- review the provisions applicable at the end of terms of office and the financial departure conditions for the Company's Executive Corporate Officers,
- make recommendations regarding the policy and terms of the award of stock options and/or "free" performance shares, their award, and the implementation of employee shareholding or profit-sharing plans and any other collective plans for Company or Essilor Group employees,
- make proposals regarding the award of stock options and/or "free" performance shares to Executive Corporate Officers, and if applicable, to the main senior managers of the Company and its subsidiary, Essilor International, after having noted the recommendations made by the Board of Directors for the latter, as well as the number of shares from options exercised or the allocation of performance shares that they must hold until the end of their term,
- examine in advance the terms of all service contracts signed with Company Directors or Executive Corporate Officers,
- review the Company's or Essilor Group's existing general compensation policies,
- submit the draft report regarding the compensation policy and compensation received to the Board on an annual basis, and issue an opinion on the associated draft resolutions, which are submitted for approval by the Shareholders' Meeting in accordance with legal provisions.

Major accomplishments in 2017 respectively performed by the Nominations Committee and the Executive Officers and Remuneration Committee prior to their merger.

NOMINATIONS COMMITTEE

The committee met five times in 2017 (with a participation rate of 100% for the year),

It reviewed the following matters:

- review, related to the Executive Officers and Compensation 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 2.1.1.3);
- review of potential candidates for directorships and preparation for terms of office renewals over the next few years (especially for the composition of the Committees, notably as part of the proposed combination with Luxottica);
- review of the change in governance and the way in which the Board of Directors will function in particular following the Hive Down completion and as part of the combination with Luxottica;
- monitoring of training given to the Director representing employees (2017 training and planned 2018 training);
- appointment of the Independent Director responsible for monitoring the Board of Directors' self-assessment, review of the process, the schedule and its conclusions (see Section 2.1.2.3);
- review of the draft internal rules of the Board of Directors;
- review of this report on corporate governance.

EXECUTIVE OFFICERS AND REMUNERATION COMMITTEE

The Committee met six times in 2017 (with a participation rate of 100% for the year).

It reviewed notably the following matters:

- review the 2016 performance of the Chairman and Chief Executive Officer for the final calculation of his variable compensation for the previous fiscal year and for the President and Chief Operating Officer for the period of time from December 6, 2016, his appointment date, and December 31, 2017;
- setting objectives for the variable compensation of the Chairman and Chief Executive Officer and of the President and Chief Operating Officer for fiscal year 2017;
- 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 and of the President and Chief Operating Officer for fiscal year 2018;
- review of the 2017 performance shares and stock option plans;
- review of the employee shareholding plans (Company savings plan and "Boost").

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 and Chief Executive Officer.

Role

As described in the Board's internal rules, the role of the Strategy Committee, in the context of the duties of the Board of Directors, is to regularly review the Essilor Group's overall strategy and the product, technology, growth and finance as well as marketing and geographical expansion strategies. To do this, the Chairman and Chief Executive Officer and/or the Chief Operating Officer(s), assisted where necessary by the members of the Management Committee, are responsible for regularly making presentations. The Chairman and Chief Executive Officer and/or the Chief Operating Officers(s) personally make a general annual presentation on Essilor Group's strategy to the Strategy Committee.

This Committee makes recommendations to the Board for the purpose of validating the main strategic choices.

The work of the Strategy Committee must be coordinated with that of the CSR Committee, which is responsible for monitoring sustainable development and the CSR policy, to which Essilor Group's strategy is fully related.

Major accomplishments in 2017

The Strategy Committee met five times in 2017 (with a participation rate of 94% for the year).

The Committee mainly focused on examining the proposed combination between Essilor and Luxottica which it monitored throughout 2017.

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

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 stipulate that the CSR Committee is comprised of four members, including two Independent Directors, the Chairman and Chief Executive Officer and a Director representing 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 December 31, 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 duties of the Board of Directors, is to ensure that Essilor Group effectively addresses its mission to "improve lives by improving sight", which is fully integrated into our strategy. Consequently, the Company 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 7 billion inhabitants.

The role of the CSR Committee goes beyond philanthropy, inclusive business and compliance, and also focuses on how Essilor Group manages its economic, social and environmental impacts and its relations with all stakeholders (workplace, community, public policy, etc.). Its missions encompass the areas of corporate social responsibility associated with Essilor Group's mission, which consists of improving visual health in the world by manufacturing the best possible lenses, to protect and correct the vision of each individual whilst meeting their personal tastes and expectations.

This CSR policy extends to all Essilor Group's stakeholders: customers, shareholders, suppliers, employees, associations, governmental authorities and institutions, multilateral agencies, financial analysts and rating agencies, consumers and the media. This policy is anchored in Essilor Group's shared[(1)] values and principles, which are the foundations for the corporate culture and are shared throughout Essilor Group. Thus, they are reflected in Essilor Group's way of operating as a community of entrepreneurs, the importance given by Essilor Group to employee shareholding and the correction and protection of vision for health and social life, to enable each person to both learn and work to the best of his/her ability and to be an integral part of the world that surrounds him/her.

In this context, the CSR Committee, under the authority of the Board, is responsible for the following duties:

- Sustainable development:

  The Committee reviews and assess the Company's strategy, policies and procedures on corporate responsibility issues and sustainable development, such as those described below, and provides insight to the Board about Essilor Group's long-term development, including economic development through its CSR initiatives in the areas of vision and its improvement.

  As part of its work, the Committee is responsible for the following duties:

  - review Essilor Group's environmental policies and management systems,
  - review the policies towards the different stakeholders (customers, suppliers, local communities),
  - review the rollout of inclusive business,
  - review Essilor Group's not-for-profit policies and philanthropy initiatives carried out directly or *via* entities or partnerships with not-for-profit organizations,
  - review the human resources and risk management policies for the following areas: health and safety, diversity, employment equality, employee relations and other associated subjects,
  - review the social impacts of the main restructuring and/or reorganization plans,
  - review Essilor Group's human rights policy,
  - receive the annual presentation of the corporate responsibility and sustainable development risk mapping; it reviews the identified risks and opportunities and is kept informed of their change and the characteristics of the associated management systems,
  - review and assess the reporting and control procedures for non-financial indicators (environment, health and safety, social reporting and indicators),
  - review the rankings and assessments made by rating and non-financial agencies,
  - review the reporting, assessment and control systems, in order to enable the Company to provide reliable non-financial information and issue an opinion on the non-financial performance disclosure that must be published under legal requirements (article L. 225-102-1 of the French Commercial Code);

- Ethics and *Compliance*:

  The Committee reviews and controls the Company's policies on compliance and ethics as well as the procedures and systems in place to implement these policies and provides insight to the Board on these subjects.

  As part of its work, the Committee is responsible for the following duties:

  - review the definition of Essilor Group's values, ethics and compliance policy,
  - review and make recommendations in order to promote corporate culture and employee shareholding,
  - promote ethics and ensure the harmonization of ethics rules within Essilor Group entities, and monitor their application,
  - review the organization of the compliance function and make recommendations if required,
  - review the Group's Code of ethics, its rules and procedures,
  - receive the annual presentation of the ethics and compliance risk mapping; it reviews the identified risks and is kept informed of their change and the characteristics of the associated management systems;

- The CSR Committee must coordinate its work with:

  - the Audit and Risk Committee for all questions pertaining to the role of the CSR Committee, particularly internal control, compliance, the management and review of risks and non-financial information and the main disputes; the CSR Committee may also be consulted, jointly with the Audit and Risk Committee, on the management procedures applicable to non-recurring risks,
  - the Strategy Committee for all questions pertaining to the role of the CSR Committee, particularly CSR policy and sustainable development.

  The CSR Committee should be involved in the drafting of all reports (including the Registration Document) for the sections related to its expertise and remit, and specifically the non-financial performance disclosure.

2

(1) *Working together, Innovation, Respect and trust, Entrepreneurial sprit and Diversity.*

Major accomplishments in 2017

During 2017, 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, or philanthropy initiatives (see Section 4.3.3);
- presentation of the draft Code of ethics as well as an item on Essilor Group's approach to human rights (see Section 4.6.2);
- the supplier management policy, with the Supplier Sustainability Program (SSP) (see Section 4.6.3);
- the performance of the Environment, Hygiene and Safety (EHS) Department (see Chapter 4.5);
- the presentation of the Vision Impact Institute initiatives ;
- 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.

The CSR Committee regularly met with the Audit and Risk Committee to examine, in a cross-functional way, issues pertaining to their respective roles, i.e.:

- the management of non-financial and compliance risks as well as the organization put in place, the main duties of the Compliance department, the assessment of risks carried out in accordance with the regulations (prevention of corruption, money-laundering, personal data protection as well as economic sanctions);
- the draft Code of ethics before its rollout on a Group-wide basis.

2.1.3 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, in application of article 3 of the Board of Directors' internal rules, a certain number of decisions require prior approval from the Board of Directors, after an examination by the competent committee if required. These include all decisions on acquisitions and disposals as part of the "new business/new country" strategy as well as restructuring and significant non-strategic investments, lease commitments for new real estate above a variable threshold depending on whether or not the commitment was included in the annual budget (see Section 2.1.2.2).

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

2.2 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:

2.2.1 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.

2.2.2 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.

2.2.3 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.

2.2.4 Delegations and authorizations granted by the Shareholders' Meeting to the Board of Directors

Share capital issued and non-issued [1] authorized share capital: the table below summarizes the current delegations granted by the Shareholders' Meeting of May 5, 2015, May 11, 2016 and May 11, 2017 to the Board of Directors in respect of share capital and the use made of these delegations.

Type of delegation	Date of Shareholders' Meeting (resolution no.)	Duration (Date of expiration)	Maximum authorized amount	Use as of 12/31/2017
Increase in share capital for the benefit of employees and Executive Corporate Officers				
Increase in share capital reserved for employees (members of a Company savings plan)	May 11, 2017 (18th)	26 months (July 10, 2019)	1.5% of the share capital (at the date of issue) [2]	0.14%
Increase in share capital reserved for foreign employees (international "Boost" offer)	May 11, 2017 (19th)	26 months (July 10, 2019)	1.5% of the share capital (at the date of issue) [2]	0.08%
Free share award (performance shares) for the benefit of employees and Executive Corporate Officers	May 5, 2015 (14th)	38 months (July 4, 2018)	2.5% of the share capital (at the award date)	1.96%
Award of stock subscription options for the benefit of employees	May 5, 2015 (15th)	38 months (July 4, 2018)	1% of the share capital (at the award date)	0.16%
Increases in share capital (general authorizations)				
Increase in share capital by issue of shares with preferential subscription rights maintained	May 11, 2016 (13th)	26 months (July 10, 2018)	1/3 of the share capital(at the date of the Shareholders' Meeting) €1,500 million for debt securities	None
Increase in share capital by issue of shares with cancellation of preferential subscription rights	May 11, 2016 (14th)	26 months (July 10, 2018)	10% of the share capital (at the date of the Shareholders' Meeting) €1 billion for debt securities	None
Allocation of securities to qualified investors or a restricted circle of investors (article L. 411-2 II French Monetary and Financial Code)	May 11, 2016 (15th)	26 months (July 10, 2018)	10% of the share capital (at the date of the Shareholders' Meeting) €1.2 billion for debt securities	None
Over-allotment option (applicable in respect of resolutions 13, 14 and 15)	May 11, 2016 (16th)	26 months (July 10, 2018)	15% of the initial issue	None
Increase in the share capital as consideration for in-kind contribution of securities	May 11, 2016 (17th)	26 months (July 10, 2018)	10% of the share capital at the date of the Shareholders' Meeting	None
Issue of shares according to price terms other than those set in respect of resolutions 17 and 20	May 11, 2016 (18th)	26 months (July 10, 2018)	10% of the share capital (at the date of the Shareholders' Meeting)	None
Overall limitation of authorizations with cancellation of preferential subscription rights or reserved for in-kind contributors (14, 15, 16, 17, 18)	May 11, 2016 (19th)	26 months (July 10, 2018)	10% of the share capital (at the date of the Shareholders' Meeting) This ceiling is deducted from the overall ceiling of one-third of the share capital (resolution no. 16)	None
Increase in the share capital by capitalization of reserves, profits, premiums or other.	May 11, 2016 (20th)	26 months (July 10, 2018)	€500 million	None

(1) Article L. 225-37-4 of the French Commercial Code.
(2) Common ceiling on the capital increase reserved for employees (members of the Company Savings Plan and foreigners in the context of the "Boost" international offer).

Type of delegation	Date of Shareholders' Meeting (resolution no.)	Duration (Date of expiration)	Maximum authorized amount	Use as of 12/31/2017
Increase in the share capital associated with the proposed combination with Luxottica				
Increase in the share capital by issue of shares in consideration for the Contribution	May 11, 2017 (22th)		subject to the adjustment of the exchange ratio, the increase in share capital would have the effect of bringing the Company's share capital from €39,442,579.02 to €64,461,626.64.	None
Increase in the share capital by issue of shares in consideration for securities contributed as part of a public exchange offer initiated by Essilor International	May 11, 2017 (23th)	26 months (July 10, 2019)		None
Buyback by the Company of its own shares				
Purchase by the Company of its own shares	May 11, 2017 (17th)	18 months (November 10, 2018)	10% of the share capital at the date of purchase	None
Reduction in the share capital by cancellation of shares				
Cancellation of shares acquired by the Company under article L. 225-209 of the French Commercial Code	May 11, 2017 (11th)	24 months (May 10, 2018)	10% of the share capital at the date of cancellation by 24-month periods	None

2.2.5 Factors that may have an impact in the event of a public offering

In accordance with article L. 225-100-3 of the French Commercial Code, the factors that may have an impact in the event of a public offering is presented below:

2.2.5.1 Structure of the Company's share capital

The structure of the Company's share capital is detailed in Chapter 5 Section 52.1 Company's share capital at December 31, 2017 and change over the last three fiscal years.

2.2.5.2 Statutory restrictions in the exercise of voting rights

The Company's bylaws stipulate an obligation to provide information for any person who owns or ceases to own a fraction equal to 1% of the voting rights; this disclosure requirement is renewed each time an additional 2% threshold is crossed.

If this information required is not complied with, at the request of one or several shareholders owning at least 5% of the share capital, the shares exceeding the fraction that should have been declared shall be denied voting rights under the conditions stipulated by law. This mechanism is described in Chapter 5 Section 5.1.

At the date of this Registration Document, the Company has no knowledge of any agreement clauses that provide for preferential disposal or acquisition rights on at least 1% of the Company's share capital or voting rights.

In addition, certain shares in the Company are entitled to a double voting right as described in Section 5.2.6.1. Different voting rights.

2.2.5.3 Direct or indirect investment in the Company's share capital, to the Company's knowledge

The Company's shareholders are presented in Chapter 5 Section 5.2.1 "Change in the Company's share capital at December 31, 2017 and change over the last three fiscal years".

2.2.5.4 Powers of the Board of Directors

The Company's current authorization to buy back its own shares excludes any buyback during a public offering on the Company's shares. In addition, the delegations set out above in Section 2.2.4, granted to the Board of Directors, stipulate that they may not be used during public offerings

2.2.5.5 Control mechanisms provided for by any staff shareholding system, when control rights are not exercised by the latter

Internal shareholders and partners own 8.4% of the share capital and 14.4% of the voting rights. They may exercise voting rights individually, with the possibility of delegating this power to representatives of the seven year mutual fund (FCPE); they may also give power to the Chairman of Valoptec Association who will issue a vote in accordance with the vote by the Shareholders' Meeting of Valoptec Association held prior to Essilor's Shareholders' Meeting.

2.2.5.6 Significant agreements that may be amended or ended if the Company has a change in control

- the joint venture contract with Nikon Corporation includes a clause allowing Nikon Corporation, under certain conditions, to purchase the Company's 50% stake in the Nikon-Essilor joint venture or to request the liquidation of the joint venture in the event of a change in the Company's control;
- bank financing lines implemented by the Company include an acceleration clause in the event of a change in the Company's control.

To the Company's knowledge, there is no other significant agreement which may, if implemented at a future date, lead to a change in control.

2.3 Compensation and benefits

2.3.1 Board of Directors compensation policy

Directors' fees

The Combined Shareholders' Meeting of May 11, 2017, voted to award Directors' fees of €880,000. At its meeting of May 11, 2017, 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	€15,000	€4,200 per meeting
Chairman of the Audit and Risk Committee	€22,000	€3,000 per meeting
Chairman of the Appointment and Remuneration Committee[(a)], Chairman of the Corporate Social Responsibility Committee (CSR)	€11,000	€3,000 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	€3,000 per meeting
Members of the Strategy Committee	Not applicable	€2,000 per meeting

(a) *The Executive Officers and Remuneration Committee and the Nominations Committee have been merged following a decision of the Board of Directors on February 28, 2018.*

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 comprising 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 comprising total compensation and benefits of any kind attributable to Essilor Executive Corporate Officers for fiscal year 2018 which will be submitted for shareholder approval at the Shareholders' Meeting of April 24, 2018, pursuant to article L. 225-37-2 of the French Commercial Code.

These principles and criteria will apply, where appropriate, to any successor to the Chairman and Chief Executive Officer and President and Chief Operating Officer, until the next Shareholders' Meeting called to approve the compensation policy for Executive Corporate Officers. Similarly, these principles and criteria will apply, where appropriate, to any additional Executive Corporate Officers appointed during the fiscal year 2018, until the next Shareholders' Meeting called to approve the compensation policy for Executive Corporate Officers.

In addition to the items described below, a sign-on premium may be granted in accordance with the principles established for these purposes by the AFEP-MEDEF Code, to an Executive Corporate Officer recruited externally to compensate him/her 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 year 2018, is subject to approval by the Shareholders' Meeting called to approve the financial statements for the fiscal year 2018.

Note: the policy described below applies to Executive Corporate Officers. In the event that the Company has to appoint a Non-Executive Corporate Director, then it will comply with the recommendations set out in the AFEP-MEDEF Code.

2.3.2.1 General principles

The compensation of Executive Corporate Officers is set by the Board of Directors on the recommendation of the Nominations 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;
- compensation must be considered as a whole: all components (including monetary elements, including the supplementary pension) 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 consistent with that of the Company's other senior managers and employees;
- the variable portion of the compensation must support the Company's strategy and must be closely linked to the Company's performance;
- compensation must reflect the Company's culture and values;
- compensation must be governed by simple, clear, transparent rules.

2.3.2.2 Use of external consultants and market practices benchmark

The Nominations and Remuneration Committee uses independent specialist firms to measure the competitiveness of its compensation for Executive Corporate Officers.

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 Nominations and Remuneration Committee with insight into the competitive positioning of the compensation paid to the Executive Corporate Officers and market trends. They are one of the elements used to determine the compensation of Executive Corporate Officers.

Without being prescriptive, the positioning sought is roughly the median for fixed compensation and above the median for total compensation (fixed + target annual 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.

2.3.2.3 Fixed compensation

Fixed compensation must enable talented individuals from within the Company, or as necessary, from outside the Company, to be attracted to the most senior management positions. It must also be sufficient to engage their commitment and loyalty towards 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 practices.

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 and level of responsibility, the holder's level of performance and development in the position, the positioning relative to the market for equivalent positions in multinational companies of comparable size and the economic and social environment in the Group's main countries.

The Board of Directors' meeting on October 3, 2017, in line with the recommendations of the Executive Officers and Compensation Committee, decided that the fixed annual compensation of Executive Corporate Officers would not change until the final completion date of the combination with Luxottica. Consequently, the annual fixed compensation for the Chairman and Chief Executive Officer is maintained at €800,000, unchanged since 2012.

Similarly, the annual fixed compensation for the President and Chief Operating Officer is maintained at €650,000.

When the combination between Essilor and Luxottica is finally completed, and in compliance with the rules and principles set out above, the Board of Directors is likely to increase the fixed compensation of Executive Corporate Officers to reflect changes in their scope of responsibility.

2.3.2.4 Annual performance compensation (annual variable component)

The annual variable component rewards the achievement of the year's strategic financial and non-financial 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 and Risk Committee has approved the results.

The quantitative indicators must represent a major proportion in the structure of the variable component and are selected from those that allow the best possible implementation of the Company's strategy. The weighting between each indicator is reviewed annually according to the fiscal year's priorities.

A target level (corresponding to 100% achievement of target) is set for each quantifiable indicator. The target level is set such that it represents an ambitious yet achievable goal. A minimum and maximum level is 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. Through its compensation philosophy, the Company wishes 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, growth forecasts in the optical industry sector, and factors internal to the Company.

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

The target variable component for Executive Corporate Officers for fiscal year 2018 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%

Among the specific quantifiable or qualitative objectives, are the following:

- The successful completion of the proposed combination with Luxottica;
- The development of long and medium term growth plans for the Group;
- The strengthening of compliance and internal control to support the Group's growth.

The variable component will be calculated prorata for the period from January 1, 2018, to the final completion date of the combination with Luxottica.

When the combination is finally completed between Essilor and Luxottica, the performance criteria of EssilorLuxottica Executive Corporate Officers may change to take into account the new group's strategy, as well as changes to the scope of responsibilities of Executive Corporate Officers. In such circumstances, a new Shareholders' Meeting will be called after the completion of the combination with Luxottica to approve the new performance criteria.

2.3.2.5 Long-term compensation plan

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

Since 2010, Essilor's plans have primarily taken the form of performance share awards pursuant to articles L. 225-197-1 et seq. of the French 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. Thus, 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 + target annual variable component + performance shares) to ensure alignment with shareholders' interests.

TERMS FOR PERFORMANCE SHARE AWARDS

These awards occur during the same calendar periods. In exceptional circumstances, the Board of Directors may, on the recommendation of the Appointment and Compensation Committee, revise the award schedule. In this case, these changes are made public after the Board Meeting that approved them and will be disclosed in the Registration Document in the summary table of the AFEP-MEDEF recommendations not applied.

Performance shares awarded to Executive Corporate Officers must comply with the following ceilings:

- valued in accordance with the IFRS standards 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 annual variable component for the fiscal year and the long-term incentive valued in accordance with IFRS standards);
- 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

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 the creation of lasting value for shareholders and align the interests of the beneficiaries with those of the shareholders. For this purpose, the performance criterion for all beneficiaries is linked to the annualized growth in the Company's share price measured over a period of at least three years. The Executive Corporate Officers must satisfy additional performance conditions linked to the rate of achievement of the annual variable compensation during the performance measurement period. The performance criteria remain strictly identical to those applied in past years, in particular those for the 2017 performance share award plan described in appendix 2 within the section 2.3.3.4 hereinafter;
- 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.

OTHER OBLIGATIONS

To strengthen alignment with shareholders' interests, the Executive Corporate Officers are required to keep one-third of the performance shares vested throughout their term of office. This requirement to hold shares no longer applies when Executive Corporate Officers permanently hold an aggregate number of shares equivalent to two years' target cash compensation (fixed + target annual variable component), through the acquisition of shares and the exercise 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.

2.3.2.6 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. 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.

2.3.2.7 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:

- a minimum length of service condition of 10 years must be met to benefit from the plan;
- the pension benefit is proportional to length of service in the Group;
- the reference compensation on which the calculation of the final pension is based is calculated according to the gross compensation (fixed + annual variable component) paid over the last three years;
- pursuant to applicable law, annual potential rights are capped at 3% of annual compensation and subject to the fulfilment of performance conditions;
- 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.

2.3.2.8 Employee benefits: death/disability and health insurance plans and defined contribution pension plan

The Executive Corporate Officers are eligible for the same death/disability, health insurance and defined contribution pension plans that managers and executives of the French company Essilor International provides in France.

The defined-contribution pension plan is based on a flat employer-contribution rate, currently set at 1% of gross compensation paid.

2.3.2.9 Benefits in kind

Executive Corporate Officers are eligible for:

- a company car, in accordance with the Company's internal rules;
- unemployment insurance.

2.3.2.10 Suspension of the employment contract

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 under the conditions (including exceptions) set out in the AFEP-MEDEF Code. 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.

2.3.2.11 Termination benefits for an Executive Corporate Officer who holds an employment contract

An Executive Corporate Officer who holds an employment contract (in force or 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:

- the employment contract contains a termination benefit;
- 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).

Termination benefits required by law or related to the collective agreement owed, except in the event of serious or gross misconduct, pursuant to seniority acquired as an employee before appointment as an Executive Corporate Officer

Not subject to performance conditions

+

Supplementary benefits, except in the event of serious or gross misconduct

Subject to performance conditions

Amount determined based on the achievement rate of the performance conditions (indicated in the appendix 4 in Section 2.3.3.4 hereafter)

≤

Two years of compensation related to the employment contract

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.

2.3.2.12 Termination benefits for an Executive Corporate Officer not holding an employment contract

In this configuration, the Company's policy would be to adhere strictly to the law and the recommendations of the AFEP-MEDEF Code. Thus:

- this benefit would be capped at two years' cash compensation (corresponding to the average of annual 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 and would be fully subject to the achievement of performance conditions.

2.3.3 2017 compensation of Executive Corporate Officers

2.3.3.1 Situation of 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). Note that the hive-down of Essilor's businesses led to the automatic transfer to the subsidiary, Essilor International (SAS), of the suspended employment contract of Hubert Sagnières effective on November 1, 2017.

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). Note that the hive-down of Essilor's businesses led to the automatic transfer to the subsidiary, Essilor International (SAS), of the suspended employment contract of Laurent Vacherot effective on November 1, 2017.

2.3.3.2 2017 Compensation structure

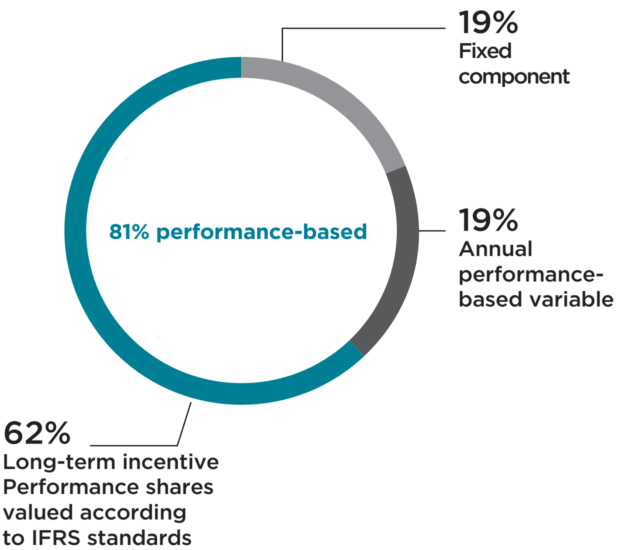
As an illustration, the graphs below outline the structure of compensation for the Chairman and Chief Executive Officer and the President and Chief Operating Officer for fiscal year 2017.

The first graph is based on the target annual variable compensation and the second on maximum annual variable compensation.

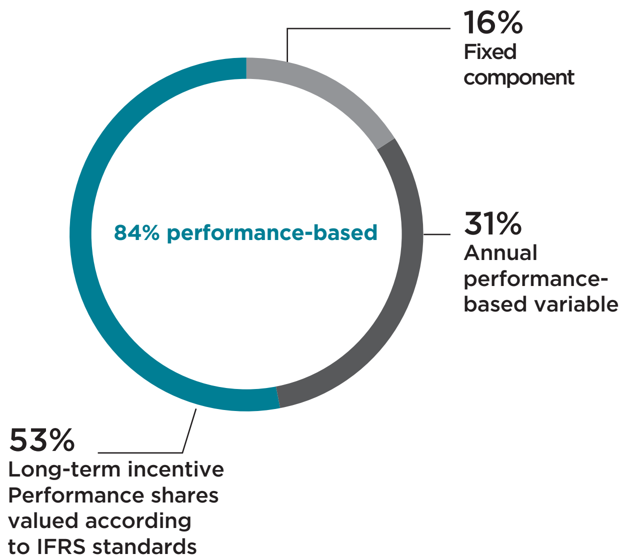
Nearly 80% of overall compensation is directly contingent on performance, with a preponderant portion in long-term incentives.

2017 COMPENSATION STRUCTURE OF HUBERT SAGNIÈRES, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

TARGET COMPENSATION

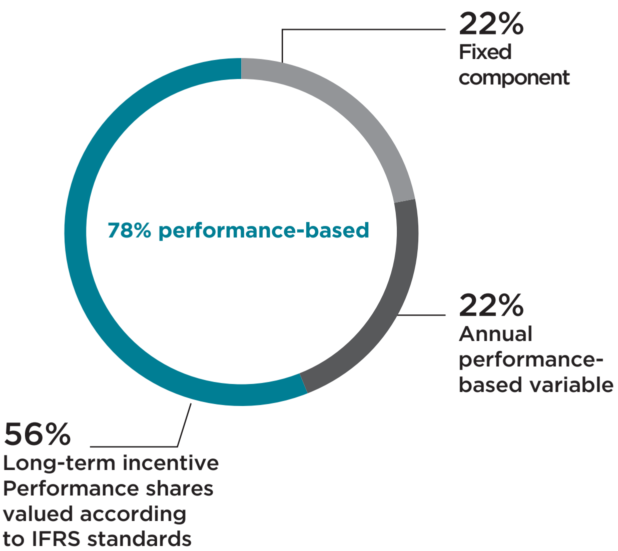


MAXIMUM COMPENSATION

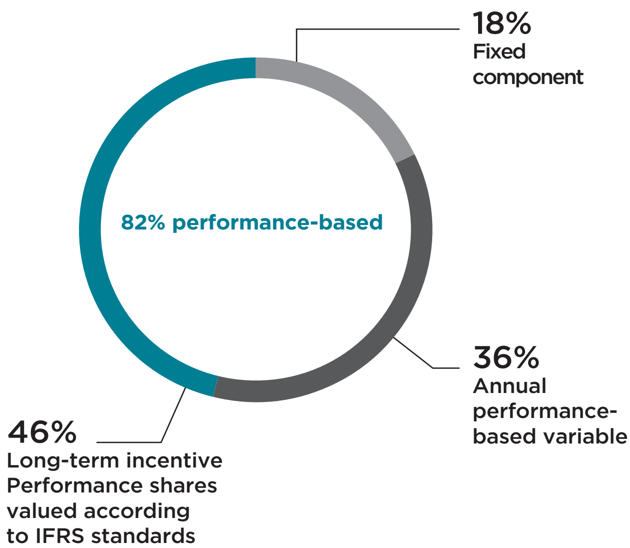


2017 COMPENSATION STRUCTURE OF LAURENT VACHEROT, PRESIDENT AND CHIEF OPERATING OFFICER

TARGET COMPENSATION



MAXIMUM COMPENSATION



2.3.3.3 Summary of 2017 compensation

(in euros)	Hubert Sagnières Chairman and Chief Executive Officer					Laurent Vacherot President and Chief Operating Officer		
Annual cash compensation	2015	2016	2017	Variation 2016/2015	Variation 2017/2016	2016 [(a)]	2017	Variation 2017/2016[(a)]
Fixed	800,000	800,000	800,000	+0.0%	+0.0%	46,301	650,000	N/A
Target variable component	800,000	800,000	800,000			46,301	650,000	
Target cash compensation	**1,600,000**	**1,600,000**	**1,600,000**	**+0.0%**	**+ 0.0 %**	**92,602**	**1,300,000**	**N/A**
Variable component due	1,350,400	960,000	1,214,400 [(b)]			55,561	988,650 [(b)]	
% achievement of objectives in relation to target	169%	120%	152%			120%	152%	
% maximum (for reference)	200%	200%	200%			200%	200%	
CASH COMPENSATION DUE	**2,150,400**	**1,760,000**	**2,014,400**	**- 18.2%**	**+ 14.5 %**	**101,862**	**1,638,650**	**N/A**
LONG-TERM INCENTIVE PLAN								
Award of performance shares (volume)	**35,000**	**35,000**	**50,000** [(c)]			**32,005** [(d)]	**32,045** [(e)]	
As a % of total number of shares awarded[(f)]	2.4%	2.2%	2.9%			2.1%	1.9%	
As a % of share capital at December 31 for the year	0.016%	0.016%	0.023%			0.015%	0.015%	
IFRS valuation of performance shares	1,975,400	2,202,900	2,703,000			1,914,219	1,615,388	
EMPLOYEE BENEFITS								
Benefits in kind	7,401	7,514	7,633			610	7,324	
Type	Unemployment insurance	Unemployment insurance	Unemployment insurance			Company car	Company car	
Employer contributions to group schemes (health insurance, provident scheme, defined contribution pension plan)	16,065	17,042	15,166			899	19,155	
DEFERRED COMMITMENTS								
Supplementary defined benefit "loyalty-based" pension plan	Yes	Yes	Yes			Yes	Yes	
Termination benefits	In accordance with the suspended employment contract	In accordance with the suspended employment contract	In accordance with the suspended employment contract			In accordance with the suspended employment contract	In accordance with the suspended employment contract	

(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 for fiscal year 2016 in the above table correspond to compensation due for the period of the corporate office, i.e. from December 6, 2016.*

For the period from January 1 to December 5, 2016, compensation due in accordance with the employment contract of Laurent Vacherot amounted to €1,035,323, of which:

- fixed compensation: €471,791;

- variable compensation due: €556,818;

- benefits in kind (car): €6,714.

Furthermore, during the fiscal year 2017, vacation pay ("rule of the 10th") was paid in accordance with the employment contract for the reference period prior to the effective date of the corporate office. The amount stood at €16,851.48.

(b) *Variable component due for fiscal year 2017 subject to approval by the Shareholders' Meeting.*

(c) *This award to Hubert Sagnières includes 15,000 performance shares subject to completion of the contribution of Luxottica shares to Essilor.*

(d) *The award of performance shares during 2016 occurred before the appointment of Laurent Vacherot as a corporate officer.*

(e) *This total includes 32,000 performance shares awarded by the Board of Directors on October 3, 2017, and 45 performance shares awarded in 2017 in respect of his investment made in the Company Savings Plan before his appointment as President and Chief Operating Officer on December 6, 2016.*

(f) *As a % of total number of shares awarded including the collective award of performance shares.*

2

NOTES ON HUBERT SAGNIÈRES' COMPENSATION

Hubert Sagnières' fixed compensation and his target annual 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.

NOTES ON LAURENT VACHEROT'S COMPENSATION

Laurent Vacherot's fixed compensation and his target annual performance-based variable component have remained unchanged since 2016.

Laurent Vacherot requested that the Board of Directors does not award him Directors' fees following his appointment as President and Chief Operating Officer in 2016, a request confirmed by the Board in a formal decision.

2.3.3.4 2017 compensation appendices

Four explanatory appendices are offered in addition to this summary table. These pertain to:

1. the 2017 variable component;
2. the 2017 performance share plan;
3. the supplementary defined benefit pension plan;
4. employment contract-related severance payment.

APPENDIX 1: 2017 VARIABLE COMPONENT

Hubert Sagnières

Weighting	Target	Performance measurement	% achievement	Weighted % achievement	Achievement *(€)*
W			A	W × A	W × A × target
25%	Organic growth	0 to 200%	120%	30%	240,000
25%	Adjusted EPS[(a)]	0 to 200%	187%	47%	374,400
50%	**Financial objectives**	**0 to 200%**	**154%**	**77%**	**614,400**
50%	**Specific objectives**	**0 to 200%**	**150%**	**75%**	**600,000**
100%				**152%**	**1,214,400**

(a) Restated in particular for the exchange rate impact

The specific quantifiable and qualitative objectives for the 2017 fiscal year, which account for 50% of the weight of annual targets, were:

- the successful implementation of the proposed combination with Luxottica;
- the sustainability of Essilor's culture;
- the development of long-term growth plans;
- support for the new President and Chief Operating Officer in the Group's new organization.

Laurent Vacherot

Weighting	Target	Performance measurement	% achievement	Weighted % achievement	Achievement *(€)*
W			A	W × A	W × A × target
30%	Organic growth	0 to 200%	120%	36%	234,000
30%	Adjusted EPS[(a)]	0 to 200%	187%	56%	364,650
60%	**Financial objectives**	**0 to 200%**	**154%**	**92%**	**598,650**
40%	**Specific objectives**	**0 to 200%**	**150%**	**60%**	**390,000**
100%				**100%**	**988,650**

(a) Restated in particular for the exchange rate impact

The specific quantifiable and qualitative objectives for the 2017 fiscal year, which account for 40% of the weight of annual targets, were:

- the successful implementation of the proposed combination with Luxottica;
- the sustainability of Essilor's culture;
- the development of long-term growth plans;
- the change and strengthening of the Group's control to support growth.

Calculation method

The EPS is restated:

- at constant exchange rates;
- for all new strategic acquisitions carried out during the fiscal year;
- for the impact of non-recurring expenses that cannot be budgeted;

The restated EPS is calculated by taking into account the average number of shares budgeted for the fiscal year.

The level of achievement required for these objectives has been established in a precise, demanding and rigorous way, but will not be made public for reasons of confidentiality: As Essilor is a listed company, operating in a single business, ophthalmic optics (unlike its competitors), it would be prejudicial to the proper implementation of the strategy to communicate these performance assessment elements.

In 2017, Essilor achieved:

- organic growth of 3.1%;
- adjusted earnings per share of €3.85.

APPENDIX 2: PERFORMANCE SHARE PLAN

In 2017, the award of performance shares benefited nearly 13,000 Group 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(1) in the Essilor share price measured 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 or equal to 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 beneficiaries receive no Essilor shares.

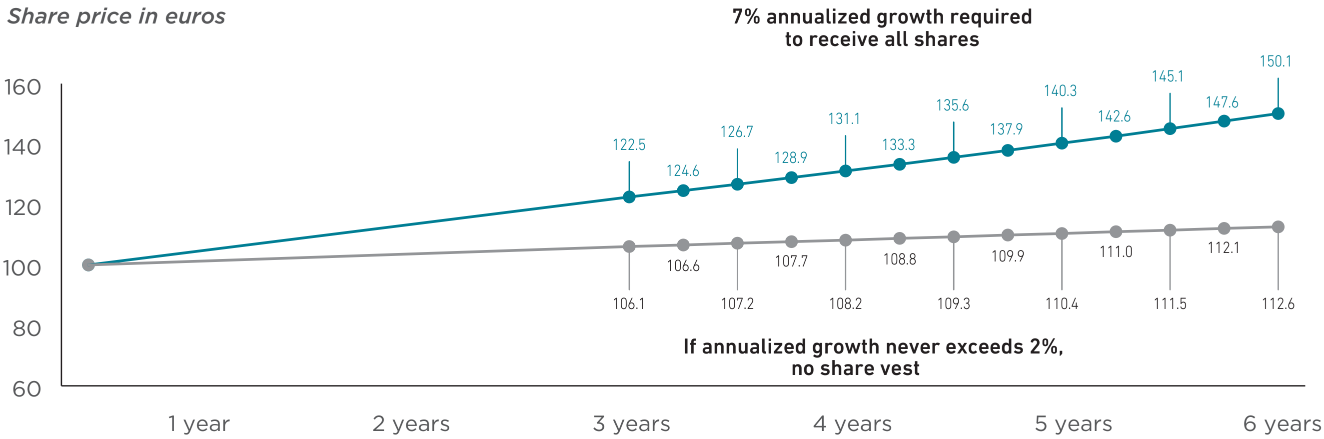
Between N + 3 and N + 6, the first measurement of the annualized increase in the Average Share Price over the Initial Reference Share Price that exceeds the threshold of 2% definitively determines the number of shares vested, even if a higher annualized increase is subsequently observed. As time goes by, the minimum growth in the Average Share Price required for the minimum number of shares to vest increases: +6.1% in N + 3, +8.2% in N + 4... 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: (Average share price/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.

At its meeting on January 15, 2017 and in line with the Executive Officers and Compensation 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 subject to the beneficiary 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.

Specific case of international mobility

In the case of international mobility, performance shares may be vested early to a non-French tax resident between the third and fourth anniversary of the award, subject to achievement of the performance conditions. Executive Corporate Officers must retain the shares vested early for a minimum of two years.

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 (annual 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:

Hubert Sagnières and Laurent Vacherot have both recorded 20 years of service in the Group respectively on January 1, 2009, and December 2, 2011, and therefore prior to their appointment as Executive Corporate Officers of the Group. Consequently, 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 29 years at December 31, 2017, the theoretical calculation of the annual benefits due to Hubert Sagnières on that date would be 25% of the compensation actually received in the 2015, 2016 and 2017 fiscal years (around €493,000).

Laurent Vacherot, President and Chief Operating Officer

Under this scheme, in view of his seniority in the Group of 26 years at December 31, 2017, the theoretical calculation of the annual benefits due to Laurent Vacherot on that date would be 25% of the compensation actually received in the 2015, 2016 and 2017 fiscal years (around €327,000).

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.

Note that the hive-down of Essilor's businesses led to the automatic transfer to the subsidiary, Essilor International (SAS), of the suspended employment contract of Hubert Sagnières effective on November 1, 2017. Under the employment contract of 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).

At December 31, 2017, the gross contractual compensation of Hubert Sagnières was €1,151,000. 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 benefit would be €2,302,000 on the basis of figures at December 31, 2017 and consists of two components:

- a legal benefit of €939,983;
- a supplemental benefit (subject to a performance condition) of between €0 and €1,362,017.

2

Termination benefits required by law or related to the collective agreement owed, except in the event of serious or gross misconduct, pursuant to seniority acquired as an employee before appointment as an Executive Corporate Officer

Not subject to performance conditions €939,983

+

Supplementary benefits, except in the event of serious or gross misconduct

Subject to performance conditions

€0 <--> €1,362, 017 based on the achievement rate of the performance conditions

≤

Two years of compensation related to the employment contract

Maximum amount €2,302,000

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 target 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 are used to calculate his annual 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.

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.

Note that the hive-down of Essilor's businesses led to the automatic transfer to the subsidiary, Essilor International (SAS), of the suspended employment contract of Laurent Vacherot effective on November 1, 2017. Under his employment contract, 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 to occur within one year following termination of the corporate office of Laurent Vacherot.

At December 31, 2017, the gross contractual compensation of Laurent Vacherot was €1,343,000. 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 *III/C* Executives.

The maximum benefit would be €2,686,000 on the basis of figures at December 31, 2017, and consists of two components:

- a legal benefit of €1,366,129;
- a supplemental benefit (subject to a performance condition) of between €0 and €1,319,871.

Termination benefits required by law or related to the collective agreement owed, except in the event of serious or gross misconduct, pursuant to seniority acquired as an employee before appointment as an Executive Corporate Officer

Not subject to performance conditions €1,366,129

+

Supplementary benefits, except in the event of serious or gross misconduct

Subject to performance conditions

€0 <--> <--> €1,319,871

based on the achievement rate of the performance conditions

≤

Two years of compensation related to the employment contract

Maximum amount €2,686,000

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 target 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 annual 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.

The terms and conditions for granting and calculating the termination benefit of Laurent Vacherot will be submitted for shareholder approval at the Shareholders' Meeting of April 24, 2018. 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.

2.3.3.5 Maturity of the performance share award plan of November 25, 2013

At its meeting of November 25, 2013, the Board of Directors decided to award a maximum of 45,000 performance shares to Hubert Sagnières, according to the following modalities.

The vesting of these shares was linked to a minimum employment condition of 4 years and the achievement of a double performance condition.

1)

The first performance condition, applicable to all plan beneficiaries, was measured between November 25, 2013, and November 25, 2015 by calculating Essilor International's annualized share price as follows:

Initial reference share price: average of the 20 opening prices prior to November 25, 2013	€77.29
Average share price: average of the share prices from August 25 to November 25, 2015	€111.79
Annualized growth =	**+20,3%**

(2)

As the annualized growth calculated exceeded 7% per year, which is the threshold for obtaining the totality of allocated rights, the first condition was met.

The second performance condition, applicable only to Executive Corporate Officers, aimed to determine an Average Ratio corresponding to the average achievement of objectives of annual variable compensation during the performance measurement period.

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. When it is less than 100%, the number of shares obtained is reduced proportionally.

The Average Ratio for the 2013-2014 period was measured as follows:

Rate of target achievement for the 2013 annual variable portion	106,0%
Rate of target achievement for the 2014 annual variable portion	147,3%
Average ratio	**126,7%**

As the Average Ratio was greater than 100%, no reduction was applied to the number of shares vested by Hubert Sagnières.

As both performance conditions were fully met, Mr. Hubert Sagnières received ownership of 45,000 Essilor International shares, placed in a registered account. Non-French tax residents, including Hubert Sagnières, may immediately transfer half of the shares received, with the other half must be retained for 2 years, up to November 25, 2019. In the case of international mobility, beneficiaries of the plan are authorized to sell the shares before November 25, 2019.

ADDITIONAL LOCK-UP PERIOD FOR EXECUTIVE CORPORATE OFFICERS

Hubert Sagnières must retain one third of the shares vested on November 25, 2017, i.e. 15,000 shares, for the duration of his term of office. This requirement to keep shares no longer applies when Mr. Hubert Sagnières permanently holds an aggregate number of shares (as performance shares are vested or options exercised) equivalent to two years' target cash compensation (fixed compensation + target annual variable compensation).

2.3.4 AFEP-MEDEF compensation and benefits tables

Table 1 – Directors' fees and other compensation received by Non-Executive Board Directors[a]

€	2017	2016
Philippe Alfroid	71,600	57,288
Benoît Bazin[b]	23,168	59,394
Antoine Bernard de Saint-Affrique	71,540	50,088
Maureen Cavanagh	50,200	35,000
Yves Chevillotte[b]	N/A	25,348
Juliette Favre	54,400	35,000
Xavier Fontanet[b]	N/A	13,030
Henrietta Fore	57,200	34,970
Louise Fréchette	70,200	52,600
Yi He	44,000	35,000
Franck Henrionnet[b]	45,551	35,000
Bernard Hours	90,600	69,753
Maurice Marchand-Tonel[b]	N/A	21,142
Annette Messemer[b]	77,338	32,770
Marc Onetto	66,400	52,400
Olivier Pécoux	74,400	43,641
Michel Rose[b]	N/A	23,589
Jeannette Wong[b]	46,757	N/A
Delphine Zablocki[b]	8,849	N/A
TOTAL	**852,203**	**676,013**

(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 2016 or 2017.

For the 2017 fiscal year, the total amount of the Directors' fees paid to Board members was €852,203, including €573,200 for the variable component (i.e. a variable component representing 67% of the amount of Directors' fees).

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, paid his Directors' fees to a trade union organization.

Table 2 – Summary of compensation, options and shares awarded to each Executive Corporate Officer

€	2017	2016
Hubert SAGNIÈRES	**Chairman and Chief Executive Officer**	**Chairman and Chief Executive Officer**
Compensation due for the year (detailed in Table 3)[(a)]	2,022,033	1,767,514
Value of options granted during the year		
Value of performance shares granted during the year[(b)]	2,703,000	2,202,900
Laurent VACHEROT	**President and Chief Operating Officer**	**President and Chief Operating Officer**
Compensation due for the year (detailed in Table 3)[(a)(c)]	1,645,974	102,472
Value of options granted during the year		
Value of performance shares granted during the year[(b)(d)]	1,615,388	1,914,219

(a) Amount of compensation due in respect of the 2017 fiscal year, subject to approval by the Shareholders' Meeting of the variable component calculated for 2017.

For Hubert Sagnières, the variable component calculated for 2017 amounts to €1,214,400.

For Laurent Vacherot, the variable component calculated for 2017 amounts to €988,650.

(b) The amounts shown correspond to the accounting fair value of the shares in accordance with IFRS standards. Accordingly, they are not the actual amounts that may be received at vesting, if this occurs. In addition, share awards are contingent on employment and performance conditions.

(c) 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 in respect of fiscal year 2016 shown in the above table corresponds to the compensation due for the period of the corporate office, i.e. from December 6 to December 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.

Furthermore, during the fiscal year 2017, vacation pay ("rule of the 10th") was paid in accordance with the employment contract for the reference period prior to the effective date of the corporate office. The amount stood at €16,851.48.

(d) The award of performance shares to Laurent Vacherot during 2016 occurred before his appointment as an Executive Corporate Officer.

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Table 3 – Summary of compensation paid to each Executive Corporate Officer

Hubert SAGNIÈRES €	2017 Chairman and Chief Executive Officer		2016 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[(a)]	1,214,400	960,000	960,000	1,350,400
Exceptional compensation				
Directors' fees				
Benefits in kind:				
◖ car				
◖ unemployment insurance	7,633	7,633	7,514	7,514
◖ other				
TOTAL	**2,022,033**	**1,767,633**	**1,767,514**	**2,157,914**

(a) Variable component for Hubert Sagnières in respect of the 2017 fiscal year: 152% of target achievement (120% in respect of the 2016 fiscal year).

Laurent VACHEROT[(a)] €	President and Chief Operating Officer		President and Chief Operating Officer	
	Amount due	Amount paid	Amount due	Amount paid
Fixed compensation	650,000	650,000	46,301	46,301
Variable compensation[(b)]	988,650	55,561	55,561	-
Exceptional compensation				
Directors' fees				
Benefits in kind:				
◖ car	7,324	7,324	610	610
◖ unemployment insurance				
◖ other				
TOTAL	**1,645,974**	**712,885**	**102,472**	**46,911**

(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 compensation shown in the above table corresponds to the compensation for the period of the corporate office, i.e. from December 6, 2016.

For the period from January 1 to December 5, 2016, the compensation due in respect of Laurent Vacherot's employment contract amounted to €1,035,323, including:

-Fixed compensation: €471,791;

-Variable compensation due: €556,818;

-Benefits in kind – car: €6,714.

Furthermore, during the fiscal year 2017, vacation pay ("rule of the 10th") was paid in accordance with the employment contract for the reference period prior to the effective date of the corporate office. The amount stood at €16,851.48.

(b) Variable component for Laurent Vacherot in respect of the 2017 fiscal year: 152% of target achievement (120% in respect of the 2016 fiscal year).

Table 4 – Performance shares awarded to each Executive Corporate Officer during the fiscal year

Rights to performance shares granted	Total number	Valuation (method applied in the consolidated financial statements)[(a)] *(in euros)*	Vesting date	End of lock-up period	Plan	Performance conditions
Hubert SAGNIÈRES	50,000[(b)]	54,06	Between 10/03/2021 & 10/03/2023	Between 10/03/2021 & 10/03/2023	10/03/2017	Share price + special performance condition for Executive Corporate Officers[(c)]
Laurent VACHEROT	32,045	50,41	Between 10/03/2020 & 10/03/2023	Between 10/03/2022 & 10/03/2025	10/03/2017	Share price + special performance condition for Executive Corporate Officers[(c)]

(a) Accounting valuation for the "Non-resident" plan = €54.06/"Resident" plan = €50.41.

(b) This award to Hubert Sagnières includes 15,000 performance shares subject to the contribution of Luxottica shares to Essilor being completed.

(c) 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 share price of Essilor International. 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 annual variable component of compensation is less than 100% during the period of measurement of performance.

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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	50,000 [(a)]	11/24/2011	Share price + special performance condition for Executive Corporate Officers[(c)]
Laurent VACHEROT	30,000 [(b)]	11/24/2011	Share price[(d)]

(a) 50,000 performance shares out of the 50,000 vested under the November 25, 2011 plan became available on November 24, 2017, subject to the specific lock-up condition applicable to Executive Corporate Officers.

(b) 30,000 performance shares out of the 30,000 vested under the November 24, 2011, plan became available on November 24, 2017.

(c) 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 share price of Essilor International. 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 annual variable component of compensation is less than 100% during the period of measurement of performance.

(d) These performance shares were awarded before Laurent Vacherot was appointed Executive 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 fiscal year 2017.

Table 7 – Stock subscription or purchase options exercised by each Executive Corporate Officer during the fiscal 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 fiscal year 2017.

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 fiscal year 2017.

Table 8 – History of capped performance stock subscription option awards

Information regarding capped performance stock subscription options (excluding collective awards)

PLAN	2010	2011	2012	2013	2014	2015	2016	2017
Date of Shareholders' Meeting	05/11/2010	05/11/2010	05/11/2012	05/11/2012	05/11/2012	05/05/2015	05/05/2015	05/05/2015
Date of Board of Directors' Meeting	11/25/2010	11/24/2011	11/27/2012	11/25/2013	11/25/2014	12/02/2015	09/22/2016	10/03/2017
Total number of shares that can be subscribed	634,760	85,620	81,760	87,880	121,505	100,023	119,392	132,016
Number of shares that can be subscribed by the Executive Corporate Officers:								
Hubert SAGNIÈRES								
Laurent VACHEROT								
Starting point for the exercise of options	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	Not yet known, depends on performance
Date of expiration	11/25/2017	11/24/2018	11/27/2019	11/25/2020	11/25/2021	12/02/2022	09/22/2023	10/03/2024
Subscription price (average of the 20 opening prices prior to the Board of Directors Meeting)	€48.01	€52.27	€71.35	€77.29	€87.16	€121.32	€114.88	€105.80
Exercise procedures[(a)]	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	Subject to conditions: 100% after three years
Number of shares subscribed at 12/31/2017	553,212	69,513	54,980	49,864	34,312			
Cumulative number of options cancelled or expired	81,548	12,987	7,345	5,443	15,678	18,085	22,617	
Options remaining at 12/31/2017		3,120	19,435	32,573	71,515	81,938	96,775	132,016

(a) The vesting of subscription options is subject to an employment condition and to a performance condition based on the annualized growth of the share price of Essilor International. Within the framework of the proposed combination between Essilor and Luxottica, the Board of Directors at its meeting of January 15, 2017 decided to remove the performance conditions for the employee beneficiaries of the 2015 and 2016 plans in advance.

Table 9 – History of performance share awards

Information on performance shares (excluding collective awards)

PLAN	2012	2013	2014	2015	2016	2017
Date of Shareholders' Meeting	05/11/2012	05/11/2012	05/11/2012	05/05/2015	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	10/03/2017
Total number of shares allocated	1,176,340	1,279,460	1,448,464	1,251,533	1,372,233	1,481,219
Number of shares allocated to the Executive Corporate Officers:	80,000	80,000	75,000	65,000	67,005	82,045
Hubert SAGNIÈRES	45,000	45,000	40,000	35,000	35,000	50,000
Laurent VACHEROT	35,000	35,000	35,000	30,000	32,005	32,045
Date of vesting of shares	Resident on 11/27/2014 Non-Resident on 11/27/2016	Resident on 11/25/2015 Non-Resident on 11/25/2017	Resident on 11/25/2016 Non-Resident on 11/25/2018	Not yet vested	Not yet vested	Not yet vested
Date of end of lock-up period	Resident on 11/27/2018 Non-resident 50% on 11/27/2016 and 50% on 11/27/2018	Resident on 11/25/2019 Non-resident 50% on 11/25/2017 and 50% on 11/25/2019	Resident on 11/25/2020 Non-resident 50% on 11/25/2018 and 50% on 11/25/2020	According to vesting date	According to vesting date	According to vesting date
Number of shares vested[(a)] at 12/31/2017	1,076,300	1,178,535	499,385	1,575[(b)]	1,191[(b)]	740[(b)]
Cumulative number of shares cancelled or expired	100,040	100,925	91,210	61,750	51,046	
Shares remaining at 12/31/2017			857,869	1,188,208	1,319,996	1,480,479

(a) *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 share price of Essilor International. Within the framework of the proposed combination between Essilor and Luxottica, the Board of Directors at its meeting of January 15, 2017 decided to remove the performance conditions for the employee beneficiaries of the 2015 and 2016 plans in advance.*

With regard to Executive Corporate Officers of Essilor, the Board of Directors at its meeting of January 15, 2017 decided to modify the performance conditions of the 2015 and 2016 plans. The performance condition in respect of the 2015 and 2016 plans is now the successful completion of the proposed combination, i.e. the completion of Delfin's contribution to the Company of its stake in Luxottica (approximately 62%).

Starting from the 2010 award, a second performance condition applies specifically to Executive Corporate Officers: the number of shares that vest may be reduced when the average rate of achievement of variable compensation targets is less than 100%.

(b) *Shares become fully vested in the case of death or invalidity.*

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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	2020
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 termination or change of functions	No[(a)]

(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 term	2020
Employment contract	Yes – suspended as of December 6, 2016
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[(a)]

(a) 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 approval at the Shareholders' Meeting of April 24, 2018. Details of the severance payment provided under the suspended employment contract are given in Section 2.3.3.

2.3.5 "Say on Pay" compensation of Executive Corporate Officers

Resolutions 12 to 14: "Say on Pay" compensation of Executive Corporate Officers

The purpose of the **12th resolution** is to submit for shareholder approval the compensation components due or awarded to Hubert Sagnières, Chairman and Chief Executive Officer, in respect of fiscal year 2017.

The purpose of the **13th resolution** is to submit for shareholder approval the compensation components due or awarded to Laurent Vacherot, President and Chief Operating Officer, in respect of fiscal year 2017.

These votes are required in accordance with Article L. 225-100 of the French Commercial Code as amended by the Sapin II Law.

These components are set out in 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 2017 Registration Document in Chapter 2: "Corporate Governance" (Section 2.3, "Compensation and benefits").

In accordance with the Sapin II Law, the purpose of the **14th resolution** is to submit for the approval of the Shareholders' Meeting the compensation policy that applies to the current Executive Corporate Officers, Hubert Sagnières and Laurent Vacherot. In this regard, it should be noted that the compensation policy for the Executive Corporate Officers, which is subject to an annual vote, has not changed from the policy that was approved in 2017. This policy, which will be reviewed after the Contribution Completion Date of the Luxottica shares by Delfin, will be then resubmitted for the approval of the Shareholders' Meeting.

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TWELFTH RESOLUTION

Approval of the fixed, variable and exceptional compensation components comprising the total compensation and benefits of any kind paid or awarded in respect of the 2017 fiscal year to Hubert Sagnières, Chairman and Chief Executive Officer

The Shareholders' Meeting, deliberating with the quorum and majority conditions required for Ordinary Shareholders' Meetings, pursuant to article L. 225-100 of the French Commercial Code, approves the fixed, variable and exceptional components comprising the total compensation and benefits of any kind paid or awarded in respect of the 2017 fiscal year to Hubert Sagnières, Chairman of the Board of Directors and Chief Executive Officer, as shown in the 2017 Registration Document, and reproduced below.

Compensation components paid or awarded in respect of the 2017 fiscal year	Amount or accounting valuation submitted to the vote	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 Compensation Committee. The amount has remained unchanged since 2012.

Variable compensation	€1,214,400	At its meeting of February 28, 2018, the Board of Directors, on the recommendation of the Executive Officers and Compensation 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 2017 fiscal year.
		Given the financial and specific targets approved by the Board Meeting of February 16, 2017 and the achievements recorded as at December 31, 2017, the amount of the variable component was assessed as follows:
		• in respect of financial targets:
		  – organic growth, 120% of target achieved;
		  – restated net EPS, 187% of target achieved.
		• in respect of specific targets: The Board decided that Hubert Sagnières had met 150% of the targets as set by the Board, i.e. the successful implementation of the proposed combination with Luxottica, the sustainability of Essilor's culture, the development of long-term growth plans, the support for the new President and Chief Operating Officer in the Group's new organization.
		The amount of Hubert Sagnières' variable compensation for 2017 was approved at €1,214,400 which is 152% of his annual fixed compensation for 2017.
		Details of these criteria, their respective weighting and their assessment scales are provided in the 2017 Registration Document in Chapter 2 Section 2.3.3 "2017 compensation of Executive Corporate Officers".

Compensation components paid or awarded in respect of the 2017 fiscal year	Amount or accounting valuation submitted to the vote	Comments
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.
Exceptional compensation	N/A	Hubert Sagnières has not benefited 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: 50,000; accounting valuation: €2,703,000	At its October 3, 2017 meeting, the Board of Directors, in accordance with the authorization accorded by the 14th resolution of the Shareholders' Meeting of May 5, 2015 and on the recommendation of the Executive Officers and Compensation Committee, awarded a maximum of 50,000 performance shares to Hubert Sagnières, including 15,000 performance shares subject to the contribution of Luxottica shares to Essilor being completed, valued at €2,703,000 according to the method used for the consolidated financial statements, i.e. 2.9% of the total number of shares awarded (the sum of the performance shares and the performance options awarded) and 0.023% of the share capital at December 31, 2017. The rules governing awards to Executive Corporate Officers, the vesting conditions and the lock-up for such shares are set out in the 2017 Registration Document in Chapter 2, Section 2.3.3, "2017 compensation of Executive Corporate Officers".
Sign-on premium	N/A	Hubert Sagnières has not received any sign-on premium.
Termination benefits	No payment	Under a clause in his employment contract which is suspended during his term of office as an Executive Corporate Officer, Hubert Sagnières is entitled to a severance payment of a maximum of €2,302,000, comprised of: - €939,983 in respect of benefits payable under French law and the applicable collective bargaining agreement; - €1,362,017 in supplementary benefits which are wholly subject to performance conditions. In accordance with the procedure regarding related-party agreements and commitments, this benefit obligation was authorized by the Board of Directors on March 4, 2009, and reiterated on March 3, 2010, and ratified at the Shareholders' Meeting of May 5, 2011, (4th resolution) and May 11, 2017 (11th resolution). Details of the award criteria for this benefit are provided in the 2017 Registration Document in Chapter 2 Section 2.3.3 "2017 compensation of Executive Corporate Officers".
Non-compete payment	N/A	Hubert Sagnières does not benefit from any non-compete payment.
Supplementary pension plan	No payment	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. In accordance with the procedure regarding related-party agreements and commitments, this benefit obligation was authorized by the Board of Directors on November 26, 2009 and ratified at the Shareholders' Meeting of May 11, 2010 (5th resolution) and May 11, 2010 (4th resolution). As an example, if the calculation were made on December 31, 2017, 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 2015, 2016 and 2017 fiscal years (see 2017 Registration Document Chapter 2 Section 2.3.3 "2017 compensation of Executive Corporate Officers".).
Employee death/disability and health insurance plans and defined contribution pension plan		Hubert Sagnières is eligible for the Employee 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	€7,633	Hubert Sagnières is covered by an unemployment insurance plan for which the Company paid a premium of €7,633 in 2017.

THIRTEENTH RESOLUTION

Approval of the fixed, variable and exceptional compensation components comprising the total compensation and benefits of any kind paid or awarded in respect of the 2017 fiscal year to Laurent Vacherot, President and Chief Operating Officer

The Shareholders' Meeting, deliberating with the quorum and majority conditions required for Ordinary Shareholders' Meetings, pursuant to article L. 225-100 of the French Commercial Code, approves the fixed, variable and exceptional components comprising the total compensation and benefits of any kind paid or awarded in respect of the 2017 fiscal year to Laurent Vacherot, President and Chief Operating Officer, as shown in the 2017 Registration Document, and reproduced below.

Compensation components paid or awarded in respect of the 2017 fiscal year	Amount or accounting valuation submitted to the vote	Comments
Fixed compensation	€650,000	Gross annual fixed compensation effective as of December 6, 2016, as decided by the Meeting of the Board of Directors of December 6, 2016 on the recommendation of the Executive Officers and Compensation Committee. The amount has remained unchanged since 2016.

Variable compensation	€988,650	At its meeting of February 28, 2018, the Board of Directors, on the recommendation of the Executive Officers and Compensation Committee and after approval of the financial items by the Audit and Risk Committee, assessed the variable compensation payable to Laurent Vacherot in respect of the 2017 fiscal year.
		Given the financial and specific targets approved by the Board Meeting of February 16, 2017 and the achievements recorded as at December 31, 2017, the amount of the variable component was assessed as follows:
		- in respect of financial targets:
		  - organic growth, 120% of target achieved;
		  - restated net EPS, 187% of target achieved.
		- in respect of specific targets: The Board decided that Laurent Vacherot had met 150% of the targets as set by the Board, i.e. the successful implementation of the proposed combination with Luxottica, the sustainability of Essilor's culture, the development of long-term growth plans, the change and strengthening of Group control to support growth.
		The amount of Laurent Vacherot's variable compensation for 2017 was approved at €988,650 which is 152% of his annual fixed compensation for 2017.
		Details of these criteria, their respective weighting and their assessment scales are provided in the 2017 Registration Document in Chapter 2 Section 2.3.3 "2017 compensation of Executive Corporate Officers".

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 has not benefited 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: 32,045; accounting valuation: €1,615,388	At its October 3, 2017 meeting, the Board of Directors, in accordance with the authorization accorded by the 14th resolution of the Shareholders' Meeting of May 5, 2015, and on the recommendation of the Executive Officers and Compensation Committee, awarded a maximum number of 32,045 performance shares to Laurent Vacherot, valued at €1,615,388 according to the method used for the consolidated financial statements, i.e., 1.9% 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, 2017. The rules governing awards to Executive Corporate Officers, the vesting conditions and the lock-up for such shares are set out in the 2017 Registration Document in Chapter 2, Section 2.3.3, "2017 compensation of Executive Corporate Officers".
Sign-on premium	N/A	Laurent Vacherot has not received any sign-on premium.

Compensation components paid or awarded in respect of the 2017 fiscal year	Amount or accounting valuation submitted to the vote	Comments
Termination benefits	No payment	Under a clause in his employment contract suspended during his term of office as an Executive Corporate Officer, Laurent Vacherot is entitled to a severance payment of a maximum of €2,686,000, of which: • €1,366,129 in respect of benefits payable under French law and the applicable collective bargaining agreement; • €1,319,871 in supplementary benefits which are wholly subject to performance conditions. In accordance with the procedure regarding related-party agreements and commitments, this benefit obligation was authorized by the Board on December 6, 2016, ratified at the Shareholders' Meeting of May 11, 2017 (12th resolution) and will be submitted to this Shareholders' Meeting (11th resolution) due to the renewal of his term of office as President and Chief Operating Officer by the Board of Directors on May 11, 2017. Details of the award criteria for this benefit are provided in the 2017 Registration Document in Chapter 2 Section 2.3.3 "2017 compensation of Executive Corporate Officers".
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 ratified at the Shareholders' Meeting of May 11, 2017 (4th resolution). As an example, if the calculation were made on December 31, 2017, 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 2015, 2016 and 2017 fiscal years (see 2017 Registration Document Chapter 2 Section 2.3.3 "2017 Compensation for Executive Corporate Officers".).
Employee death/disability and health insurance plans and defined contribution pension plan		Laurent Vacherot is eligible for the Employee 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	€7,324	Laurent Vacherot benefits from a Company car valued as a benefit in kind at €7,324 annually.

FOURTEENTH 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 2018 fiscal year, representing the compensation policy applicable to them.

These principles and criteria approved by the Board of Directors on the recommendation of the Appointment and Compensation Committee are set out in the report under the above article and appear in Chapter 2, Section 2.3.2 of the 2017 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 year 2018.

The Shareholders' Meeting, acting pursuant to the quorum and majority conditions for Ordinary General Meetings, and having reviewed the report on corporate governance, 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 aforementioned report which may be awarded to the Executive Corporate Officers, due to their terms of office in 2018, as presented in the report on corporate governance, presented in Chapter 2, section 2.3 of the Registration Document.

2.3.6 Summary statement of transactions in Essilor International securities carried out by corporate officers in 2017

(Article 223-26 of the AMF General Regulations)

First name	Last name	Title	Description of the financial instrument	Transaction type	Transaction date	Transaction amount
Maureen	CAVANAGH	Director	Shares	Acquisition Plan 2013	11/25/2017	
			Shares	Acquisition	10/27/2017	US$4,063.68
			Shares	Acquisition	04/20/2017	US$3,015.84
			Shares	Acquisition	01/23/2017	US$1,735.64
Juliette	FAVRE	Director	Shares	Subscription	12/22/2017	€14,570.70
Yi	HE	Director	Shares	Subscription	12/22/2017	€57,511.41
			Shares	Acquisition Plan 2013	11/25/2017	
Franck	HENRIONNET	Director	Shares	Subscription	12/22/2017	€11,228.01
Hubert	SAGNIÈRES	Chairman and Chief Executive Officer	Shares	Acquisition Plan 2013	11/25/2017	
Laurent	VACHEROT	President and Chief Operating Officer	Shares	Disposal	02/23/2017	€861,897.60
Jeannette	WONG	Director	Shares	Acquisition	08/29/2017	€103,534.50
Delphine	ZABLOCKI	Director	Shares	Subscription	12/22/2017	€2,057.04

2.4 Appendix 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:

AFEP-MEDEF Code recommendations (herein after the "Code")	Practices of Essilor International and explanations
Composition of the Executive Officers and Compensation Committee (participation of the Director representing employees – point 17-1 of the Code)	In answer to a letter from the High Committee for Corporate Governance received in 2017, Essilor provided the explanations in 2017 by recalling that Essilor has a wide range of employee Directors (Directors representing employees and Directors representing employee shareholders) especially for decisions taken by Essilor's Board of Directors, which includes 1 Director representing employees and 3 Directors representing employee shareholders. As part of Essilor's specific governance, employee shareholding which is at the heart of Essilor's history, identity and culture has today reached an unprecedented level with over one employee out of two now a shareholder. The presence of a strong internal shareholding, represented and encouraged in an independent, autonomous way worldwide by "Valoptec Association" (a French not-for-profit 1901 law association), constitutes for Essilor a driver of sustainable performance, strategic alignment and excellence. This Association brings together a significant proportion of employee shareholders who can express their views and vote once a year on the Human Resources strategy, compensation as well as decisions such as the appointment and renewal of Executive Corporate Officers. In this context, the Board of Directors did not consider it appropriate to review the composition of the Compensation Committee and the people concerned did not express such a desire; they prefer to be associated with other committees, such as the Strategy Committee. As part of the changes in the Committees' composition, the Executive officer and remuneration Committee merged with the Nominations Committee on February 28, 2018. A Director representing Employee shareholders may be involved in its work.
Suspension of the employment contract of the Executive Corporate Officer (point 21 of the Code) 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.

2.5 Annex: List of directorships on December 31, 2017

Hubert Sagnières

62 years old

(Countries of citizenship: France and Canada)

Number of shares:
338,120

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

Business address:
Essilor International
147, rue de Paris – 94220
Charenton-le-Pont (France)

First appointment as Director: May 14, 2008

Current term ends: 2020 [(a)]

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.

President of the Strategy Committee and member of the CSR Committee

Positions and terms of office held as of December 31, 2017

Chairman and Chief Executive Officer, Essilor International*

Other Essilor group companies

President of Essilor International (SAS)[(b)]

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

Director, Essilor International and subsidiaries

- Transitions Optical Inc. (USA)
- Frames for America, Inc. (USA)
- Essilor Canada Ltée/Ltd (Canada)
- Transitions Optical Holdings BV (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 Lison Inc. (Canada)
- Vision Optique Inc. (Canada)
- Visionware Inc. (Canada)
- Westlab Optical Ltd (Canada)
- Vision Web Inc. (USA)
- Econo-Optic Ltée (Canada)

(a) End of current term. A new EssilorLuxottica director's term of office, which was approved by the Shareholders' Meeting of May 11, 2017, should take effect on the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica).

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the proposed combination with Luxottica.

* *Listed company.*

Philippe Alfroid

Non-Independent Director

72 years old

(Country of citizenship: France)

Number of shares:
252,582

Business address:
Not applicable
retired since June 30, 2009

First appointment as Director: May 6, 1996

Current term ends: 2020 or at the Contribution Completion Date [(a)]

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.

Member of the Audit and Risk Committee, of the Nominations Committee and of the Strategy Committee

Positions and terms of office held as of December 31, 2017

Essilor group Company

Director

- Essilor International (SAS)[(b)]

External companies (non Essilor group)

Director

- Eurogerm*
- Gemalto NV (Netherlands)*
- Wabtec Corporation (USA)*

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

Chairman of the Supervisory Board

- Faiveley Transport*

Director

- Essilor of America, Inc. (USA)

(a) Contribution of Luxottica shares by Delfin to Essilor (date on which Essilor will be renamed EssilorLuxottica).

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the ipreparation of the combination with Luxottica.

* *Listed company..*

Antoine Bernard de Saint-Affrique

Independent Director

53 years old

(Country of citizenship: France)

Number of shares:
1,011

Major positions:
Chief Executive Offi cer of Barry Callebaut (Switzerland)

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

First appointment as Director: May 15, 2009

Current term ends: 2018 [(a)]

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.

Member of the CSR Committee and of the Strategy Committee

2

Positions and terms of office held as of December 31, 2017

Chief Executive Officer of Barry Callebaut (Switzerland)*

Essilor group Company

Director

- Essilor International (SAS)[(b)]

Barry Callebaut group companies*

Director

- Barry Callebaut Sourcing AG
- Barry Callebaut Cocoa AG

External companies (non-Barry Callebaut group)

Director

- Swiss-American Chamber of Commerce (AmCham) (Switzerland)

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

Unilever group companies

- President, Unilever's foods business*

Director

- Icosmeticals SAS

(a) Term of office submitted for renewal by the Shareholders' Meeting of April 24, 2018, until the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica) or, alternatively, for a new term of three years.

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

* *Listed company.*

Maureen Cavanagh

Director representing employee shareholders

54 years old

(Country of citizenship: USA)

Number of shares:
3,124

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 [(a)]/ May 16, 2013

Current term ends: 2019 or at the Completion Date of the Contribution [(b)]

Personal information – Experience and expertise

Maureen Cavanagh is Vice President Retail for Essilor of America since January 1, 2017. She had 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.

Member of the Strategy Committee

Positions and terms of office held as of December 31, 2017

Vice President Retail for Essilor of America (USA)

Essilor group companies

Director

- Essilor International (SAS)[(c)]

Member of the Board of Directors

- Valoptec Association

External companies (non Essilor group)

Chairman

- Optical Women's Association (OWA) (USA)

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

Chairman

- Vision Impact Institute (USA)
- Nassau Lens Co., Inc. (USA)
- OOGP, Inc. (USA)
- Optical Women's Association (OWA) (USA)

Director

- Nassau Lens Co., Inc. (USA)
- OOGP, Inc. (USA)
- Shore Lens Co., Inc. (USA)

(a) Cooptation followed by the ratification by the Shareholders' Meeting.

(b) Contribution of Luxottica shares by Delfin to Essilor (date on which Essilor will be renamed EssilorLuxottica).

(c) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

Juliette Favre

Director representing employee shareholders

45 yars old

(Country of citizenship: France)

Number of shares:
3,485

Major positions:
Strategic projects Executive, Global Operation Support

Business address:
81 boulevard Jzean-Baptiste Oudry- 94200 Créteil (France)

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

Current term ends: 2020 [(a)]

Personal information – Experience and expertise

Since September 2017, Juliette Favre is Strategic projects Executive, Global Operation Support, after having launched the Lab 4.0 program at the Equipment Division (Satisloh) of the Essilor group and retains her mandate as President of Valoptec Association. Prior, she was Director of Global Customer Service for the Instruments Division of the Essilor Group. 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.

Member of the Audit and Risk CSR Committee and of the Strategy Committee

2

Positions and terms of office held as of December 31, 2017

Strategic projects Executive, Global Operation Support, Essilor group

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

None

Other Essilor group companies

Director

- Essilor International (SAS) [(b)]

President of the Board of Directors

- Valoptec Association

President of the Supervisory Board

- Fonds Valoptec International

(a) End of current term. A new EssilorLuxottica directorship, which was approved by the Shareholders' Meeting of May 11, 2017, is expected to take effect on the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica).

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica

Henrietta Fore[a]

Independent Director

69 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: December 31, 2017 [a]

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 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 37th 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.

Member of the Executive Officers and Remuneration Committee and of the Strategy Committee

Positions and terms of office held as of December 31, 2017

Chairman and Chief Executive Officer, Holsman International

Essilor group companies

Director

- Essilor International (SAS)[b]

External companies (non 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

(a) Henrietta Fore resigned as of December 31, 2017.

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

* *Listed company.*

Louise Fréchette

Independent Director

71 years old

(Country of citizenship: Canada)

Number of shares:
1,011

Business address:
Not applicable

First appointment as Director: May 11, 2012

Current term ends: 2018 [(a)]

Personal information – Experience and expertise

Louise Fréchette is the Chair of the Board of Directors and of the Council of CARE International, and is 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.

President of the CSR Committee and member of the Strategic Committee of Essilor

2

Positions and terms of office held as of December 31, 2017

Essilor group company

Director

- Essilor International (SAS) [(b)]

External companies (non Essilor group)

President of the Supervisory Board and of the Council

- CARE International (Switzerland)

Member of the Board of Directors

- Global Leadership Foundation (United-Kingdom)

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

President of the Board of Directors

- Care Canada (Canada)

Member of the Board of Directors

- *Conseil des relations internationales de Montréal* (Canada)
- CARE Canada (Canada)
- CARE International (Switzerland)

(a) Term of office submitted for renewal by the Shareholders' Meeting of April 24, 2018, until the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica) or, alternatively, for a new three-year period.

(b Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

Yi He[a]

Director representing employee shareholders
64 years old
(Country of citizenship: China)
Number of shares:
28,321
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 [b]/May 11, 2010

Current term ends: December 31, 2017 [a]

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). He is a member of the Strategic Committee of Essilor.

Member of the Strategic Committee of Essilor

Positions and terms of office held as of December 31, 2017

Chairman and Director at Essilor (China) Holding Company

Essilor group companies

Director

- Essilor International (SAS)[c]
- 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)
- Xiamen Yarui Optical Company Ltd (China)
- Xiamen Artgri Optical Company Ltd (China)
- Xiamen Prosun Trading Co., Ltd (China)
- Photosynthesis Group

Member of the Supervisory Board

- FCPE Essilor *Groupe long terme sept ans*

External companies (non Essilor group)

Director

- Sun Art Retail Group Ltd (China)*
- HNA PV Tourism Co., Ltd

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

Chief Executive Officer

- Shanghai Essilor Optical Company Ltd (China)

Director

- Valoptec Association[d]

(a) Yi HE resigned resigned as of December 31, 2017.

(b) Cooptation followed the ratification by the Shareholders' Meeting.

(c) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

(d) Term of office expiring during the fiscal year.

* *Listed company.*

Bernard Hours

Independent Director
61 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 (a)
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 Évian and Kronenbourg then as Marketing Director for Danone France in 1990. He was subsequently Managing Director of Danone Hungary (1994), then of Danone Germany (1996) and lastly Managing Director of LU France in 1998. In 2001, he joined the Fresh Dairy Products Division as CEO 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.

Member of the Nominations Committee, member of the Executive officers and remunerations Committee, and member of the Strategy Committee

2

Positions and terms of office held as of December 31, 2017

Essilor group company

Director
- Essilor International (SAS)(b)

External companies (non Essilor group)

President
- Andros (Spain)

Director
- Medved Ltd (United-Kingdom)
- Verlinvest (Belgium)
- Vitacoco (USA)

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

Director
- Essilor of America, Inc. (USA)

Member of the Advisory Board
- Somfy SA*

Danone group companies

Chief Operating Officer and Vice President of the Board of Directors
- Danone (SA)*

Managing Director
- Danone Trading BV (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)

(a) Term of office submitted for renewal by the Shareholders' Meeting of April 24, 2018, until the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica), or, alternatively, for a new three-year period. A new EssilorLuxottica director's term of office, which was approved by the Shareholders' Meeting of May 11, 2017,should take effect on the date of the contribution of Luxottica shares by Delfin to Essilor.

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

* *Listed company.*

Annette Messemer

Independent Director

53 years old

(Country of citizenship: Germany)

Number of shares:
1,000

Major positions:
Divisional Director, Corporate Clients Commerzbank AG (Germany)

Business address:
Kaiserstrasse 16 – 60311 Francfort (Germany)

First appointment as Director: May 11, 2016

Current term ends: 2019 [(a)]

Personal information – Experience and expertise

Annette Messemer is a divisional Director at the Corporates & Markets at the 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. Ms. Annette Messemer is also a Member of the Supervisory Board of K +S Aktiengesellschaft (Germany). Annette Messemer brings to the Board her extensive expertise in terms of strategy and finance, gained through her functions within international financial institutions.

President of the Audit and Risk Committee and of the Strategy Committee

Positions and terms of office held as of December 31, 2017

Divisional Director, Corporate Clients Commerzbank AG*

Essilor group company

Director

- Essilor International (SAS) [(b)]

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)

(a) End of current term. A new EssilorLuxottica director's term of office, which was approved by the Shareholders' Meeting of May 11, 2017, should take effect on the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica).

(b Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

* *Listed company.*

Marc Onetto

Independent Director

67 years old

(Country of citizenship: France and USA)

Number of shares: 1,009

Business address: Not applicable

First appointment as Director: May 5, 2015

Current term ends: 2018 [(a)]

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 Solectron, a global leader in electronic manufacturing, from 2003 to 2006. Before joining Solectron, he held numerous positions with General Electric, including VP Operations Europe for GE Corporate and VP Supply Chain for GE Medical. Mr. Onetto brings to the Board his competency in the area of internet sales and logistics.

Member of the Executive officers and remunerations Committee, and member of the Strategy Committee

Positions and terms of office held as of December 31, 2017

Essilor group company

Director

- Essilor International (SAS)[(b)]

External companies (non Essilor group)

Director

- Flex Ltd (Singapore)*
- Forward Ventures LLC (USA)
- Eliminer Coupang LLC (USA)

Member of the Advisory Board

- Swap.com Services Oy (Finland)
- Stryng LLC (USA)[(c)]

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

Senior Vice President Worldwide Operations and Customer Service

- Amazon

President of the Board of Directors

- Friends of Alliance EMLyon/Centrale Lyon (USA)

Member of the Advisory Board

- Vidéodesk SA (France)[(d)]

(a) Term of office submitted for renewal by the Shareholders' Meeting of April 24, 2018, until the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica) or, alternatively, for a new three-year period.

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

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

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

** Listed company.*

Olivier Pécoux

Non-independent Director

59 years old

(Country of citizenship: France)

Number of shares:
1,000

Major positions:
Chief Executive Officer – Managing Partner Rothschild & Co and Rothshild et Cie Banque

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

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

Current term ends: 2018 [b]

Personal information – Experience and expertise

Olivier Pécoux is Chief Executive Officer – managing Partner of the group Rothschild & Co, which he joined in 1991. Since June 2012, he is Executive Director of Rothschild & Co Gestion, 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.

President of the Nominations Committee and member of the Strategy Committee

Positions and terms of office held as of December 31, 2017

Chief Executive Officer – Managing Partner Rothschild & Co and Rothschild et Cie Banque

Essilor group company

Director

- Essilor International (SAS)[c]

Rothschild group companies

Executive Director

- Rothschild & Co Gestion

Director

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

External companies (non Rothschild group)

Director

- 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

(a) *Cooptation following the ratification by the Shareholders' Meeting.*

(b) *Term of office submitted for renewal by the Shareholders' Meeting of April 24, 2018, until the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica) or, alternatively, for a new three-year period. A new EssilorLuxottica director's term of office, which was approved by the Shareholders' Meeting of May 11, 2017, should take effect on the date of the contribution of Luxottica shares by Delfin to Essilor.*

(c) *Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.*

Laurent Vacherot

Non-independent Director

62 years old

(Countries of citizenship: Canada and France)

Number of shares:
199,453

Major position:
President and Chief Operating Officer

Business address:
147 rue de Paris
94220 Charenton-le-Pont

(France)

First appointment as Director: May 11, 2017

Current term ends: 2020 or the Contribution Completion Date [(a)]

Personal information – Experience and expertise

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 Oerating 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 hi 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*.

Member of the Strategy Committee

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Positions and terms of office held as of December 31, 2017

President and Chief Operating Officer*

Other Essilor group companies

President and Chief Operating Officer, and Director Essilor International (SAS)[(b)]

President

- EOA Holding Co.inc (USA)

Director

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

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

Chief Operating Officer

- Essilor*

(a) Contribution of Luxottica shares by Delfin to Essilor (date on which Essilor will be renamed EssilorLuxottica).

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

** Listed company.*

Jeanette Wong

Independent Director

57 years old

(Country of citizenship: Singapore)

Number of shares:
1,000

Major position:
Group Executive, DBS Group

Business address:
DBS Bank
12 Marina Boulevard
DBS Asie Central @ Marina Bay
Financial Centre Tower 3
018982 – Singapore

First appointment as Director: March 22, 2017[(a)]/May 11, 2017

Current term ends: 2018 [(b)]

Personal information – Experience and expertise

Jeanette Wong is a DBS group executive responsible for Institutional Banking, which encompasses Corporate Banking, Global Transaction Services, Strategic Advisory, and Mergers & 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 between 1997 to 2002. Before working at the Citibank from 1984 until 1986, Jeanette Wong began her career in 1982 at the Banque Parisbas. Ms. Wong brings to the Board her financial expertise and her knowledge of international and specifically Asian markets.

Member of the Audit and Risk Management Committee and of the Strategy Committee

Positions and terms of office held as of December 31, 2017

Group Executive, DBS Group

Essilor group company

Director

- Essilor International (SAS)[(c)]

DBS group companies

President

- DBS Bank (Taiwan) Limited

Director

- DBS Bank (China) Limited

External companies (non DBS group)

Director

- Jurong Town Corporation (Singapore)[(d)]
- Member of the Advisory Boards of the "National University of Singapore Business school Management" and "University of Chicago Booth School of Business"
- Member of the Securities Industry Council of the Monetary Authority of Singapore
- Singapores's Alternate ABAC (APEC Business Advisory Council) Member[(d)]

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

Director

- Singapore International Arbitration Centre[(e)]

(a) Cooptation followed the ratification by the Shareholders' Meeting.

(b) Term of office submitted for renewal by the Shareholders' Meeting of April 24, 2018, until the date of the contribution of Luxottica shares by Delfin to Essilor (the date on which Essilor will be renamed EssilorLuxottica) or, alternatively, for a new three-year period. A new EssilorLuxottica director's term of office will be submitted for the approval of the Shareholders' Meeting of April 24, 2018, to replace Henrietta Fore, who is resigning.

(c) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

(d) Term of office started during the fiscal year

(e) Term of office expired during the fiscal year

Delphine Zablocki

Director representing employees

42 years old

(Country of citizenship: France)

Number of shares:
217

Major position:
Skilled operator

Business address:
1 Rue Fernand Holweck
21000 Dijon (France)

First appointment as Director: October 28, 2017[(a)]

Current term ends: 2021

Personal information – Experience and expertise

Delphine Zablocki started working at Essilor in Dijon (France) as an interim worker in 2003 and she was hired in 2004. Her career at Essilor has allowed her to experience in several workshops. She worked as a verifier at the Polycarbonate workshop, where she spent six years and then at the Orma workshop for one year. Later, Mrs Zablocki left the production and worked, still as a verifier, on the "lamination" project, a glass polarization technology. She continued for five years before being transferred to the TSV (vacuum treatment) center in Dijon (France), in 2016.

Member of Strategy Committee

Positions and terms of office held as of December 31, 2017

Essilor group company

Director

- Essilor International (SAS)[(b)]

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

None

(a) Designation by the Central Works Council in accordance with the bylaws.

(b) Non-listed company 100% controlled by Essilor and constituted as part of the partial asset contribution ("Hive Down") carried out on November 1, 2017 as part of the preparation of the combination with Luxottica.

2.6 Statutory Auditors’ report on related-party agreements and commitments

This is a free translation into English of the statutory auditors’ report on related-party agreements and commitments issued in French and it is provided solely for the convenience of English speaking users.

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 your company’s statutory auditors, 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, conditions and reasons underlying company’s interest of agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, 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, 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 Shareholders’ 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 to the approval of the shareholders’ meeting

We have been informed of no agreements and commitments authorized during the year and requiring the approval of the Shareholders’ Meeting by virtue of article L. 225-38 of the French commercial code.

Agreements and commitments previously approved by the shareholders’ meeting

In addition, we have been informed of the continuation of the following agreements and commitments approved by Shareholders’ Meetings in prior years, which had no effect during the year ended December 31, 2017.

CORPORATE OFFICER INVOLVED: HUBERT SAGNIÈRES CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF ESSILOR INTERNATIONAL (COMPAGNIE GÉNÉRALE D'OPTIQUE)

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 €2,302,000, based on December 31, 2017 elements, of which €939,983 relates to the compensation due under the collective agreement and €1,362,017 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. Shareholders’ Meeting of May 11, 2017, approved this resolution in application of article L. 225-42-1 of the French commercial code.

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.

CORPORATE OFFICER INVOLVED: LAURENT VACHEROT CHIEF OPERATING OFFICER OF ESSILOR INTERNATIONAL (COMPAGNIE GÉNÉRALE D'OPTIQUE)

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 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 €2,686,000, 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 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 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.

Note that the hive-down of Essilor activities has automatically led to the transfer of Hubert Sagnières and Laurent Vacherot suspended employment contracts to Essilor International (SAS) with an effective date as of November 1, 2017.

CORPORATE OFFICER INVOLVED: OLIVIER PÉCOUX, EXECUTIVE OFFICER OF THE GROUP ROTHSCHILD & CO AND MEMBER OF THE BOARD OF DIRECTORS OF ESSILOR INTERNATIONAL (COMPAGNIE GÉNÉRALE D'OPTIQUE)

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 and 2017, as the commission was only payable if the planned combination with Luxottica was successfully completed.

Essilor International (Compagnie Générale d'Optique) chose to enter into an agreement with Rothschild & Co given its involvement with leading international groups in numerous cross-border transactions.

Neuilly-sur-Seine and Courbevoie, March 23, 2018

The Statutory Auditors

PriceWaterhouseCoopers Audit		**MAZARS**
Olivier Lotz	Cédric Le Gal	Daniel Escudeiro

3
CHAPTER

FINANCIAL **STATEMENTS**

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IN BRIEF

SOLID 2017 EARNINGS

€ millions	2017 adjusted[b]	2016 reported	% Change	2017 reported
Revenue	7,490	7,115	+5.3%	7,490
Contribution from operations[a]	1,367	1,321	+3.5%	1,361
% of revenue	*18.3%*	*18.6%*	-	*18.2%*
Operating profit	1,248	1,230	+1.5%	1,074
Profit attributable to equity holders	833	813	+2.5%	789
% of revenue	*11.1%*	*11.4%*	-	*10.5%*
Earnings per share *(in €)*	3.85	3.79	+1.6%	3.64

(a) Contribution from operations: Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

(b) There are two main types of adjustment items. First, expenses associated with the proposed combination with Luxottica, and, second, the positive effects of tax changes in the United States and France. These items are non-recurring adjustments. The reported accounts and a reconciliation of the reported accounts to the adjusted accounts are provided in Section 3.1.1.

Date of the latest financial information

The latest audited financial information corresponds to fiscal years 2016 and 2017 (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, 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 March 17, 2016 under number D.16-0155;
- 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 110 to 163 and 164 of the 2016 Registration Document filed with the AMF on Thursday, March 30, 2017 under number D.17-0264.

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 June 30, 2017 were published on July 28, 2017. The financial press release, the consolidated income statement, consolidated balance sheet and consolidated cash flow statement as at June 30, 2017 and the presentation of results for the first half of 2017 are available on the Essilor website.

The Registration Documents and releases cited are available at: @ Investors/ Publications & Downloads

www.essilor.com

3.1 Comments on the Company's earnings and financial position

Definitions

A. **Like-for-like growth**: Growth at constant scope and exchange rates. See definition provided in Note 2.4 to the consolidated financial statements included in this Chapter.

B. **Contribution from operations**: Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

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

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.

F. **Adjusted**: There are two main types of adjustment items. First, expenses associated with the proposed combination with Luxottica, and, second, the positive effects of tax changes in the United States and France.

These non-recurring adjustments cover:

- transaction costs related to the proposed combination with Luxottica for €109 million;
- an additional cost of €45million principally linked to the lifting of performance conditions for two employee shareholding plans;
- a one-time contribution for €19 million to mission-related programs focused on eradicating poor vision worldwide;
- a gain from the refund of the 3% dividend tax in France, net of one exceptional tax, for €19 million;
- a one-time gain linked to tax reform passed in the United States in December 2017 for €73 million.

The reported accounts and a reconciliation of the reported accounts to the adjusted accounts are provided in Section 3.1.1.

G. **Excluding any new strategic acquisition.**

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3.1.1 Operating income

Income statement, reported/adjusted (F)

€ millions	2017 adjusted (F)	Adjustment items	2017 reported	2016 reported
Revenue	7,490		7,490	7,115
Gross profit	4,346		4,346	4,181
Contribution from operation [(a)]	1,367	(6)	1,361	1,321
Other income/expenses	(119)	(168)	(287)	(91)
Operating profit	1,248	(174)	1,074	1,230
Income tax expense	(262)	131	(132)	(285)
Net profit	922	(44)	878	880
Attributable to equity holders	833	(44)	789	813
Earnings per share *(in €)*	3.85		3.64	3.79

(a) Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

Condensed adjusted (F) income statement

€ millions	2017 adjusted (F)	2016 reported	% change
Revenue	7,490	7,115	+5.3%
Gross profit	4,346	4,181	+3.9%
% of revenue	*58.0%*	*58.8%*	-
Operating expenses	2,979	2,860	+4.2%
Contribution from operations [(a)]	1,367	1,321	+3.5%
% of revenue	*18.3%*	*18.6%*	-
Other income and expenses from operations	(119)	(91)	-
Operating profit	1,248	1,230	+1.5%
% of revenue	*16.7%*	*17.3%*	-
Finance costs, net	(64)	(66)	-
Income tax expense	(262)	(285)	-
Effective tax rate	*22.1%*	*24.5%*	-
Net profit	922	880	+4.8%
Attributable to equity holders	833	813	+2.5%
% of revenue	*11.1%*	*11.4%*	-
Earnings per share *(in €)*	3.85	3.79	+1.6%

(a) Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

Operating profit - Significant factors affecting operating profit

REVENUE

For more information on revenue, refer to Section 1.6 "Essilor in 2017" of this Registration Document.

3.9% INCREASE IN GROSS PROFIT

Gross profit (revenue less cost of sales) reached €4,346 million in 2017, or 58.0% of revenue, compared with 58.8% in 2016. Despite the operating efficiency gains achieved, gross margin contracted due to two main factors: a shift in the mix of distribution channels, notably reflecting the rapid growth of the online activities where gross margin tends to be below the Group average, and a decline in sales of Transitions® lenses to manufacturers outside the Group.

ADJUSTED (F) OPERATING EXPENSES: UP 4.2%

Adjusted (F) operating expenses amounted to €2,979 million, which was 39.8% of revenue *versus* 40.2% in 2016.

These charges mainly included:

- R&D and engineering costs, which totaled €217 million, up slightly from 2016;
- selling and distribution costs, which rose to €1,845 million from €1,750 million in 2016 mainly because of sales force expansion.

ADJUSTED (F) CONTRIBUTION FROM OPERATIONS (B): 18.3% OF REVENUE

The adjusted (F) contribution from operations (B) rose 3.5% (of which 2.7% like-for-like (A)) to €1,367 million, representing 18.3% of revenue, and was slightly down from 2016 (18.6%) due to:

- dilution resulting from bolt-on acquisitions (C);
- significant investments to reinforce the organization in China as well as economic situations, including the one in Brazil, that offset the positive operating leverage effects.

The procedures for calculating the changes in this aggregate are explained in Note 2.4 to the consolidated financial statements.

Contribution from operations (B)	2017 adjusted (F)	2016 reported	Change
€ millions	1,367	1,321	+3.5%
As a % of revenue	18.3%	18.6%	

OTHER ADJUSTED (F) INCOME AND EXPENSES FROM OPERATIONS

"Other income and expenses from operations" represented a net expense of €119 million, up from €91 million in 2016. The total for 2017 mainly included:

- €33 million of restructuring provisions, mainly related to the streamlining of some production sites and the restructuring of certain trade flows;
- €82 million of compensation costs for share-based payments (particularly performance share plans), which was higher than 2016 because of the Company's proactive employee share ownership policy;

- €17 million of net expense associated with the settlement of litigation;
- A €9 million profit from the sale of certain real estate assets in France.

ADJUSTED (F) OPERATING PROFIT: UP 1.5%

Adjusted (F) operating profit (contribution from operations (B) less other income and expenses from operations) stood at €1,248 million for the year, representing 16.7% of revenue.

The procedures for calculating the changes in this aggregate are explained in Note 2.4 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, as described in Chapter 7 "Combination between Essilor and Luxottica".

3.1.2 Net profit

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Finance costs and other financial income and expenses, net

This item came to a net expense of €64 million, compared with €66 million in 2016. The improvement was attributable to debt reduction in the second half of 2017.

Adjusted (F) net profit up 4.8% to €922 million

Adjusted (F) net profit includes €262 million in income tax expense compared with €285 million in 2016, for an effective tax rate of 22.1% *versus* 24.5% in 2016. The reduced rate was mainly due to the continued application over the full year of the advance pricing agreement (APA) on royalty rates signed between France and the United States in 2016.

The adjusted (F) net profit attributable to equity holders of Essilor amounted to €833 million, an increase of 2.5% over the prior year. This included €89 million in non-controlling interests, up from €67 million in 2016. This increase resulted from the consolidation of Photosynthesis Group beginning January 1, 2017 and from the contribution of results delivered by the Company's partners.

Adjusted (F) earnings per share came to €3.85, an increase of 1.6% *versus* 2016.

3.1.3 Balance Sheet and Cash Flow Statement

Net debt lowered to 1.7 billion euros

CAPITAL EXPENDITURE AND INVESTMENTS

Purchases of property, plant and equipment and intangible assets reached €308 million in 2017, primarily comprising capital expenditure to support the Company's growth.

Financial investments amounted to €317 million. This total mainly included acquisitions made during the year as well as subsequent, ancillary payments on transactions from previous years.

CHANGE IN WORKING CAPITAL REQUIREMENT

Working capital requirement rose by €58 million in 2017, consistent with underlying revenue growth.

OPERATING CASH FLOW (D)

Operating cash flow (D) rose to €1,291 million, driving a 2.8% increase in free cash flow to €925 million. Free cash flow (E) increased by 4.0% when adjusted for non-recurring items related to the German competition authority (BKA) in 2016 and to 2017 items including costs linked to the proposed transaction with Luxottica along with litigation settlements.

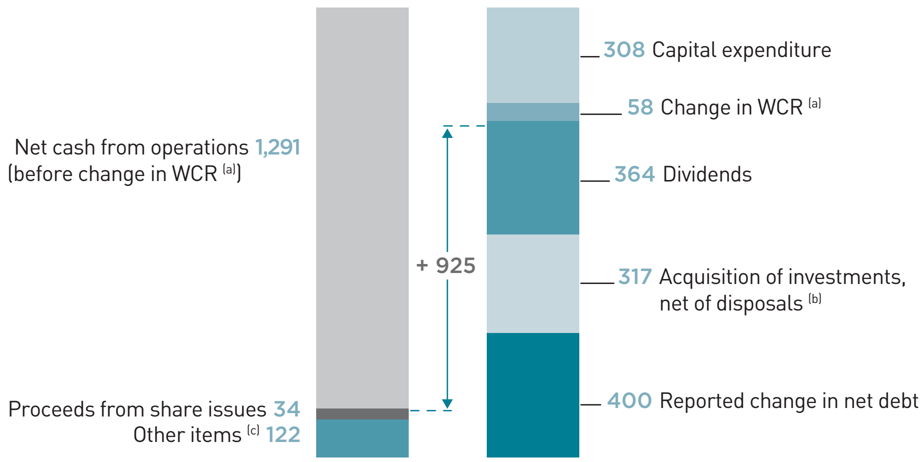
NET DEBT

Essilor's net debt reached €1,661 million at end-December 2017 *versus* €2,062 at end-December 2016, leading to a material reduction in the financial leverage.

The procedures for calculating this aggregate are explained in Note 19 to the consolidated financial statements.

Cash Flow Statement

(€ millions)



(a) WCR: working capital requirement.
(b) Financial investments net of cash acquired, plus debt of newly-consolidated companies.
(c) Other items include a €96 million currency effect.

3.2 Trend Information

3.2.1 Recent trends 2018

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 proposed combination between Essilor and Luxottica (see Chapter 7 "Combination between Essilor and Luxottica") 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 growing and aging, the prevalence of myopia is rising rapidly 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

On March 1, 2018, the European Commission and the Federal Trade Commission of the United States unconditionally approved the proposed combination between Essilor and Luxottica.

On this date[(1)], the combination was also unconditionally approved in fourteen other countries: Australia, Canada, Chile, Colombia, India, Israel, Japan, Mexico, Morocco, New Zealand, Russia, South Africa, South Korea and Taiwan.

3.2.4 2018 Outlook

The solid performance in 2017 and the ongoing deployment of growth initiatives enable Essilor to target, in 2018, revenue growth of around 4% like-for-like (A) and a contribution from operations (B) greater than or equal to 18.3% (G) of revenue.

The finalization of the proposed Essilor and Luxottica combination is planned for the first part of 2018 after obtaining all necessary authorizations.

(1) Filing date of this document with the French Financial Markets Authority ("AMF").

3.3 2017 consolidated financial statements

3.3.1 Consolidated income statement

€ millions, excluding per share data	Notes	Year 2017	Year 2016
Revenue	3	7,490	7,115
Cost of sales		(3,144)	(2,934)
GROSS MARGIN		**4,346**	**4,181**
Research and development costs		(217)	(214)
Selling and distribution costs		(1,845)	(1,750)
Other operating expenses		(923)	(896)
CONTRIBUTION FROM OPERATIONS [(a)]		**1,361**	**1,321**
Other income from operations	5	12	18
Other expenses from operations	5	(299)	(109)
OPERATING PROFIT	**3**	**1,074**	**1,230**
Cost of gross debt		(70)	(71)
Income from cash and cash equivalents		18	17
Other financial income	6	2	
Other financial expenses	6	(14)	(12)
Share of profits of associates			1
PROFIT BEFORE TAX		**1,010**	**1,165**
Income tax expense	7	(132)	(285)
NET PROFIT		**878**	**880**
Attributable to Group equity holders		789	813
Attributable to minority interests		89	67
Net profit attributable to Group equity holders per share *(€)*		3.64	3.79
Average number of shares *(thousands)*	8	216,604	214,614
Diluted net profit attributable to Group equity holders per share *(€)*		3.57	3.71
Diluted average number of shares *(thousands)*	9	221,298	219,203

(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 2017 Attributable to Group equity holders	Year 2017 Attributable to minority interests	Year 2017 Total	Year 2016 Attributable to Group equity holders	Year 2016 Attributable to minority interests	Year 2016 Total
NET PROFIT FOR THE PERIOD (A)	**789**	**89**	**878**	**813**	**67**	**880**
Items of comprehensive income that will not be reclassified subsequently to profit or loss						
Actuarial gains and losses on pension and other post-employment benefit obligations	1		1	(31)		(31)
Tax on items that will not be reclassified subsequently	2		2	1		1
Items of comprehensive income that may be reclassified subsequently to profit or loss						
Cash flow hedges, effective portion	1		1	2		2
Hedges of net investment, effective portion						
Increase (decrease) in fair value of long-term financial investments						
Translation reserves	(760)	(29)	(789)	212	(3)	209
Tax on items that may be reclassified subsequently						
TOTAL INCOME (EXPENSES) FOR THE PERIOD RECOGNIZED DIRECTLY IN EQUITY, NET OF TAX (B)	**(756)**	**(29)**	**(785)**	**184**	**(3)**	**181**
TOTAL RECOGNIZED INCOME AND EXPENSES, NET OF TAX (A) + (B)	**33**	**60**	**93**	**997**	**64**	**1,061**

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, 2017	December 31, 2016
Goodwill	10	5,583	6,191
Other intangible assets	11	1,682	1,825
Property, plant and equipment	12	1,116	1,214
Investments in associates		20	8
Non-current financial assets	13	111	136
Deferred tax assets	7	211	187
Long-term receivables		41	37
Other non-current assets		47	56
TOTAL NON-CURRENT ASSETS		**8,811**	**9,654**
Inventories	14	1,097	1,125
Prepayments to suppliers		30	31
Short-term receivables	15	1,685	1,618
Tax receivables		74	81
Other receivables		3	25
Derivative financial instruments recognized in assets	20	29	45
Prepaid expenses		87	67
Cash and cash equivalents	16	484	517
CURRENT ASSETS		**3,489**	**3,509**
TOTAL ASSETS		**12,300**	**13,163**

The accompanying notes are an integral part of the consolidated financial statements.

Liabilities

€ millions	Notes	December 31, 2017	December 31, 2016
Share capital		39	39
Issue premiums		635	591
Consolidated reserves		5,432	4,936
Own shares		(111)	(168)
Hedging and revaluation reserves		(155)	(159)
Translation differences		(125)	636
Net profit attributable to Group equity holders		789	813
Equity attributable to parent company owners		**6,504**	**6,688**
Equity attributable to non-controlling interests		423	366
TOTAL CONSOLIDATED EQUITY		**6,927**	**7,054**
Provisions for pensions	17	337	344
Long-term borrowings	19	1,674	1,364
Deferred tax liabilities	7	257	383
Other non-current liabilities	21	153	300
NON-CURRENT LIABILITIES		**2,421**	**2,391**
Provisions	18	394	393
Short-term borrowings	19	491	1,246
Customer prepayments		44	33
Short-term payables	15	1,515	1,431
Tax payables		81	73
Other current liabilities	21	378	509
Derivative financial instruments recognized in liabilities	20	15	22
Deferred income		34	11
CURRENT LIABILITIES		**2,952**	**3,718**
TOTAL LIABILITIES		**12,300**	**13,163**

The accompanying notes are an integral part of the consolidated financial statements.

3.3.4 Statement of changes in equity

Fiscal year 2017

€ 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
EQUITY AT JANUARY 1, 2017	**39**	**591**	**(159)**	**4,936**	**636**	**(168)**	**813**	**6,688**	**366**	**7,054**
Employee share issues		35						35		35
Stock subscription options		9						9		9
Capital increases subscribed by minority interests									(10)	(10)
Share-based payments				109				109		109
Net sale/(Net purchase) of treasury shares				(57)		57				
Allocation of profit				813			(813)			
Effect of changes in the scope of consolidation and other				(44)				(44)	46	2
Dividends paid				(325)				(325)	(39)	(364)
TRANSACTIONS WITH SHAREHOLDERS		**44**		**496**		**57**	**(813)**	**(216)**	**(3)**	**(219)**
Income (expense) for the period recognized directly in equity			4					4		4
Net profit for the fiscal year							789	789	89	878
Translation differences					(761)			(761)	(29)	(790)
TOTAL RECOGNIZED INCOME AND EXPENSES			**4**		**(761)**		**789**	**32**	**60**	**92**
EQUITY AT DECEMBER 31, 2017	**39**	**635**	**(155)**	**5,432**	**(125)**	**(111)**	**789**	**6,504**	**423**	**6,927**

The accompanying notes are an integral part of the consolidated financial statements.

Fiscal year 2016

€ millions	Share capital	Issue premi-ums	Revalu-ation reserves	Reser-ves	Transla-tion differ-ence	Treasury stock	Profit attribu-table to Group equity holders	Equity attribu-table to parent company owners	Equity attribu-table to non-controlling interests	Total equity
EQUITY AT JANUARY 1, 2016	**39**	**400**	**(131)**	**4,441**	**424**	**(223)**	**757**	**5,707**	**385**	**6,092**
Capital increases [a]		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 shares				(86)		55		(31)		(31)
Allocation of profit				757			(757)			
Effect of changes in the scope of consolidation and other				7				7	(50)	(43)
Dividends paid				(237)				(237)	(40)	(277)
TRANSACTIONS WITH SHARE-HOLDERS		**191**		**495**		**55**	**(757)**	**(16)**	**(83)**	**(99)**
Income (expense) for the period recognized directly in equity			(28)					(28)		(28)
Net profit for the fiscal year							813	813	67	880
Translation differences					212			212	(3)	209
TOTAL RECOGNIZED INCOME AND EXPENSES			**(28)**		**212**		**813**	**997**	**64**	**1,061**
EQUITY AT DECEMBER 31, 2016	**39**	**591**	**(159)**	**4,936**	**636**	**(168)**	**813**	**6,688**	**366**	**7,054**

(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 thus created 1,578,804 new shares.

The accompanying notes are an integral part of the consolidated financial statements.

3.3.5 Consolidated cash flow statement

€ millions	Notes	2017	2016
CONSOLIDATED NET PROFIT	**(a)**	**878**	**880**
Adjustments to reconcile net income (loss) to funds generated from operations			
Depreciation, amortization and other non-cash items		549	360
Provision charges (reversals)		(23)	(50)
Gains and losses on asset disposals, net		(4)	(6)
Finance costs, net	(b)	49	54
Tax expenses (including deferred taxes)	(a)	132	285
Other net cash out			
Share of profits of associates, net of dividends received			(1)
Taxes paid		(234)	(264)
Interest (paid) and received, net		(56)	(56)
Change in working capital requirement		(58)	(8)
NET CASH FROM OPERATING ACTIVITIES		**1,233**	**1,194**
Purchases of property, plant and equipment and intangible assets		(308)	(294)
Acquisitions of subsidiaries, net of the cash acquired		(334)	(706)
Change in other non-financial assets		18	(43)
Proceeds from the sale of other financial assets, property, plant and equipment and intangible assets		26	21
NET CASH USED IN INVESTING ACTIVITIES		**(598)**	**(1,022)**
Capital increase	(c)	44	41
Capital reduction paid to minority shareholders	(c)	(10)	
Net sale (net buyback) of treasury shares	(c)		(31)
Dividends paid:			
• to Essilor shareholders	(c)	(325)	(79)
• to minority shareholders of the consolidated subsidiaries	(c)	(39)	(40)
Increase/(Decrease) in borrowings other than finance lease liabilities	19	(303)	(31)
Repayment of finance lease liabilities		(2)	(3)
NET CASH USED IN FINANCING ACTIVITIES		**(635)**	**(143)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			**29**
Net cash and cash equivalents at January 1		**460**	**431**
Effect of changes in exchange rates		(34)	
NET CASH AND CASH EQUIVALENTS AT PERIOD-END		**426**	**460**
Cash and cash equivalents	19	484	517
Bank credit facilities	19	(58)	(57)

(a) See income statement.
(b) Finance costs net is defined as the cost of gross debt minus the income of cash and cash equivalents.
(c) 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

The accompanying notes are an integral part of the consolidated financial statements.

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Note 1. Accounting principles

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 2017 consolidated financial statements were approved by the Board of Directors on February 28, 2018.

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, 2017. These international accounting standards can be accessed on the European Commission website [1].

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, 2016. The standards, amendments and interpretations with mandatory application in or after 2017 (see below) have no material impact on the Group's financial statements:

- IAS 7 Amendments – Disclosure initiative, application mandatory as at January 1, 2017 according to IASB;
- IAS 12 Amendments – Recognition of Deferred Tax Assets for Unrealized Losses, application mandatory as at January 1, 2017 according to IASB.

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, 2017:

- IFRS 9 – Financial Instruments with mandatory application as at January 1, 2018;
- IFRS 15 – Revenues from Contracts with Customers, application will be mandatory as at January 1, 2018 according to IASB.
- IFRS 16 – Contract leases, application mandatory as at January 1, 2019 according to IASB;
- IFRS 17 – Insurance contracts; application mandatory as at January 1, 2021 according to IASB;
- IAS 40 Amendments – Transfers to and from investment property, application mandatory as at January 1, 2018 according to IASB;
- IFRS 2 Amendments – Classification and measurement of share-based payment transactions application mandatory as at January 1, 2018 according to IASB;
- IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRIC 22 Foreign currency transaction-advance consideration application mandatory as at January 1, 2018 according to IASB;
- IFRIC 23 Uncertainty over income tax treatments application mandatory as at January 1, 2019 according to IASB.

The impact of these standards on the consolidated financial statements is currently being assessed by the Group.

Regarding IFRS 15 application as at January 1, 2018, the Group reviewed the most significant customer contracts in the various business units so as to be able to assess the impact of this standard on the revenue recognition. In view of the analysis that has been conducted, the Group expects that the standard application will lead to a delay in revenue recognition for some transactions, a reclassification between the revenue and some lines within the operating result regarding some provision of services received or performed by the Group and some expenses, in particular, marketing expenses. Based on this work, the Group finalized the assessment of the impacts and considers that the application of IFRS 15 will have no material impact on the revenue.

Regarding IFRS 9 application as at January 1, 2018:

- phases "Classification and measurement" and "Hedge accounting" will have no significant impact on the Group financial statements;
- regarding the phase "Impairment methodology", the Group reviewed its trade receivables country by country, taking into account the country risk and the probability of the counterpart default. Based on this work, the Group considers that the application of the standard will have no material impact of the financial statements.

(1) *https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en*

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 2.3).

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 tangible or intangible 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 2 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.

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	Consolidated balance sheet valuation principle	Input level under IFRS 13	Note to the financial statements	Fair value measurement			
				Valuation model	Market data		
					Exchange rate	Interest rate	Volatility
Available-for-sale financial assets (listed securities)	Fair value	1	13	Share price	N/A		
UCITS units	Fair value	1	19	Market value (net asset value)	N/A		
Forward foreign exchange contracts	Fair value	2	20	Discounted cash flows	ECB rate	Zero-coupon curves	N/A
Currency options	Fair value	2	20	Black and Scholes	Forward curves, ECB rate, Spot prices	Zero-coupon curves	
Interest rate swaps	Fair value	2	20	Discounted cash flows	N/A	Zero-coupon curves	N/A
Cross-currency swaps	Fair value	2	20	Discounted cash flows	ECB rate	Zero-coupon curves	N/A
Liabilities relating to business combinations or minority interests	Fair value	3	20	Under IAS 32, contingent considerations payable to minority interests or within the scope of business combinations constitute financial liabilities. The fair value of these liabilities is measured by reviewing obligations on the reporting date using the method described in Note 1.33.			

The fair value of financial assets and liabilities is shown in Note 20.2.

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 amounts & 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 fair value (less costs to sell) is the price that would be received from the sale of an asset or group of assets in an orderly transaction between market participants at the measurement date, less costs to sell. These values are determined on the basis of market data (stock market prices or comparison with similar listed companies, with the value attributed to similar assets or companies in recent transactions) or, in the absence of such data, on the basis of discontinued cash flows as determined by a market participant.

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 10 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.

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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 19 "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 minority shareholders unless they are not liable for their share of the losses and are not 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

	Closing rate		Average rate	
For €1	December 2017	December 2016	December 2017	December 2016
Canadian dollar	1.50	1.42	1.46	1.47
British pound	0.89	0.86	0.88	0.82
Yuan	7.80	7.32	7.63	7.35
Yen	135.01	123.40	126.71	120.20
Indian rupee	76.61	71.59	73.53	74.37
Brazilian real	3.97	3.43	3.61	3.86
US dollar	1.20	1.05	1.13	1.11

2.2 Combination between Essilor and Luxottica

On January 16, 2017, Essilor and Delfin, the majority shareholder in Luxottica, announced that they had signed an agreement to create an integrated global player in the eyewear industry with the combination between Essilor and Luxottica. The transaction is subject to satisfaction of several conditions precedent.

In March 2017, employee representative bodies at Essilor issued favorable opinions on the combination. On April 12, 2017, the French market authority (AMF) dispensed Delfin from the obligation to submit a tender offer for Essilor. On May 11, 2017, shareholders at the General Meeting and double voting rights holders at the Special Meeting approved the combination. On November 1, 2017, Essilor completed the hive-down of its activities. Essilor will be renamed "Essilor Luxottica" once the other conditions precedent to completing the contribution of Luxottica shares to Essilor have been satisfied, and it will become the holding company at the top of the combined group housing Essilor International and Luxottica.

Essilor and Luxottica have also jointly filed notices with the antitrust authorities in several countries, notably in five jurisdictions (Brazil, Canada, China, the United States and Europe) whose approval is a condition to complete the combination. To date, the deal has been unconditionally approved in Canada and twelve other countries: Australia, Chile, Colombia, India, Japan, Mexico, Morocco, New Zealand, Russia, South Africa, South Korea and Taiwan.

2.3 Changes in the scope of consolidation

The consolidated financial statements include the financial statements of holding 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 2017 are related to the following companies:

Name	Country	Acquisition date	Consolidation method	% interest	% consolidated
Creasky	China	January 5, 2017	Full	55	100
Optitrade Logistics Center	Netherlands	January 31, 2017	Full	50	100
Visolab Produtos Opticos	Brazil	February 1, 2017	Full	51	100
Topcon Vision Care Japan	Japan	February 17, 2017	Full	51	100
Opticas Exclusivas	Guatemala	April 3, 2017	Full	70	100
Vision Associates	USA	May 1, 2017	Full	60	100
Partners In Vision	USA	June 1, 2017	Full	100	100

2.4 Impact of changes in the scope of consolidation and exchange rates

BALANCE SHEET

The impact on the 2017 consolidated balance sheet of the business combinations is analyzed below:

€ millions	Business combination
Intangible assets	130
Property, plant and equipment	12
Other non-current assets	7
Current assets	43
Cash	13
TOTAL ASSETS ACQUIRED AT FAIR VALUE	**205**
Equity attributable to non-controlling interests	26
Other non-current liabilities	22
Short-term borrowings	3
Other current liabilities	92
TOTAL LIABILITIES ASSUMED AT FAIR VALUE	**143**
NET ASSETS ACQUIRED [a]	**62**
Acquisition cost	89
Fair value of net assets acquired [a]	62
Recognized goodwill [b]	**27**

(a) Or consolidated during the period.
(b) Including the retrospective adjustments within the twelve months following the acquisition (for 2016 acquisitions)

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 2.3 Changes in consolidation scope) had been consolidated at January 1, 2017, the Group's 2017 revenues would have been estimated at €7,517 millions and the Group's 2017 net profit at €787 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., that represent highly significant amounts & 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	5.3	(1.4)	3.6	3.1
Contribution from operations	3.0	(1.3)	2.1	2.2

Note 3. Segment information

3.1 Information by business segment

Fiscal year 2017

€ millions	Lenses and Optical Instruments	Equipment	Sunglasses & Readers	Eliminations	Group total
External revenue	6,498	226	766		7,490
Intra-segment revenue	22	81	8	(111)	
TOTAL REVENUE	**6,520**	**307**	**774**	**(111)**	**7,490**
Contribution from operations	**1,211**	**45**	**105**		**1,361**
Operating profit					1,074
Cost of gross debt					(70)
Income from cash and cash equivalents					18
Other financial income					2
Other financial expenses					(14)
Share of profits of associates					
Income tax					(132)
Net profit					**878**
Segment assets [(a)]	**8,819**	**456**	**1,959**		**11,234**
Non-segment assets					**1,066**
TOTAL ASSETS					**12,300**
Segment liabilities [(b)]	1,371	41	147		1,559
Non-segment liabilities					3,814
Equity					6,927
TOTAL LIABILITIES					**12,300**
Acquisitions of property, plant and equipment & intangible assets	220	6	82		308
Amortization, depreciation and impairment of property, plant and equipment and intangible assets	(283)	(8)	(84)		(375)

(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 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)	
TOTAL REVENUE	**6,229**	**284**	**690**	**(88)**	**7,115**
Contribution from operations	**1,209**	**39**	**73**		**1,321**
Operating profit					1,230
Cost of gross debt					(71)
Income from cash and cash equivalents					17
Other financial income					
Other financial expenses					(12)
Share of profits of associates					1
Income tax					(285)
Net profit					**880**
Segment assets [(a)]	**9,601**	**490**	**1,950**		**12,041**
Non-segment assets					**1,122**
TOTAL ASSETS					**13,163**
Segment liabilities [(b)]	1,289	42	133		1,464
Non-segment liabilities					4,645
Equity					7,054
TOTAL LIABILITIES					**13,163**
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.

3.2 Information by geographical area

	Revenue		Non-current assets[(a)]	
€ millions	Year 2017	Year 2016	December 31, 2017	December 31, 2016
North America	3,420	3,328	1,190	1,355
Europe	2,117	1,998	969	1,064
Asia, Oceania, Africa	1,452	1,308	695	682
Latin America	501	481	163	175
TOTAL	**7,490**	**7,115**	**3,017**	**3,276**

(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 18.9% of its revenue in 2017, and 19.3% in 2016.

No single customer accounts for more than 10% of the Group's revenue.

Note 4. Personnel costs, depreciation and amortization

Personnel costs amount to €2,298 million in 2017 compared to €2,142 million in 2016 (see also Note 25 "Number of employees and personnel costs").

Depreciation and amortization of property, plant and equipment and intangible assets amount to €375 million in 2017, compared to €439 million in 2016.

Note 5. Other operating income and expenses

€ millions	**Year 2017**	Year 2016
Other [a]	12	18
OTHER INCOME FROM OPERATIONS	**12**	**18**
Restructuring costs [b]	(33)	(33)
Compensation costs on share-based payments [c]	(128)	(64)
Transaction costs [d]	(109)	
Other [e]	(29)	(12)
OTHER EXPENSES FROM OPERATIONS	**(299)**	**(109)**

(a) Mainly includes gain or loss on disposal of tangible assets.

(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.

(c) The Board has granted Group's employees various equity-settled share-based payments with market-based performance conditions. Following the signing of the Combination Agreement with Luxottica and the approval of General Meeting on May 11, 2017, the Group modified such unvested equity-settled share-based payments so as to (i) waive the market performance conditions for all employees except for the two corporate officers and (ii) replace the market performance conditions by non-market performance conditions for such two corporate officers. The vesting period for the share-based payments remains unchanged. This modification applies to share-based payments granted in 2015 and in September and December 2016. These modifications increase the fair value of the share-based payment of €37 million for 2017.

(d) Following the signing of the Combination Agreement with Luxottica, Essilor recognizes transaction costs for €109 million during 2017.

(e) Includes mainly for 2017:

- *the impact of the settlement with Vision Ease and Hoya (see Note 24);*
- *the commitment for a €14 million exceptional contribution to the giving program Vision For Life ™ (France) and to the non-profit organization Essilor Social Impact Fund (USA), in order to deploy new charity programs worldwide. Their mission launched in 2015 is to contribute to vision care.*

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 2017**	Year 2016
Stock subscription options	2	1
Performance shares [a]	108	62
Employee share issues [b]	18	1
COMPENSATION COSTS ON SHARE-BASED PAYMENTS	**128**	**64**

(a) Including the employer's contribution.

(b) These costs correspond to:

- *share issues to employees, in 2016 and 2017;*
- *share issue to foreign employees in 2017. In 2017, the Group has set up a new employee shareholding program in fourteen countries, allowing employees to become Essilor shareholders on preferential terms.*

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 2 to 6 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 eventually granted amounts to 100% of the number of shares originally granted, except for the shares granted to two corporate officers. Indeed, following the signing of the Combination Agreement with Luxottica and the approval of General Meeting on May 11, 2017, the Group modified such unvested equity-settled share-based payments so as to (i) waive the market performance conditions for all employees except for the two corporate officers and (ii) replace the market performance conditions by non-market performance conditions for the two corporate officers

For the October 2017 and December 2017 plans, the number of shares vested at the end of a period of 3 to 6 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 1,572,419 shares for the 2017 awards.

The following table analyzes changes in the number of performance shares at each period-end:

	Quantity
PERFORMANCE SHARES AT JANUARY 1, 2017	**4,345,803**
Performance shares vested	(701,713)
Performance shares canceled	(132,142)
Awards for the fiscal year	1,572,419
PERFORMANCE SHARES AT DECEMBER 31, 2017	**5,084,367**
Performance shares at January 1, 2016	**4,126,157**
Performance shares vested	(1,113,448)
Performance shares canceled	(106,969)
Awards for the fiscal year	1,440,063
Performance shares at December 31, 2016	**4,345,803**

The main assumptions used to measure costs related to performance shares granted in 2017 are as follows:

- Share volatility: 20.95% (2016 awards: 21.62%);
- Risk-free interest rate: -0.33% (2016 awards: -0.53%);
- Yield: 1.50% (2016 awards: 1.10%).

Based on these assumptions, the fair value of a share awarded in 2017 was €54.06 for non-residents of France (€62.94 [(1)] in 2016) and, for French residents, €50.41 for the October 2017 plan and €61.61 for the December 2017 plan respectively (€59.81 [(1)] for the September 2016 plan and €49.23 for the December 2016 plan respectively).

Note 6. Other financial income and expenses

€ millions	Year 2017	Year 2016
Foreign exchange gains		
Dividends	2	
OTHER FINANCIAL INCOME	**2**	
Foreign exchange losses	(3)	(4)
Accretion of discount on liabilities charges	(9)	(8)
Provisions for non-consolidated securities	(2)	
OTHER FINANCIAL EXPENSES	**(14)**	**(12)**

(1) *Fair value before market performance conditions waiving*

Note 7. Income tax

7.1 Income tax gain (loss) for the period

Income tax expense can be split as below:

€ millions	Year 2017	Year 2016
Current taxes	(251)	(349)
Deferred taxes	119	64
TOTAL	**(132)**	**(285)**

7.2 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 2017	Year 2016
Standard French income tax rate	34.4	34.4
Impact of tax rates applied to foreign subsidiaries, when different from the French rate	(11.1)	(9.0)
Impact of reduced rates	(4.8)	(7.8)
Impact of valuation allowance, permanent differences between book and taxable profit and other items[(a)]	(5.5)	6.9
EFFECTIVE RATE OF THE INCOME TAX EXPENSE	**13.0**	**24.5**

(a) Includes, in particular, the effects of internal disposals and the reorganization of commercial flows.

The effective tax rate amounts to 13.0% as of December 2017 instead of 24.5% as of December 2016. This decrease can be mainly explained by the following events:

- Reimbursement of the 3% surtax – France: the Amending Finance Law (*loi de finance rectificative*) from August 2012 introduced a 3% surtax in case of dividend distribution in cash. Essilor was liable to this surtax considering the dividends paid from 2013 to 2017 (amount paid: €26 million). Following the favorable decisions of the Court of Justice of the European Union, on May 17, 2017 and the Constitutional Council (*Conseil Constitutionnel*), on October 6, 2017 and the cancellation of the surtax, the Group has recognized a €19 million net profit for the reimbursement of the 3% surtax on dividends paid in cash, reduced by the 15% exceptional contribution, which was introduced by the Amending Finance Law on December 1, 2017;
- US Tax Reform: in December 2017, the US Congress adopted the US Tax Cuts & Jobs Act, signed on December 22 by the President of the United States for final adoption. Federal income tax rate for US companies is reduced from 35% to 21% for fiscal years starting on January 1, 2018. Consequently, the Group recognized a deferred tax income amounting to €73 million. The other impacts coming from this reform will be taken into account in the computation of the US taxable income during the following years, on the basis of the clarifications or instructions provided by the US tax authorities;

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.

7.3 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	2017	2016
POSITION AT JANUARY 1	**(196)**	**(253)**
Deferred taxes recognized in comprehensive income	2	1
Income (expenses) for the period, net	119	64
Effect of changes in the scope of consolidation, exchange rate impacts and other movements	29	(8)
POSITION AT DECEMBER 31	**(46)**	**(196)**

7.4 Unrecognized deferred tax assets

€ millions	Year 2017	Year 2016
Tax loss carryforwards	58	65
Other deferred tax assets	11	34
UNRECOGNIZED DEFERRED TAX ASSETS	**69**	**99**

7.5 Deferred taxes by type (net position)

€ millions	December 31, 2017	December 31, 2016
Elimination of inter-company profits	60	64
Differences in depreciation periods	(75)	(66)
Temporarily non-deductible provisions	106	129
Actuarial gains and losses	25	26
Assets and liabilities recognized on an acquisition	(247)	(419)
Assets and liabilities recognized on tax loss carryforwards	88	53
Other	(3)	17
TOTAL	**(46)**	**(196)**

Note 8. 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 2017	Year 2016
NUMBER OF SHARES AT JANUARY 1	**216,461,561**	**213,596,342**
Exercise of stock subscription options	130,548	140,512
Subscription of the Essilor Group FCP mutual fund	487,190	331,945
Delivery of performance shares	701,713	1,113,448
Payment of dividend in shares		1,578,804
Net sales (purchases) of treasury shares		(299,490)
NUMBER OF SHARES AT PERIOD-END	**217,781,012**	**216,461,561**
Number of treasury shares eliminated	1,344,427	2,046,140

CHANGE IN THE WEIGHTED AVERAGE NUMBER OF SHARES, EXCLUDING TREASURY STOCK

	Year 2017	Year 2016
NUMBER OF SHARES AT JANUARY 1	**216,461,561**	**213,596,342**
Exercise of stock subscription options	59,877	60,245
Subscription of the Essilor Group FCP mutual fund	22,479	10,883
Delivery of performance shares	60,337	88,868
Payment of dividend in shares		888,616
Net sales (purchases) of treasury shares		(30,627)
AVERAGE NUMBER OF SHARES AT PERIOD-END	**216,604,254**	**214,614,327**

In 2017 and in 2016, no treasury stock was canceled.

Note 9. Diluted earnings per share

The net profit used for the calculation of diluted earnings per share is €789 million (€813 million in 2016).

The average number of shares used to calculate diluted earnings per share is as follows:

€ millions	Year 2017	Year 2016
Weighted average number of shares	216,604,254	214,614,327
Dilutive effect of stock subscription options	33,610	79,019
Dilutive effect of performance share grants	4,660,086	4,509,652
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	**221,297,950**	**219,202,998**

Note 10. Goodwill

€ millions	December 31, 2016	Business combination	Other changes in scope and other movements	Translation difference	Provisions for impairment	December 31, 2017
Gross amount	6,227	27	(7)	(629)		5,618
Impairment	(36)			1		(35)
NET AMOUNT	**6,191**	**27**	**(7)**	**(628)**		**5,583**

€ 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)
NET AMOUNT	**5,295**	**696**	**18**	**182**		**6,191**

In 2017, the main increases in goodwill resulted, among other things, from the acquisitions of Creasky (China), Opticas Exclusivas (Guatemala), Visolab Productos Opticos Ltda (Brazil), Partners in Vision and Vision Associates (USA).

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).

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, 2017**	December 31, 2016
Lenses – Europe	860	897
Lenses – North America	2,076	2,373
Lenses – South America	515	581
Lenses – Asia, Oceania, Middle East, Africa	884	957
Laboratory equipment	280	305
Sunglasses & Readers	968	1,078
TOTAL	**5,583**	**6,191**

Goodwill impairment tests were conducted for the accounting closing in line with the principles and methods defined in Note 1.21. The recoverable amount for each group of CGUs has been determined by reference to the value in use, based on the parameters described below.

The Group's weighted average cost of capital (WACC) for 2017 was 7% (2016: 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 2017**	Year 2016
Lenses – Europe	8	8
Lenses – North America	7	7
Lenses – South America [(a)]	15	17
Lenses – Asia, Oceania, Middle East, Africa	9	9
Laboratory equipment	7	7
Sunglasses & Readers	8	8

(a) Primarily Brazil.

The perpetual growth rate was set at between 0% and 5% (2016: between 0% and 2%), with the highest rates applied to emerging markets.

No goodwill impairment losses were recognized in 2017 and in 2016.

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' value in use 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, 2017. A 0.5% decrease in the perpetual growth rate would not generate another impairment loss on the net amount of goodwill at December 31, 2017.

Note 11. Other intangible assets

€ millions	December 31, 2016	Scope changes	Acquisitions	Disposals and retirement	Translation difference and other movements	Depreciation, amortization and impairment provisions	December 31, 2017
Trademarks	1,253	73			(143)		1,183
Concessions, patents and licenses	601		35	(14)	(24)		598
Contractual customer relationships	711	70			(82)		699
Other intangible assets	338	(12)	54	(1)	(41)		338
GROSS AMOUNT	**2,903**	**131**	**89**	**(15)**	**(290)**		**2,818**
Accumulated depreciation	(1,078)			13	95	(166)	(1,136)
NET AMOUNT	**1,825**	**131**	**89**	**(2)**	**(195)**	**(166)**	**1,682**

€ 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
GROSS AMOUNT	**2,670**	**89**	**68**	**(10)**	**86**		**2,903**
Accumulated depreciation	(844)	(4)		9	(23)	(216)	(1,078)
NET AMOUNT	**1,826**	**85**	**68**	**(1)**	**63**	**(216)**	**1,825**

Intangible assets in progress amounted to €15 million at the end of 2017 (€9 million in 2016).

Note 12. Property, plant and equipment

€ millions	December 31, 2016	Scope changes	Acquisitions	Disposals and retirement	Translation difference and other movements	Depreciation, amortization and impairment provisions	December 31, 2017
Land	71			(1)	(4)		66
Buildings	883		36	(59)	(48)		812
Plant and equipment	2,056	8	68	(86)	(121)		1,925
Other property, plant and equipment	614	8	118	(29)	(100)		611
GROSS AMOUNT	**3,624**	**16**	**222**	**(175)**	**(273)**		**3,414**
Accumulated depreciation	(2,410)	(3)		160	164	(209)	(2,298)
NET AMOUNT	**1,214**	**13**	**222**	**(15)**	**(109)**	**(209)**	**1,116**

€ 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
GROSS AMOUNT	**3,469**	**29**	**226**	**(154)**	**54**		**3,624**
Accumulated depreciation	(2,269)	(11)		140	(47)	(223)	(2,410)
NET AMOUNT	**1,200**	**18**	**226**	**(14)**	**7**	**(223)**	**1,214**

The carrying amount of the Group's property, plant and equipment – including assets under finance leases – held by consolidated companies was €1,116 million at the end of 2017 (€1,214 million at the end of 2016). 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 €100 million at the end of 2017 (€91 million at the end of 2016).

Note 13. 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, 2016	Scope changes	Acqui-sitions and new loans	Disposals and repayments	Translation difference and other movements	Revaluation	Net allocation to provi-sions	December 31, 2017
Long-term financial investments at fair value	**25**	**(3)**	**5**		**(4)**		**(2)**	**21**
Non-consolidated interests	23	(3)	5		(4)		(2)	19
Other long-term financial investments	2							2
Long-term financial investments at amortized cost	**111**		**11**	**(31)**	**(1)**			**90**
Loans, including accrued interest	126		11	(31)	(1)			105
Impairment	(15)							(15)
Other non-current financial assets	**136**	**(3)**	**16**	**(31)**	**(5)**		**(2)**	**111**

€ millions	December 31, 2015	Scope changes	Acqui-sitions and new loans	Disposals and repayments	Translation difference and other movements	Revaluation	Net allocation to provisions	December 31, 2016
Long-term financial investments at fair value	**42**	**(29)**	**7**		**2**		**3**	**25**
Non-consolidated interests	40	(29)	7		2		3	23
Other long-term financial investments	2							2
Long-term financial investments at amortized cost	**97**		**60**	**(40)**	**2**		**(8)**	**111**
Loans, including accrued interest	104		60	(40)	2			126
Impairment	(7)						(8)	(15)
Other non-current financial assets	**139**	**(29)**	**67**	**(40)**	**4**		**(5)**	**136**

Note 14. Inventories

€ millions	December 31, 2017	December 31, 2016
Raw materials and other supplies	352	388
Goods for resale	152	133
Finished and semi-finished products and work in process	805	830
GROSS AMOUNT	**1,309**	**1,351**
Write-down of inventories	(212)	(226)
NET AMOUNT	**1,097**	**1,125**

Note 15. Short-term receivables and payables

Short-term receivables break down as follows:

€ millions	**December 31, 2017**	December 31, 2016
Trade receivables		
Gross amount	1,565	1,584
Valuation allowance	(112)	(119)
Net amount of trade receivables	**1,453**	**1,465**
Other short-term receivables		
Gross amount	233	154
Valuation allowance	(1)	(1)
Net amount of other operating receivables	**232**	**153**
TOTAL SHORT-TERM RECEIVABLES, NET	**1,685**	**1,618**

Short-term payables break down as follows:

€ millions	**December 31, 2017**	December 31, 2016
Trade payables	759	697
Accrued taxes and personnel expenses	391	365
Other short-term payables	365	369
TOTAL SHORT-TERM PAYABLES	**1,515**	**1,431**

Note 16. Cash and cash equivalents

Cash and cash equivalents break down as follows:

€ millions	**December 31, 2017**	December 31, 2016
Cash	471	408
Money market funds		83
Bank deposits	13	26
TOTAL	**484**	**517**

The Group is located in some countries where cash and cash equivalents are subject to legal restrictions. The respect of preliminary formalities in these countries is mandatory before transfering these funds with some delay and eventually some tax payment. Cash and cash equivalents can also be held by some subsidiaries where the initial approval of our partner is required to transfer any funds.

Note 17. 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, 2017, net recognized benefit obligations amount to €337 million (€344 million at December 31, 2016).

PROVISIONS FOR PENSIONS

€ millions	**December 31, 2017**	December 31, 2016
Non-current assets (plan surpluses)		
Provisions for pensions in liabilities	337	344

ANALYSIS OF CHANGES IN NET RECOGNIZED BENEFIT OBLIGATIONS

€ millions	**Obligation**	**Fair value of funds**	**Net recognized benefit obligations**
AT JANUARY 1, 2017	**522**	**(178)**	**344**
Cost of services rendered in the period	22		22
Interest expense on discounting	10		10
Interest income for the period		(4)	(4)
Cost of past services	1		1
Employee contributions	1	(1)	
Contributions to plan assets		(10)	(10)
Benefits paid	(29)	14	(15)
Actuarial gains and losses	4	(5)	(1)
Changes in the scope of consolidation			
Translation differences and other movements	(18)	8	(10)
AT DECEMBER 31, 2017	**513**	**(176)**	**337**
of which Obligations funded in whole or in part by a fund	281		281
of which Obligations not funded by a fund	232		232

€ millions	Obligation	Fair value of funds	Net recognized benefit obligations
AT JANUARY 1, 2016	**455**	**(160)**	**295**
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
AT DECEMBER 31, 2016	**522**	**(178)**	**344**
of which Obligations funded in whole or in part by a fund	288		288
of which Obligations not funded by a fund	234		234

ANALYSIS OF THE CHANGE IN ACTUARIAL GAINS AND LOSSES RECOGNIZED IN EQUITY

Actuarial gains and losses generated for 2017 have been recognized directly in equity for an amount of €(1) million.

ANALYSIS OF RIGHTS

At December 31, 2017

€ millions	Obligation	Funds	Net obligation
Pensions (supplementary pension plans, guaranteed income plans)	418	(168)	250
Retirement benefits	89	(8)	81
Other benefits	6		6
TOTAL	**513**	**(176)**	**337**

At December 31, 2016

€ millions	Obligation	Funds	Net obligation
Pensions (supplementary pension plans, guaranteed income plans)	431	(171)	260
Retirement benefits	85	(7)	78
Other benefits	6		6
TOTAL	**522**	**(178)**	**344**

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:

	December 31, 2017			December 31, 2016		
As a %	Eurozone	United States	United Kingdom	Eurozone	United States	United Kingdom
Discount rate	1.60	3.75	2.50	1.60	4.15	2.75
Inflation rate	1.80	3.50	3.30	1.80	3.50	3.30
Weighted average rate of return on plan assets		4.61			13.13	
Weighted average rate of salary increases		2.00			1.97	

Additionally, had the discount rates been 25 basis points lower than the rates actually applied, the Group's total obligation as at December 31, 2017 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, 2017 would have been €18 million lower.

Had the rate of salary increase been 25 basis points lower than the rate actually applied, the Group's total obligation as at December 31, 2017 would have been €17 million lower. If the rate of salary increase had been 25 basis points higher than the rate actually applied, the Group's total obligation as at December 31, 2017 would have been €17 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.

COMPOSITION BY TYPE OF PLAN ASSETS

As a %	December 31, 2017	December 31, 2016
Shares	9	15
Bonds	9	45
General insurance funds	62	18
Other	20	22

Actual returns on plan assets were + €8 million in 2017 (2016: +€22 million).

At December 31, 2017, 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 2017	Year 2016
Cost of services rendered in the period	(22)	(24)
Interest expense	(6)	(7)
Cost of past services	(1)	(1)
EXPENSES FOR THE YEAR	**(29)**	**(32)**
Contributions to plan assets	10	11
Benefits paid	15	12
TOTAL INCREASE/(DECREASE) IN PROVISIONS	**(4)**	**(9)**

Note 18. Provisions

€ millions	December 31, 2016	Provisions for the period	Utilisation during the period	Reversals not applicable	Translation differences and other movements	Scope	December 31, 2017
Restructuring provisions [(a)]	15	18	(12)	(1)	(2)	1	19
Warranty provisions	46	13	(9)		(5)	15	60
Provisions for legal claims	57	10	(42)	(1)	2		26
Tax reserves [(b)]	212	27	(17)		(22)	28	228
Other risks	63	32	(3)	(31)	(1)	1	61
TOTAL	**393**	**100**	**(83)**	**(33)**	**(28)**	**45**	**394**

(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 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, 2015	Provisions for the period	Utilisation during the period	Reversals not applicable	Translation differences and other movements	Scope	December 31, 2016
Restructuring provisions	14	12	(7)	(3)	(1)		15
Warranty provisions	41	11	(9)		2	1	46
Provisions for legal claims	107	23	(68)	(6)	1		57
Tax reserves	148	62	(7)	(10)	7	12	212
Other risks	59	13	(3)	(7)	(2)	3	63
TOTAL	**369**	**121**	**(94)**	**(26)**	**7**	**16**	**393**

Note 19. Net debt and borrowings

Net debt

The Group's net debt can be analyzed as follows:

€ millions [(a)]	December 2016	Change in financing flows	Scope	Translation difference	Other	December 2017
Long-term borrowings	1,364	528		(97)	(121)	1,674
Short-term borrowings	1,172	(832)	2	(32)	108	418
Short-term bank loans and overdrafts	57	2	1	(3)	1	58
Accrued interest	17	(4)			2	15
TOTAL LIABILITIES	**2,610**	**(306)**	**3**	**(132)**	**(10)**	**2,165**
Cash and cash equivalents [(b)]	(517)	9	(13)	37		(484)
TOTAL ASSETS	**(517)**	**9**	**(13)**	**37**		**(484)**
INTEREST RATE SWAPS [(c)]	**(31)**				**11**	**(20)**
NET DEBT	**2,062**	**(297)**	**(10)**	**(95)**	**1**	**1,661**

(a) Sign convention: + debt/-excess cash or securities.

(b) See Note 16.

(c) Interest rate swap measured at fair value at each period end.

LONG-TERM BORROWINGS

At December 31, 2017, the Group's long-term funding structure was as follows:

€ millions	December 31, 2017	December 31, 2016	Issue date	Maturity
Bond *(€)*	324	331	2014	2024
Bond *(€)*	500	500	2014	2021
Bond *(US$)*	246		2017	2022
US private placement (1 tranche)	83	95	2012	2019
US private placement (4 tranches)	250	403	2013	2019-2023
US private placement (2 tranches)	250		2017	2022-2027
Other	21	35		
LONG-TERM BORROWINGS	**1,674**	**1,364**		

The Group issued:

- a private placement for US$ 300 million on January 5, 2017 (one tranche for US$ 200 million to 5 years with a rate of 2.05% and one tranche for US$ 100 million to 10 years with a rate of 2.65%);
- an Eurodollar bond for US$ 300 million to 5 years with a rate of 2.50%.

Private investments are subject to a financial covenant, which was respected as at December 31, 2017.

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SHORT-TERM BORROWINGS

At December 31, 2017, the Group's short-term funding structure was as follows:

€ millions	December 31, 2017	December 31, 2016	Issue date	Maturity
Bond		300	2015	2017
Negotiable European Commercial Paper (NEU CP)	100	100	2017	2018
US Commercial Paper (USCP)	168	472	2017	2018
US private placement (2 tranches)	104	261	2013	2018
Bank overdraft	58	57		
Other	61	56		
SHORT-TERM BORROWINGS	**491**	**1,246**		

In accordance with the Group's policy, these commercial paper programs are backed by long-term committed credit facilities, totaling €2.3 billion at December 31, 2017.

BORROWINGS BY MATURITY

Borrowings break down by maturity as follows:

€ millions	December 31, 2017	December 31, 2016
Due within one year	491	1,246
Due in 1 to 5 years	1,246	1,004
Due in more than 5 years	428	360
TOTAL	**2,165**	**2,610**

BORROWINGS BY CURRENCY

Borrowings break down by issue currency as follows:

€ millions	December 31, 2017	December 31, 2016
US dollar	1,168	1,268
Euro	930	1,247
Other currencies	67	95
TOTAL	**2,165**	**2,610**

FAIR VALUE OF BORROWINGS

The fair value of borrowings is as follows:

€ millions	December 31, 2017	December 31, 2016
Long-term borrowings	1,712	1,412
Short-term borrowings	418	1,173
Short-term bank loans, overdrafts and accrued interest	73	74
TOTAL	**2,203**	**2,659**

FINANCE LEASE LIABILITIES

	December 31, 2017		December 31, 2016	
€ millions	Principal	Interest	Principal	Interest
Due within one year	3		3	
Due in 1 to 5 years	1		3	
Due in more than 5 years				
TOTAL	**4**		**6**	

Note 20. Financial instruments

20.1 Financial instruments recognized in the balance sheet

Financial instruments recorded in the Group's balance sheet at the end of fiscal years 2017 and 2016 fall into the following categories:

2017

		Category of instruments				
€ millions	Balance sheet value	Fair value through profit or loss	Fair value through equity[a]	Loans, receivables	Debts at amortized cost	Derivatives
Non-current financial assets	111		21	90		
Long-term receivables	41			41		
Prepayments to suppliers	30			30		
Short-term receivables	1,685			1,685		
Tax receivables	74			74		
Other receivables	3			3		
Derivative financial instruments recognized in assets	29					29
Cash and cash equivalents	484	484				
FINANCIAL INSTRUMENTS RECOGNIZED IN ASSETS	**2,457**	**484**	**21**	**1,923**		**29**
Long-term borrowings	1,674				1,674	
Other non-current liabilities	153		122		31	
Short-term borrowings	491				491	
Customer prepayments	44				44	
Short-term payables	1,515				1,515	
Tax payables	81				81	
Other current liabilities	378		246		132	
Derivative financial instruments recognized in liabilities	15					15
FINANCIAL INSTRUMENTS RECOGNIZED IN LIABILITIES	**4,351**		**368**		**3,968**	**15**

(a) Assets available for sale as defined by IAS 39, liabilities revalued in accordance with the accounting principles described in Note 1.33.

2016

€ millions	Category of instruments: Balance sheet value	Fair value through profit or loss	Fair value through equity[(a)]	Loans, recei-vables	Debts at amortized cost	Deriva-tives
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				
FINANCIAL INSTRUMENTS RECOGNIZED IN ASSETS	**2,490**	**517**	**25**	**1,903**		**45**
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
FINANCIAL INSTRUMENTS RECOGNIZED IN LIABILITIES	**4,978**		**485**		**4,471**	**22**

(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 2017 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	(2,510)	(1,398)	(428)	(4,336)
Financial assets other than financial instruments	2,367	41	20	2,428
Net market value of financial instruments	(5)	(1)	20	14
NET POSITION	**(148)**	**(1,358)**	**(388)**	**(1,894)**

20.2 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

	December 31, 2017		December 31, 2016	
€ millions	Nominal amount	Market value	Nominal amount	Market value
Forward currency transactions	836	(5)	1,473	(6)
Interest rate swaps	734	18	542	28
Interest rate options (caps)	83	1	95	1
TOTAL DERIVATIVES		**14**		**23**

MARKET VALUE BY HEDGE TYPE

€ millions	December 31, 2017	December 31, 2016
Cash flow hedge:		
- Interest rate swaps	(2)	(3)
- Currency options		
- Interest rate options (caps)	1	1
Fair value hedge:		
- Interest rate swap	20	31
Not allocated to a hedging relationship:		
- Currency forward	(5)	(6)
MARKET VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	**14**	**23**
of which derivative financial instruments recognized in assets	29	45
of which derivative financial instruments recognized in liabilities	(15)	(22)

FORWARD FOREIGN EXCHANGE TRANSACTION DETAILS AT DECEMBER 31, 2017 (NOMINAL AMOUNT)

€ millions	EUR	USD	KRW	JPY	THB	CAD	PLN	HKD	CHF	MXN	AUD	Other	Total
Currency sold													
EUR		13	36	21		23	22	17	16	13	11	30	202
GBP	164			11	26					1		8	210
USD	101	2											103
CAD	40	45											85
CNY	43												43
SEK	36												36
MXN		28											28
CLP	26												26
INR	23												23
PLN	14												14
THB	11	1											12
Other	45	9											54
TOTAL	**503**	**98**	**36**	**32**	**26**	**23**	**22**	**17**	**16**	**14**	**11**	**38**	**836**

20.3 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 generated a €1 million impact for 2017 and no impact for 2016.

Note 21. Other current and non-current liabilities

€ millions	December 31, 2017	December 31, 2016
Liabilities related to long-term call options granted to minority shareholders	122	243
Trade payables and liabilities related to long-term financial investments	31	57
TOTAL OTHER NON-CURRENT LIABILITIES	**153**	**300**
Trade payables related to intangible assets and property, plant and equipment	8	5
Liabilities related to short-term financial investments	52	184
Liabilities related to short-term call options granted to minority shareholders	246	242
Other	72	78
TOTAL OTHER CURRENT LIABILITIES	**378**	**509**

Note 22. Off-balance-sheet commitments

€ millions	December 31, 2017	December 31, 2016
Commitments given		
Guarantees and endorsements[(a)]	113	109
Debt secured by collateral:		
◖ Debts	6	1
◖ Net carrying amount of collateral	2	2
Commitments received		
Guarantees, endorsements and sureties received	1	1
Commitments under operating leases and for royalties		
Within one year	45	41
In 1 to 5 years	96	83
Beyond 5 years	42	25
TOTAL OPERATING LEASE COMMITMENTS	**183**	**149**

(a) Guarantees and endorsements consist of parent company guarantees of Group subsidiaries.

Note 23. 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, 2017	Issue date	Maturity
Syndicated credit facility	900	2015	2022
Bilateral bank facilities	1,363	2015-2017	2019-2022[(a)]

(a) with the option to extend for one or two additional years.

Drawing down on these lines is not subject to any covenant.

At December 31, 2017, none of these lines had been used.

In 2017, the Group continued 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 minimize the risk of refinancing.

The financial debt of the Group has the following ratings:

	Long-term	Short-term	Perspective	Last opinion
Moody's	A2	Prime-1	Positive	November 27, 2017
Standard & Poor's		A-1	Stable	January 23, 2017

The distribution of the Group's net financial debt and available credit facilities by contractual maturity at the end of 2017 was as follows:

€ millions	2018	2019	2020	2021	2022	2023	2024	>2024	Total
Bonds				500	250		300		1,050
NEU CP and USCP[(a)]					268				268
Bank borrowings	44	6							50
US private placements	104	196	113		167	25		83	688
Bank overdraft	58								58
Other liabilities	17	12	2						31
GROSS DEBT	**223**	**214**	**115**	**500**	**685**	**25**	**300**	**83**	**2,145**
Cash	(484)								(484)
Other placements									
NET DEBT[(B)]	**(261)**	**214**	**115**	**500**	**685**	**25**	**300**	**83**	**1,661**
Available committed credit facilities[(c)]		100	725	308	1,130				2,263

(a) NEU CP and USCP are set to mature in 2022 (maturity of the credit facilities).
(b) > 0: net debt; < 0: net cash surplus.
(c) with the option to extend for one additional year for some bank bilateral facilities.

Please also refer to Note 19 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.

At December 31, 2017, most of the currency hedging is managed by the entity 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, 2017 represented an amount equivalent to some €14 million.

CONSOLIDATED EXPOSURE TO CURRENCY RISK ON ASSETS AND LIABILITIES AT DECEMBER 31, 2017, 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[(a)]	Hedges on balance sheet items[(b)]	Net exposure after hedging[(c)]	Cash flow hedges[(d)]
Exposed currency				
USD	137	(121)	16	29
GBP	75	(75)		(1)
CLP	24	(24)		(3)
INR	24	(20)	4	(1)
CAD	22	(17)	5	
MXN	16	(15)	1	(3)
Other	(48)	36	(12)	(31)
TOTAL	**250**	**(236)**	**14**	**(10)**

(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.

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SENSITIVITY OF EQUITY AND PROFIT TO CHANGES IN THE FAIR VALUE OF DERIVATIVES AT DECEMBER 31, 2017

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:

Impact of change *(€ millions)*			
On equity		On profit before tax	
+5% change	-5% change	+5% change	-5% change
2	(2)	11	(12)

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:

	Before hedging		Hedges[(a)]			After hedging[(a)]		
€ millions	Fixed rate	Variable rate	Fixed rate	Variable rate	Cap	Fixed rate	Variable rate	Capped variable rate
Gross debt	1,662	503	(386)	283	83	1,276	786	83
Cash and similar		(484)					(484)	
SUB-TOTAL	**1,662**	**19**	**(386)**	**283**	**83**	**1,276**	**302**	**83**
NET DEBT		**1,681**			**(20)**			**1,661**

(a) Including the fair value of interest rate swaps of €300 million and $300 million.

The interest rate position, by currency, before and after hedging is as follows:

	Before hedging		Hedges[(a)]			After hedging[(a)]		
€ millions	Fixed rate	Variable rate	Fixed rate	Variable rate	Cap	Fixed rate	Variable rate	Capped variable rate
EUR	820	40	(220)	(45)		600	(5)	
USD	834	268	(166)	153	83	668	421	83
Other	8	(289)		175		8	(114)	
SUB-TOTAL	**1,662**	**19**	**(386)**	**283**	**83**	**1,276**	**302**	**83**
NET DEBT		**1,681**			**(20)**			**1,661**

(a) Including the fair value of interest rate swaps of €300 million and $300 million.

At December 31, 2017, 59% of the gross debt after hedging was at fixed rate (59% at the end of 2016).

A 1% variation of the interest rate curves at December 31, 2017 applied to the components of the net debt would have the following impact:

€ millions	Cash flow impact on income statement
1% increase	(3)
1% decrease	4

€ millions	Gross debt	Cash and similar	Hedges[(a)]	Net debt after hedging[(a)]
EUR	930	(70)	(265)	595
USD	1,168	(66)	70	1,172
BRL		(19)		(19)
KRW		(22)	(36)	(58)
JPY		(25)	(18)	(43)
GBP		(7)	74	67
CNY	3	(129)	41	(85)
CAD		(12)	20	8
SGD		(1)	(2)	(3)
INR	27	(21)	18	24
THB		(5)	35	30
TWD		(9)		(9)
RUB		(6)	1	(5)
Other	37	(92)	42	(13)
SUB-TOTAL	**2,165**	**(484)**	**(20)**	**1,661**
NET DEBT		**1,681**	**(20)**	**1,661**

(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 pursuing 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, 2017, the breakdown of the exposure to counterparty risk by rating is as follows:

€ millions	Confirmed credit facilities	Derivative financial instruments in assets	Cash and cash equivalents
Rating[a]			
A- to AA +	1,884	29	250
BBB- to BBB +	379		152
Below BBB-			82
TOTAL	**2,263**	**29**	**484**

(a) Most recent Standard & Poor's or Moody's long-term rating; Fitch long-term rating if the previous ratings are not available

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Credit risk

Non-provisioned outstanding trade receivables due amount to €249 million at the end of 2017 (€272 million at the end of 2016). This was comprised mostly of receivables due in less than 3 months (71% in 2017; 67% in 2016) that were slightly past due.

€ millions	**December 31, 2017**	December 31, 2016
Trade receivables due within one year, net	1,453	1,465
Trade receivables due beyond one year, net	41	37
TRADE RECEIVABLES, NET	**1,494**	**1,502**
Trade receivables not yet due	1,245	1,230
Past-due trade receivables, net	249	272

Information relating to the Group's 20 largest customers is presented in Note 3 "Segment Information".

Note 24. Contingent liabilities

The main claims and litigation are as follows:

Alleged anti-competitive practices:

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 Authority's enquiry is continuing.

Group actions

TRANSITIONS

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 Transitions Optical Inc. pending. In a ruling on July 1, 2016, the Court dismissed part of Vision-Ease's action; in 2017, the parties reached a compromise on the remaining claims.

COSTA

Two class actions were filed during the second semester 2017 against our subsidiary Costa Del Mar Inc., one in Florida, the other in Texas, on the basis of so-called false claims regarding the product repair policy. Essilor disputes the merits of these actions.

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.

In 2016, the court dismissed Hoya's claim. Hoya appealed the decision. Furthermore, in July 2016, 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 US patents, an equivalent to the Japanese patent that was litigated in Japan.

The parties have been reconciled and reached a compromise in the second half of 2017.

E-commmerce

The College of Optometrists of Ontario, together with the College of Opticians, have sought an injunction intended to have all home deliveries of ophthalmic products declared illegal. The plaintiffs obtained a judgment in their favor on January 11, 2018. Essilor has filled an appeal.

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 Department of Justice and the Insurance Commissioner of the State of California questioned Essilor of America with regard to certain promotional activitiesa. Essilor of America continues working with the authorities to produce the required information.

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 25. Number of employees and personnel costs

Number of employees	Year 2017	Year 2016
Managerial personnel	8,484	7,830
Supervisors and employees	24,614	21,492
Production	33,021	33,786
TOTAL AVERAGE NUMBER OF EMPLOYEES FOR THE PERIOD	**66,119**	**63,108**

€ millions	Year 2017	Year 2016
PERSONNEL EXPENSES	**2,298**	**2,142**
(Salaries, payroll taxes and compensation costs on share-based payments including temporary staff expenses)		

Number of employees	December 31, 2017	December 31, 2016
NUMBER OF EMPLOYEES AT THE END OF THE PERIOD	**66,918**	**63,676**

3

Note 26. 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 2017	Year 2016
Total compensation and benefits paid[(a)]	10	10
Directors' fees paid		
TOTAL SENIOR MANAGEMENT COMPENSATION	**10**	**10**

(a) Gross amount before payroll and other taxes paid for the exercise to current members of the Management Committee at December 31, 2017 and December 31, 2016.

The Management Committee had 10 members at December 31, 2017.

Post employment benefits dedicated to the members of the Management Committee comprise pension obligation for €36.3 million at the end of 2017 and retirement benefits for €1.8 million at the end of 2017.

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.

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 2017 for awards to Management Committee members was €12.7 million for performance shares.

The expense recognized in 2016 for awards to Management Committee members was €7.3 million for performance shares.

Other related party transactions

There were no non-current transactions with members of the management bodies during the year.

Note 27. Independent Auditors' fees

Fees as following are invoiced by PricewaterhouseCoopers Audit France & Mazars France to the French fully consolidated entities for the fiscal year 2017:

€ thousands	PricewaterhouseCoopers Audit	Mazars
Certification of accounts	**561**	**495**
Audit related services other than certification	**636**	**398**
Services required by law	539	370
Services provided during the acquisition or disposal of companies	13	
Others services	84	28
TOTAL	**1,197**	**893**

Services required by law mainly include services rendered in connection with the information documents published by the Group in connection with the combination between Essilor and Luxottica.

Note 28. Subsequent events

No subsequent event has been identified.

Note 29. 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
Essilor Laboratories Pty Ltd	Australia	Full consolidation	100
Eyebiz Laboratories Pty Ltd	Australia	Full consolidation	70
Brasilor Comércio De Produtos Ópticos E Participacoes Ltda	Brazil	Full consolidation	100
Essilor Da Amazonia E Comercio Ltda	Brazil	Full consolidation	100
Grown Optical Ltda	Brazil	Full consolidation	100
Multi-Optica Distribuidora Ltda	Brazil	Full consolidation	100
Canoptec Inc.	Canada	Full consolidation	100
Coastal Contacts	Canada	Full consolidation	100
Essilor Group Canada Inc.	Canada	Full consolidation	100
Nikon Optical Canada Inc	Canada	Full consolidation	50
Opticas OPV S.p.A.	Chile	Full consolidation	98
Chemilens (Jiaxing) Co., Ltd	China	Full consolidation	50
Essilor (China) Holding Co., Ltd	China	Full consolidation	100
Hunan Photosynthesis Trading Co., Ltd	China	Full consolidation	50
Jiangsu Wanxin Optical Co., Ltd	China	Full consolidation	80
Shanghai Essilor Optical Company Limited	China	Full consolidation	100
Xiamen Artgri Optical Co., Ltd	China	Full consolidation	50
Xin Tianhong Optical Company Limited	China	Full consolidation	50

Company	Country	Consolidation method	% interest
Servioptica S.A.S.	Colombia	Full consolidation	51
BBGR	France	Full consolidation	100
Essidev	France	Full consolidation	100
Essiholding	France	Full consolidation	100
Essilor International SAS	France	Full consolidation	100
Essilor International (Compagnie Générale d'Optique)	France	Full consolidation	100
Invoptic	France	Full consolidation	100
Mega Optic Design	France	Full consolidation	75
Novacel Ophtalmique	France	Full consolidation	75
4Care GmbH	Germany	Full consolidation	100
Essilor GmbH	Germany	Full consolidation	100
Rupp + Hubrach optik GmbH	Germany	Full consolidation	100
Satisloh GmbH	Germany	Full consolidation	100
Essilor India Private Limited	India	Full consolidation	100
GKB Hi-Tech Lenses Private Limited	India	Full consolidation	50
GKB Rx Lens Private Limited	India	Full consolidation	76
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	Italia	Full consolidation	100
L.T.L. Spa	Italia	Full consolidation	100
Nikon Essilor Co. Limited	Japan	Full consolidation	50
Essilor Mexico S.A De C.V.	Mexico	Full consolidation	100
Essilor Nederland BV	Netherlands	Full consolidation	100
Essilor Nederland Holding BV	Netherlands	Full consolidation	100
Essilor Portugal - Sociedade Industrial de óptica, Lda	Portugal	Full consolidation	100
Company Grandvision LLC	Russia	Full consolidation	75
Essilor Luis Optica LLC	Russia	Full consolidation	100
Optic Club LLC	Russia	Full consolidation	75
Essilor Amera Pte Ltd.	Singapore	Full consolidation	100
OSA Investments Holdings Pte. Ltd.	Singapore	Full consolidation	100
Transitions Optical (S) Pte. Ltd.	Singapore	Full consolidation	100
Chemiglas Corp.	South Korea	Full consolidation	50
Essilor Co., Ltd	South Korea	Full consolidation	50
Essilor Espana	Spain	Full consolidation	100
Essilor Optica International Holding SL	Spain	Full consolidation	100
Lensway Group 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 Distribution (Thailand) Co., Ltd.	Thailand	Full consolidation	100
Essilor Manufacturing (Thailand) Co., Ltd.	Thailand	Full consolidation	100
Merve Optik Sanayi Ve Ticaret As	Turkey	Full consolidation	65
BBGR Limited	United Kingdom	Full consolidation	100
Essilor Limited	United Kingdom	Full consolidation	100
MyOptique Group Limited	United Kingdom	Full consolidation	100

Company	Country	Consolidation method	% interest
Trifle Holdings Limited	United Kingdom	Full consolidation	100
Vision Direct Limited	United Kingdom	Full consolidation	100
Classic Optical Laboratories, Inc.	United States	Full consolidation	95
Costa Del Mar, Inc.	United States	Full consolidation	100
Dac Vision Inc.	United States	Full consolidation	100
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
Eyebuy Direct, Inc.	United States	Full consolidation	61
FGX International Inc.	United States	Full consolidation	100
Frames For America, Inc.	United States	Full consolidation	61
I-Coat Company, LLC	United States	Full consolidation	85
Interstate Optical Co.	United States	Full consolidation	80
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
Satisloh North America	United States	Full consolidation	100
Shamir Insight Inc.	United States	Full consolidation	50
Signet Armorlite Inc.	United States	Full consolidation	100
Stylemark, LLC	United States	Full consolidation	100
Transitions Optical Inc.	United States	Full consolidation	100
Tri-Supreme Optical, LLC	United States	Full consolidation	100
US Optical LLC	United States	Full consolidation	100
Vision Source	United States	Full consolidation	100

3.5 Statutory Auditors' Report on the consolidated financial statements

This is a free translation into English of the Statutory Auditors' Report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For the year ended December 31, 2017

To the Shareholders of Essilor International (Compagnie Générale d'Optique),

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Essilor International (Compagnie Générale d'Optique) for the year ended December 31, 2017.

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, 2017 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.

The audit opinion expressed above is consistent with our report to the Audit and Risk Committee.

Basis for opinion

AUDIT FRAMEWORK

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements section of our report.

INDEPENDENCE

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from January 1, 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5 (1) of Regulation (EU) No 537/2014 or the French Code of ethics (Code de déontologie) for Statutory Auditors.

Justification of assessments – key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

ACCOUNTING FOR ACQUISITIONS

Description of risk

As part of the development of its business and its policy of forging partnerships with local leaders in the optical markets, the Essilor group engages in external growth operations (business combinations or acquisitions of equity investments). These operations may either be strategic for the Group (major acquisitions covering several geographical areas or operating in a new area of business), or they may be organic growth operations (lower-value acquisitions in the Group's core businesses).

The terms and conditions of these acquisitions vary significantly and for each transaction the Group therefore assesses whether or not it has obtained direct or indirect control over the acquired companies, and determines the appropriate consolidation methods as described in Note 1.6 to the consolidated financial statements, as well as the principles for measuring and recognizing the opening balance sheet of the acquired companies.

The Group applies the purchase accounting model, in accordance with IFRS 3, *Business Combinations*, for its acquisitions. In particular, as part of the purchase price allocation exercise, the Group identifies and measures, at the acquisition date, the fair value of the assets acquired (mainly trademarks, customer relationships and some technologies for the newly-recognized assets).

It also measures the liabilities and contingent liabilities assumed as part of the acquisition, using the recognition and measurement methods described in Note 1.33 to the consolidated financial statements. When there is a contingent consideration, it is recorded as a liability at fair value at the acquisition date and subsequently re-measured at each reporting date. In addition, at the acquisition date, if the non-controlling shareholders have a put option on their investments, the Group recognizes a liability in an amount equal to the present value of the option exercise price. This liability is then re-measured at each reporting date.

At the acquisition date and in future periods, the Management may be required to exercise significant judgment in assessing whether or not the Group has control over the acquired company, identifying and determining the fair value of the assets acquired and liabilities assumed, determining the fair value of any contingent consideration, and determining the present value of the exercise price of any put options held by non-controlling shareholders. Accordingly, we deemed accounting for acquisitions to be a key audit matter.

3

How our audit addressed this risk

Depending on the acquisitions to consider, our audit work mainly involved:

- assessing the legal terms and ensuring that the main contractual clauses (determination of the consideration paid, contingent consideration clauses, put options granted to non-controlling shareholders, etc.) have been taken into account in determining the appropriate accounting treatment for the transactions;
- assessing whether or not the Group has obtained control over the acquired companies;
- assessing the purchase accounting method used, in accordance with the provisions of IFRS 3 (in particular, determination of the purchase price, identification of the assets acquired and liabilities assumed and determination of the related goodwill);
- assessing the appropriateness and overall consistency of the fair values assigned to the assets acquired and liabilities assumed;
- assessing the appropriateness, at the acquisition date and in future periods, of the fair value of any contingent consideration and the present value of the exercise price of any put options granted to non-controlling shareholders, in particular by assessing whether the projected future cash flows are reasonable in light of the economic and financial environment in which the acquired companies operate, and assessing whether the process used to prepare the estimates is reliable by reviewing the reasons for any differences between the projected and actual outcomes;
- confirming that Notes 1.6, 1.21, 1.22, 1.33, 2.2 and 10 to the consolidated financial statements provide appropriate disclosures.

IMPAIRMENT TEST OF GOODWILL

Description of risk

As part of its development, the Essilor group has carried out targeted external growth acquisitions and recognizes the resulting goodwill on its balance sheet. Goodwill is allocated to the groups of cash generating units (CGUs) of the activities benefiting from the acquisitions, corresponding to the level at which Management monitors the operating results and return on its investments.

As at December 31, 2017, goodwill amounted to €5,583 million, representing 45% of the total Group assets. The split of goodwill between the groups of CGUs is disclosed in Note 10 to the consolidated financial statements.

The Group performs an impairment test of its goodwill at least once a year to ensure that the carrying amount does not exceed the recoverable value and there is no risk of impairment. The methodology applied to perform the impairment test is detailed in Note 1.21 and the assumptions used disclosed in Note 10 to the consolidated financial statements.

The recoverable value is usually determined based on the present value of future cash flow projections (value in use approach) and requires significant judgment from Management (in particular: preparation of the projections, discount rates and long-term growth rates).

Accordingly, we deemed the measurement of the recoverable amount of goodwill to be a key audit matter, due to the magnitude of the goodwill balance and the inherent uncertainty of certain elements, in particular the likelihood of achieving forecasted results.

How our audit addressed this risk

Our work mainly involved:

- assessing the components of the carrying amount of the groups of CGUs, corresponding to the level at which goodwill is monitored by the Group, and their consistency with those used in the future cash flow projections;
- assessing the internal process implemented by Management to establish the cash flow projections and the consistency of these projections with Management's most recent estimates, discussed with the Board of Directors as part of the budgeting exercise;
- assessing whether the discount rates applied to estimated future cash flows are reasonable by corroborating the various inputs used to calculate the weighted average cost of capital for each group of CGUs (debt leverage, risk-free rate, market premium, unlevered beta, specific risk premium and cost of debt);
- reviewing the analysis completed by Management to ascertain the sensitivity of the value in use to changes in the main assumptions used;
- confirming that Notes 1.21 and 10 to the consolidated financial statements provide appropriate disclosures.

Verification of the information pertaining to the Group presented in the Management Report

As required by law and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Management Report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on other legal and regulatory requirements

APPOINTMENT OF THE STATUTORY AUDITORS

We were appointed Statutory Auditors of Essilor International (Compagnie Générale d'Optique) by the Shareholders' Meetings held on June 14, 1983 for PricewaterhouseCoopers Audit and May 11, 2007 for Mazars.

As at December 31, 2017, PricewaterhouseCoopers Audit and Mazars were in the thirty-fifth year and the eleventh year of total uninterrupted engagement, respectively.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements presenting a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it expects to liquidate the Group or to cease operations.

The Audit and Risk Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

OBJECTIVE AND AUDIT APPROACH

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the Group.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the Audit Report. However, future events or conditions may cause the Group to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the Audit Report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

REPORT TO THE AUDIT AND RISK COMMITTEE

We submit a report to the Audit and Risk Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit and Risk Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit and Risk Committee with the declaration provided for in article 6 of Regulation (EU) No 537-2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Risk Committee.

Neuilly-sur-Seine and Courbevoie, March 5, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit		**Mazars**
Olivier Lotz	Cédric Le Gal	Daniel Escudeiro

3.6 Fees paid to the Auditors and the members of their networks

€ thousands, excluding percentages	PricewaterhouseCoopers				Mazars			
	Amount (net of VAT)		In %		Amount (net of VAT)		In %	
	Fiscal year 2017	Fiscal year 2016	Fiscal year 2017	Fiscal year 2016	Fiscal year 2017	Fiscal year 2016	Fiscal year 2017	Fiscal year 2016
Statutory Auditors, certification, review of separate and consolidated financial statements	**3,747**	**3,795**	**71%**	**75%**	**3,866**	**3,375**	**80%**	**70%**
Parent company	455	447	9%	9%	311	281	6%	6%
Fully consolidated subsidiaries	3,292	3,348	62%	66%	3,555	3,094	74%	64%
Audit related services other than certification	**1,546**	**1,281**	**29%**	**25%**	**953**	**1,446**	**20%**	**30%**
Services required by law	539	12	10%	0%	381	23	8%	0%
Services provided on the acquisition or disposal of companies	197	524	4%	10%	191	959	4%	20%
Legal and tax advice	683	601	13%	12%	28	50	1%	1%
Other	127	144	2%	3%	353	414	7%	9%
TOTAL	**5,293**	**5,076**	**100%**	**100%**	**4,819**	**4,821**	**100%**	**100%**

In 2017, services required by law included, in particular, services related to information documents issued by the Group in connection with the proposed combination of Essilor and Luxotttica.

3.7 Essilor International financial statements (Compagnie Générale d'Optique) – "Essilor"

The statutory financial statements for 2017 include the income statement, balance sheet, cash flow statement and notes presented below.

The statutory auditors' report on the annual financial statements for 2017 is included in Chapter 3.9 of this Registration Document.

3.7.1 Key figures at December 31, 2017

€ millions, except per share data which is in euros	2017 [a]	2016
Income Statement		
Revenue		888
Operating income (loss)	(24)	460
Profit before non-operating items and tax	(54)	654
Profit	9	586
Balance Sheet		
Share capital	39	39
Shareholders' equity	3,565	3,881
Net debt	1,786	2,474
Non-current assets, net	5,790	7,496
TOTAL ASSETS	**6,082**	**8,233**
Net dividend per ordinary share, in euros	1.53 [b]	1,50

(a) The contribution of assets in return for shares, with retroactive effect as of January 1, 2017, which took place on November 1, 2017 between Essilor International (Compagnie Générale d'Optique) and DELAMARE SOVRA, limits the year-on-year comparability of the financial statements.

(b) Subject to the decision of Shareholders at their Annual General Meeting on April 24, 2018.

On January 15, 2017, Essilor and Delfin, majority shareholder of the Luxottica Group, announced that they had signed a Combination Agreement bringing together the activities of Essilor and Luxottica to create an integrated global player in the optical and eyewear industry. Aiming to respond to growing visual health needs, the new Essilor Luxottica Group will be able to offer a comprehensive range with a large portfolio of brands, worldwide distribution capabilities, and complementary expertise in prescription lenses, frames and sunglasses.

For the purposes of the combination, the Essilor Group had to reorganize by transferring ESSILOR's operating activities and equity investments, with retroactive effect as of January 1, 2017, to DELAMARE SOVRA which was renamed Essilor International (SAS), a wholly-owned subsidiary of ESSILOR. The subsidiary will continue ESSILOR's operational activities.

As a result of the asset contribution in return for shares, ESSILOR has become a holding company, owning equity interests enabling it to have direct and indirect control over Essilor Group companies.

For fiscal year 2017 ESSILOR reported €9 million in profit. The operating loss of €24 million mainly reflects the costs of the performance share plans, which amounted to €175 million net of the amount rebilled to Essilor Group subsidiaries for €149 million.

ESSILOR reported a financial loss of €30 million, mainly reflecting the cost of long-term financial debt.

3.7.2 Income Statement at December 31, 2017

€ millions	*Notes*	2017 [(a)]	2016
Revenue	*2*		888
Increase (decrease) in finished goods and work in progress			(3)
Self-constructed assets			6
Reversals of depreciation, amortization and provisions, expenses transferred	*3*	166	82
Other income	*4*		695
TOTAL OPERATING PROFIT		**166**	**1,668**
Purchases of materials and change in inventories			484
Other external purchases and expenses	*5*	1	267
Taxes and duties		2	35
Personnel expenses	*17*	176	349
Depreciation, amortization and provisions	*3*	4	50
Other expenses		7	23
TOTAL OPERATING EXPENSES		**190**	**1,208**
OPERATING INCOME (EXPENSE)		**(24)**	**460**
Financial income (expense)	*6*	(30)	194
PROFIT (LOSS) BEFORE NON-OPERATING ITEMS AND TAX		**(54)**	**654**
Non-operating income (expenses)	*7*	44	(2)
Income tax expenses	*8*	(19)	66
PROFIT		**9**	**586**

(a) The contribution of assets in return for shares, with retroactive effect as of January 1, 2017, which took place on November 1, 2017 between ESSILOR INTERNATIONAL (Compagnie Générale d'Optique) and DELAMARE SOVRA, limits the year-on-year comparability of the financial statements.

3.7.3 Balance Sheet at December 31, 2017

Assets

		2017 [(a)]			2016
€ millions	*Notes*	Gross amount	Depreciation, amortization & provisions	Net amount	Net amount
Intangible assets	*9*	17		17	38
Property, plant & equipment	*10*				107
Financial assets	*11*	5,775	2	5,773	7,351
NON-CURRENT ASSETS		**5,792**	**2**	**5,790**	**7,496**
Inventories	*12.1*				45
Advances to suppliers					3
Trade and related receivables	*12.2*	47		47	317
Other receivables	*12.2*	240		240	265
Marketable securities	*12.3*				83
Cash					6
CURRENT ASSETS		**287**		**287**	**719**
Bond redemption premium		2		2	3
Prepaid expenses	*13*	3		3	15
TOTAL		**6,084**	**2**	**6,082**	**8,233**

(a) The contribution of assets in return for shares, with retroactive effect as of January 1, 2017, which took place on November 1, 2017 between ESSILOR INTERNATIONAL (Compagnie Générale d'Optique) and DELAMARE SOVRA, limits the year-on-year comparability of the financial statements.

Shareholders' equity & liabilities

€ millions	*Notes*	2017 [(a)]	2016
Share capital	*15.1*	39	39
Additional paid-in capital		635	591
Legal reserves		4	4
Other reserves		2,862	2,601
Retained earnings		17	16
Profit for the year		9	586
Tax-driven provisions			44
SHAREHOLDERS' EQUITY	***15.2***	**3,566**	**3,881**
PROVISIONS FOR CONTINGENCIES AND LIABILITIES	***16.1***	**201**	**137**
Other bonds	*17.2*	1,757	1,875
Bank borrowings (including loans from subsidiaries)	*17.2*	1	574
Other financial debt	*17.2*	28	114
FINANCIAL LIABILITIES		**1,786**	**2,563**
Trade and related payables	*17.3*	2	185
Accrued taxes and personnel expenses	*17.3*	1	90
Other liabilities	*17.3*	446	1,373
OPERATING AND OTHER LIABILITIES		**449**	**1,648**
Deferred income			4
Foreign currency translation adjustment	*14*	80	
TOTAL		**6,082**	**8,233**

(a) The contribution of assets in return for shares, with retroactive effect as of January 1, 2017, which took place on November 1, 2017 between ESSILOR INTERNATIONAL (Compagnie Générale d'Optique) and DELAMARE SOVRA, limits the year-on-year comparability of the financial statements.

3.7.4 Cash Flow Statement at December 31, 2017

€ millions	**2017 [(a)]**	**2016**
Profit for the fiscal year	9	586
Adjustments of non-cash items	116	(170)
Cash flow	125	416
Change in working capital [(b)]	(153)	406
NET CASH FLOW FROM OPERATING ACTIVITIES	**(28)**	**822**
Purchases of property, plant & equipment and intangible assets		(33)
Acquisition of shares in subsidiaries and affiliates and other investments	(35)	(625)
New loans extended		(5 049)
Proceeds from disposals of fixed assets	12	9
Repayment of loans and advances		4 881
NET CASH FLOW USED IN INVESTING ACTIVITIES	**(24)**	**(817)**
Capital increase	44	34
Purchases and sales of treasury stock		(31)
Dividends paid	(324)	(79)
Increase and decrease in borrowings	(91)	103
Exceptional transaction - Effect of the Hive-Down	339	
NET CASH FLOW FROM FINANCING ACTIVITIES	**(32)**	**27**
Change in cash and cash equivalents	(84)	32
Cash and cash equivalents at beginning of year	84	52
CASH AND CASH EQUIVALENTS AT END OF YEAR	**0**	**84**

(a) The contribution of assets in return for shares, with retroactive effect as of January 1, 2017, which took place on November 1, 2017 between ESSILOR INTERNATIONAL (Compagnie Générale d'Optique) and DELAMARE SOVRA, limits the year-on-year comparability of the financial statements.

(b) See table of "Changes in working capital".

Changes in working capital are as follows:

€ millions	**Carrying amount at December 31, 2016**	**Effect of the Hive-Down**	**Carrying amount at January 1, 2017**	**Carrying amount at December 31, 2017**	**Variance**
Advances to suppliers	(3)	3			
Inventories	(45)	45			
Operating receivables	(337)	337		(47)	**(47)**
Other receivables	(240)	145	(95)	(242)	**(147)**
Operating liabilities	391	(390)	1	3	**2**
Other liabilities	1 130	(1 122)	8	469	**462**
Regularization account	(11)	11			
Total variance out of Hive-Down	**885**	**(972)**	**(87)**	**183**	**270**
Effect of the Hive-Down				(423)	**(423)**
TOTAL WORKING CAPITAL	**885**	**(972)**	**(87)**	**(240)**	**(153)**

Cash and cash equivalents correspond to cash and short-term deposits, less short-term bank loans and overdrafts.

3.8 Notes to the 2017 financial statements

Summary

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These notes include the balance sheet, with total assets of €6,082 million before appropriation of profit or loss for the year ended December 31, 2017, and the income statement posting a profit of €9 million.

The fiscal year covers a 12-month period, from January 1, to December 31, 2017.

ESSILOR INTERNATIONAL (Compagnie Générale d'Optique), hereinafter referred to as "ESSILOR", is a French limited liability company. Its registered office is located at 147 rue de Paris, in Charenton-le-Pont, France, and it is listed on the Euronext stock exchange.

Figures are provided in millions of euros, unless otherwise stated.

Significant events of the fiscal year

TRANSFER OF ESSILOR'S BUSINESS ACTIVITIES TO A SUBSIDIARY – ESSILOR'S ASSET CONTRIBUTION TO DELAMARE SOVRA IN RETURN FOR SHARES – "THE HIVE-DOWN"

On January 15, 2017, ESSILOR and Delfin signed a Combination Agreement involving ESSILOR and Luxottica, to create an integrated, global player in the optical and eyewear industry. The business combination is currently being examined by the competition authorities.

For the purposes of the Combination, the Essilor Group had to reorganize by transferring business activities to a subsidiary. ESSILOR transferred its operating activities and equity investments, with retroactive effect as of January 1, 2017, to DELAMARE SOVRA (which was renamed Essilor International (SAS) on October 3, 2017), a wholly-owned subsidiary of ESSILOR. The subsidiary will continue ESSILOR's operations and holding activities.

The transfer of business activities to a subsidiary was one of the conditions precedent to the transfer by Delfin of Luxottica shares to ESSILOR ("the Contribution").

As a result of the Hive-Down, ESSILOR has become a holding company.

Key characteristics of the Hive-Down:

Under the draft asset contribution agreement, signed on March 27, 2017, the parties agreed that ESSILOR would transfer a full line of business activities to DELAMARE SOVRA, comprising all of its assets and liabilities, rights and obligations, with the exception of certain items explicitly excluded from the scope of the asset contribution.

From an accounting and tax perspective, the parties agreed that the Hive-Down would be retroactively effective as of January 1, 2017. For tax purposes, in accordance with the provisions set forth in Article 210B of the French Tax Code, the Hive-Down qualifies for the favorable tax regime.

In legal terms, the Hive-Down is subject to the regime governing spin-offs, provided for in the French Commercial Code.

Effect of the Hive-Down on ESSILOR's financial statements at January 1, 2017

Pursuant to the French accounting standards board's (ANC) amended Regulation No. 2014-03, as the transaction involves the transfer of assets between jointly controlled companies, the assets transferred and liabilities assumed are reported at their carrying amount.

Net assets transferred to DELAMARE SOVRA amounted to €5,484 million, based on ESSILOR's financial statements at December 31, 2016.

As consideration for the Hive-Down, DELAMARE SOVRA granted 27,754,245 new shares with a par value of €10 to ESSILOR. The consideration was determined based on a comparison between the carrying amount of the transferred assets and DELAMARE SOVRA's net assets, as reported in the financial statements for the year ended December 31, 2016. The contribution auditor has issued a report on said consideration.

In the framework of the Hive-Down, all the employment contracts were transferred to DELAMARE SOVRA.

HIVE-DOWN BALANCE SHEET:

Assets included in the Hive-Down:

Assets *(€ millions)*

Items	December 31, 2016	Effects of Hive-Down (APA)[a]	January 1, 2017 After Hive-Down
Intangible assets	38	(38)	
Property, plant & equipment	107	(107)	
Financial assets	7,351	(7,071)	280
Equity interests received as consideration for the asset contribution		5,484	5,484
NON-CURRENT ASSETS	**7,496**	**(1,732)**	**5,764**
Inventories	45	(45)	
Advances to suppliers	3	(3)	
Trade and related receivables	317	(317)	
Other receivables	265	(177)	88
Marketable securities	83	(79)	4
Cash	6	(6)	
CURRENT ASSETS	**719**	**(627)**	**92**
Bond premium redemption	3	(1)	2
Prepaid expenses	15	(13)	2
TOTAL ASSETS	**8,233**	**(2,373)**	**5,860**

(a) APA: in French "Apport partiel d'actif" (asset contribution in return for shares) to DELAMARE SOVRA as of January 1, 2017

Shareholders' equity and liabilities included in the Hive-Down:

Shareholders' equity & liabilities *(€ millions)*

Items	December 31, 2016	Effects of Hive-Down (APA)[(a)]	January 1, 2017 After Hive-Down
Share capital	39		39
Additional paid-in capital	591		591
Legal reserve	4		4
Other reserves	2,601		2,601
Retained earnings	16		16
Profit for the year	586		586
Tax-driven provisions	44		44
SHAREHOLDERS' EQUITY	**3,881**		**3,881**
PROVISIONS FOR CONTINGENCIES & LIABILITIES	**137**	**(42)**	**95**
Other bonds	1,875		1,875
Bank borrowings	574	(574)	
Other financial debt	114	(114)	
FINANCIAL LIABILITIES	**2,563**	**(688)**	**1,875**
Trade and related payables	185	(185)	
Accrued tax and personnel expenses	90	(90)	
Other liabilities	1,373	(1,364)	9
OPERATING AND OTHER LIABILITIES	**1,648**	**(1,639)**	**9**
Deferred income	4	(4)	
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	**8,233**	**(2,373)**	**5,860**

(a) APA: in French "Apport partiel d'actif" (asset contribution in return for shares) to DELAMARE SOVRA at January 1, 2017

After the Hive-Down to DELAMARE SOVRA, ESSILOR reported the following items in its balance sheet:

- *Shares and ownership interests:*
  - Equity interests of DELAMARE SOVRA, received as consideration for the Hive-Down,
  - ESSILOR treasury shares,
  - Equity interests in two Indian subsidiaries and two South Korean subsidiaries,
  - All obligations relating to ESSILOR's stock option plans and free share grants.
- *Financing:*
  - Bonds issued under the Euro Medium Term Notes (EMTN) program, issuance costs, bond redemption premiums, and associated accrued interest;
  - Bonds issued in the form of US Private Placements (USPP), issuance costs, and associated accrued interest;
  - Credit lines available to ESSILOR and the related stand-by fees.
- *Liabilities and provisions*:
  - Liabilities and obligations relating to compensation payable or awarded to the Chairman and Chief Executive Officer and/or Board members.
  - The provision for free share grant plans.
- *Corporate income tax receivables and payables,* for which ESSILOR remains liable under the consolidated tax agreement.

With regard to expenses incurred as a result of the combination between ESSILOR and Luxottica (expenses, duties, and professional fees etc.), they are excluded from the scope of the Hive-Down.

Note 1. Accounting policies

The financial statements have been prepared in accordance with the provisions of French accounting standards board (ANC) amended Regulation no. 2014-03 on the French Chart of Accounts.

Regulation ANC no. 2016-07 of November 4, 2016, amending Regulation no. 2014-03 of June 5, 2014, is implemented by the Order of December 26, 2016, published in the French Official Journal on December 28, 2016.

The new regulation provides additions both to previously published regulations and to generally accepted accounting principles.

The asset contribution in return for shares described in the significant events of the fiscal year limits the year-on-year comparability of the financial statements.

1.1 Revenue

Revenue is stated net of volume and cash discounts, returned goods and proportional revenue-based commissions. Revenue is recognized when the risks and rewards of ownership are transferred to the customer or at the date of physical and technical acceptance by the latter.

At January 1, 2017, following the Hive-Down, the operating business was totally transferred to DELAMARE SOVRA. ESSILOR generated no revenue in 2017.

1.2 Intangible assets

In 2016, intangible assets essentially comprised patents, licenses and software. Intangible assets are measured at their acquisition or production cost and are amortized:

- either on a units of production basis,
- or on a straight-line basis over the following estimated useful lives.

Software	1 to 10 years
Patents	Legal protection period

Internally generated software development costs are capitalized only when it is probable that they will generate future economic benefits.

Intangible assets are tested for impairment when there is an indication due to an event or a change of circumstances that their recoverable amount may be less than their carrying amount.

When the test shows that the asset's recoverable amount is less than its carrying amount, an 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. However, the Company has not used the option to record borrowing expenses in the initial cost of the intangible assets.

External expenses reflecting the professional fees incurred in business combinations that qualify as share issuance costs are recorded under "Intangible assets in progress". These expenses are subsequently deducted from the share premium to be paid when share capital is increased.

Following the Hive-Down of January 1, 2017, all patents, licenses, software and other intangible assets were included in the transferred business.

1.3 Research and development costs

Research costs are recognized as an expense in the fiscal year in which they are incurred.

Development costs are recognized as an intangible asset only if the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the Group's intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of technical, financial and other resources to complete the intangible asset;
- the reliable measurement of development costs.

Due to the risks and uncertainties concerning market developments and the large number of projects undertaken, it was assumed that the above criteria were not met for ophthalmic lens development projects. Consequently, development costs for these projects were expensed.

Instrument and laboratory equipment development costs are recognized as an intangible asset when the above criteria are met.

At January 1, 2017, all capitalized development costs were transferred to the Company's subsidiary DELAMARE SOVRA in connection with the Hive-Down.

1.4 Property, plant and equipment

Property, plant and equipment are measured at acquisition (purchase price and associated transaction costs) or production cost.

In 2016, property, plant and equipment comprised land, buildings, plant and equipment and other property, plant and equipment. Depreciation was calculated using the straight-line or declining balance method over the following estimated useful lives:

Buildings	20 to 33 years
Fixtures and fittings	7 to 10 years
Plant, equipment and machinery	3 to 20 years
Other property, plant and equipment	3 to 10 years
Land	Not depreciated

Differences between straight-line and tax-driven depreciation are recorded as additional tax depreciation on 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 the asset's recoverable amount is less than its carrying amount, an 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. However, the Company has not used the option to record borrowing expenses in the initial cost of property, plant and equipment.

Following the Hive-Down of January 1, 2017, all property, plant and equipment were included in the business transferred to DELAMARE SOVRA.

1.5 Financial assets

Equity investments are reported in the balance sheet at their acquisition cost or contribution value. Acquisition costs are included in the cost of equity investments.

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 the case of actualization of future cash flows, the discount rate used is the weighted average cost of the capital.

DELAMARE SOVRA's equity investments are evaluated based on ESSILOR's stock market value at December 31, 2017.

If value in use is lower than the carrying amount, an impairment loss is recognized for the difference under financial income.

Loans and receivables are stated at nominal value. An impairment loss is recorded to cover any risk of non-recovery.

When the company buys back its own shares, they are recognized as treasury shares at their acquisition cost under other long-term investments are recognized at their acquisition cost and include treasury shares. An impairment loss is recorded for shares whose acquisition cost is greater than their average price for the last month of the fiscal year, except for shares repurchased for cancelation and shares covered by provisions for performance shares and stock options.

External expenses reflecting the professional fees incurred in business combinations that qualify as share issuance costs are recorded under "Other long-term financial investments in progress".

Following the Hive-Down on January 1, 2017, the majority of financial assets were included in the business transferred to DELAMARE SOVRA, with the exception of those listed in the note on significant events of the period in these notes to the financial statements.

1.6 Inventories

In 2016, raw materials and goods inventories were stated at cost, including incidental expenses, determined using the weighted average cost method. Production inventories were stated at actual production cost, including the cost of raw materials and direct and indirect production costs.

At each year-end, the gross value and net realizable value of inventories are compared and the lower of the two values is recorded. Net realizable value is determined by market prices, sales prospects and the risk of obsolescence, which is assessed on the basis of objective inventory levels.

At December 31, 2017, the Company had no inventories as all inventories had been transferred to DELAMARE SOVRA in connection with the Hive-Down on January 1, 2017.

1.7 Receivables and payables

Receivables and payables are stated at nominal value.

Receivables are written down when their present value, estimated based on collection risk, falls below their carrying amount.

1.8 Marketable securities

Marketable securities are recognized at their acquisition cost.

An impairment loss is recorded if the sales price of marketable securities falls below their acquisition cost.

In connection with the Hive-Down on January 1, 2017, all marketable securities were included in the business transferred to DELAMARE SOVRA.

1.9 Financial instruments and foreign currency transactions

The financial statements comply with the provisions of ANC Regulation no. 2015-05 on financial futures and hedging transactions, mandatory as of fiscal year 2017. The purpose of the regulation is to set out the accounting methods for financial futures and hedging transactions. It has no impact on the Company's financial statements as all portfolio derivatives at December 31, 2016 and December 31, 2017 qualify for hedge accounting.

FOREIGN EXCHANGE DERIVATIVE INSTRUMENTS

The Company uses derivative instruments solely for hedging purposes. Derivative instruments are handled within predetermined management limits with the purpose of optimizing exchange rate risk hedging.

ESSILOR manages an exchange rate risk position that includes all monetary assets and liabilities in foreign currencies. Gains and losses on foreign exchange derivative instruments are used to offset re-measurement at the closing rate of balance sheet positions in foreign currencies. The swap points relating to derivative financial instruments are recognized in financial income over the life of the hedging instrument.

ESSILOR also uses forward sales and purchases to hedge future transactions denominated in foreign currency. Foreign exchange gains or losses on the derivatives are recognized in the income statement in the same period as the hedged items.

In principle, ESSILOR uses derivative financial instruments solely for hedging purposes. In exceptional cases where derivative financial instruments do not qualify for hedge accounting, the following accounting method is used:

- The fair value of the derivatives is recorded in the balance sheet to offset an adjustment account;
- A provision is recognized for unrealized losses (unrealized gains are not recognized in the income statement);
- Realized gains and losses are recognized in profit or loss.

As part of the centralized foreign exchange risk's management, ESSILOR subscribes derivative financial instruments for the Essilor 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.

INTEREST RATE DERIVATIVE INSTRUMENTS

With regard to interest rate risk, the Company's policy is to protect itself against unfavorable rate changes. To hedge interest rate risk, ESSILOR uses interest rate swaps and caps.

Financial income and expenses relating to interest rate derivatives are recognized in the income statement in the same period as the hedged items.

Premiums paid on caps are recognized in financial income over the life of the hedging instrument.

1.10 Pension and other post-employment benefit obligations

In accordance with ANC Recommendation no. 2013-02 of November 7, 2013 on the measurement and recognition of pension and other post-employment benefit obligations, the company recognizes provisions for its retirement, long-service awards and other long-term benefits.

Where the benefits are payable under defined contribution plans, the contributions are expensed as incurred.

In the case of defined benefit plans, provisions are recognized based on the following actuarial assumptions:

- the projected benefit obligation, corresponding to the vested rights of the Company's current and retired employees, is determined based on estimated final salaries (projected unit credit method) and actuarial assumptions relating to the discount, inflation, staff turnover and salary increase rates;
- the discount rate corresponds to the interest rate of top-tier issuers for periods corresponding to the estimated average duration of the benefit obligation;
- when all or part of the obligation is funded by the Company contributing to 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 and loss using the corridor method. This method entails amortizing in the income statement, over the expected average remaining service lives of plan participants, only the portion of the net cumulative gain or loss that exceeds 10% of the greater of the pension benefit obligation or the fair value of plan assets.
- if the Company amends an existing plan or introduces a new one and the rights under the new or amended plan are unvested, the related change in the Company's obligation is recognized in profit or loss on a straight-line basis over the expected average remaining service lives of the plan participants. If rights under the new or amended plan vest immediately, the resulting change in the Company's obligation is recognized immediately in profit or loss;
- the provision recorded in the balance sheet corresponds 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.

In connection with the Hive-Down, DELAMARE SOVRA assumed on January 1, 2017 the liabilities relating to the provisions for pension and jubilee or other long-service benefits, except for the Chairman and Chief Executive Officer's pension and supplementary defined benefit plans (Article 39 of the French Tax Code), which continue to be recognized in ESSILOR's financial statements.

At December 31, 2017, the provision corresponded to the present value of the pension obligations relating to the Chairman and Chief Executive Officer, less plan assets.

1.11 Income tax (tax consolidation regime)

ESSILOR is the head of the consolidated tax group in France, and the only entity liable to pay corporate income tax.

Each company in the tax group calculates and recognizes income tax expense as if it were taxed separately.

Consolidated tax income or expense is included in ESSILOR's financial statements.

The tax savings arising from use of the losses of tax group members, which are returnable to them by ESSILOR, are recognized as a liability on the Company's balance sheet.

1.12 Recognition and measurement of provisions

PROVISIONS FOR CONTINGENCIES AND LIABILITIES

Provisions for contingencies and liabilities are recognized when there is an obligation towards a third party that can be measured with sufficient reliability and it is probable or certain that an outflow of resources embodying economic benefits will be required to settle the obligation without any benefit of at least equivalent value being expected in return.

Contingent liabilities are not recognized on the balance sheet but are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Provisions for customer warranties

In 2016, the provision was calculated either:

- 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.

Following the Hive-Down of January 1, 2017 to DELAMARE SOVRA, the Company recognized no provisions for customer warranties at December 31, 2017.

Provisions for performance shares granted over the fiscal year

A provision is recorded for performance shares, based on an estimate of the number of fully vested shares. The estimate takes into account staff turnover and share price assumptions. The provision is calculated based on the weighted average price of treasury shares at year-end for the part covered by treasury shares, and based on share price for the portion not covered by treasury shares.

Since French accounting board (CRC) Regulation no. 2008-15 of December 4, 2008 the provision for performance shares has been allocated over the performance share vesting period, as vesting is conditional on the grantee's employment by the Company.

Since stock options and performance shares are compensation items, the related provisions are recognized as personnel expenses.

Provisions for contingencies for subsidiaries and affiliates

An impairment loss is recognized for equity investments whose present value is less than their carrying amount. Where applicable, the provision is allocated in the following order: to securities, non-current receivables, current accounts, and the provision for contingencies. However, the latter is only recognized:

- if the legal form makes ESSILOR indefinitely and jointly and severally responsible for the liability; or
- Up to the amount of commitments given by ESSILOR for all other legal forms.

TAX-DRIVEN PROVISIONS

Tax-driven provisions mainly reflect additional tax depreciation.

1.13 Borrowing costs

Borrowing costs may be:

- Fully expensed in the year they are incurred; or
- allocated over the term of the loan.

The choice of method is made upon issuance of the debt and cannot be later changed.

Note 2. Revenue

At January 1, 2017, the operating business was totally transferred to DELAMARE SOVRA, following the Hive-Down. ESSILOR generated no revenue in 2017.

2016 *€ millions*	**France**	**Export**	**Total**	**% Change 2016/2015**
Lenses	381	314	695	(0.9%)
Instruments	31	70	101	3.3%
Equipment	1	14	15	18.6%
Other sales	14	63	77	(9.3%)
TOTAL	**427**	**461**	**888**	**(1.0%)**

2016 *€ millions*	**France**		**Export**		**Total**
	Group	**Non group**	**Group**	**Non group**	
TOTAL	**85**	**342**	**442**	**19**	**888**

Note 3. Increases and reversals of depreciation, amortization and provisions, expenses transferred

€ millions	2017	2016
Reversals of provisions for contingencies and operating expenses	16	22
Operating expenses transferred [(a)]	150	60
SUB-TOTAL	**166**	**82**
Provisions for contingencies and operating expenses	(4)	(50)
TOTAL	**162**	**32**

(a) For fiscal year 2017, the line item "Operating expenses transferred" corresponds to rebilling performance shares to Company subsidiaries for a total of €149 million.

Note 4. Other income

€ millions	2017 [(a)]	2016
Royalties and rebilling of expenses to Essilor Group companies		695
TOTAL		**695**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

Note 5. Other external purchases and expenses

€ millions	2017 [(a)]	2016
Outsourcing		72
Rentals, maintenance and insurance		28
Studies, research and documentation		30
Temporary staff		23
Professional fees		41
Communication and advertising		36
Telecommunications, commissions and business travel		29
Other	1	8
TOTAL	**1**	**267**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

Note 6. Financial income

€ millions	2017 [a]	2016
Interest expenses	(27)	(53)
Financial income		
Dividends	4	176
Investment income		1
Interest from loans		124
Net discounts		(5)
Impairment (loss) reversal	2	(55)
Currency exchange	(7)	8
Other	(2)	(2)
TOTAL	**(30)**	**194**

(a) *The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.*

Note 7. Non-operating income (expense), net

€ millions	2017 [a]	2016
NON-RECURRING INCOME (EXPENSE) FROM OPERATING ITEMS		**(2)**
Other income and expenses from operating items		(2)
NON-RECURRING INCOME (EXPENSE) FROM FINANCING AND INVESTING ITEMS		**9**
Disposal of financial assets		
Other non-recurring income and expense		9
PROVISION ALLOWANCES & REVERSALS AND EXPENSES TRANSFERRED	**44**	**(9)**
Tax-driven provisions & reversals of provisions [b]	44	(5)
Expenses transferred		
Others		(4)
TOTAL	**44**	**(2)**

(a) *The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.*

(b) *For fiscal year 2017, the line item "Tax-driven provisions & reversals of provisions" comprises the reversal of additional depreciation and amortization, which is recognized by the company to which the associated assets were contributed, and amounted to €44 million.*

Note 8. Corporate income tax

8.1 Profit excluding tax assessments

€ millions	2017 [(a)]	2016
Profit for the year	9	586
Corporate income tax [(b)]	(19)	66
Pre-tax profit	(10)	652
Change in tax-driven provisions [(c)]	(44)	5
Pre-tax profit, excluding tax assessments	(54)	657

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

(b) The line item "Corporate income tax" includes the reimbursement of the additional contribution of 3%: the Amending Finance Law (loi de finance rectificative) from August 2012 introduced a 3% surtax in case of dividend distribution in cash. Essilor was liable to this surtax considering the dividends paid from 2013 to 2017 (amount paid: €26 million). Following the favorable decisions of the Court of Justice of the European Union, on May 17, 2017 and the Constitutional Council (Conseil Constitutionnel), on October 6, 2017 and the cancellation of the surtax, the company has recognized a €29 million profit for the reimbursement of the 3% surtax on dividends paid in cash and the associated default interest.

(c) For fiscal year 2017, the line item "Tax-driven provisions & reversals of provisions" comprises the reversal of additional depreciation and amortization, which is recognized by the company to which the associated assets were contributed, and amounted to €44 million.

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8.2 Breakdown of corporate income tax

The breakdown of corporate income tax between ordinary non-recurring items is the following:

2017 € millions	Before tax	Corresponding tax	After tax
Profit (loss) from ordinary operations	(54)	19	(35)
Profit from non-recurring items	44		44
PROFIT			**9**

2016 € millions	Before tax	Corresponding tax	After tax
Profit from ordinary operations [(a)]	654	(66)	588
Profit (loss) from non-recurring items	(2)		(2)
PROFIT			**586**

(a) Includes €176 million in dividends subject to the same accounting policies for the parent company and its subsidiaries and €516 million in royalties taxed at the reduced rate of 15%.

8.3 Increases and reductions in future tax liabilities

ASSETS

No deferred tax assets were recognized in the balance sheet.

€ millions	2017 [a]	2016
Provisions for retirement obligations	1	34
Provisions for paid leave [b]		13
Other		8
TOTAL	**1**	**55**
LOSS CARRY-FORWARDS [c]	**270**	**186**
Corporate income tax at 34.43%	93	83

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

(b) The Company has elected to apply the provisions of Article 8 of the 1987 French Finance Act, which states that provisions for paid leave are not deductible, giving rise to future tax savings.

(c) This is the cumulative loss carry-forward of the consolidated tax group. Tax savings arising from the losses of subsidiaries included in the consolidated tax scope, which may be returned to them by ESSILOR are recognized as a liability on the balance sheet. The total liability amounted to €7 million at December 31, 2017. ESSILOR expects to use its loss carry-forwards.

LIABILITIES

No deferred tax liabilities were recognized in the balance sheet.

€ millions	December 31, 2015	Increase 2016	Decrease 2016	December 31, 2016	Increase 2017	Decrease 2017	December 31, 2017
Provisions relating to:							
- Additional tax depreciation	39	12	7	44		44	
TOTAL	**39**	**12**	**7**	**44**		**44**	
Future tax liabilities (34.43%)	14			15			

Note 9. Intangible assets

2017 *€ millions*	Carrying amount at December 31, 2016	Effect of the Hive-Down	Carrying amount at January 1, 2017	Acquisitions	Disposals	Other changes	Provisions for the year	Reversals for the year	Carrying amount at December 31, 2017
Research and development costs	8	(8)							
Patents, trade-marks and licenses	151	(151)							
Other intangible fixed assets[(a)]	5	(5)		17					17
GROSS VALUE	**164**	**(164)**		**17**					**17**
Amortization and impairment	126	(126)							
NET VALUE	**38**	**(38)**							**17**

(a) *The €17 million acquisition during the fiscal year includes external expenses relating to professional fees in connection with the combination agreement between ESSILOR and Delfin. These qualify as share issuance expenses and are recognized under 'Intangible assets in progress'.*

2016 *€ millions*	Carrying amount at January 1, 2016	Acquisitions	Disposals	Other changes	Provisions for the year	Reversals for the year	Carrying amount at December 31, 2016
Research and development costs	7	1					8
Patents, trade-marks and licenses	139	11		1			151
Other intangible fixed assets	6			(1)			5
GROSS VALUE	**152**	**12**					**164**
Amortization and impairment	117				9		126
NET VALUE	**35**						**38**

Note 10. Property, plant & equipment

2017 *€ millions*	Carrying amount at December 31, 2016	Effect of the Hive-Down	Carrying amount at January 1, 2017	Acquisitions	Disposals	Other changes	Provisions for the fiscal year	Reversals for the fiscal year	Carrying amount at December 31, 2017
Land	15	(15)							
Buildings	165	(165)							
Plant and equipment	143	(143)							
Other property, plant & equipment	49	(49)							
Property, plant & equipment in progress	5	(5)							
GROSS VALUE	**377**	**(377)**							
Depreciation and impairment	270	(270)							
NET VALUE	**107**	**(107)**							

2016 *€ millions*	Carrying amount at January 1, 2016	Acquisitions	Disposals	Other changes	Provisions for the fiscal year	Reversals for the fiscal year	Carrying amount at December 31, 2016
Land	16		1				15
Buildings	159	11	5				165
Plant and equipment	139	4	1	1			143
Other property, plant & equipment	46	4	1				49
Property, plant & equipment in progress	4	2		(1)			5
GROSS VALUE	**364**	**21**	**8**				**377**
Depreciation and impairment	259				18	7	270
NET VALUE	**105**						**107**

Note 11. Financial assets

11.1 Summary

2017 *€ millions*	**Carrying amount at December 31, 2016**	**Effect of the Hive-Down**	**Carrying amount at January 1, 2017**	**Increases**	**Decreases**	**Other changes**	**Provisions for the fiscal year**	**Reversals for the fiscal year**	**Carrying amount at December 31, 2017**
Equity investments [(a)]	4,621	(4,504)	117	5,484	12				5,589
Receivables from equity investments	2,690	(2,690)							
Other long-term investments (treasury shares) [(b)]	170	(2)	168		56				112
Other loans	3	(3)							
Other long-term financial investments [(c)]	4	(4)		74					74
GROSS VALUE	**7,488**	**(7,203)**	**285**	**5,558**	**68**				**5,775**
Impairment	137	(132)	5					2	2
NET VALUE	**7,351**	**(7,071)**	**280**						**5,773**

(a) *Increases in equity investments correspond to the capital increase of DELAMARE SOVRA (renamed Essilor International (SAS)) as consideration for the Hive-Down. Decreases in equity investments correspond to the reduction in capital of a South Korean entity for €12 million.*

(b) *The decrease of €56 million in other long-term investments reflects the issue of performance share during fiscal year 2017.*

(c) *The increase of €74 million in external costs for professional fees in connection with the business Combination between ESSILOR and Delfin, which qualify as acquisition costs, have been recognized as "Other long-term financial investments in progress".*

2016 *€ millions*	**Carrying amount at January 1, 2016**	**Increases**	**Decreases**	**Other changes**	**Provisions for the fiscal year**	**Reversals for the fiscal year**	**Carrying amount at December 31, 2016**
Equity investments	3,310	1,311	1	1			4,621
Receivables from equity investments	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 non-current financial assets	8	4	7	(1)			4
GROSS VALUE	**6,306**	**6,520**	**5,338**				**7,488**
Impairment	82				74	19	137
NET VALUE	**6,224**						**7,351**

11.2 Subsidiaries and equity investments

SUBSIDIARIES AND EQUITY INVESTMENTS HELD BY ESSILOR AT DECEMBER 31, 2017:

€ millions	Share capital	Other equity	Carrying amount of shares held: Gross	Carrying amount of shares held: Net	Loans and advances granted by the Company	Guarantees and endorsements given by the Company	Net revenue of last fiscal year	Profit for last fiscal year	Dividends received by the Company during the fiscal year
A GREATER THAN 1%									
French subsidiaries [a]	278	5,785	5,487	5,487			924	576	
International subsidiaries	94	73	102	100			144	16	5
B NOT EXCEEDING 1%									
French subsidiaries									
International subsidiaries									

(a) The line item "French subsidiaries" is solely comprised of equity interests in DELAMARE SOVRA (renamed Essilor International (SAS)). They represent a gross value of €5,487 million.

11.3 Maturities of receivables from long-term assets

€ millions	2017 [a]	2016
More than one year		2,450
Less than one year		247
TOTAL		**2,697**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

Note 12. Current assets

12.1 inventories

€ millions	2017 [a]	2016
Raw materials and supplies		26
Goods		11
Finished and semi-finished goods, and goods in progress		20
SUB-TOTAL		**57**
Impairment:		
Raw materials and supplies		(6)
Goods		(2)
Finished and semi-finished goods, and goods in progress		(4)
SUB-TOTAL		**(12)**
TOTAL		**45**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

12.2 Maturities of receivables

€ millions	2017
MORER THAN ONE YEAR	
LESS THAN ONE YEAR	**287**
Trade and related receivables	47
Other receivables [(a)]	240
TOTAL	**287**

(a) The line item "Other receivables" primarily comprises subsidiaries' current accounts of €165 million and €11 million related to accrued interests on hedging instruments.

12.3 Marketable securities

	2017		2016	
€ millions	Gross	Net	Gross	Net
SICAV (mutual funds) [(a)]			83	83
TOTAL			**83**	**83**

(a) French mutual funds (SICAV) held at December 31, 2016 had maturities less or equal to 3 months.

Available cash was invested in accordance with policies requiring both safety and liquidity. ESSILOR's policy sets limits on maturities, investment vehicles, and counterparties. At December 31, 2016, market transaction and private placement counterparties were all rated at least A-2 (short-term) and A- (long-term) by Standard & Poor's.

12.4 Accrued income

€ millions	2017 [(a)]	2016
Financial assets:		
Receivables from equity investments		13
Receivables:		
Unbilled revenue (trade receivables)	1	78
Other receivables[(b)]	16	
TOTAL	**17**	**91**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the camparability of current and prior year financial statements.

(b) The line "Other receivables" exclusively comprises the remaining receivable from the State following the claim for a refund of the 3% levy on dividends.

Note 13. Prepaid expenses

€ millions	2017 [(a)]	2016
Prepaid expenses:		
Operating income		9
Financial income	3	6
TOTAL	**3**	**15**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

Note 14. Foreign currency translation adjustments

The Hive-Down entailing the transfer of ESSILOR's activities generated an unrealized gain of €80 million, due to the separation of the assets and liabilities denominated in foreign currencies backed by the business.

Note 15. Shareholders' equity

15.1 Changes in share capital

	Number of shares					
	At January 1, 2017	Issued	Cancelled	Exchanged	At December 31, 2017	Par value (€)
Ordinary shares	218,507,701	617,738			219,125,439	0.18
TOTAL	**218,507,701**	**617,738**			**219,125,439**	**0.18**

Of which treasury shares:

	Number of shares					
	Number of shares at January 1, 2017	Share purchases	Cancellations	Options exercised	Performance shares vested	Number of shares at December 31, 2017
Other long-term investments	2,046,140				(701,713)	1,344,427
TOTAL	**2,046,140**				**(701,713)**	**1,344,427**

15.2 Statement of changes in shareholders' equity

€ millions	Share capital	Additional paid-in capital	Reserves and retained earnings	Profit for the year	Tax-driven provisions (a)	Equity
SHAREHOLDERS' EQUITY AT JANUARY 1, 2017	**39**	**591**	**2,621**	**586**	**44**	**3,881**
Capital increase						
FCP mutual funds		27				27
Stock options		9				9
Group employee stock purchase plan		9				9
Other changes in the fiscal year		(1)			(44)	(45)
Profit appropriation			586	(586)		
Dividends paid			(324)			(324)
Profit for the fiscal year				9		9
SHAREHOLDERS' EQUITY AT JANUARY 31, 2017	**39**	**635**	**2,883**	**9**		**3,566**

(a) *For fiscal year 2017, the change in tax-driven provisions reflects the reversal of additional depreciation and amortization, which is recognized by the company to which the associated assets were contributed, and amounted to €44 million.*

2017

Share capital amounted to €39,442,579, reflecting an increase of 617,738 ordinary shares as a result of:

- stock options (130,548 shares),
- stock purchase plan for Essilor Group employees (173,629 shares),
- subscriptions to Essilor Group FCP mutual funds (313,561 shares).

The new shares will bear dividend rights from January 1, 2017.

Cash dividends paid to shareholders amounted to €324 million.

2016

Share capital amounted to €39,331,386, reflecting an increase of 2,051,261 new ordinary shares as a result of:

- subscriptions to Essilor Group FCP mutual funds (331,945 shares),
- dividends paid in shares (1,578,804 shares),
- stock options (140,512 shares).

The new shares had dividend rights from January 1, 2016.

Cash dividends paid to shareholders who did not opt for payment in new shares amounted to €77 million. An additional €2 million cash payment was made to account for the difference in value of share-based dividend payments

15.3 Stock options, performance shares and employee share issuance

STOCK OPTIONS:

The exercise price of stock options is based on the average share price quoted over 20 trading days preceding the date of the Board Meeting at which the decision is taken to grant the options. Gains on stock options granted from 2004 onwards (corresponding to the difference between the average share price during the three calendar months prior to the month when the option is exercised and the exercise price) are capped at 100% of the exercise price.

Stock options are subject to performance conditions based on the share price over a period of two to six years after the grant date, as well as the 100% cap on gains.

The following table shows changes in the number of outstanding stock options at year-end:

	Number of stock options at January 1, 2017	Stock options exercised	Stock options canceled and expired	Options granted	Stockoptions at December 31,2017
Stock options	490,845	(130,548)	(54,941)	132,016	437,372
TOTAL	**490,845**	**(130,548)**	**(54,941)**	**132,016**	**437,372**

PERFORMANCE SHARES:

Since 2006, the Essilor Group has granted performance-based bonus shares.

For Plans from November 2010 to November 2014, the number of fully vested shares, two to six years after the grant date, ranges from 0%-100% of the number of shares originally granted. The number depends on changes in ESSILOR's share price during the period (corresponding to the average of the prices quoted over the 20 training days preceding the Board Meeting deciding the grant).

Following the signature of the Combination Agreement with Luxottica, and after approval by the Shareholders' General Meeting on May 11, 2017, the Essilor Group modified the vesting rights relating to share-based payments granted in 2015 and 2016 in order to (i) cancel the market performance criteria for all employees, with the exception of two executive officers, and (ii) replace the market performance criteria by other criteria for the two executive officers.

The maximum number of performance shares that would vest assuming that share performance conditions were met is as follows:

- 2017 awards: 1,572,419 shares;
- 2016 awards: 1,440,063 shares;
- 2015 awards: 1,343,153 shares.

The following table shows changes in the number of outstanding performance shares over the fiscal year:

	Number of performance shares at January 1, 2017	Fully vested performance shares	Performance shares canceled	Performance shares granted in the period	Number of performance shares at December 31, 2017
Performance shares	4,345,803	(701,713)	(132,142)	1,572,419	5,084,367
TOTAL	**4,345,803**	**(701,713)**	**(132,142)**	**1,572,419**	**5,084,367**

EMPLOYEE STOCK PURCHASE PLAN:

The main characteristics of the Essilor Group employee stock purchase plan are as follows:

€	2017	2016
Share subscription price	85.71	79.98
Total discount amount	17.14	19.99
Number of shares subscribed	313,561	331,945

The main characteristics of the Essilor Group employee stock purchase plan are as follows:

€	2017
Share subscription price	51.71
Number of shares subscribed	173,629

Note 16. Provisions

16.1 Provisions for contingencies and liabilities

2017 *€ millions*	Carrying amount at December 31, 2016	Effect of the Hive-Down	Carrying amount at January 1, 2017	Provision allowances for the fiscal year	Reversals for the fiscal year (used)	Reversals for the fiscal year (not used)	Carrying amount at December 31, 2017
Provisions for pensions	34	(20)	14	3	16		1
Provisions for performance shares [(a)]	81		81	175	56		200
Other provisions for contingencies and liabilities	22	(22)					
TOTAL	**137**	**(42)**	**95**	**178**	**72**		**201**

(a) The change in the provision for risk relating to performance shares takes into account the change in vesting rights to share-based payments, following the signature of the Combination Agreement with Luxottica and after approval by the Shareholders' General Meeting on May 11, 2017.

2016 *€ millions*	Carrying amount at January 1, 2016	Provision allowances for the fiscal year	Reversals for the fiscal year (used)	Reversals for the fiscal year (not used)	Carrying amount at December 31, 2016
Provisions for pensions	32	6	4		34
Provisions for performance shares [(a)]	105	63	87		81
Other provisions for contingencies and liabilities [(b)]	17	12	6	1	22
TOTAL	**154**	**81**	**97**	**1**	**137**

(a) Reversals for the fiscal year amounted to €87 million corresponding to the performance shares plans issued in 2016.

(b) The line item "other provisions for contingencies and liabilities" at December 31, 2016, mainly comprised provisions for tax audits and provisions for long-service awards.

16.2 Asset impairment

2017 *€ millions*	Carrying amount at December 31, 2016	Effect of the Hive-Down	Carrying amount at January 1, 2017	Provision allowances for the fiscal year	Reversals for the fiscal year	Carrying amount at December 31, 2017
ASSET IMPAIRMENT	**152**	**(148)**	**4**		**2**	**2**
Inventories	12	(12)				
Receivables	4	(4)				
Equity investments	129	(125)	4		2	2
Receivables from equity investments	7	(7)				

2016 *€ millions*	Carrying amount at January 1, 2016	Provision allowances for the fiscal year	Reversals for the fiscal year	Carrying amount at December 31, 2016
ASSET IMPAIRMENT	**97**	**89**	**34**	**152**
Inventories	11	12	11	12
Receivables	4	3	3	4
Equity investments	82	67	20	129
Receivables from equity investments		7		7

3

Note 17. Financial liabilities

17.1 Cash instruments

In € millions	2017 [(a)]	2016
Hedging instruments	(28)	(3)
TOTAL	**(28)**	**(3)**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

17.2 Maturities of financial liabilities

BREAKDOWN OF FINANCIAL LIABILITIES BY MATURITY AND CATEGORY:

€ millions	2017 [(a)]	2016
DUE IN LESS THAN ONE YEAR	**153**	**1,265**
Loans from subsidiaries		111
US private placements [(b)]	104	261
Bonds [(b)]		300
Interest on bonds and US private placements [(b)]	20	16
US and French commercial paper programs		572
Other financial liabilities	29	5
DUE BETWEEN ONE AND FIVE YEARS	**1,308**	**970**
US private placements [(b)]	558	470
Bonds [(b)]	750	500
DUE IN MORE THAN FIVE YEARS	**325**	**328**
US private placements [(b)]	25	28
Bonds [(b)]	300	300
TOTAL	**1,786**	**2,563**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

(b) Corresponds to the balance sheet line item "Other bonds" amounting to €1,757 million.

BREAKDOWN OF FINANCIAL LIABILITIES BY CURRENCY:

€ millions	2017 [(a)]	2016
EUR	840	1,226
USD	946	1,266
KRW		49
JPY		10
PLN		9
GBP		3
TOTAL	**1,786**	**2,563**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

COVENANTS:

The Company's financing arrangements are not subject to any particular financial covenants. Only the US private placements of USD 300 and USD 500 million issued in 2012 and 2014 have a specific financial ratio requirement, which was maintained at December 31, 2017.

17.3 Maturities of other liabilities

BREAKDOWN OF TOTAL LIABILITIES BY MATURITY AND CATEGORY:

€ millions	2017 [a]	2016
DUE IN LESS THAN ONE YEAR	**449**	**1,648**
Operating liabilities	3	437
Other liabilities [b]	446	1,211
DUE IN ONE TO FIVE YEARS		
DUE IN MORE THAN FIVE YEARS		
TOTAL	**449**	**1,648**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.
(b) In 2016, the line item "Other liabilities" mainly comprised subsidiaries' current accounts for €389 million.

3

17.4 Accrued expenses

€ millions	2017 [a]	2016
Accrued interest on borrowings	20	17
Trade and related payables		64
Accrued taxes and personnel expenses:		
◖ Paid leave		42
◖ Discretionary profit sharing		5
◖ Other	1	35
Other operating liabilities:		
◖ Discounts and allowances to be granted		107
◖ Amounts due to customers		7
◖ Credit notes to be issued		48
◖ Other	52	68
TOTAL	**73**	**393**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

Note 18. Off balance sheet commitments

18.1 Financial commitments

COMMITMENTS GIVEN AND RECEIVED:

€ millions	**2017 (a)**	**2016**
Commitments given:		
Guarantees granted by ESSILOR mainly to subsidiaries and equity investments		93
Commitments received:		

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

In connection with the transfer of the Company's business to a subsidiary, the following commitments have been made:

- ESSILOR has provided guarantees to French and American investors in commercial paper issued by its subsidiary Essilor International (SAS);
- For the period between the date of transfer of the Company's business and the date of the business Combination with Luxottica, Essilor International (SAS) has provided guarantees to investors in the Company's US Private Placements.

Confirmed undrawn credit lines at December 31, 2017 amounted to €2,263 million.

FOREIGN EXCHANGE INSTRUMENTS:

The Company uses cross currency swaps to hedge its exposure to transactions denominated in USD. The derivative instruments were entered into with Essilor International (SAS) to rebalance the USD positions.

At December 31, 2017, forward foreign exchange contracts were as follows:

€ millions	**Contractual amount (initial price)**	**Market value at December 31, 2017**
Currency hedges		
Cross currency swaps (Buy USD / Sell EUR)	967	(32)
Other currency hedges		
Foreign currency forward sales	41	1
Foreign currency forward purchases	3	
TOTAL		**(31)**

The Company has a net selling position for USD and GBP.

INTEREST RATE INSTRUMENTS:

In millions of currency units	**Notional in USD**	**Notional in €**	**Market value at December 31, 2017 (€)**
Interest rate swaps (pay floating rate)	300	300	20
TOTAL			**20**

These instruments are used to hedge the fixed rate debt held by ESSILOR.

18.2 Finance lease commitments

There are no commitments regarding finance leases.

18.3 Future payment commitments

There are no future payment commitments.

18.4 Commitments relating to put options written on non-controlling interests

There are no commitments relating to put options written on non-controlling interests.

Note 19. Information on employees

19.1 Pension and other post-employment benefit obligations

SUPPLEMENTARY PENSION PLAN:

The actuarial assumptions used for fiscal year 2017 are inflation rate (1.8%), staff turnover rate, salary increase rate (between 1.8% and 4%) and discount rate (1.75%).

The total benefit obligation was estimated at €16 million.

€ millions	**2017 (a)**	**2016**
Present value of the obligation	16	81
Market value of fund assets	(16)	(26)
Deferred items (b)		(49)
PROVISION RECOGNIZED IN THE BALANCE SHEET		**6**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

(b) Deferred items include actuarial gains or losses.

JUBILEE OR OTHER LONG-SERVICE BENEFITS:

€ millions	**2017 (a)**	**2016**
Present value of the obligation		3
PROVISION RECOGNIZED IN THE BALANCE SHEET		**3**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

LUMP SUM PAYMENT ON RETIREMENT:

Benefit obligations relating to lump sum payments on retirement amounted to €1 million at December 31, 2017. They were estimated using a retrospective approach, based on a 1.75% discount rate.

€ millions	**2017 (a)**	**2016**
Present value of the obligation	1	45
Deferred items (b)		(22)
PROVISION RECOGNIZED IN THE BALANCE SHEET	**1**	**23**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

(b) Deferred items include actuarial gains and losses and past service costs.

EXPENSE FOR THE FISCAL YEAR:

€ millions	2017 [(a)]	2016
Current service cost		(6)
Interest on benefit obligation		(2)
Contributions paid		6
Benefits paid		5
Actuarial (gains) losses		(3)
EXPENSE FOR THE FISCAL YEAR		**0**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

19.2 Average number of employees

Breakdown of average number of employees	2017 [(a)]	2016
Managerial personnel		1,405
Supervisors and employees		999
Production staff		620
TOTAL		**3,024**

(a) The Hive-Down agreed on November 1, 2017 between ESSILOR and DELAMARE SOVRA, which is retroactively effective as of January 1, 2017, limits the comparability of current and prior year financial statements.

19.3 Compensation of executive officers

€ millions	2017	2016
Executive bodies [(a)]		
Compensation received [(b)]	2	2
Benefit payable on retirement (actuarial value)	1	1
Supplementary retirement benefit (actuarial value)	18	22
Value of performance shares granted during the year [(c)]	4	2
Administrative bodies		
Compensation received	1	1

(a) Comprising executive officers.
(b) Compensation paid by ESSILOR or all other consolidated subsidiaries.
(c) The amounts indicated are the fair value carrying amounts of the performance shares in accordance with IFRS. They are not the actual amounts that may be generated upon acquisition of the shares, if fully vested. Share grants are subject to employment and performance conditions.

Note 20. Related party transactions

During the fiscal year, there were no related party transactions, within the meaning of Article R.123-198 11 of the French Commercial Code, involving significant amounts or which were not conducted at arm's length.

Note 21. Subsequents events

None.

Note 22. Profit (and other characteristic items) of the last five fiscal years

Share capital at year-end *€ millions*	2017	2016	2015	2014	2013
Share capital	39	39	39	39	39
Number of ordinary shares outstanding	219 ,125,439	218,507,701	216,456,440	215,892,528	214,699,498
on which treasury shares	1,344,427	2,046,140	2,860,098	3,959,921	4,454,406

Transactions and results of the year *€ millions*	2017	2016	2015	2014	2013
Net revenue		888	897	830	801
Profit before tax and calculated expenses (amortization and provisions)	50	722	664	750	373
Corporate income tax	(19)	66	22	(0)	1
Profit after tax and calculated expenses (depreciation, amortization and provisions)	9	586	587	694	326
Dividends	333 [(a)]	237	216	216	198

(a) Including the proportion of distributable reserves and subject to the decision made at the Shareholders' Meeting of April 24, 2018.

Earnings per share *In euros*	2017	2016	2015	2014	2013
Earnings per share, after tax and employee profit-sharing, but before calculated expenses (depreciation, amortization and provisions), excluding treasury stock	0.32	3.03	3.01	3.54	1.77
Earnings per share, after tax and employee profit-sharing, calculated expenses (depreciation, amortization and provisions), excluding treasury stock	0.04	2.71	2.75	3.27	1.55
Net dividend per ordinary share	1.53 [(a)]	1.50[(a)]	1.11	1.02	0.94

(a) Subject to the decision made at the Shareholders' Meeting of April 24, 2018.

Personnel *€ millions, except for average number of employees*	2017	2016	2015	2014	2013
Average number of employees in the year		3,024	3,159	3,305	3,425
Total payroll	1	172	176	176	172
Total employee benefits	1	104	108	100	98

3.9 Statutory Auditors' Report on the financial statements

This is a free translation into English of the Statutory Auditors' Report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For the year ended December 31, 2017

To the Shareholders of Essilor International (Compagnie Générale d'Optique),

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying financial statements of Essilor International (Compagnie Générale d'Optique) for the year ended December 31, 2017.

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, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit and Risk Committee.

Basis for opinion

AUDIT FRAMEWORK

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

INDEPENDENCE

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from January 1, 2017 to the date of our report and in particular we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of ethics (Code de déontologie) for Statutory Auditors.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the Note 1.9 to the financial statements on the first-time application, as of January 1, 2017, of Regulation 2015-05 issued by the French accounting standards board (Autorité des Normes Comptables) on forward financial instruments and hedging operations.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

ASSET CONTRIBUTION BY ESSILOR INTERNATIONAL (COMPAGNIE GÉNÉRALE D'OPTIQUE) ("ESSILOR") TO DELAMARE SOVRA

Description of risk

In connection with the proposed combination between the Essilor and Luxottica groups, Essilor International was restructured in 2017.

Essilor contributed its operating activities and equity investments to a wholly owned subsidiary, Delamare Sovra, which will continue to operate these activities. Following this asset contribution, Essilor has become a holding company that owns the group Essilor subsidiaries.

From a legal standpoint, the asset contribution is subject to the spin-off rules set out in the French Commercial Code. From a tax standpoint, it follows the preferential treatment provided for in article 210B of the French Tax Code (*Code général des impôts*). From an accounting and tax standpoint, the asset contribution took place with retroactive effect as of January 1, 2017.

The net assets contributed to Delamare Sovra amounted to €5,484 million, based on net book values as at December 31, 2016.

Following the asset contribution, Essilor keeps on its balance sheet the items listed in the "Significant events of the year" section of the notes to the financial statements.

Accordingly, due to the impact of the asset contribution on the financial statements for the year ended December 31, 2017 and on the comparability with prior year, we have assessed the accounting treatment and presentation of the asset contribution to be a key audit matter.

How our audit addressed this risk

Our audit work mainly consisted in:

- assessing the legal and tax treatment of the asset contribution;
- verifying the terms and consideration paid for the contribution;

- verifying the correct application by Management of the contribution, and its effective date as of January 1, 2017;
- verifying that the assets and liabilities transferred to Delamare Sovra and the assets retained by Essilor following the contribution comply with the provisions of the contribution agreement;
- verifying that the notes to the financial statements contain appropriate disclosures about the asset contribution and its impact on the financial statements for the year ended December 31, 2017.

VALUATION OF EQUITY INVESTMENTS

Description of risk

As at December 31, 2017, equity investments totals €5,587 million, representing 92% of the total assets. Equity investments are initially valued and recorded at cost or contribution value and are impaired based on their value in use.

As described in Note 1.5 to the financial statements, the value in use of equity investments is determined by Management on the basis of cash flow projections and net equity ownership. The investment in Delamare Sovra was valued based on the Essilor share price as at December 31, 2017.

Management is required to exercise judgment with regard to the inputs used to estimate the value in use of equity investments. These inputs may, depending on the circumstances, include historical data (average Essilor share price) or forward-looking information (expected profitability and country economic specifics).

Accordingly, due to the proportion of the balance sheet represented by equity investments and the significant judgments made by management both on the method and key assumptions used, we deemed the correct valuation of equity investments, related receivables and provisions to be a key audit matter.

How our audit addressed this risk

Our work consisted in:

- verifying the Essilor International (Compagnie Générale d'Optique) share price used for valuations based on historical data (Delamare Sovra);
- for valuations based on forward-looking information:
  - assessing the consistency of the cash flow projections, prepared by management, of the relevant entities with the most recent estimates, as presented to the Board of Directors as part of the budgeting exercise;
  - checking the consistency of the assumptions used with the economic environment;
  - comparing the projections made for previous periods with the actual results to assess the reliability of previous estimates;
  - verifying that Note 11 to the financial statements provides appropriate disclosures.

Verification of the Management Report and of the other documents provided to the shareholders

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

INFORMATION GIVEN IN THE MANAGEMENT REPORT AND IN OTHER DOCUMENTS PROVIDED TO THE SHAREHOLDERS WITH RESPECT TO THE COMPANY'S FINANCIAL POSITION AND THE FINANCIAL STATEMENTS

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 other documents provided to the shareholders with respect to the financial position and the financial statements.

REPORT ON CORPORATE GOVERNANCE

We attest that the Board of Directors' report on corporate governance sets out the information required by articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of article L.225-37-3 of the French Commercial Code relating to remuneration and benefits received by corporate officers 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 to the accuracy and fair presentation of this information.

Concerning the information considered by the Company as likely to have an impact in the event of a public cash or exchange offer, provided in accordance with the provisions of article L.225-37-5 of the French Commercial Code, we have verified its consistency with the underlying documents provided to us. Based on this work, we have no matters to report with regard to this information.

OTHER 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 the shareholders and holders of the voting rights has been properly disclosed in the Management Report.

Report on other legal and regulatory requirements

APPOINTMENT OF THE STATUTORY AUDITORS

We were appointed Statutory Auditors of Essilor International (Compagnie Générale d'Optique) by the Shareholders' Meetings held on June 14, 1983 for PricewaterhouseCoopers Audit and May 11, 2007 for Mazars.

As at December 31, 2017, PricewaterhouseCoopers Audit and Mazars were in the thirty-fifth year and the eleventh year of total uninterrupted engagement, respectively.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements presenting a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit and Risk Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

OBJECTIVE AND AUDIT APPROACH

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of management of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the Audit Report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the Audit Report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT TO THE AUDIT AND RISK COMMITTEE

We submit a report to the Audit and Risk Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit and Risk Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit and Risk Committee with the declaration provided for in article 6 of Regulation (EU) No 537-2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit and Risk Committee.

Neuilly-sur-Seine and Courbevoie, March 5, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit		**Mazars**
Olivier Lotz	Cédric Le Gal	Daniel Escudeiro

CHAPTER 4

SOCIAL, ENVIRONMENTAL AND SOCIETAL **INFORMATION**

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IN BRIEF

FOREWORD

"Our Mission as the world's leader in ophthalmic optics is to improve lives by improving sight. This purpose, which has driven all of the Company's decisions since its creation in 1848, represents both an opportunity and a social responsibility for the Group. Over half the world's population needs some form of vision correction – making poor vision the world's most widespread disability. This is why it is our ambition to eradicate poor vision within one generation.

To support this ambition, Essilor relies on its fundamentals – namely the development of its long-standing and growing employee shareholding, a unique governance in which its employee shareholders actively participate and our principles and values – and a long-term commitment to sustainable development. Our 67,000 employees are driven by the desire to contribute to an evolving society faced with social and environmental issues. Constantly innovating, engaging with all our stakeholders, reducing our environmental footprint, continuing to develop our inclusive business models and philanthropic initiatives, and promoting employee shareholding are some of the priority actions of our responsible commitment.

This year, we have made significant progress to continue to create shared value. In the last 4 years, more than 14 million people previously excluded from vision health care gained access to a pair of eyeglasses; and 54% of our employees are now Group shareholders. Moreover, we have pursued our initiatives in key areas that serve the Sustainable Development Goals of the United Nations, such as Human Rights, water management or adapting to climate change, and we have made progress in the first ten targets of our "2020 roadmap" presented in detail in this document.

We are proud that our approach has been recognized by the most demanding non-financial assessment bodies. In 2017, Essilor was again included in the Dow Jones Sustainability World & Europe Indices (DJSI); joined the Vigeo Europe 100 Index; and was included in the CDP "Water A List" for our ambitious commitment to optimizing the use and security of water resources.

For all of these reasons, I am pleased to renew our long-term commitment to the ten principles of the United Nations Global Compact, both in our strategy and in our day-to-day operations, and to share an annual review of our progress in this chapter of the 2017 Registration Document."

Hubert Sagnières
Chairman and Chief Executive Officer

At December 31, 2017, Essilor was listed on the following non-financial indices: DJSI World & Europe, MSCI World ESG & SRI and World Low Carbon Leader, FTSE4Good, STOXX Global ESG Leaders, Euronext Vigeo Europe 120, ECPI indices and Ethibel Excellence & Pioneer.

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 2017, the CDP recognized the continuous progress Essilor has been making in these areas, awarding it an A- rating for its response to climate change and an A rating for water management. With the highest score, the Group appeared for the first time on the "Water A List" which comprises of 73 companies making ambitious commitments to optimizing water use and improving the security of water resources.

US magazine Forbes also ranked Essilor amongst the World's Most Innovative 100 Companies for the seventh year running.

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 Group'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 34 production plants in 17 countries. Each year, they produce more than 500 million lenses *via* lens polymerization or resin injection moulding. The production plants account for the majority of direct environmental impacts due to 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 environmental impacts, Essilor places the emphasis on the management of water and energy and the processing of waste, as well as on occupational health and safety measures;
- *distribution centers:* Essilor has 14 distribution centers in 12 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 number of employees and the nature of their activities, requires extreme vigilance in terms of occupational health and safety;
- *prescription laboratories:* the Group has 481 laboratories, edging facilities and local distribution centers which are major sources of local employment. 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 supplies optical retailers and chains in over 100 countries and sells optical products online (contact lenses, prescription spectacles and sunglasses) through several local websites, serving a rapidly expanding global distribution channel. Information security, data protection and product promotion have been identified as major issues for the Group;
- *Operational, R&D and Administrative Divisions:* a limited portion of the Group's employees work in the registered offices, R&D centers and Operational 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 formalizes 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 situation, interactions between stakeholders and Essilor may serve a range of different purposes:

- to listen, by setting up a consultation process for the purpose of anticipating business developments, the market and regulations, and also manage risks and identify opportunities;
- to hold discussions to involve stakeholders in strategic decisions: customer satisfaction surveys, employee opinion surveys, organization of forums, training sessions, etc.;
- to inform, by providing reliable factual data using different kinds of communication methods made available to the relevant stakeholders (brochures, website, annual reviews, questionnaire responses, various requests, etc.);
- to contribute to growth *via* partnership projects, particularly in the fields of health and the environment: 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 Data protection Sustainable procurement
Consumers	Product quality and efficiency Responsible marketing Products meeting new visual health needs related to societal trends (digitalization, urbanization, etc.) Data protection
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/Co-innovation 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

The Group defines and develops its sustainable development strategy using a materiality assessment, so that it can continually assess and prioritize stakeholder requirements, identify new risks and opportunities related to social and environmental issues, focus non-financial reporting and publications on major issues and ensure the Group's reporting complies with international standards.

For the past two years, regulatory changes and feedback from stakeholders (key account customers, investors, new UN development goals, etc.) have confirmed the priority and strategic dimensions of initiatives which directly aim to fulfil the Group's Mission, lead to a greater focus on sustainable procurement and the circular economy in the wider sense (see Section 4.5.5), and highlighted two major themes: climate change (see Section 4.5.4), and human rights (see 4.6.2). The Group has updated the materiality matrix below based on this information.

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.

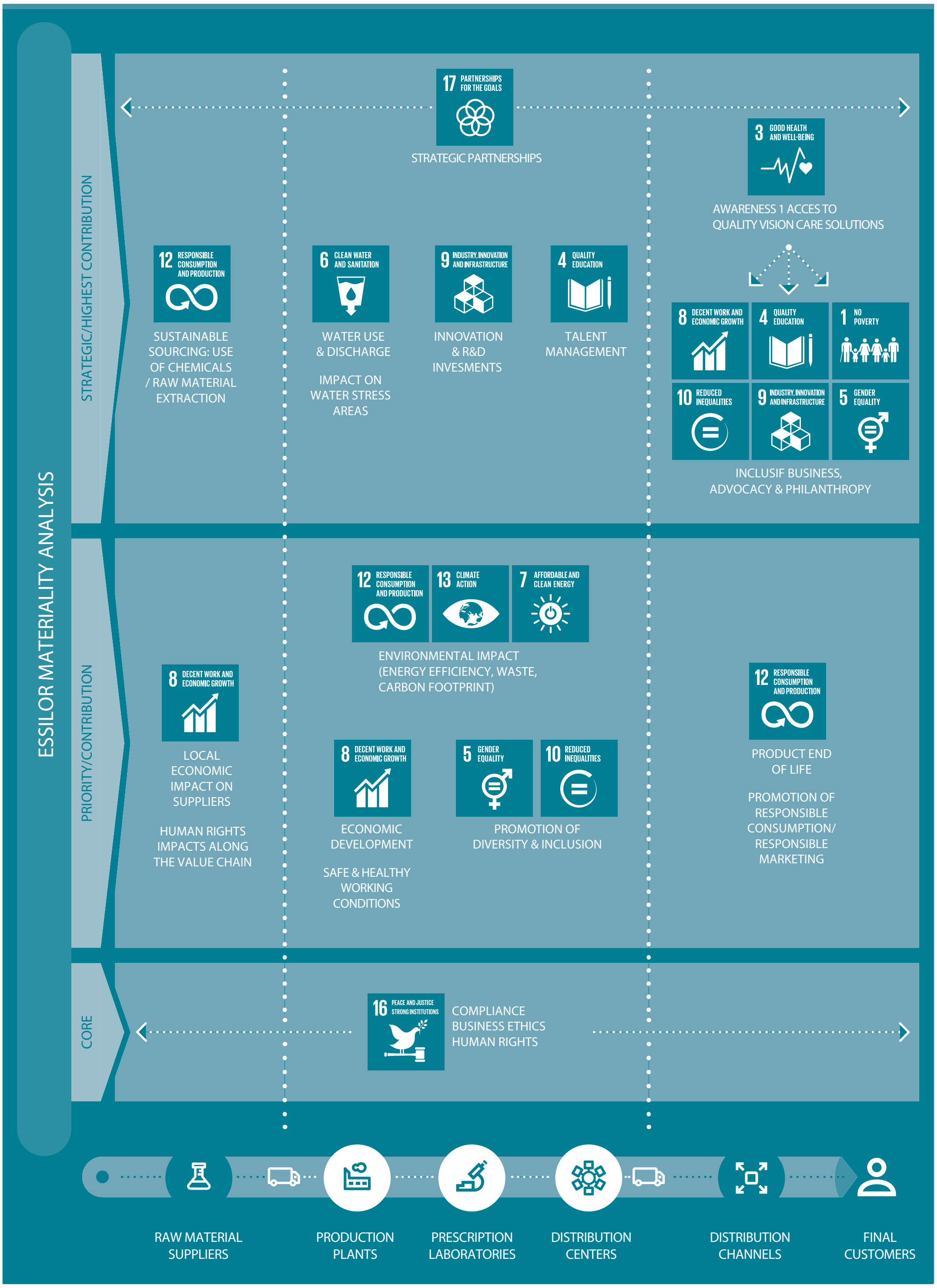
Core: pillars of Essilor's business culture.

UN Sustainable Development Goals

At the end of 2015, 193 countries had 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 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 has therefore assessed its contribution by mapping 13 SDGs according to two dimensions: the themes in its sustainable development program (see materiality matrix) and its value chain.

In 2017, Essilor published a specific report outlining the action plans and commitments it has entered into for each of the 13 selected SDGs. See Section "Sustainability" and "Mission" on www.essilor.com.



4.1.3 Sustainable development strategy driven by our Group Mission

On the basis of the materiality assessment, supplemented by an analysis of the Group's contribution to the SDGs, Essilor has strengthened its sustainable development strategy to serve the Group's Mission according to three supporting pillars, by specifying the actions it will take in certain key areas (see details on *www.essilor.com/en/sustainability*):

Group Mission: Improve lives by improving sight

The Group is committed to the global challenge of helping to correct, protect and prevent risks to the visual health of the planet's 7.4 billion inhabitants. To this end, Essilor has identified four key focus areas: raising awareness, product and service innovation, inclusive business and strategic giving. See Section 4.3 of this document.

1. CARING FOR AND ENGAGING OUR PEOPLE

The Group's employees are the leading players in and contributors to Essilor's sustainable development. The Group's employee policy focuses on four areas: ensuring employee health and safety and providing quality working conditions; training, developing skills and talent; integrating employees and all forms of diversity; and finally, promoting employee shareholding along with their participation in the governance and employee consultation through social dialogue. See Section 4.4 of this document.

2. OPTIMIZING THE ENVIRONMENTAL FOOTPRINT

Despite an environmental footprint that is fragmented and limited in comparison to industrial processing activities, Essilor strives to reduce its impacts. By continuously improving environmental management processes, the work focuses on reducing water use, improving energy efficiency, reducing the carbon footprint and adapting to climate change; and finally, 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 procurement 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.

4.1.4 Main objectives for 2020

Essilor has defined a "2020 roadmap" with specific internal objectives and is working on all levers of employee engagement. This approach enables the entire Group to be involved, with building of momentum, measuring of impacts and monitoring of progress. The Group published in 2017 the ten main objectives shown in the table below:

Aims	Ambition		Objectives for 2020	Progress made	% of progress to target
Creating wearers	Bring tangible social and economic benefits to individuals and their communities: "'improving lives by improving sight"	1	Improve the lives of 50 million individuals "at the base of the pyramid"(a) *(cumulative, reference year 2013)*	13.4 million	27%
		2	Create 25,000 primary vision care providers *(cumulative, reference year 2013)*	5,718	23%
		3	Invest €30 million in philanthropic visual health programs *(reference year 2014)*	30 million + additional €19 million	163%
Optimizing environmental footprint	Contribute to tackle climate change and its impacts through sustainable management of energy and water resources	4	Reduce water intensity by 20% compared to 2015 baseline(b)	-10%	50%
		5	Reduce energy intensity by 15% compared to 2015 baseline	-3%	20%
Caring for and engaging our people	Engage employees in the sustainable growth of our business & ensure a safe and rewarding working environment	6	Decrease by 30% work-related injury frequency rate (compared to a 2015 baseline) towards a zero accident goal	-14%	47%
		7	Give 100% of employees access to Essilor University online training platform	60%	60%
		8	35% of employees as shareholders, with a longer-term ambition of 50%	54%	154%
Working with our society	Lead sustainable business practices in our industry through responsible sourcing and procurement	9	100% of strategic suppliers receive external CSR audit	92%	92%
		10	100% of preferred suppliers acknowledge Essilor's Supplier Charter	57%	57%

(a) "Base of the pyramid" refers to underprivileged and high-risk populations characterized by high rates of poverty, living on less than $2.50 a day.
(b) Objectives measured on each "good" lens produced by a selection of the upstream plants with the highest environmental footprint.

In addition, Essilor's compensation policy aims to contribute to the achievement of the Group's objectives and the deployment of its Mission: improving lives by improving sight.

Hence, in 2017, Essilor introduced specific criteria linked to its Mission, its Principles & Values and its sustainable development program in calculating the annual variable salary component of the members of the Management Committee and the business committees, as well as the key managers in each entity of the Group.

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 2017, with an attendance rate of 100%. In its supervisory role, it was consulted primarily on:

- the progress of the new innovative, inclusive socio-economic models, through the 2.5 New Vision Generation entity, the philanthropy and all awareness-raising initiatives;
- review of the Group's sustainable development roadmap and the key measures to be implemented;
- evaluation of the direct and indirect economic and societal impacts of Mission activities;
- changes in the way Essilor's non-financial performance is perceived by recognized raters;
- assessment of the main CSR risks;
- review of the reports published regarding sustainability topics, particularly as regards current regulatory obligations.

See Section 2.1.2.6 of this document.

4.2.2 The Sustainable Development department

Essilor has chosen 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 initiatives implemented within the various functional departments (Environment, Health and Safety, R&D, Human Resources, Marketing, etc.) and the three main geographical areas: North America, Europe and the rest of the world (Latin America, Asia, Middle East, Russia & Africa), with the following main responsibilities to:

- define and deploy the Group's Sustainable Development program;
- steer non-financial reporting and lead the community of correspondents within various countries and functions;
- provide expertise to Group entities in their deliberations on sustainability, the implementation of associated action plans and respond to questions from key accounts or other stakeholders;
- communicate Essilor's initiatives, contribute to the public debate on sustainable development challenges 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-functional issues (*e.g.* Human rights, non-financial reporting, climate change, etc.).

The Sustainable Development department is also 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 programme, as well as to ensure compliance with Article 225 of the French Grenelle 2 law and with the principal sustainability reporting standards. This year, the Group has begun to prepare for changes to its non-financial reporting to apply European Directive no. 2014/94, to be implemented in France in 2018 in accordance with decree no. 2017-1265, voted in August 2017.

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 contributors from a range of disciplines (human resources, environment-health-safety, etc.) reports information, which is reviewed by the Finance departments of each entity 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 entities. Given the data collection process and the key performance indicators have not been changed (same themes and structure) in 2017, the reporting protocol has been improved (more details and specific examples for each indicator, easier to use, etc.) and refined to take into account regulatory changes and stakeholder expectations. In addition, the reporting protocol is now available in five languages: French, Chinese, English, Portuguese and Spanish, to facilitate the work of subsidiary teams 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 are within the Group financial consolidation scope and 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.

This year, by including in particular the recently-acquired entities, the non-financial reporting covers 100%[1] of the Group entities, exceeding its commitment to reach a target of 85% in 2017. The coverage rate for each indicator is specified in the disclosure for each indicator. 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, 2016 to September 30, 2017. However, certain information was collected during the calendar year from January 1, 2017 to December 31, 2017; this is followed in the text or the indicator tables by a superscript at sign (@).

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. Since the 2012 fiscal year, the Group has complied with Article 225 of the French Grenelle 2 law. Next year, the Group will follow the principles defined by decree no. 2017-1265 concerning transposition into French law of the European directive on non-financial reporting. Finally, Essilor 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 PwC, an independent third-party organization, in accordance with the regulations resulting from 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.

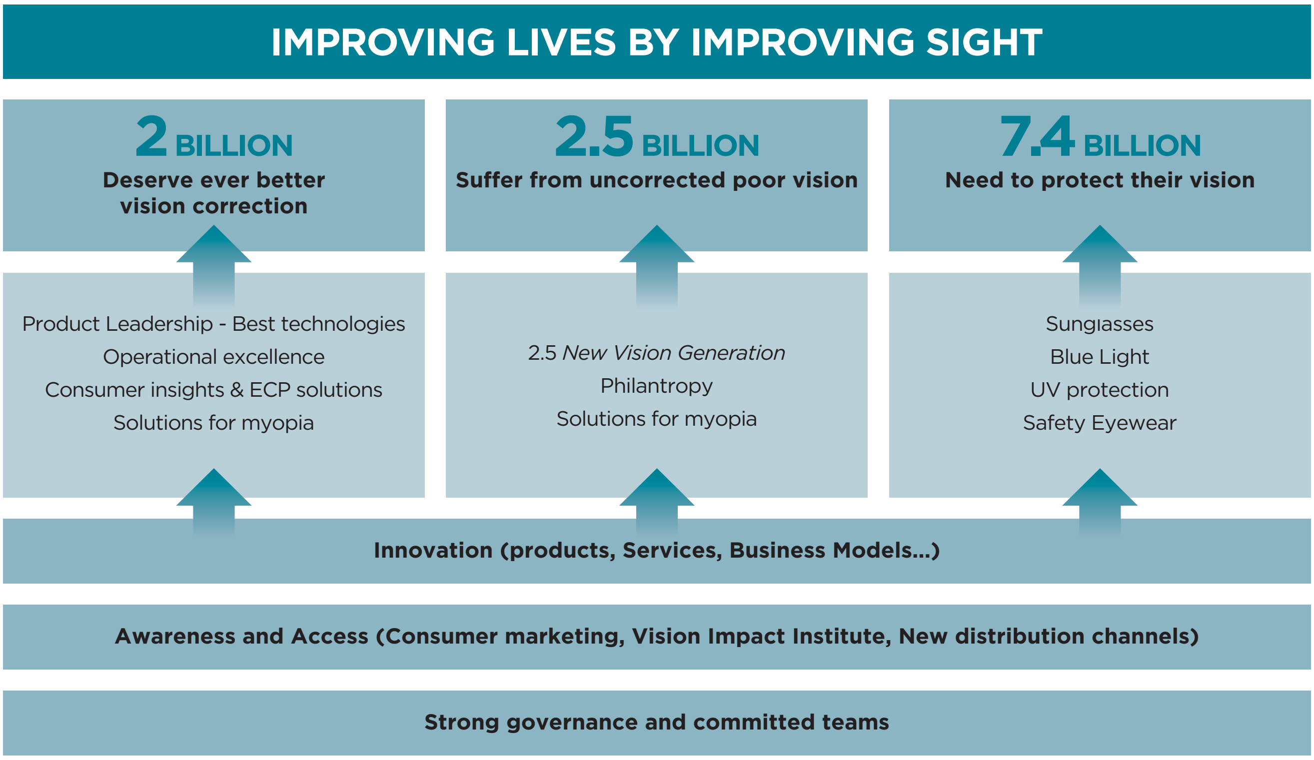
(1) Four entities representing less than 100 employees (0.01%) were exempted from non-financial reporting in 2017 for the following reasons: one entity in Miami was affected by hurricane Irma and three entities stopped their activity at the end of 2017. Given the specific cases above, Essilor considers that the 2017 non-financial reporting covers 100% of the Group's entities and workforce.

ESSILOR MISSION

4.3 Improving 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 crossroads between the Group's economic activity and its social contribution through the major positive impact on quality of life as a result of better vision.

The Mission to improve lives by improving sight drives the Group to continue its efforts to help even more of the planet's 7.4 billion people, 2.5 billion of whom suffer from poor vision and still do not have access to visual correction. Essilor designs, manufactures and sells a wide range of solutions to correct, protect and prevent visual health risks.



Essilor's actions on four fronts help to fulfil 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 for large numbers of people lacking the visual correction they need can be primarily explained by a lack of awareness of vision problems. Many people have never had an eyesight test, or have never been able to see properly in their life.

To address this, Essilor is investing locally, nationally and internationally to raise awareness of the importance of visual health and of having regular eyesight tests. Different initiatives are taken:

- the global "Put Vision First ™" campaign. On World Sight Day 2017, Essilor highlighted the importance of complete, regular eyesight tests in over 50 countries and provided an online eyesight test as a first step for checking vision;
- the global partnership with *Fédération Internationale de l'Automobile* (International Automobile Federation). Launched in 2017, this partnership aims to highlight good vision as an essential factor in road safety as part of the FIA's "Action for Road Safety" campaign. "Check your eyesight" is now one of the FIA's golden rules, along with other key risk factors such as speed, alcohol and safety belts (*e.g.* "Never drink and drive", "Buckle up", etc.). Road safety continues to be a key focus area for the Group, with particular efforts in India which attracted government support;
- national public awareness-raising campaigns, such as "Think About Your Eyes™" in the United States are organized in partnership with industry players and our stakeholders;
- creation of consumer information websites to educate people about the importance of regular eyesight tests, protecting their eyes from damage caused by UV light (*e.g. www.eyes-and-sun.com*) and from blue light, and how to choose frames to suit their face (*e.g. www.mavuemeslunettes.fr*);
- regular eye exam campaigns, arranged locally by Essilor subsidiaries or by the Group's philanthropic organizations;
- support for initiatives to gather statistical data on the social and economic impact of poor vision to obtain government support to invest in visual health improvement programs. Since 2016, Essilor has been part of the Eyelliance coalition and has been involved in drafting the World Economic Forum's Report, "Eyeglasses for Global Development: bridging the Visual Divide". 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 aim is to raise public awareness of the importance of correcting and protecting eyesight and to make good vision a global priority. It analyses and publishes the results of relevant scientific studies and recommends changes to public health policy.

The Institute is steered by a consultative committee with four independent members, focusing on two objectives: accelerate the production of new studies on visual health, particularly in areas where data is missing, and reach a wider audience to make people aware of these issues.

Since it was founded, the Institute has launched a website – *www.visionimpactinstitute.org* – providing a single database of 250 peer-reviewed reports and studies to prove the need for advances in visual correction and visual health in general. This year, 86 new studies were published and the website was translated into a new language, French, in addition to the English, Chinese, Spanish and Portuguese versions already available.

In 2017 the Institute was actively engaged in raising awareness among the global population of the importance of visual health. The following two examples illustrate its work:

- in India, the Observatory supported media events to foster dialogue with the ministries to implement awareness-raising programs for students, motorists and public transport drivers;
- in the United States, the Observatory created a multi-stakeholder partnership, "Kids See: Success", so that every child entering nursery school can have their eyesight tested.

4.3.2 Sustainable innovation for customers' current and future needs

Innovation at Essilor

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.

Optical lenses are high-technology products. Although innovation is essential, it is also very important to continue working to improve existing solutions. This makes it possible to respond to all new needs which arise as a result of demographic and lifestyle changes.

Each year, Essilor devotes a significant part of its revenue for Research and Innovation, so that it can respond to market trends in visual health driven by several major social trends (ageing population, use of digital technology, new "Base of the Pyramid", or BoP, consumers, etc.). In 2017, this amounted to €217 million before deduction of research tax credits.

Meeting consumer expectations

Innovation is everywhere within the Group, and it is now taking on new forms, combining technologies with an understanding of the whole range of consumer needs: across the following three dimensions: visual correction, eye protection and prevention of eye disease.

Essilor defines its innovation priorities by listening to consumers and paying attention to their unmet and specific needs, as well as their lifestyles.

In order to meet this challenge, marketing and innovation are inseparable. From the very beginning, the Group's Centers for Innovation and Technology work in direct contact with the markets. The centers detect "weak spots" by observing technology and competitors. Later on, researchers work with the marketing teams and the "Global Engineering" Department to quickly make innovations available to consumers.

In order to place the consumer at the very heart of the innovation process, Essilor created five "roadmaps" for different consumer types, each of which constitutes a specific market for the Company:

- Kids & teens;
- Young adults;
- Mid-life;
- Seniors;
- Next Generation Consumers.

Each "roadmap" is made up of multidisciplinary teams and uses Design Thinking methods to accelerate the ideation and innovation process.

A global organization

At Essilor, R&D is structured around four Centers for Innovation & Technologies, at the heart of 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 seventh consecutive year

Including sustainable development in innovation

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 forged over twenty partnerships with universities and public research bodies: *Institut de la Vision* in Paris, CNRS, Inserm, Polytechnique Montreal, Universities of Shanghai and Wenzhou in China, etc. Furthermore, the Group makes use of open innovation such as the See Change Challenge, which was launched by BoP innovation Lab at the end of 2016. See Section 4.3.3 of this document;
- Eco-designed. Essilor endeavors to develop products with an ever-decreasing impact on the environment by analyzing the product's life cycle, favoring eco-design, working with its subcontractors (purchasing raw materials with less environmental impact, etc.) and optimizing 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,
  - the Costa brand has also implemented a Kick Plastic initiative, which involves using bio-sourced resins or recycled materials,
  - in 2017, the online optical group Clearly launched a new brand of environmentally-responsible glasses called "Main + Central". The frames are made of a highly durable and biodegradable material called "Natura", which can be returned to the Company for recycling when customers want to change their style.

  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. 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 Developing 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 put in significant resources to develop and roll out inclusive business solutions that involve skill building of local youth and creating infrastructure to dispense Primary Vision care.

These solutions demand 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.

To this end, Essilor has created two dedicated complementary structures:

- the "BoP Innovation Lab", the Innovation Laboratory for the Base of the Pyramid, supported by the Singapore Economic Development Board, is an internal incubator, accelerator and facilitator which works on inclusive business models with teams and foundations across the Group, to raise awareness and maximize impact. As an incubator, the Lab develops and evaluates inclusive business models tailored to the local context or customer needs. As an accelerator, the Lab provides strategic and operational support to on-site teams to implement the projects. As a facilitator, the Lab builds and strengthens relations with key partners, social enterprises, foundations and development agencies. It works in close collaboration with Essilor's inclusive business entity, 2.5 New Vision Generation™ (see description below), to select programs, evaluate their social impacts, make any adaptations that may be necessary and develop new products, solutions and business models in line with the needs of BoP consumers. In 2016-17, Essilor organized an open innovation challenge to support innovative ideas and develop new technologies to measure visual defects in populations without access to visual correction. This challenge involved the whole Group ecosystem working together (such as start-ups, universities, app developers, eyesight professionals, etc.) to develop low-cost, easy-to-use and easy-to-deploy solutions. The best solutions are under development so that they can be tested on the market;
- 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. At the end of 2017, the Group had attained over 23% of its target *i.e.* 5,718 primary vision care providers on a cumulative basis. 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) programme with the aim of training under-employed young people 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 2017, almost 4,000 Eye Mitra™ partners have already been created to provide vision care services to their communities. An impact study conducted by the Dalberg practice highlighted the major socio-economic contributions this program has made (see Section 4.6.5.).

Based on the expertise acquired from the Eye Mitra™ programme, the 2.5 NVG teams also developed the Vision Ambassador™ programme, 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 2017, this program had over 1,800 Vision Ambassador™ partners in nine countries: China, Brazil, India, Indonesia, Cambodia, Vietnam, Ivory Coast, Kenya and South Africa.

At the end of 2017, the 2.5 NVG products were being distributed in 45 countries. Almost 3.3 million people were fitted with eyeglasses this year, compared with 2.2 million in 2016, 1.2 million in 2015 and 300,000 in 2014.

4.3.4 Strategic Giving

Essilor continued to deploy its philanthropic initiatives around the world in 2017, holding it as its 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. To this end, the Group works with many NGOs such as Lions Clubs International, Brien Holden Vision Institute, Optometry Giving Sight, the *Samu* (social humanitarian emergency service in Paris), *le Secours populaire français* (a non-profit organization devoted to fighting poverty and discrimination in France and beyond), the Rothschild Ophthalmology Foundation, Vision Aid Overseas, Sight Savers, Standing Voice and Orbis International.

To ensure the success of these initiatives, 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 the United States, endowed with €30 million to finance programs with long-term impact around the world.

In 2017, through the Group's own philanthropic organizations and those of its partners, thanks to their involvement in around 200 programmes operating in 50 countries, over 3,000 employee volunteers tested the sight of 3 million people and fitted 500,000 people with glasses to correct their eyesight. The Group's subsidiaries have donated over 450,000 pairs of glasses to the NGO Restoring Vision, bringing the total number of recipients of donated glasses to over one million in 2017.

Through its Vision For Life™ endowment fund, the Group, helped create the Our Children's Vision coalition of over 50 NGOs, all working to combat poor vision, which has enabled 1.2 million people to receive visual healthcare since its creation.

Essilor Vision Foundation™

Following the creation in 2007 of the Essilor Vision Foundation in the United States, the Group increased its impact by setting up foundations in India, Singapore and China. In 2016 the Foundation was established in Canada, Australia and New Zealand.

Some examples of projects in 2017:

- in the United States, one child in four has an eyesight 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 140 partnerships with other NGOs and works with more than 500 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. In 2017, over 250,000 optical items were supplied to disadvantaged people;
- in China, the Essilor Foundation continued implementing these programs for children in almost 20 provinces, resulting in over 400,000 schoolchildren receiving eyecare;
- in India, over 300,000 people received free eye tests, and over 30,000 of these were disadvantaged children who were fitted with glasses to correct their sight;
- for the rest of the ASEAN region, the Foundation rolled out programs in nine countries, raising awareness and providing free vision screenings to 175,000 people. Over 50,000 people were fitted with glasses to correct their eyesight;
- finally, in Australia and New Zealand, over 4,200 pupils had their sight tested as a result of a campaign in schools. These initiatives were reported in the local media and helped educate millions of people about how important good eyesight is for academic success.

Furthermore, under the Opening Eyes global partnership between Essilor, the "Special Olympics" NGO and the Lions Club International, the Essilor Foundation has screened more than 400,000 children and adults with intellectual disabilities since 2002. In 2017, a total of 200 events took place around the world, with more than 3,000 athletes screened in addition to the 13,200 athletes who were equipped with a pair of sunglasses.

Vision For Life™

The Vision For Life™ endowment fund (in France) and the non-profit-making Essilor Social Impact Fund (in the United States) are continuing with their mission, begun in 2015, to help tackle the global challenge of poor eyesight 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 eyecare.

Essilor has made a contribution of €30 million to these two organizations, making it the world's largest strategic giving program dedicated to eliminating Uncorrected Refractive Error. In 2017, Essilor group made an additional donation totaling €19 million to roll out new philanthropic programs worldwide.

Consequently, initiatives are ongoing in many countries:

- In France, philanthropic initiatives fall into four categories:
  - access to eye tests and basic optical equipment for underprivileged people. These initiatives are delivered in partnership with humanitarian associations such as the *Secours populaire français* (a non-profit organization devoted to fighting poverty and discrimination in France and beyond) or the *Samu social* (a humanitarian emergency service), *Médecins du Monde*, as well as public or private organizations such as the AP-HP and the Rothschild Ophthalmology Foundation, where Vision For Life™ was also involved in setting up the first "PASS-O" unit in France, which provides access to ophthalmology care and eyeglasses for almost 5,000 people without medical insurance per year,
  - initiatives aimed at young people from deprived neighborhoods, to raise awareness about how important good visual health is for their future. Awareness was raised among over 20,000 young people, and over 5,000 received a free eye test,
  - initiatives for refugees, including a pilot scheme at a refugee center in the Paris region, which tested the sight of 400 people, 200 of whom were fitted with glasses,
  - finally, in early 2017, a partnership began with the French Ministry of Education to raise awareness and provide all involved parties with training on the importance of good eyesight for academic success. This partnership will continue in 2018;
- In Europe, Poland began a three-year program to screen and fit 10,000 residents of a children's home with glasses. In 2017, almost 4,000 children had their eyesight tested;
- In 2017, a range of programs were implemented in Africa, including:
  - in Ethiopia, the partnership with the British NGO Vision Aid Overseas was renewed for three years to test the eyesight of 90,000 people and fit 20,000 of them with glasses,
  - in Tanzania, the partnership with the NGO Standing Voice continued, providing over 4,000 albino children with UV protection and corrective lenses if needed,
  - a new project was launched in the Ivory Coast in conjunction with the Magic System Foundation to help primary school children from disadvantaged areas access visual correction. A first initiative took place in 2017 involving 300 children, and new schools will be added to the program in 2018,
  - finally, in South Africa, with the launch of the Kids Right to Sight program, which aims to test over 11,000 disadvantaged children every month and fit glasses where needed.

Combined impact of inclusive business and strategic giving initiatives

Essilor aims to improve 50 million lives at the BoP by 2020. At the end of 2017, the Group had reached more than 27% of its target, *i.e.* 13.4 million people equipped with eyeglasses on a cumulative basis since 2013. This includes direct contribution of 11.6 million *via* the Group's various initiatives in inclusive business and strategic giving but also in indirect contribution of 1.8 million through the "Our Children's Vision" coalition of which Essilor is a founding member.

SOCIAL INFORMATION

4.4. Caring for and engaging our people

Essilor's success is deeply intertwined with the 66,918 (full time equivalent) employees worldwide who, irrespective of their role and the work that they do, are committed to developing, producing and promoting the innovative products and services that contribute to the Group's Mission: to improve lives by improving sight.

With a history spanning almost 170 years, the Group has a unique corporate culture based on strong values established in all areas and subsidiaries of the business: entrepreneurship, respect for others and mutual trust, spirit of cooperation, diversity and innovation.

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.

Through its human resources policy, Essilor also hopes to encourage the development and personal fulfilment of its employees, by offering them opportunities for growth as part of a global, diversified, multicultural Group in multiple locations. This aim entails a working environment that respects their physical and moral integrity and ensures equal treatment at all times.

Ensuring these conditions are met means that Essilor is able to attract and retain talent as well as to improve the employability of its staff – in particular, by facilitating access to training throughout their career and by broadening their roles and experience so as to encourage increased autonomy and responsibility.

Total workforce and breakdown of employees by geographical area, gender, function and age

As of December 31, 2017, Essilor had 66,918 employees worldwide according to the financial consolidation method. The average workforce for 2017 was 66,118 employees (according to the consolidated personnel costs for the period).

		2017	2016	2015
Total workforce (FTEs) at the end of the period		66,918 (@)	63,676 (@)	60,883 (@)
Average workforce (FTEs) for the year		66,118 (@)	63,107 (@)	60,503 (@)
Breakdown of the workforce (FTEs) by geographical area	North America	14,123 (@) (21.1%)	13,476 (@) (21.2%)	12,456 (@) (20.5%)
	Europe	11,934 (@) (17.8%)	12,141 (@) (19.1%)	10,613 (@) (17.4%)
	Latin America/Africa/Asia/ Australia/Middle East/Russia	40,861 (@) (61.1%)	38,059 (@) (59.7%)	37,814 (@) (62.1%)

Note: FTE = Full Time Equivalent.

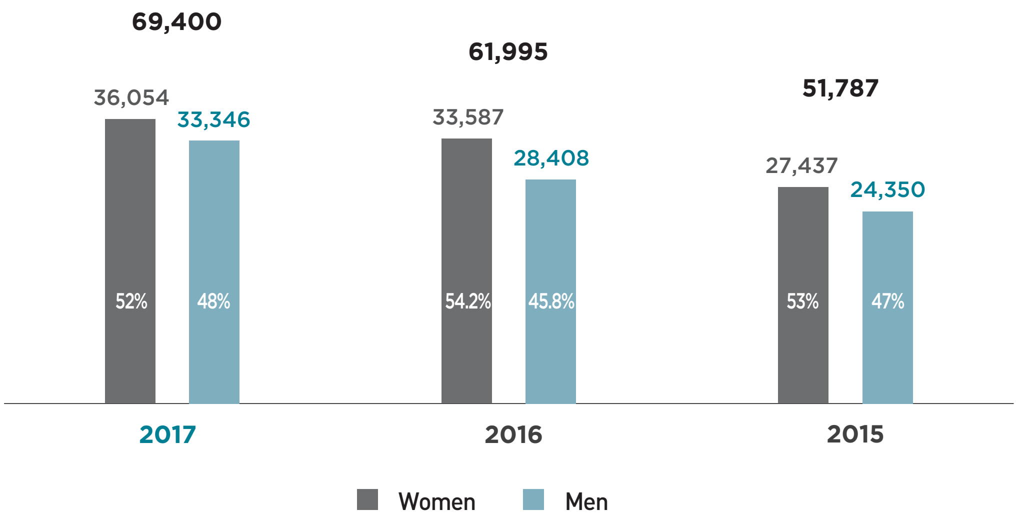
	2017	2016	2015
Reporting Coverage	100%	91.9%	85.6%
Workforce (headcount) covered by 2017 reporting (end of period)	69,400	61,995	51,787

Note: Reporting coverage is calculated based on the workforce of the financial consolidation scope at end of 2017. The reporting coverage grew from 91.6% in 2016 to 100% in 2017. Four entities representing less than 100 employees (0.01%) were exempted from non-financial reporting in 2017 for the following reasons: one entity in Miami was affected by hurricane Irma and three entities stopped their activity at the end of 2017. Given the specific cases above, Essilor considers that the 2017 non-financial reporting covers 100% of the Group's entities and workforce. This significant increase is due to the strengthening of the organization of reporting and the involvement of all entities. The rise in workforce reported (headcount) is mainly due to expansion of the reporting scope.

Workforce breakdown by gender

		2017	2016	2015
Breakdown of the workforce by gender *(based on the workforce covered by reporting)*	Women	36,054 (52.0%)	33,587 (54.2%)	27,437 (53.0%)
	Men	33,346 (48.0%)	28,408 (45.8%)	24,350 (47.0%)

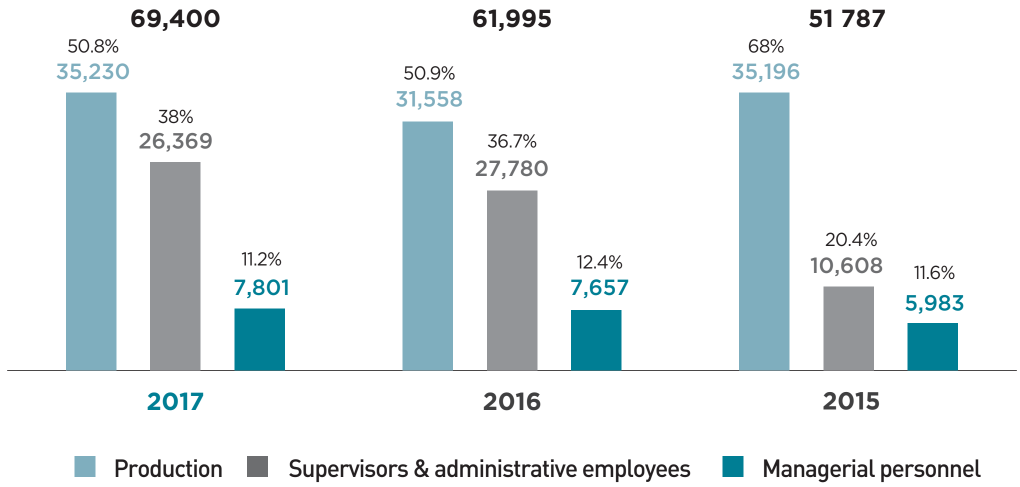
Note: There is no significant changes in distribution of employees by gender compared with previous year.



Workforce breakdown by function

		2017		2016		2015	
Breakdown of the workforce by function *(based on the workforce covered by reporting)*	Production staff	35,230	50.8%	31,558	50.9%	35,196	68.0%
	Supervisors and administrative employees	26,369	38.0%	22,780	36.7%	10,608	20.4%
	Managerial personnel	7,801	11.2%	7,657	12.4%	5,983	11.6%

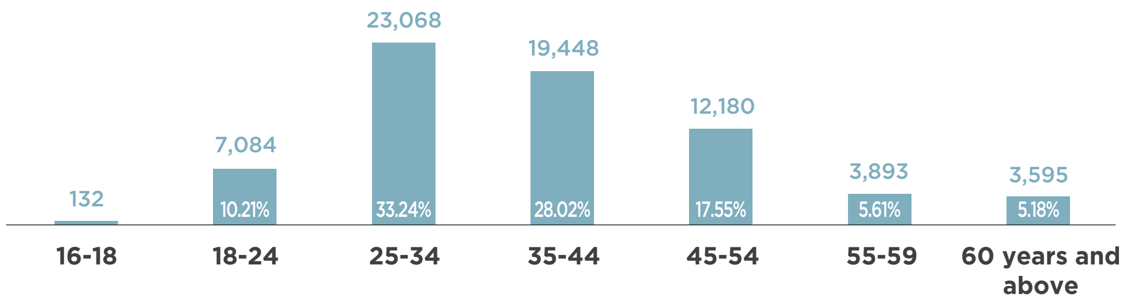
Note : According to the Group's definition, the "production staff" category includes employees working at production plants; "Supervisors and administrative employees" includes individuals who have management responsibility and/or are employed in an office. Lastly, "Managerial personnel" comprises Executive Directors, managers and experts.



Workforce breakdown by age

	Age	2017		2016		2015	
Breakdown of the workforce by age group *(based on the workforce covered by reporting)*	16 to 18	132	(0.19%)	167	(0.27%)	161	(0.31%)
	18 to 24	7,084	(10.21%)	6,297	(10.16%)	5,644	(10.90%)
	25 to 34	23,068	(33.24%)	20,245	(32.65%)	16,537	(31.93%)
	35 to 44	19,448	(28.02%)	17,065	(27.53%)	14,179	(27.38%)
	45 to 54	12,180	(17.55%)	10,968	(17.69%)	8,946	(17.28%)
	55 to 59	3,893	(5.61%)	3,769	(6.08%)	3,341	(6.45%)
	60 and over	3,595	(5.18%)	3,484	(5.62%)	2,979	(5.75%)

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. People in this age group are employed in accordance with local regulations.



New hires, layoffs and turnover

	2017	2016	2015
Total new hires	17,848	14,548	N/A

Note: The data reported covers 100% of the Group workforce. The increase of Group recruitment is mainly increase of reporting scope.

	2017	2016	2015
Total layoffs	2,279	1,632	N/A

Note: The data covers 100% of the Group workforce. The layoff was mainly in Brazil, USA, Mexico and China, which was linked to the reorganization of the Group and local employment culture.

	2017	2016	2015
Voluntary turnover rate	9.0%	10.0%	10.0%

Note: The turnover rate disclosed is based on the voluntary departures of the Group. It is calculated based on a sample of entities which represents 66% of the Group total workforce and covers all the geographic regions where the Group operates and all the Group's business activities.

Salary changes

Total salaries in 2017: €2,298 million (@)

Total salaries in 2016: €2,142 million (@)

Total salaries in 2015: €2,045 million (@)

Change between 2017 and 2016: + 7.28%

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

As part of a continued drive to improve occupational health and safety conditions and reach the target of zero workplace accidents, the Group has set itself the target of decreasing the work-related injury frequency rate by 30% by 2020 (reference year 2015). At the end of 2017 and on this scope, the Group had already attained 47% of its target, with a 14% reduction.

In collaboration with the Human Resources Department, the Global EHS (Environment-Health-Safety) Department, leads the Group's approach to health and safety. It includes experts in occupational health and safety, as well as in the management of chemical products and in ergonomics. 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.

Occupational health and safety policies at the plants are shaped by OHSAS 18001 guidelines, as well as Essilor's EHS guidelines. The key objectives are to improve awareness, training and communication on health and safety issues.

As of December 31, 2017, the production plants 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).

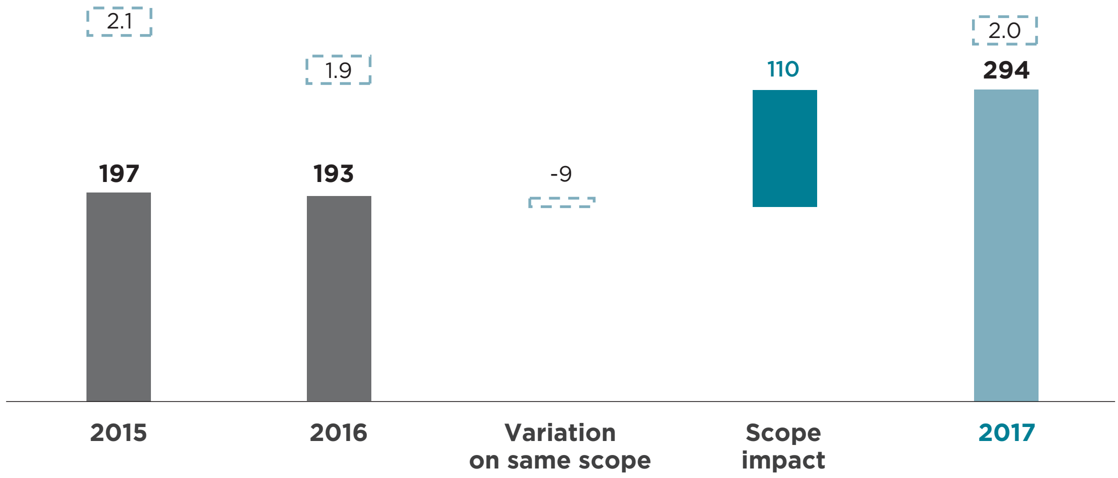
The development and launch of new products now include a new process called Stages & Gates which aims to coordinate the work of the various departments, from design to deployment at production plants. This process includes occupational health and safety and environmental requirements in an effort to prevent occupational illnesses and accidents and reduce their impact on the environment. These requirements pertain to safe machines and processes, ergonomic workstations, chemicals management, regulatory aspects and change management, among other topics.

Health & safety indicators

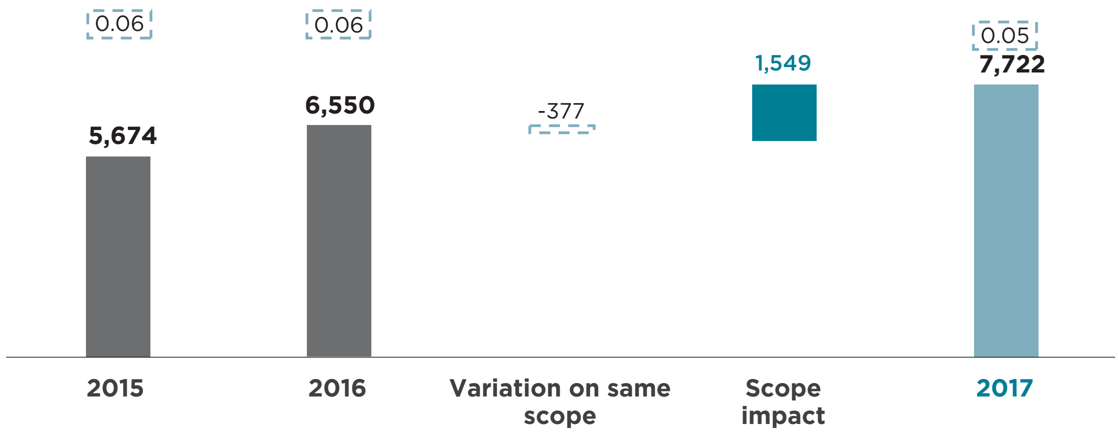
	2017	2016	2015
Work-related injuries with lost work time	294	193	197
Work-related injuries without lost work time	463	333	431
Fatal accidents	1	0	0
Lost days due to work-related injuries with lost work time	7,722	6,550	5,674
Frequency rate of work-related injuries with lost work time for the period	2.0	1.9	2.1
Severity rate of work-related injuries with lost work time for the period	0.05	0.06	0.06

Note: The increase in the number in work-related injuries is mainly due to the increase in the reporting coverage. Reporting scope has significantly increased from 74.8% in 2016 to 98% in 2017. Given the increase of the number of cases of work-related injuries, both the frequency rate and severity rate remain stable. Disregarding the increased scope of 2017, both frequency rate and severity rate of work-related injuries have decreased. At the end of 2016, one of the Group's employees in the Middle East tragically lost his life in a road accident on a work-related journey.

ACCIDENTS WITH LOST WORK TIME (FREQUENCY RATE FOR THE PERIOD)



LOST DAYS (SEVERITY RATE FOR THE PERIOD)



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 cases.

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, prevention and protection actions are underway, such as: Group-wide replacement program, technical systems to extract steam and fumes, automatic filling machines, adaptation of work stations, training sessions and specially adapted personal protective equipment. The effectiveness of these actions is verified by periodic sampling or *via* continuous monitoring, in addition to appropriate medical surveillance of employees.

These programmes were continued in 2017.

Absenteeism

	2017	2016	2015
Absenteeism rate	2.9%	3.4%	5.1%

Note: The absenteeism rate is calculated as a weighted average based on the number of lost work days. The coverage rate was 89% of employees covered in the 2017 reporting, across all of the Group's core businesses and geographical areas.

Working time organization

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 to build fulfilling career paths. Essilor has a strong commitment to its employees in both these respects.

From very early on, Essilor created its training schemes and put in place means of identifying and developing talent. Today, a number of initiatives are lead regarding training and talent management.

Training and development

The Essilor group has set up a flexible, consistent training platform to support its growth (online sales, sunglasses, etc.) while meeting the employability needs of individuals and teams.

At the Group level, a specific team is responsible for devising, rolling out and overseeing training, as well as ensuring that content is updated to best support the organization's new key themes. Training on Group level falls into three categories:

ESSILOR "U", 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.

Essilor University (Essilor "U") is based on an easy-to-use digital training platform, which connects all new employees from any of the Group's entities across the world, including those from key partner entities. In 2017, 10,000 employees joined Essilor "U" – a total of 42,000 employees are now connected and have access to the training solutions on offer at all levels. Particular focus was placed on welcoming and integrating new employees. These initiatives will continue in 2018 with more extensive industry-related content and programs, such as marketing and human resources, and improved access to content on mobile devices (smartphones and tablets). The Group's goal is to ensure all employees have access to Essilor "U" by 2020. In 2017, 64% of employees were connected to the platform.

The digital offering is built around the Group's fundamental principles: Mission, Strategy, Leadership, Finance, Regulatory Compliance, Optical and Products. Over 51,900 courses were completed in 2017. 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 available to Group managerial staff:

- for those who primarily work with their teams in the strategic operational performance functions, the General Management Program (GMP) 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 program in Chinese was rolled out for our employees and partners in China, Taiwan and Hong Kong. India has also introduced a similar program for its young talent;
- for those who are primarily involved in transforming key strategic objectives and rolling these out to their teams, the Advanced Management Program (AMP) 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); in 2017, a group of 32 managers began this program, which will continue in 2018 with an experiment focusing on the Group's Mission in Tunisia;
- a Senior Management Program (SMP) was delivered in 2016 for the first time, in partnership with INSEAD. It is primarily aimed at employees with a direct role in devising and managing strategy at the managerial level, and has two focus areas: maximizing the value created with strategic agility elements, innovation, management of partnerships and negotiations, then secondly, organizational efficiency, with the management of complex organizations, value analysis and optimization of commitment.

To complement the aforementioned business management programs, a special leadership development program, Transition from Manager to Leader (TML), was revisited and rolled out on a regional basis to meet a growing demand from managers. Its goal is to help them to develop as leaders, to be impactful and to coach their teams in fostering a respect for the Group's values. They receive guidance from coaches who help them to identify their strengths and work on areas for development, as well as support from their peers.

In 2017, over 340 managers received training on 11 different programmes.

PROGRAMS FOR SPECIFIC TOPICS, BUSINESS AREAS AND REGIONS

In addition, Group subsidiaries and functions create their own training programs in order to meet the specific needs of a region or business, or in response to an operational limitation (*e.g.* global dispersal of a community of experts…).

- "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 2017, almost 350 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 production sites who are trained to be trainers; they then, in turn, train their colleagues at their workstations. Content for the LOFT program is now managed in conjunction with Essilor University;
- "EVE" – The EVE programme, 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 2017, 15 employees took part in sessions held in France and China.

In 2018, Essilor will continue to connect more employees to Essilor U, by enhancing 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 and improve consistency with 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

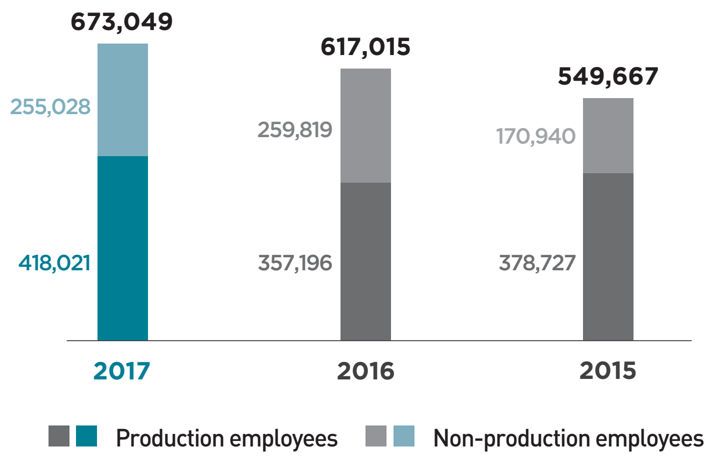
To monitor overall training activity across all locations of the Group, the subsidiaries are asked to track the "Number of training hours" indicator for production staff and all other management positions (supervisors, administrative employees and managerial personnel).

	2017	2016	2015
Number of training hours for production employees	418,021	357,196	378,727
Number of training hours for non-production employees	255,028	259,819	170,940
TOTAL	**673,049**	**617,015**	**549,667**

Note: To avoid training hours being counted twice, reporting on training is divided into two main sections: local training and online training. Local training includes training for production staff and non-production staff.

The local training coverage rate was 76% of all group employees, largely increased compared with 2016, resulting in a rise in the number of training hours declared.

The Group's online training is collected and consolidated separately via Essilor "U", the Group's online training platform.



Talent management

In order to attract, develop and retain talent, in 2017 Essilor's Talent Management Department continued with the rollout of a comprehensive approach built on several initiatives:

- deploy the Successfactor software (e-Talent) as a comprehensive talent management tool to appraise performance, review talent and prepare succession plans at the global level and also to set growth targets to continue our employees' development;
- implement a dedicated recruitment platform for internal and external use. This makes it easier for employees to find vacancies within the Group and, as such, provides more internal mobility opportunities. It also improves the efficiency of the external process and supports our efforts to become an "employer of choice";
- improve the "employer" brand: maintain a regular presence on the international campuses of top-ranking management schools (INSEAD, ESSEC, HEC, NUS, NTU, SMU, CEIBS, etc.) by making presentations on the Group's businesses, job and career fairs, presenting Essilor case studies, and so on. This complements campaigns on social networks such as LinkedIn™;
- develop internal talent-acquisition capacity to create a uniform experience for candidates and fill vacancies more quickly;
- globally launch the ETP ("Emerging Talent Program") which targets recruits from the best campuses, and offers students a rotation within a region or globally. It has already been launched in Europe, AMERA and for the Finance function;
- develop the COMET program, which is an accelerator for talented young employees in the Group, and support them in their career plans;
- continue to improve training programs, including AMP, GMP and TML;
- launch several mentoring programs across the organization, such as the Reverse mentoring initiative in France.

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 as such 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.

Onboarding new employees

At Group level, onboarding can be achieved through the Essilor "U" training platform which was open to over 42,000 employees in 2017, with the ambition to continue increasing this number in 2018. An induction program is made available to new employees when their online account is created. The program is also visible in a special section of the Group's intranet site. Providing information about the fundamentals of Essilor's business, its Mission, its 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. In 2017, a new e-learning module, available in eight languages, was introduced to the Group's fundamentals and core businesses.

"Vision Essilor" is the induction program offered to welcome new managers; it includes a full week in direct contact with General Management to explore the Group's core businesses, strategy and culture. In 2017, Vision Essilor attracted 130 participants from 36 countries.

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

Essilor's diversity and inclusion policy covers several major priorities: ensuring equal opportunity; supporting geographical development and adaptation to local cultures; optimizing the organization; and using the Group's social, human and cultural richness to boost 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.

The Group's *Diversité, Allons plus loin* ("Diversity – let's aim higher") program, which was launched in 2015, drives this strategy and has four main aims:

- to monitor changes in the situation using relative indicators for gender, age, nationality, participation in training and new hires, etc. This makes it possible to identify focus areas and progress made;
- to encourage local teams to take more action in this area; since 2016, March has been diversity and inclusion month at the Group when many subsidiaries involve their employees: breakfast on the theme of gender diversity, special evening with traditional costumes and dishes from different cultures, competition and diversity quiz; awareness-raising exhibition on disabilities, etc. Further, internal networks for women are being developed: in the USA, France, within the e-commerce subsidiary Clearly in Canada and Singapore;
- 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 fits the desired profile; in some countries, such as France, any job offered externally must first be publicized with firms specializing in the recruitment of people with disabilities; at the Group level, introduction of a quarterly discussion committee (the Best Practices D&I Committee) comprising some 15 "local diversity ambassadors"; local initiatives also exist, such as the IDEA Committee – Inclusion & Diversity @ Essilor of America – in the United States;
- to implement initiatives to support the professional development of all employees: "Female leadership" program, such as the EVE program initiated at Danone in which Essilor has been involved since it was set up five years ago; specific courses to attract and develop talent in the United States, Europe and Asia; training on diversity and subconscious bias aimed at a wide variety of profiles within the Group, with pilot sessions for all managers in France and all US employees.

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. In Colombia, Servioptica, an Essilor business partner, also won recognition from the United Nations last year for its good practice in terms of employing people with disabilities. In France, a guide has been produced to assist managers who are key players in integrating 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.

	2017	2016	2015
Number of employees with a disability	617	523	466
Percentage of employees with a disability	0.9%	0.8%	0.9%
Number of associated jobs created	85	84	81

Note: *To continuously improve the reporting data quality, a mistake was identified for 2016 reporting of disabled hiring. The 2016 data bave been restated accordingly. The reporting coverage rate of 2017 is 99% of the Group's total workforce. The percentage of employees declared as having a disability remained the same as the previous year.*

In France, since 2007, Essilor has signed four collective bargaining agreements on the continued employment of people with disabilities and their integration within the Group. Essilor is a member of two non-profit associations. In France, 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 4.59% in 2016.

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, using a range of appropriate aids;
- rollout of a sustainable recruitment plan with decisions based on objective, skills-related criteria;
- develop use of the protected worker sector;
- continued training, awareness and communication efforts in respect of disability.

In 2017, Essilor in France celebrated the 10th anniversary of its Disability mission. To commemorate this event, a series of videos featuring the testimonies of employees as well as a travelling exhibition were presented to all employees. Furthermore, Essilor France launched the *Engagez-vous pour la diversité!* (Commit to Diversity!) initiative, which encouraged employees to devise actions to promote diversity. Teams discussed key issues, such as equality in the workplace, disabilities and inter-generational issues. All managers were offered diversity training to break down stereotypes and prejudice.

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.

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 social security; it varies depending on local characteristics.

Ongoing management/employee dialogue also allows 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, its 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 establishment, Essilor has been committed to a strong internal employee shareholding policy. With 54% of employees now holding shares in the Group in 2017 thanks to the Boost international plan (detailed below), Essilor very quickly met its initial target of 35%of employee shareholders by 2020 and its even more ambitious target of 50% in the long term.

Actively involving as many employees as possible in the Company, its growth and success over the long term is a key element of Essilor's cultural foundations, one of the Group's founding principles and is critical to its performance.

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 1901 law, brings together more than 7,583 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 the employee shareholding plans for all Essilor group companies. In 2017, new countries were included in the shareholding plans: Chile, Colombia, Ivory Coast, Costa Rica, Morocco and Sri Lanka.

In 2017, the 2017 Boost international plan included 21,522 new employee shareholders. This plan covered 14 countries: Germany, Brazil, Chile, China, Colombia, Costa Rica, Ivory Coast, India, Italy, Mexico, Philippines, Sri Lanka, Thailand and the USA. This plan is open to almost all employees in these countries, and the subscription rate was 69%. 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, 2017, employees and partners held 8.4% of the share capital and 14.4% of voting rights.

	2017	2016	2015
Number of employee shareholders	35,866 (@)	13,557 (@)	12,944 (@)
Percentage of employee shareholders	54.2%	21.5%	21.4%

Note: Data concern only active employee shareholders as of December 31, 2017. Percentage calculation is based on an average of 66,118 employees for the full year 2017.

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.

The forms of representation include the following: Optical Union, in Brazil; Shanghai Essilor Optical Company Limited Trade Union, in China; Committee for Dialogue and Information Sharing within Essilor (CEDIE), in Europe; 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; as well as many activity committees, communication committees, employee committees, factory committees, safety committees, welfare committees and similar structures.

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. A new survey will be conducted in 2018.

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.

Most collective bargaining agreements relate to the provision of both long-term benefits (medical cover, pensions, diversity and disabilities, life assurance, etc.) and short-term benefits (performance bonuses, distribution of performance shares, shareholding, etc.) which attract and retain employees who contribute to the Group's performance through 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.

Compliance with the freedom of association and the right to collective bargaining

Essilor recognizes the eight fundamental conventions of the International Labor Organization (ILO), particularly compliance with freedom of association and the right to collective bargaining, the abolition of all forms of forced or compulsory labor, abolition of child labor and removal of discrimination in employment and occupation. To date, no activity has been identified as presenting a compliance risk in this area.

ENVIRONMENTAL INFORMATION

4.5. Optimizing the environmental footprint

In the mid-20th century, Essilor both revolutionized the optics industr and, substantially reduced its environmental footprint by introducting ORMA lens (for ORganic MAterial®). This would replace the mineral lens and lead to the cessation of impactful manufacturing methods. 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 allowing associated impacts to be controlled.

Essilor has set five priorities regarding the operational, financial and reputational challenges associated with the environment:

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 fulfil this responsibility, it relies on a network of EHS coordinators at production plants.

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: 2015 standard. Since December 31, 2005, the Essilor mass production plants 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 plants was 83% (10/12). In 2017, 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 2017, 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 Environment, Health and Safety (EHS) Department continued with the rollout of a program to raise partners' awareness of the EHS policy and management tools *via* Essilor "U" (e-learning) and dedicated seminars.

Provisions and guarantees for environmental risk

Essilor made no provision for environmental risks in 2017.

	2017	2016	2015
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 2017.

Biodiversity & land use

Finding potential significant impacts on biodiversity is one of the aims of the environmental management systems. Essilor performed biodiversity mapping on the majority of its sites worldwide; this was 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 programmes 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. This policy was recognized at Essilor's production plant in Shanghai, which includes SEOCL (production of finished and semi-finished lenses) and CHLOE (Rx laboratory for the domestic and foreign markets), named as a "company attentive to water-saving" by the Shanghai government. Only 22 companies have received this distinction.

Aware of its impact on the environment, Essilor has voluntarily contributed to the work of the CDP[1] regarding its water footprint. In 2017, the Group was awarded the highest distinction for its leadership in the field of water management. With the highest score of "A", the Group appeared for the first time on the "Water A" list 2017, a ranking of 74 global companies which have made ambitious commitments to optimize water use and improve the security of water resources. Finally, the Group aims to continue its efforts by cutting its water use per good lens produced by 20% by 2020 compared to 2015, on a scope that represents the majority of its water impacts. In 2017, on this same scope and as part of the Reboost program (see section below), the Group reduced the amount of water used in its manufacturing process by 10%.

(1) The CDP is an organisation which supports disclosure of the environmental impact of major corporations.

Reduction program

To ensure a more effective rollout of initiatives to reduce the consumption of natural resources, Essilor has launched the "Reboost" programme, 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:

- water mapping on the main mass production plants and laboratories;
- a comparison of the sites' water performance with the benchmark process, or "water model";
- a medium-term plan to reduce each area of water use.

As part of "Reboost Water", each region has to define its own Water roadmap, a process which is overseen at Group level.

In 2017, the water use of the first sites to participate in the Reboost programme decreased. The scope of the Reboost programme's action has now been extended to all mass production sites and export laboratories, as well as to the 15 largest prescription laboratories. The programme has focused in particular on coating machines, implementing solutions to reduce and reuse water. The Group continued to install intelligent meters at the main sites. The ultimate goal is to equip some 50 sites with these solutions. In 2018, the Global EHS Department will continue to roll out eco-design and environmentally-friendly behavior solutions across the entire "Reboost Water" scope.

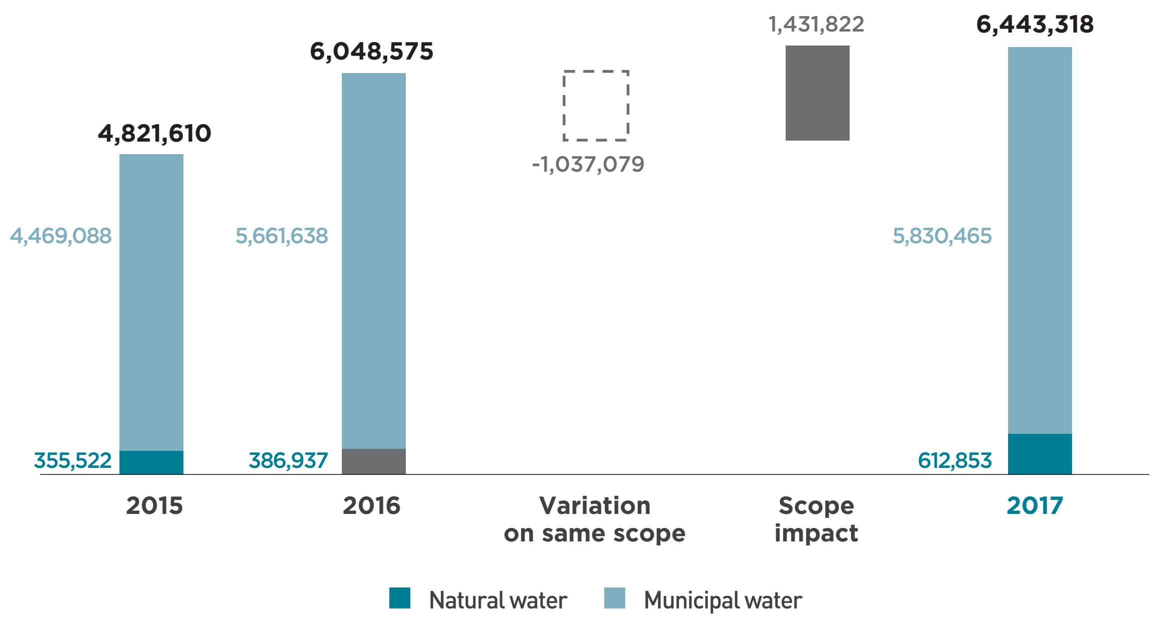
Water Withdrawals (m^3)

		2017	2016	2015
Water Withdrawals *(m^3)*		6,443,318	6,048,575	4,821,609
	Municipal water	5,830,465	5,661,638	4,469,088
Breakdowns by source	Natural water	612,853	386,937	352,521

Note: *Water withdrawals in 2017 were relatively stable compared with 2016. The data reported this year covers 89% of the total number of employees reported.*

Based on the 2016 reporting scope, water withdrawals decreased by 17%, thanks to the Group's efforts in water reduction and various water-saving initiatives across the Group. Larger participation rate and the expansion of perimeter has an impact of 22% of the total water use of 2017.

WATER USE (M3)



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.

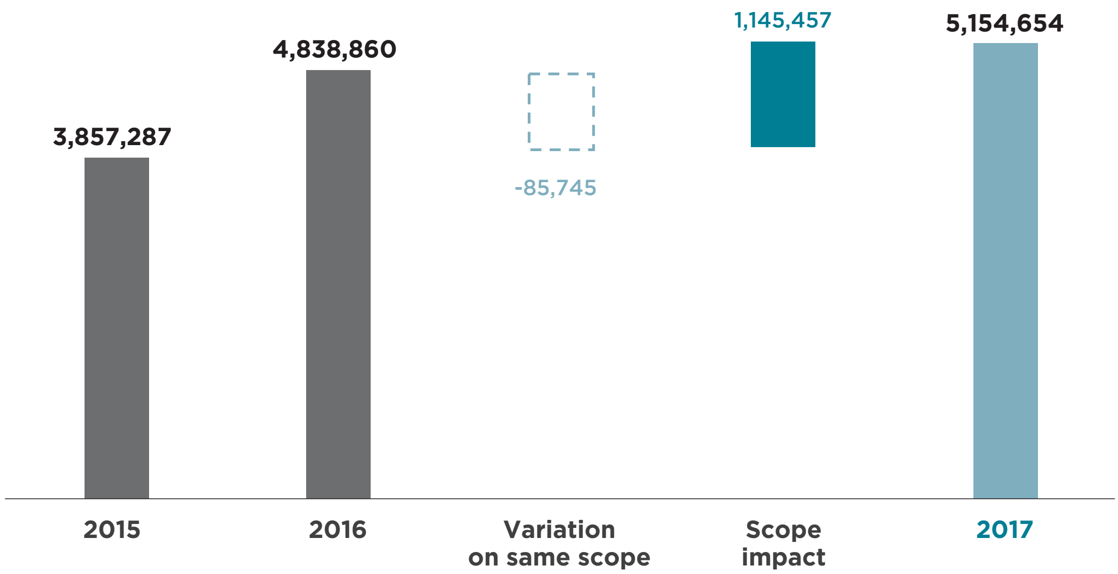
In 2016, the Group had only two incidents related to water discharge, which took place in Thailand. The impact was non-significant and a remediation plan has been put in place. One of the lessons learned was that the measures taken to reduce water withdrawals led to an increased concentration of pollutants. In 2017, the Group implemented measures to monitor wastewater more accurately. Meanwhile, Essilor has introduced the "Wastewater Model" program, on the same scope as Reboost Water, to compare sites' performance against 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 plants in Danyang. The Group had more than 90 water treatment plants in 2017.

	2017	2016	2015
TOTAL VOLUME OF WATER DISCHARGED *(m^3)*	**5,154,654**	**4,838,860**	**3,857,287**

Note: *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, the Group estimated its 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 87% 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.*

WATER DISCHARGES (M^3)



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 programme incorporates energy efficiency initiatives.

Reboost Energy now incorporates three areas of focus:

- a review of the energy efficiency of manufacturing processes (heat chambers, vacuum processing machines, etc.) and peripheral units, such as compressed air, chilled water and air conditioning units…;
- 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 energy mix, to date it is still difficult for most sites to use renewable energy, except in countries where these are available and offered as an option to industrial customers by energy providers.

The Reboost Energy program will continue in 2018 and beyond, with the goal of achieving a 15% reduction in energy intensity per good lens produced by 2020 (compared with 2015) on a scope that represents the majority of the Group's energy consumption. Essilor has also voluntarily contributed to the work of the CDP Climate. In 2017, the Group was awarded an "A-" rating in recognition of its efforts and continuing investments, having shown leadership in this area.

Furthermore, the program is led by an internal committee of energy experts whose goal is to:

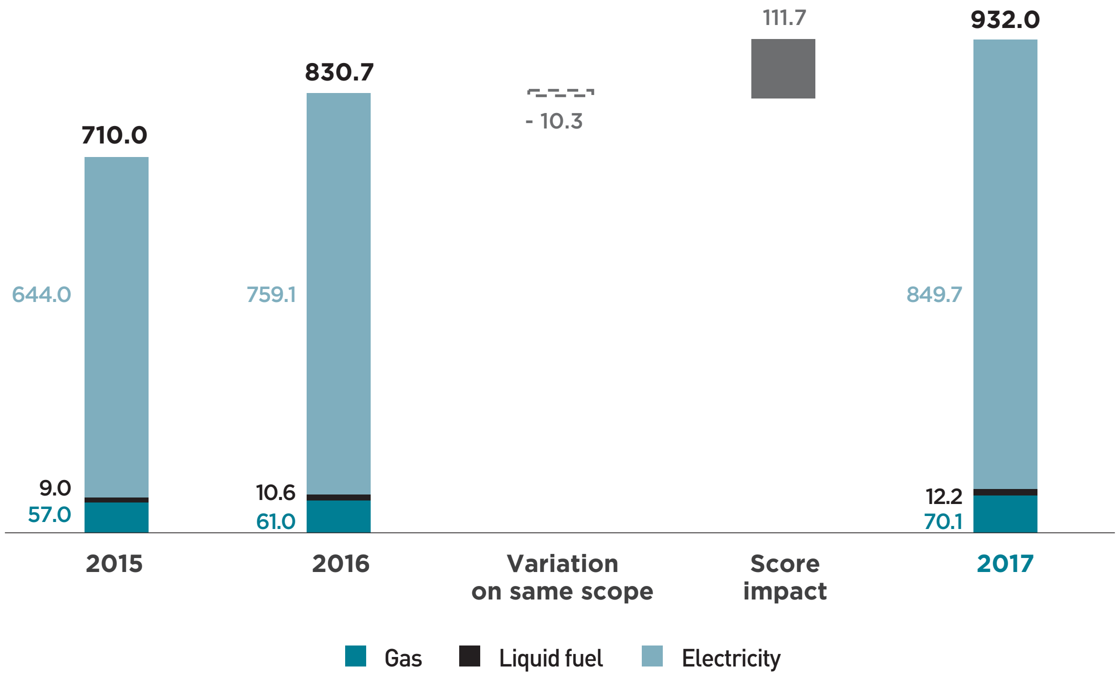
- share best practice;
- report on proven solutions/innovations (for production processes as well as for non-process equipment and process operating parameters); and
- prioritize the solutions to be deployed throughout the Group based on the criteria of simplicity, costs and expected benefits.

Direct energy consumption by primary energy source

		2017	2016	2015
Total consumption *(units: GWh)*		932.0	830.7	709.4
Breakdown by type	Electricity	849.7	759.1	643.7
	Gas	70.1	61.0	56.7
	Liquid fuel	12.2	10.6	9.0
Renewable energy		193.7	174.8	NA
	% of renewable energy	20.8	21.0	NA

Note: The increase in total energy consumption in 2017 is mainly due to the expansion of the reporting scope. The related reporting coverage rate was 92.2% of all employees. At constant scope, energy consumption decreased by around 1%. The scope effect accounted for 13% of total energy consumption in 2017. Renewable energies are calculated on the basis of the average percentage of renewable energy in the energy mix by country according to the International Energy Agency's (IEA) database.

ENERGY CONSUMPTION (GWH)



Energy & transportation

Energy used by transportation is measured using 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). See details in Section 4.5.4

4.5.4 A limited carbon footprint

In 2017, building on the achievements of the Paris Agreement and the United Nations COP23 conference, Essilor renewed its commitment to limit its greenhouse gas emissions and maintain its position as a low-carbon business. With this in mind, the Group signed up to the French Climate Pledge, along with 91 other French companies which have committed, over the next three years, to limit their impact on the climate, notably by financing energy efficiency programs, optimizing their production equipment and logistics chains, and innovating in the field of low-carbon products and services.

The Group has also made improvements to its "Climate" program, in three areas:

- monitoring the main sources of greenhouse gas (GHG) emissions;
- mitigating GHG emissions;
- adapting to climate change.

4.5.4.1 Monitoring the main sources of GHG emissions

In 2017, the Group took a very proactive approach to measure the GHG generated by its operations, conducting two complementary initiatives:

- Improving the way the main GHG emissions categories published in this document are measured, by consolidating the data collection channels and by extending the reporting scope;
- Assessing the Group's overall carbon footprint, taking into account all sources of emissions across the value chain.

All this work follows the "Greenhouse Gas Protocol" (GHG Protocol), the international set of standards for greenhouse gas accounting. Under this Protocol, there are three categories:

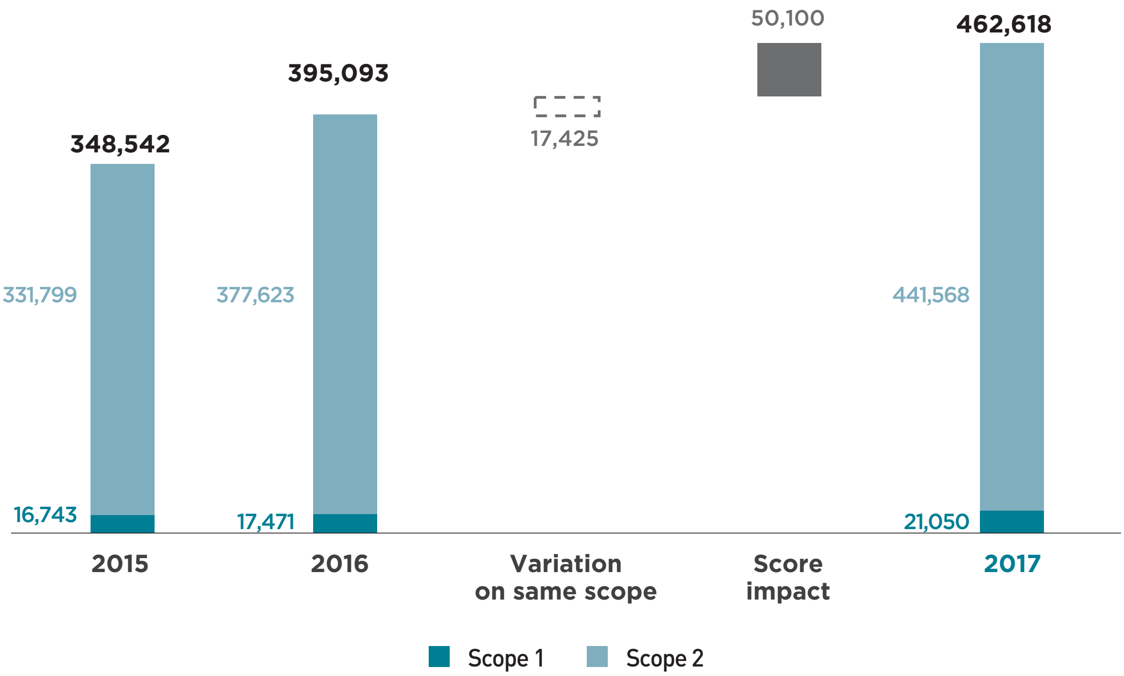
- *Scope 1* – Direct GHG emissions occur from sources that are owned or controlled by the company;
- *Scope 2* – GHG emissions from the generation of purchased energy (*e.g.*: purchased electricity) consumed by the company;
- *Scope 3* – all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS DERIVING FROM ENERGY CONSUMPTION (SCOPE 1 AND 2)

Since 2015, Essilor has been working on an extended reporting scope for its greenhouse gas emissions, and has reviewed the associated calculation methodology. The Group uses the main emissions factors *via* the databases of the French Environment and Energy Management Agency (*www.ademe.fr*).

	2017	2016	2015
TOTAL SCOPE 1+2 EMISSIONS *(UNITS: TCO_2EQ)*	**462,618**	**395,093**	**348,542**
Scope 1	**21,050**	**17,470**	**16,743**
Gas	17,102	13,661	13,841
Liquid fuel	3,948	3,809	2,902
Scope 2	**441,568**	**377,623**	**331,799**
Electricity	441,4568	377,623	331,799

Note: *The increase in GHG emissions (Scope 1 + Scope 2) in 2017 was mainly due to the expansion of the reporting scope. With the same reporting scope, the Group's GHG emissions only rose by 4%, mainly due to the energy consumption increase in certain countries with high carbon emission factors (China, India, Laos).*



INDIRECT GREENHOUSE GAS EMISSIONS DERIVING FROM TRANSPORTATION (SCOPE 3)

Three main sources of emissions were 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.

Since 2015, to focus on the material impacts, the Group has been working with a reference reporting scope in terms of volume and geographical coverage, covering all three types of transportation and has been continuously integrating more subsidiaries and locations in the reporting scope.

The 2017 emissions cover 30 mass production plants, five offshore prescription laboratories and 7 distribution centers, covering most locations of the Group's lenses business with international transportation flows. The increase in reporting scope has an impact of 8% of the total 2017 emission.

Based on the same reporting scope of 2016, Group emissions linked to logistics activity has increased by 15% due to the increase of transported volume and relocation and reorganization of certain logistic centers. The group aims to reduce the GHG emission linked to logistics activities in the coming years.

		2017	2016	2015
TOTAL SCOPE 3 EMISSIONS ASSOCIATED WITH TRANSPORTATION *(UNITS: TCO_2EQ)*		**281,988**	**226,371**	**207,915**
Development factors	Impact related to transported volume & reorganization of logistics flows	260,876	226,371	
	Impact of reporting scope expansion	21,112		

ASSESSING THE GROUP'S OVERALL CARBON FOOTPRINT

As previously stated, in 2017, Essilor performed its first global carbon assessment of its business. On the basis of the structure and the data from the GHG reporting (see previous paragraph), the Group has taken into account all sources of emissions along its value chain (raw materials, transportation to customers, depreciation of buildings, end of product life, etc.). The Group's carbon footprint is estimated at 2.7 million tCO2eq, across all scopes (Scopes 1, 2 & 3).

This work has enabled us to:

- confirm that our current reference reporting scope, with a total of 744,606 t, is consistent, representing 28% of our total estimated footprint;
- provide more detailed information on the largest sources of emissions;
- improve our knowledge of Scope 3 so as to begin dialogue with our stakeholders (transporters, suppliers, etc.);
- identify the next focus areas in terms of reporting;
- confirm Essilor's positioning as a low-carbon company.

4.5.4.2 Mitigation

While implementing its growth strategy, the Group is committed to reducing the environmental impact of its operations, particularly its carbon footprint.

Reducing the Group's GHG emissions is also an opportunity to reduce the associated costs (energy, transportation), limit energy dependence (even if realtively moderately), anticipate the application of binding climate agreements (taxes, quotas) and meet the expectations of investors and financial institutions, as well as of key account customers in this area.

The analysis of GHG emissions shows that there are three main sources of emissions:

- transportation between suppliers, plants, laboratories and customers;
- purchasing, including basic materials to manufacture the lenses;
- the energy used at the lens production plants and prescription laboratories.

As regards transportation, the Group continues to optimize its supply chain by favoring regional flows between the production plants and the prescription laboratories, by increasing the use of sea transportation and reducing the use of air transportation and by requiring logistics subcontractors to use more environmentally-friendly transportation methods.

As part of its Supplier Sustainability program (see 4.6.3), Essilor also works in partnership with its suppliers to improve the environmental profile of its products (*e.g.*: using less packaging, eco-design) to reduce the associated carbon footprint.

Finally, at its plants and laboratories, Essilor has implemented an ambitious energy efficiency program, "Reboost Energy" (see 4.5.3).

4.5.4.3 Adapting to the consequences of climate change

Essilor was one of the first signatories of the United Nations' Caring for Climate initiative in 2007, and – being aware from a very early stage of the effects of climate change – it has gradually included these effects in its operations. As such, analyzing the consequences of climate change on Essilor's operations is part of managing operational risks at the Group's manufacturing plants and those of its strategic suppliers. 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:

- severe weather events (cyclones, hurricanes and typhoons) which can cause damage to plants and slow down the logistics chain;
- periods of extreme drought, which may affect water availability;
- or inversely, an increase in the frequency and intensity of precipitation, which may slow down production processes and potentially threat employee security;
- finally, fluctuating costs of energy and raw materials (*e.g.*: additional taxes on fossil energy, carbon tax levy, etc…).

Essilor has defined two focus areas in response to climate change:

- Managing operational risks: a major focus area, broken down into three complementary components:
  - environmental audit prior to acquisition of any new business partner, to assess their exposure to climate change,
  - improvement to the environmental management system at the plants by implementing specific action plans to ensure better prevention of and adaptation to all climatic risks. As such, the Group pays close attention to the choice of location for its industrial facilities,
  - business continuity plan to ensure that production and business activity continues, even in the case of a weather event that could slow down a production plant or disrupt the logistics chain;
- Developing the product range: eye protection needs in response to a context where climate change may impact the quantity or 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.).

	2017	2016	2015
Materials used *(tons)*	21,110 (@)	18,000 (@)	16,700 (@)

Note: *resins, monomers, minerals.*

Environmental impact studies, for the most part based on life-cycle analyses conducted in 2017, show that Essilor's operations do not present any risks of discharges into the air, water and ground which could seriously affect the environment. However, these activities generate special waste, which must be handled and processed in a particular way.

For many years now, Essilor has been committed to a strategy which combines improvement to manufacturing yields (quality management, continuous improvement, eco-design, etc.) with the promotion of the "3Rs": Reducing the volume of materials used in the various processes (manufacture, distribution), 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 example:

- in 2017, the Group introduced reusable shuttle packaging, known as "Bulkpack", between the manufacturing plants and the laboratories, significantly reducing packaging waste;
- Essilor has also analyzed waste generation at its main plants, export laboratories and the 15 largest prescription laboratories. This work involved mapping the amount and type of waste, as well as the associated processing solutions. It became apparent that the structures of existing local waste treatment measures play an important role when it comes to managing waste sorting at Group sites;
- Essilor's environmentally-responsible paper policy has received recognition by WWF France. Essilor improved its performance since it was ranked 8th in the PAP50 survey in 2013. Its paper use per employee has fallen by 19%; over 300 tons of papers have been recycled and its recycling rate is close to 100%.

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.

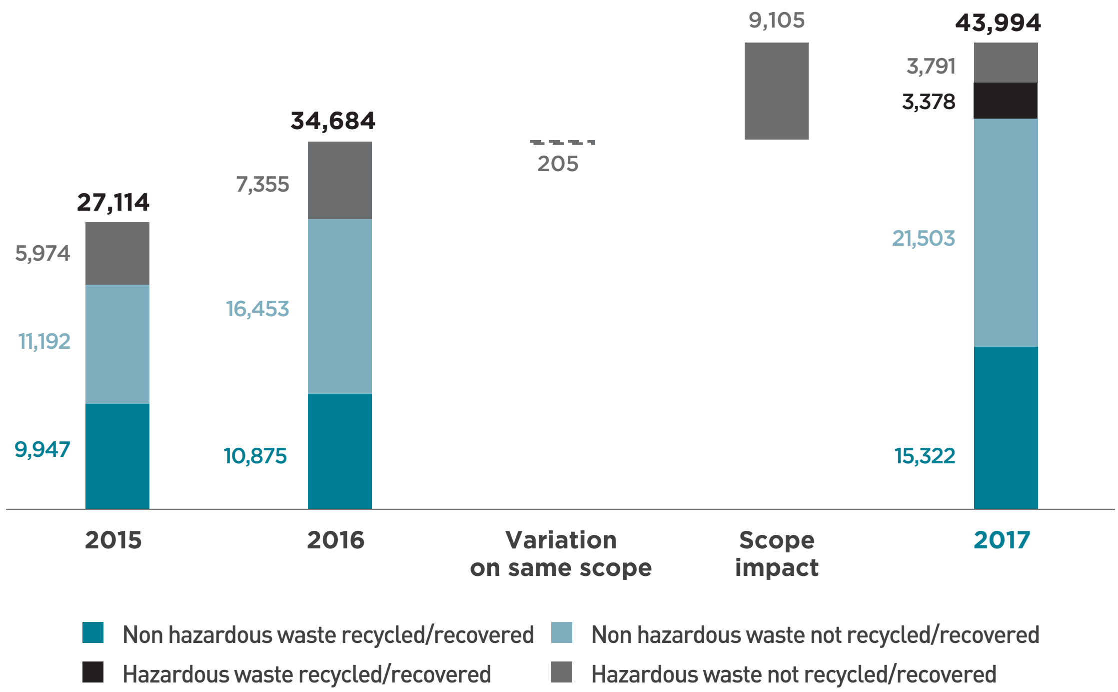
Lastly, Essilor believes that combating food waste is a collective challenge, even if it is not a challenge for the Group in the context of its own activities. However, the Group still educates its employees about this issue.

Total volume of waste

	2017	2016	2015
TOTAL WASTE *(UNITS: T)*	**43,994**	**34,683**	**27,113**
Ordinary (non-hazardous) waste	**36,825**	**27,328**	**21,139**
Recycled/Recovered	15,322	10,875	9,947
Not recycled/not recovered	21,503	16,453	11,192
Special (hazardous) waste	**7,169**	**7,355**	**5,974**
Recycled/Recovered	3,378	2,434	N/A
Not recycled/not recovered	3,791	4,921	N/A

Note: *The increase of waste of 2017 is mainly because of the expansion of reporting perimeter, which covers 82% of the group headcount. With the same scope of 2016, waste increased by less than 1%. Larger participate rate and the expand of perimeter has an impact of 21% of the total waste.*

WASTE (T)



Accidental spills

	2017	2016	2015
Number of accidental spills	1	2	2

Note: *In 2017, there was one accidental chemical spill. This spill was dealt with immediately and had no significant environmental or social impact. Actions and remediation plans were implemented.*

4

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 2015, the Group decided to make improvements in this area by appointing a Chief Compliance Officer and putting together a network of local correspondents.

Finally, as an industry leader, 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 formalize the general conduct rules to be followed by every employee;
- a Code of ethics, available in the first quarter of 2018, reaffirms that Essilor is accomplishing its mission to "improve lives by improving sight", driven by its Principles and Values. This Code will be deployed through face-to-face training for managers and employees, supplemented by e-learning training. It will then be asked to acknowledge receipt of the Code and its understanding by all employees;
- the Minimum Control Standards (MCS) formally enshrine 80 internal controls which are generally considered to be the most crucial to have in place. Brochures explaining these procedures to employees have been translated into 32 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, *"Devoir de vigilance"* and California Proposition 65;
- development of a formal competition law compliance program;
- preparation and implementation of a formal Group corruption prevention guide, explaining the common 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 and ensures compliance with local regulations.

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 steadily filtering down 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. This is complemented by classroom-based training programs, where necessary.

EthicsLine, the internal warning system – which covers different areas (HR, CSR, legal, finance) within the limits set by local regulations – available throughout the Group is part of this corruption prevention effort. Accessible to every employee, it can also be used to seek advice on other human rights-related issues (data protection, sexual harassment, safety, etc.).

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 The Group's commitment and vigilant approach to 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. That is why Essilor's teams are active worldwide in their drive to "improve lives by improving sight" with the aim of providing better vision to the world's 7.4 billion people. Through its mission, operations and organization, Essilor plays a role in protecting a fundamental human right: access to visual health. Its expertise, global presence and capacity for innovation have resulted in more than a billion people worldwide already wearing Essilor products.

Respect for human rights along the entire value chain

Essilor's commitment to the respect and promotion of human rights was formally marked by its signing of the United Nations Global Compact; a commitment which has been renewed every year since its first signing in 2003 and which is supported at the highest level in the Company, by the Chairman and Chief Executive Officer. The ten principles of the Global Compact concerning human rights, working conditions, the environment and the fight against corruption have thus been applied and continually reinforced for nearly 15 years.

Moreover, the development in recent years of international standards has informed the Group's approach. Since 2010 and the adoption of several international laws, human rights must be a core focus of any responsible corporate policy. Accordingly, Essilor has decided to base its sustainable development approach on the United Nations Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Furthermore, the Group complies in particular with the English law, the "Modern Slavery Act" (of which the statement by the Chairman is available on *www.essilor.com*) and with the "duty of care" law adopted in France in 2017. 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 International Labor Organization's Declaration on Fundamental Principles and Rights at Work.

In accordance with our "Principles and Values", Essilor complies with the laws and regulations applicable in the countries in which it operates. The Group also operates in some geographic regions which have been identified as "sensitive" where regulations and the enforcement of laws on human rights may be poor. Essilor is committed to doing business in compliance with international standards on the protection of human rights, and to take continuous action to prevent any negative impacts on human rights and remedy them should they arise.

As part of this process the Group regularly updates and improves its policies, commitments, procedures and actions in order to remain vigilant at all times to the consequences of its activities (including its value chain) upon human-rights.

In 2014 the Group realized a first mapping of human rights-related risks as linked to the Group's activities; this led to a better understanding of the challenges involved in each type of business activity (lenses, equipment, Sunglasses & Readers) and in each geographic region, for human rights issues where Essilor could have an impact. On the basis of that analysis, Essilor spent several months working with human rights experts and stakeholders to identify priority actions to strengthen its vigilance approach. Today, this approach consists of the Group's human rights vigilance plan, required by the recent French law on the "duty of care" for parent and subcontracting companies.

In 2017, Essilor set up a Group-wide operational working group made up of the heads of Human Resources, Purchasing, Sustainable Development, EHS, Compliance, and internal experts to improve its policy and vigilance plan to ensure the respect and promotion of human rights. The policy has five dimensions:

- commitment: by publishing a Code of ethics aimed at all the Group's employees, particularly managers;

Furthermore, Essilor strives to conduct its supplier relationships in an exemplary fashion and in accordance with its Principles and Values. The Group's Supplier Charter, available at *www.essilor.com*, describes the four guidelines to be followed; one of these is respect for human rights and labor standards. See Section 4.6.3;

- identifying and managing risks: by completing new risk mapping of Essilor's operations and suppliers to prioritize the Group's actions. In parallel, the Purchasing Department performs "field" audits of its suppliers during which respect for human rights is discussed;
- raising awareness and training for employees: *via* dedicated e-learning modules on the "Essilor U" platform, as well as classroom-based training;
- an alert mechanism: in 2017, Essilor rolled out the alert system already in place in North and South America across the whole Group. This system, called EthicsLine, allows employees to report any concerns they may have, including on human rights, *via* a secure website;
- reporting: Essilor includes performance indicators on human rights in its Sustainable Development reports, particularly those specified by the Global Reporting Initiative (GRI). By monitoring these indicators, Essilor evaluates the effectiveness of the risk prevention initiatives it has implemented.

This working group coordinates action plans and monitors measures in place related to human rights. The working group reports on the results of its work to the Global Sustainable Development Steering Committee, which oversees the implementation of the Group's commitments. See Section 4.2.2.

Essilor has also joined the French association *Entreprises pour les Droits de l'Homme – EDH* (Companies for Human Rights) to share best practice and improve the Group's approach. EDH provides tools and advice on implementing the United Nations Guiding Principles on human rights.

For information about EHS and environmental risks more specifically, see Sections 4.4.1 and 4.5 of this document.

4.6.3 Sustainable purchasing in supplier relations

Essilor maintains mutually-beneficial relations with its suppliers and subcontractors: they are essential partners in its operations and growth, and the Group supports their performance by helping them, particularly in the field of international expansion. 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 listed suppliers and subcontractors comply with the principles set out in the Supplier Charter (see *Essilor.com*), and from a contractual standpoint, comply with general purchasing conditions, which include clauses on the obligation to comply with the International Labor Organisation's Fundamental Conventions and local legislation, particularly as regards minimum wage, working hours, the environment and health and safety, and on the protection of human rights (forced labor, child labor, etc.);
- the CSR performance of suppliers and subcontractors (representing 80% of overall expenditure) complies with the Group's requirements. In this regard, the Purchasing Department assesses their performance by means of a shared evaluation platform run by EcoVadis;
- risk management is addressed by regular, systematic assessments of all listed suppliers. In the event of suspicion, the Purchasing Department will trigger on-site audits and requires 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:

- promoting World Sight Day: in 2017, the Purchasing team held a series of events for suppliers and their employees to raise awareness about the importance of good eyesight and highlighted this issue on their own social networks. Over 50 suppliers in 15 countries (Europe, Asia, North and South America) across various sectors (*e.g.*: transportation, IT, catering services, etc.) took part in this initiative. This resulted in around 500 sight tests being carried out and over 1 million people being made aware of the issue *via* social media;
- local inclusive purchasing programs (developing business in the protected worker sector, local sourcing to boost the local economy in all countries where Essilor operates, increased purchasing from suppliers representing minorities);
- free services negotiated with one of our digital marketing agencies to overhaul the website of our Essilor Vision Foundation™;
- eco-design (development of cardboard-only packaging instead of a mix of cardboard and plastic, such as the "Cupless®" concept);
- use of bio-sourced materials in the manufacture of frames;
- fitting equipment at our manufacturing plants to reduce water and energy use, or recycle it (solar panels, increased use of renewable energy, etc.);
- analysis of the life cycle of the main raw materials used to manufacture the lenses.

Finally, a CSR Purchasing training program aimed at the Group's entire Purchasing Department has been introduced across all regions. In 2017, 50% of the team had already received this training.

In 2018, the Purchasing Department plans to provide its suppliers with training tools to better understand the CSR issues and objectives.

In 2017, Essilor won the international Corporate Social Responsibility category at the 2017 World Procurement Awards for its purchasing policy due to the Supplier Sustainability Program.

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 liaises 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 variety of expectations according to 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 standards bodies to promote the interests of consumers on these bodies (*e.g.*, ISO).

	2017	2016	2015
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 all 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 four areas of work:

- responsible marketing initiatives aim to ensure that product-related communication is accurate and complies with the regulations on advertising. This responsibility is exercised in conjunction with local authorities and consumer associations, which notify Essilor customers of potential discrepancies with the claimed benefits of the products. Essilor has developed a platform called "The Media Place", which contains templates and "marketing packs" approved by the Group for use by all entities, to ensure overall consistency;
- Essilor has also implemented a process to substantiate the claims of its products to ensure that for each one (i) there is evidence to support the claim and (ii) the performance of the products in a laboratory is also maintained during manufacture. The benefits of Group products are based on extensive wearer tests and usage tests either in real life or under experimental conditions. For example, Essilor has opened a House Lab and a Car Lab to test the performance of its products in real-life settings;
- furthermore, Essilor 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;
- lastly, honest communication also calls for transparency in the public positions that the Group 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 GIFO, 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 priorities 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, salaries and expenses, donations, taxes and duties, dividends, etc.) that are available in this 2017 Registration Document.

Essilor's socio-economic footprint for fiscal year 2017 can be summarized by the following items in descending order of importance:

- revenue: €7,490 million;
- suppliers: €3,300 million;
- employees/compensation: €2,298 million;
- shareholders: €364 million;
- duties and taxes: €132 million, representing a tax rate of 13.0%; and
- financial expenses: €49 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 45 countries in Asia, Latin America and Africa (see Section 4.3).

Essilor has appoinFted 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 [(1)], who gain an average of one-and-a-half hours a day in their daily tasks.

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.

(1) 75% of women who buy their glasses from an Eye MitraTM partner are doing so for the first time.

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 one year before being integrated into the Group reporting system. This year, by including in particular the recently-acquired entities, the non-financial reporting covers 100% of the Group entities, exceeding its commitment to reach a target of 85% in 2017. Four entities representing less than 100 employees (0.01%) were exempted from non-financial reporting in 2017 for the following reasons: one entity in Miami was affected by hurricane Irma and three entities stopped their activity at the end of 2017. Given the specific cases above, Essilor considers that the 2017 non-financial reporting covers 100% of the Group's entities and workforce. This significant increase compared with previous years is in line with our target to achieve a 100% coverage rate by 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; the 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 days (calendar days) x 1,000/total number of hours worked over the reporting period; the 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" based on a representative sample;
- 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 2017, 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/*) 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 gCO2e/kWh LCV;
- Liquid fuel: 324 gCO2e/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_2e/kWh;
- United States: 522 gCO_2e/kWh;
- France: 82 gCO_2e/kWh;
- Thailand: 513 gCO_2e/kWh;
- Philippines: 481 gCO_2e/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 reporting scope covers all three types of transportation. Essilor has successfully integrated the transportation of new products and locations into the 2017 Report.

4.7.2 Correspondence table for the criteria of the Grenelle 2 law

	Reference
SOCIAL	
Employment	
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
Organization of labor	
Working time organization	4.4.1
Absenteeism	4.4.1
Labor / management relations	
Organization of social dialogue including information procedures, consultation and negotiation with the employees	4.4.4
Summary of collective agreements	4.4.4
Health and safety	
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
Training	
Policies implemented regarding training	4.4.2
Total number of training hours	4.4.2
Equal opportunities	
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
Promotion and upholding of the Fundamental Conventions of the International Labor Organization on	
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
ENVIRONMENT	
General environmental policy	
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

	Reference
Pollution	
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 et 4.5.5
Consideration of noise and of any other activity specific pollution	4.5.1
Circular economy	
(i) Waste prevention and management	
Measures of prevention, recycling, reuse, other forms of recovery and disposal of waste	4.5.5
Actions against food waste	
ii) Sustainable use of resources	
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
Climate change	
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
Biodiversity protection	
Measures implemented to protect and conserve the biodiversity	4.5.1
SOCIETAL	
Regional, economic and social impact of the Company's activities	
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
Relations with stakeholders, including associations of integration, educational institutes, associations for the protection of the Environment, consumers organization and local populations	
Conditions of the dialogue with stakeholders	4.1.1
Actions of partnership and sponsorship	4.3.1, 4.3.3, 4.3.4
Subcontractors and suppliers	
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
Fair practices	
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
Other initiatives undertaken to promote human rights	
Other actions implemented to promote Human Rights	4.6.2 and 4.6.3

4.7.3 Correspondence table for the Guidelines of the GRI, SDGs and UNGC

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 PwC according to the modalities explained in the ITO Report in appendix 4.7.8.

GRI Standards	UNGC Principles	SDGs	Topic	Reference
GENERAL DISCLOSURES (THE LIST OF GENERAL DISCLOSURES HAS BEEN PREPARED IN ACCORDANCE WITH THE "CORE" OPTION)				
Organizational profile				
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
Strategy				
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

GRI Standards	UNGC Principles	SDGs	Topic	Reference
Ethics and integrity				
102-16	Principle 10	16	A description of the organization's values, principles, standards, and norms of behavior.	4.6.1
Governance				
102-18		16	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
Stakeholder engagement				
102-40		17	Provide a list of stakeholder groups engaged by the organization.	4.1.1
102-41	Principle 3	8	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		17	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
Reporting practice				
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

GRI Standards	UNGC Principles	SDGs	Topic	Reference
MATERIAL TOPICS				
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	16	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
SPECIFIC STANDARD DISCLOSURES				
Economic performance				
201-1			Direct economic value generated and distributed.	4.6.5
201-2	Principle 7	5, 8, 10, 13	Financial implications and other risks and opportunities for the organization's activities due to climate change.	4.5.4
Indirect Economic Impacts				
203-1		9	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		1, 3, 5, 6, 10, 17	Significant indirect economic impacts.	4.3, 4.3.1, 4.3.3, 4.3.4, 4.6.5 and 2015 "See Change Report"
Anti-corruption				
205-2	Principle 10	16	Communication and training on anti-corruption policies and procedures.	4.6.1
Anti-competitive Behavior				
206-1		16	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices.	Note 26 of Section 3.4, 4.6.1
Materials				
301-1		12	Materials used by weight or volume.	4.5.5
Energy				
302-1	Principle 7 Principle 8	7, 12, 13	Energy consumption within the organization.	4.5.3
302-2	Principle 8	7, 12, 13	Energy consumption outside of the organization.	4.5.3
302-5	Principle 8 Principle 9	7, 12, 13	Reductions in energy requirements of products and services.	4.3.2

GRI Standards	UNGC Principles	SDGs	Topic	Reference
Water				
303-1	Principle 7 Principle 8	6, 12	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	3, 6, 12	Water sources significantly affected by withdrawal of water.	4.5.2
Biodiversity				
304-1	Principle 8	6	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	4.5.1
Emissions				
305-1	Principle 7 Principle 8	3, 12, 13	Direct greenhouse gas (GHG) emissions (Scope 1).	4.5.4
305-2	Principle 7 Principle 8	3, 12, 13	Energy indirect greenhouse gas (GHG) emissions (Scope 2). Report gross location-based energy indirect (Scope 2) GHG emissions in metric tons of CO_2 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	3, 12, 13	Other indirect greenhouse gas (GHG) emissions (Scope 3).	4.5.4
Effluents and waste				
306-1	Principle 8	3, 6, 12	Total water discharge by quality and destination.	4.5.2
306-2	Principle 8	3, 12	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	3, 12	Total number and volume of significant spills.	4.5.5
Environmental *Compliance*				
307-1	Principle 8	16	Non-compliance with environmental laws and regulations.	4.5.1
Employment				
401-1	Principle 6	5, 8	New employee hires and employee turnover.	4.4
Occupational health and safety				
403-2		3, 8	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	4.4.1
Training and education				
404-1	Principle 6	8, 8	Average hours of training per year per employee by gender, and by employee category.	4.4.2
404-2		4, 8	Programs for upgrading employee skills and transition assistance programs.	4.4.2
Diversity and equal opportunities				
405-1	Principle 6	5, 10	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

GRI Standards	UNGC Principles	SDGs	Topic	Reference
Non-discrimination				
406-1	Principle 6	1, 5, 8, 10	Incidents of discrimination and corrective actions taken.	4.4.3
Child Labor				
408-1	Principle 5	8	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
Forced or Compulsory Labor				
409-1	Principle 4	8	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
Local Communities				
413-2	Principle 1	6, 12, 13	Operations with significant actual and potential negative impacts on local communities.	4.5.2 and 4.5.4
Supplier social assessment				
414-2	Principle 2	12, 16	Negative social impacts in the supply chain and actions taken.	4.6.2 and 4.6.3
Customer Health and Safety				
416-1		12, 16	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		8	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
Marketing and Labelling				
417-3		16	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
Socioeconomic Compliance				
419-1		16	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 translation into English 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 31, 2017

To the Shareholders,

In our capacity as Statutory Auditor of Essilor International (Compagnie Générale d'Optique), appointed as independent third party and certified by Cofrac under number 3-1060 [(1)], we hereby report to you our report on the consolidated human resources, environmental and social information for the year ended December 31, 2017, 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 "Group Sustainability Reporting" used by the Company (hereinafter the "Guidelines") and available on request from 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.822-11-3 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 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).

However, it is not for us to express an opinion on the compliance with the other legal provisions applicable, in particular those set out by the article L.225-102-4 of the commercial code (plan of vigilance) and by the law No 2016-1691 of December 9, 2016 known as Sapin II (fight against corruption).

Our work involved 14 persons and was conducted between October 2017 and February 2018 during about 12 week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated May 13 , 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement and with ISAE 3000 concerning our conclusion on the fairness of CSR Information .[(2)]

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.

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 "Methodological note" section of the Management Report.

(1) whose scope is available at www.cofrac.fr.
(2) Assurance engagements other than audits or reviews of historical financial information.

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Conclusion

Based on the work performed, we attest that the required CSR Information has been disclosed in the Management Report.

Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted about 12 interviews with about 10 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 and whose list is given in annex:

- at parent entity 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 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, Essilor Da Amazonia (Brazil), Multi Optica Distribuidora LTDA (Brazil), Servioptica (Colombia), FGX US (United-States), EO Operation – Gentex (United-States), Essilor International (France), BBGR Provins (France), GKB RX Lens Private (India), Optodev (Philippines), Essilor Manufacturing Philippines Inc. (Philippines), Transitions Optical Philippines (Philippines), selected by us 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 we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. This work represents 19% of headcount considered as typical size of the social component, and in average 18% of environmental data considered as characteristic variables of the environmental component.

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.

Neuilly-sur-Seine, March 5, 2018

PricewaterhouseCoopers Audit

One of the Statutory Auditors

Cédric Le Gal Partner	**Sylvain Lambert** Partner of the “Sustainable Development” Department

Appendix: CSR Information that we considered to be the most important.

Human resources:

- Total workforce and breakdown of employees by gender, age and geographical area;
- Recruitments and dismissals;
- Frequency rate and severity rate for work accident;
- Total number of hours of training;
- Promotion and respect of the OIT conventions regarding the freedom of association and of collective negociation,
- Promotion and respect of the OIT conventions regarding the elimination of discrimination regarding employment and profession,
- Promotion and respect of the OIT conventions regarding the elimination of forced or obligatory labour,
- Promotion and respect of the OIT conventions regarding the abolition of child labour.

Environmental information:

- The Company's organization to take into account environmental concerns, and if necessary the evaluation steps or certifications with regards to the environment;
- Preventive measures, recycling, reuse, other forms of recovery and waste disposal;
- Consumption and provisioning of water considering the local constraints;
- Consumption of raw materials and the measures taken to enhance efficiency in their use;
- Energy consumption, the measures to enhance energy efficiency and the usage of renewable energy;
- Significant sites of greenhouse gas emission due to the Company's activity, notably through the use of goods and services it produces (scope 1, 2 and 3).

Social information:

- Territorial, economic and social impact linked to the Company's activity in terms of employment and sustainable development;
- Territorial, economic and social impact linked to the Company's activity on local people;
- The inclusion of social and environmental concerns in the purchasing policy;
- The importance of sub-contractors for the Group, their relationship with the Group, and their implementation of CSR.


5
CHAPTER

INFORMATION ABOUT THE COMPANY, ITS SHARE CAPITAL AND STOCK OWNERSHIP

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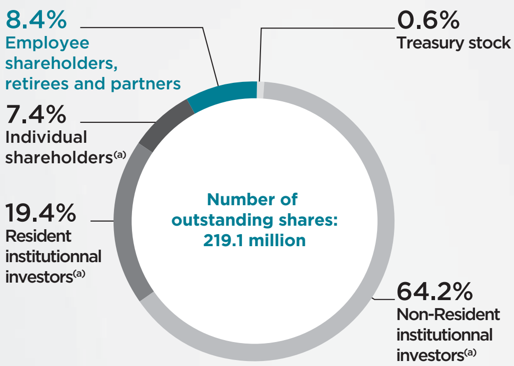
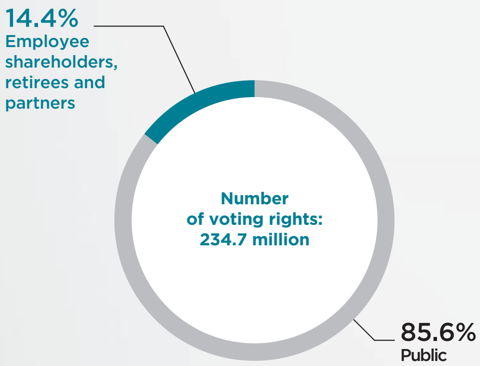
IN BRIEF

Distribution of share capital at December 31, 2017



Distribution of voting rights at December 31, 2017



(a) Estimates at December 31, 2017.

41,415

INTERNAL SHAREHOLDERS [b]
(+126% vs 2016)
in 57 countries
representing:

8.2%

OF THE SHARE CAPITAL

14.1%

OF THE 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, 2008.

(c) Subject to the decision of the Shareholders' Meeting of April 24, 2018.
(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.

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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;
- the acquisition, holding and management of all securities and transferable securities of French and/or foreign companies.

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, directly or indirectly, 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 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

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.

The next Shareholders' Meeting will be held on April 24, 2018.

5.1.8 Disclosure of 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 2017

At December 31, 2017	Number of shares	%	Number of voting rights	%
Internal shareholding				
(Current, former and retired employees)				
Valoptec International FCPE	4,297,507	2%	8,586,552	3.7%
Essilor group five and seven year FCPE	4,646,379	2.1%	8,916,891	3.8%
Fund reserved for foreign employees	963,184	0.4%	1,002,957	0.4%
Pure registered shares or administered shares held by employees	8,051,069	3.7%	14,571,554	6.2%
SUBTOTAL	**17,958,139**	**8.2%**	**33,077,954**	**14.1%**
Partner shareholding [(a)]				
Pure registered shares or administered shares held by partners`	**344,240**	**0.2%**	**687,480**	**0.3%**
SUBTOTAL	**18,302,379**	**8.4%**	**33,765,434**	**14.4%**
Treasury shares				
Treasury shares	1,344,427	0.61%		
Liquidity contract				
SUBTOTAL	**1,344,427**	**0.61%**		
PUBLIC	**199,478,633**	**91.0%**	**200,934,319**	**85.6%**
TOTAL	**219,125,439**	**100%**	**234,699,753**	**100%**

(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 interest that was thereafter fully divested.

At December 31, 2017, the share capital amounted to €39,442,579.02, divided into 219,125,439 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, 2017 was 234,699,753.

Changes in the share capital during the fiscal year were as follows:

- €31,253.22 share capital increase excluding original issue premium, corresponding to the creation of 173,629 new shares with nominal value of €0.18 subscribed by the employees, corporate directors and officers of Essilor group companies that are members of the Essilor group's Employee Shareholding Plan or any equivalent local plan;
- €56,440.98 share capital increase excluding original issue premium, corresponding to the creation of 313,561 new shares with nominal value of €0.18 subscribed by the Essilor group five- and seven-year mutual funds (FCPE);
- €23,498.64 share capital increase excluding original issue premium, corresponding to the creation of 130,548 new shares with nominal 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, 2017. There was no material change in the shareholder position at January 31, 2018. Note that this situation could change in view of the planned combination between Essilor and Luxottica (see Chapter 7).

MAXIMUM DILUTION AT YEAR-END

Taking into account all shares that could be issued after Saturday, December 31, 2017 due to the exercise of the existing options, regardless of their exercise prices, the maximum dilution of the share capital would be as follows:

At December 31, 2017	In number of shares	%	In number of voting rights	%
Share capital position at the end of the year	219,125,439		234,699,753	
Options for subscription of existing shares	437,372	0.2%	437,372	0.2%
Outstanding rights to existing performance shares	5,084,367	2.3%	5,084,367	2.2%
TOTAL POTENTIAL DILUTION	**5,521,739**	**2.5%**	**5,521,739**	**2.4%**
Total diluted share capital at the end of the year	224,647,178		240,221,492	

The breakdown of changes in share capital in 2017 is presented in Note 9 to the consolidated financial statements (see Section 3.4) and Note 15 to the annual financial statements for the fiscal year (see Section 3.8).

5.2.1.2 Répartition du capital en 2016 et 2015

At December 31, 2016	Number of shares	%	Number of voting rights	%
Internal shareholding				
(Current, former and retired employees)				
◖ 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%
SUBTOTAL	**17,953,724**	**8.2%**	**33,063,279**	**14.2%**
Partner shareholding [(a)]				
Pure registered shares or administered shares held by partners`	**344,240**	**0.2%**	**687,480**	**0.3%**
SUBTOTAL	18,297,964	8.4%	33,750,759	14.5%
Treasury shares				
◖ Treasury shares	2,046,140	0.94%		
◖ Liquidity contract				
SUBTOTAL	**2,046,140**	**0.94%**		
PUBLIC	**198,163,597**	**90.7%**	**199,410,478**	**85.5%**
TOTAL	**218,507,701**	**100%**	**233,161,237**	**100%**

(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 interest that was thereafter fully divested.

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At December 31, 2015	Number of shares	%	Number of voting rights	%
Internal shareholding				
(Current, former and retired employees)				
Valoptec International FCPE	4,748,023	2.2%	9,483,751	4.1%
Essilor group five and seven year FCPE	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%
SUBTOTAL	**17,642,477**	**8.2%**	**32,174,575**	**14%**
Partner shareholding [(a)]				
Pure registered shares or administered shares held by partners`	**343,240**	**0.2%**	**686,480**	**0.3%**
SUBTOTAL	**17,985,717**	**8.3%**	**32,861,055**	**14.3%**
Treasury shares				
Treasury shares	2,860,098	1.3%		
Liquidity contract				
SUBTOTAL	**2,860,098**	**1.3%**		
PUBLIC	**195,610,625**	**90.4%**	**196,947,451**	**85.7%**
TOTAL	**216,456,440**	**100%**	**229,808,506**	**100%**

(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 interest that was thereafter fully divested.*

5.2.1.3 Changes in share capital

Change in the 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
SHARE CAPITAL AT DECEMBER 31, 2012				**38,650**	**214,724,040**
Share subscription reserved for 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
SHARE CAPITAL AT DECEMBER 31, 2013				**38,646**	**214,699,498**
Share subscription reserved for the Essilor group 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
SHARE CAPITAL AT DECEMBER 31, 2014				**38,861**	**215,892,528**
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
SHARE CAPITAL AT DECEMBER 31, 2015				**38,962**	**216,456,440**
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 subscription option	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
SHARE CAPITAL AT DECEMBER 31, 2016				**39,331**	**218,507,701**
Essilor group's International Employee Shareholding Plan or any equivalent local plan	173,629	31.25	8,947	39,363	218,681,330
Share subscription reserved for the Essilor group FCPE	313,561	56.44	26,819	39,419	218,994,891
Exercise of subscription option	130,548	23.50	8,827	39,443	219,125,439
Cancellation of treasury shares				39,443	219,125,439
Incorporation of reserves for capital increase				39,443	219,125,439
SHARE CAPITAL AT DECEMBER 31, 2017				**39,443**	**219,125,439**

5.2.1.4 Financial authorizations giving access to the share capital

The purpose of the authorizations in force, which are detailed in the table of the currently valid delegations (see Section 2.2.4), is to delegate authority to the Board of Directors in order to:

- proceed with the share capital increase by the issue of new shares to be paid in cash and, where appropriate, the award of performance shares or other securities giving access to the share capital under the conditions set by law, reserved:
  - for employees who are members of a company savings plan pursuant to the provisions of articles L. 225-129, L. 225-129-6 and L. 225-138 of French Commercial Code and article L. 3332-18 of the French Labor Code (term of 26 months),
  - for employees and corporate officers of Essilor International subsidiaries whose registered offices are outside France, up to (a duration of 18 months).

  The common maximum amount applicable to the above increases is set at 1.5% of the Company's share capital at the time of each issue.
- award performance shares and grant share subscription options to the employees of the Group and the Executive Corporate Officers, in order to associate the latter with the Company's performance;
- increase the share capital, with or without preferential subscription rights, according to various methods depending on market opportunities and the Group's financing needs;
- increase the share capital by the incorporation of reserves, profits or premiums.

The renewal of the financial authorizations will be submitted for the approval of a Combined Shareholders' Meeting to be convened in 2018 following completion of the contribution of Luxottica shares by Delfin to the Company.

5.2.2 Essilor shares

The Essilor share trades on Euronext Paris – Euronext – Local stocks – Compartment A. Its ISIN and Euronext code is 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.

In addition, Essilor is included in the following main sustainable development indices:

- FTSE4Good, published by the *Financial Times* and the *London Stock Exchange* (FTSE);
- DJSI World & Europe;
- Euronext Vigeo Europe120;
- STOXX Global ESG Leaders;
- MSCI World ESG & SRI and World Low Carbon Leader;
- Ethibel Excellence & Pioneer;
- ECPI Indices.

Finally, Essilor is included in the Euronext FAS IAS Index launched by Euronext and the *Fédération Française des Associations d'Actionnaires Salariés et d'Anciens Salariés* (FAS). It is composed of all stocks in the CAC All-Tradable Index with a significant employee shareholding: 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 5.2.6.2.

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 *(€)*				
	In session Higher	In session Lower	Closing price	Number of outstanding shares at December 31	Market capitalization at December 31 [(a)] *(€ millions)*
2017	**122.15**	**100.60**	**114.95**	**219,125,439**	**23,853**
2016	124.55	93.41	107.35	218,507,701	22,242
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, XAQU.

			Market price *(€)*	
	Volume of transactions *(millions of shares)*	Volume of transactions, in capital *(€ millions)*	In session Higher	In session Lower
2016				
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
2017				
January	35.22	3,871	121.15	101.45
February	20.87	2,261	111.05	105.85
March	21.73	2,414	113.90	106.70
April	17.69	2,041	119.45	110.85
May	21.17	2,526	121.95	117.35
June	19.77	2,332	122.15	110.90
July	20.32	2,301	117.25	107.10
August	17.47	1,848	108.40	103.10
September	21.77	2,308	110.85	102.35
October	26.56	2,761	109.30	100.60
November	20.17	2,160	109.80	104.95
December	21.28	2,404	116.65	105.95
2018				
January	19.67	2,221	115.30	109.70

5.2.2.3 Share buyback programs

In May 2017, 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, in accordance with Articles L.225-209 *et seq.* of the French Commercial Code, for a term of 18 months expiring on November 10, 2018.

In application of the provisions of Article L.225-211 of the French Commercial Code, the Board of Directors indicates that during the year 2016, it did not use either of the authorization granted by the Combined Shareholders' Meeting of May 11, 2016 or that granted by the Combined Shareholders' Meeting of May 11, 2017.

The main objective of this program was to cover programs for employees.

Note that the main objectives of this program as approved by the Shareholders' Meeting of May 11, 2017 are:

- 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.

At December 31, 2017, Essilor held a total of 1,344,427 treasury shares, *i.e.* 0.61% of the capital. The par value of these shares was €241,996.90 and their book value was €111.0 million (*i.e.* an average net cost of €82.58 per share).

LIQUIDITY CONTRACT

The Company was not a party to any liquidity contracts in 2017.

SHARE BUYBACK TRANSACTIONS

In accordance with Article L.225-211 of the French Commercial Code, no shares were reallocated in 2017.

	2017 Treasury shares
Number of shares at the beginning of period – January 1	**2,046,140**
Purchase options exercised	
Delivery of performance shares	(701,713)
Conversions of convertible bonds with delivery	
Cancellation of treasury shares	
Purchase of treasury shares	
Number of shares at the end of the period – December 31	**1,344,427**

Position at January 31, 2018	
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	1,344,427
Book value of the portfolio *(€)*	111,026,124
Market value of the portfolio [(a)] *(€)*	153,802,449

(a) Based on the closing price at January 31, 2018.

There were no share buybacks or cancellation.

RENEWAL OF THE FINANCIAL AUTHORIZATION TO IMPLEMENT A SHARE BUYBACK PROGRAM

Regarding the request for renewal of the financial authorization to implement a share buyback whose expiry is set at November 10, 2018, it will be subject, along with all the financial authorizations, to the approval of an Extraordinary Shareholders' Meeting to be convened in 2018 following the completion of the contribution of Luxottica shares by Delfin to the Company, and will be preceded by the publication of a description of the share buyback program.

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 cancelling all or some of the treasury shares held by the Company, provided that the number of shares cancelled during any 24-month period does not exceed 10% of the total share capital. Essilor International did not cancel any shares under this authorization either in 2016 or in 2017. It will be proposed to the Combined Shareholders' Meeting convened following the contribution of Luxottica shares by Delfin to Essilor that this authorization be renewed for a further 26-month period.

5.2.3 Essilor shares and rights held by members of the management, governance and supervisory bodies

Position at December 31, 2017

	Employee members and corporate directors and officers of the Board of Directors					
	Hubert SAGNIÈRES	Laurent VACHEROT	Yi HE [(a)]	Juliette FAVRE	Maureen CAVANAGH	Delphine ZABLOCKI
Shares	338,120	199,453	28,321	3,485	3,124	217
Rights to performance shares						
◖ November 25, 2014	40,000		2,200		2,000	
◖ December 19, 2014						
◖ December 2, 2015	35,000	30,000	1,870	765	1,700	
◖ December 18, 2015		20		20		20
◖ September 22, 2016	35,000	32,005	1,875	770	1,705	28
◖ December 19, 2016		15		15		15
◖ October 3, 2017	50,000	32,045	1,875	1025	1,705	31
◖ December 21, 2017				20		20

(a) Resignation as from December 31, 2017.

Independent Directors

At December 31, 2017, the Independent Directors did not hold any stock options or rights to performance shares. They held 12,681 Essilor shares.

5.2.4 Stock options

Stock options, if exercised, trigger the issuance of new ordinary shares in Essilor.

At December 31, 2017, the total number of shares that may be created through the exercise of stock options was 437,372.

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 cancelled if the target is not met.

Date of award [(a)]	Number of options awarded	Of which the Executive Committee	Subscription price (€)	Number of shares outstanding at December 31, 2017	Number of shares outstanding at January 31, 2018
November 25, 2010 [(a)]	634,760		48.01		
November 24, 2011 [(b)]	85,620		52.27	3,120	2,960
November 27, 2012 [(b)]	81,760		71.35	19,435	18,355
November 25, 2013 [(b)]	87,880		77.29	32,573	32,433
November 25, 2014 [(b)]	121,505	21,000	87.16	71,515	69,875
December 2, 2015 [(b)]	100,023	13,500	121.32	81,938	77,378
September 22, 2016 [(b)]	119,392		114.88	96,775	91,954
October 3, 2017 [(b)]	132,016		105.8	132,016	123,003
TOTAL	**1,362,956**	**34,500**		**437,372**	**416,338**

(a) Plans prior to that of November 25, 2010 no longer have share subscription options outstanding.
(b) Capped performance plans.

The position regarding stock options is presented below:

Information is provided only for those award plans for which options are currently outstanding.

	At December 31, 2017	of which in 2017	At January 31, 2018	of which in 2018
Options awarded [(a)]	1,362,956	132,016	1,362,956	
Options cancelled [(a)]	163,703	54,941	182,100	18,397
Options exercised [(a)]	761,881	130,548	764,518	2,637
Options remaining [(a) and (b)]	437,372		416,338	

(a) Plans from November 25, 2010 to October 3, 2017.
(b) i.e. 0.20 % of the share capital at December 31, 2017.

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 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 (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 and lock-up conditions for shares

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 2017 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.

For the 2015 to 2016 plans, the performance condition is no longer applicable.

Starting from the 2017 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 award 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 [1] growth of 7%), all shares initially awarded will vest provided that the employment condition is met (detailed in the Section "Employment condition" ;

Starting from the 2015 plans: Calculation method: (Average Price / 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.

- **greater than or equal to 6.1% and less than 22.5%** (corresponding to annualized growth [1] 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 vesting of shares is contingent on the beneficiary still being employed in the Group on the date that the performance condition is achieved, which may occur between the second and the sixth anniversary of the award.

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

- the fourth anniversary of the award if the achievement of the performance condition occurs between the second and fourth anniversary;
- on the 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 vesting of shares is contingent on the beneficiary 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.

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 held. 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 (see Section 3.4).

Starting from the 2015 plans: Once the performance condition is achieved, the shares acquired must be held. 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 (see Section 3.4).

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(1) *For plans from 2012 to 2014: Calculation method: (Average Price / Initial Price)^(1/N)-1 where N is the number of years between the award and the performance measurement date. N =2 then, if the performance condition is not achieved, 2.25 and so on up to a maximum of six.. For plans from 2015 to 2016 the performance condition has not been applicated. For plans from 2017: Calculation method: (Average Price / 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 [a]	Number of rights awarded	Of which the Executive Committee	Initial reference Share Price (useful for evaluating performance) *(€)*	Number of rights outstanding at December 31, 2017	Number of rights outstanding at January 31, 2018
November 25, 2013	1,279,460	161,000	77.29		
December 20, 2013	96,880		77.29		
November 25, 2014	1,448,464	197,500	87.16	857,869	856,509
December 19, 2014	96,440		87.16	240	240
December 2, 2015	1,251,533	305,900	121.32	1,188,208	1,175,585
December 18, 2015	91,620	280	121.32	82,640	82,380
September 22, 2016	1,372,233	320,420	114.88	1,319,996	1,307,111
December 19, 2016	67,830	195	99.97	63,735	63,525
October 3, 2017	1,481,219	197,574	105.8	1,480,479	1,467,915
December 21, 2017	91,200	60	107.14	91,200	90,660
TOTAL	**7,276,879**	**1,182,929**		**5,084,367**	**5,043,925**

(a) Plans prior to that of November 25, 2013 no longer have the right to acquire performance shares

Rights to performance shares are presented below:

	At December 31, 2017	of which in 2017	At January 31, 2018	of which in 2018
Rights granted [a]	7,276,879	1,572,419	7,276,879	
Rights cancelled [a]	337,201	132,142	377,643	40,442
Rights exercised [a]	1,855,311	701,713	1,855,311	
Rights outstanding [a] and [b]	5,084,367		5,043,925	

(a) Plans from November 25, 2013 to December 21, 2017.
(b) i.e. 2.32% of the share capital at December 31, 2017.

5.2.5.3 Stock option awards and exercises 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
Options granted during the 2017 fiscal year 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)	23,583	105.80	10/03/2024	10/03/2017
Rights to performance shares granted during the 2017 fiscal year 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)	1 572 419	114.88 107.14	10/03/2023 12/21/2023	10/03/2017 12/21/2017
Options held on the issuer and the companies referred **to above, exercised during the fiscal year** 2017 by the ten employees of the issuer and of these companies, of which the number of options thus granted is the highest (overall information)	15,290	64.38		11/25/2010 11/24/2011 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	**11/25/2010**	**11/24/2011**
Date of Shareholders' Meeting	May 11, 2010	May 11, 2010
Date of Board of Directors Meeting	November 25, 2010	November 24, 2011
Type of plan	Capped share subscription option plan performance [(a)]	Capped share subscription option plan performance [(a)]
Total number of shares that can be subscribed or bought	Maximum 634,760	Maximum 85,620
By the corporate directors and officers		
◖ Xavier Fontanet		
◖ Hubert Sagnières		
By the top 10 employee beneficiaries	75,000	28,300
Starting point for the exercise of options	November 26, 2012	November 25, 2013
Date of expiration	November 25, 2017	November 24, 2018
Price of subscription or purchase *(€)*	48,010	52,270
Number of beneficiaries	1,362	232
Exercise procedures [(b)]	Non-residents and residents: prohibition on exercise until completion of performance. Then, 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. Then, 50% in the third year and the balance in the following years. Cancellation possible.
Number of shares subscribed at December 31, 2017	553,212	69,513
Subscription options or rights to performance shares cancelled	81,548	12,987
Subscription options or rights to performance shares remaining	0	3,120

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and may be cancelled if the condition is not reached.

(b) The vesting of share 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 Executive Corporate 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	11/25/2013	11/25/2013
Date of Shareholders' Meeting	May 11, 2012	May 11, 2012	May 11, 2012
Date of Board of Directors Meeting	November 27, 2012	November 25, 2013	November 25, 2013
Type of plan	Capped performance share subscription option plan [(a)]	Capped performance share subscription option plan [(a)]	Rights to performance shares
Total number of shares that can be subscribed or bought	Maximum 81,760	Maximum 87,880	Maximum 1,279,460
By the corporate directors and officers			45,000
◖ Hubert Sagnières			45,000
By the top 10 employee beneficiaries	32,900	34,350	201,500
Starting point for the exercise of options	November 27, 2014	November 25, 2015 [(d)]	Residents: November 25, 2015 [(e)] Non-residents: November 25, 2017 [(c)]
Date of end of plan	November 27, 2019	November 25, 2020	November 25, 2019 or 2021
Price of subscription or purchase *(€)*	71,350	77.29	NS [(b)]
Number of beneficiaries	216	248	5,775
Exercise procedures	Non-residents and residents: prohibition on exercise until completion of performance. Then, 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. Then, 50% in the third year and the balance in the following years. Cancellation possible.	Non-residents: award subject to performance Cancellation possible. 50% saleable on award, 50% blocked until November 25, 2019 or 2021 depending on the vesting date of award. Residents: award subject to performance. Cancellation possible. Saleable starting December 25, 2019 or 2021 depending on the vesting date of award.
Number of shares subscribed at December 31, 2017	54,980	49,864	1,178,535
Subscription options or rights to performance shares cancelled	7,345	5,443	100,925
Subscription options or rights to performance shares remaining	19,435	32,573	

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and may be cancelled if the 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 no earlier than December 25, 2017.

(d) The options may be awarded when the calculated annualized average is 2% greater than the price of €€77.29.

(e) The shares may be awarded to residents when the calculated annualized average is 2% greater than the price of €€77.29.

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 performance share subscription option plan [(a)]	Rights to performance shares	Rights to performance shares (France Collective Plan)
Total number of shares that can be subscribed or bought	Maximum 96,880	Maximum 121,505	Maximum 1,448,464	Maximum 96,440
By the corporate directors and officers	20		40,000	
Hubert Sagnières	20		40,000	
By the top 10 employee beneficiaries	120	59,900	238,600	200
Starting point for the exercise of options	Residents: December 20, 2015 [(c)] Non-residents: December 20, 2017 [(c)]	November 25, 2016 [(d)]	November 25, 2016 [(e)]	December 19, 2016 [(f)]
Date of end of plan	December 20, 2019 or 2021	November 25, 2021	November 25, 2020 or 2022	December 19, 2022 or 2022
Price of subscription or purchase *(€)*	NS [(b)]	87.16	NS [(b)]	NS [(b)]
Number of beneficiaries	4,844	256	6,410	4,822
Exercise procedures	Non-residents: award subject to performance. Cancellation possible. 50% saleable on award, 50% blocked until December 20, 2019 or 2021 depending on the vesting date of award. Residents: award subject to performance. Cancellation possible. Saleable starting December 20, 2019 or 2021 depending on the vesting date of award.	Non-residents and residents: prohibition on exercise until completion of performance. Then, 50% in the third year and the balance in the following years. Cancellation possible.	Non-residents: award subject to performance. Cancellation possible. 50% saleable on award, 50% blocked until November 25, 2020 or 2022 depending on the vesting date of award. Residents: award subject to performance. Cancellation possible. Saleable starting November 25, 2020 or 2022 depending on the vesting date of award.	Non-residents: award subject to performance. Cancellation possible. 50% saleable on award, 50% blocked until December 19, 2020 or 2022 depending on the vesting date of award. Residents: award subject to performance. Cancellation possible. Saleable starting December 19, 2020 or 2022 depending on the vesting date of award.
Number of shares subscribed at December 31, 2017	86,280	34,312	499,385	85,480
Subscription options or rights to performance shares remaining	10,600	15,678	91,210	10,720
Subscription options or rights to performance shares remaining		71,515	857,869	240

(a) Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and may be cancelled if the 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 2% greater than the price of €€77.29. For non-residents, the shares may be awarded no earlier than December 20, 2017.

(d) The options may be awarded when the calculated annualized average is 2% greater than the price of €€87.16.

(e) The shares may be awarded to residents when the calculated annualized average is 2% greater than the price of €€87.16. For non-residents, the shares may be awarded no earlier than November 25, 2018.

(f) The shares may be allocated to residents when the calculated annualized average is 2% greater than the price of €€87.16. For non-residents, the shares may be awarded no earlier than December 19, 2018.

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Plan	12/02/2015	12/02/2015	12/18/2015
Date of Shareholders' Meeting	May 5, 2015	May 5, 2015	May 5, 2015
Date of Board of Directors Meeting	December 2, 2015	December 2, 2015	December 18, 2015
Type of plan	Capped performance share subscription option plan [(a)]	Rights to performance shares	Rights to performance shares (France Collective Plan)
Total number of shares that can be subscribed or bought	Maximum 100,023	Maximum 1,251,533	Maximum 91,620
By the corporate directors and officers		35,000	
◖ Hubert Sagnières		35,000	
By the top 10 employee beneficiaries	43,549	181,170	100
Starting point for the exercise of options	December 2, 2018	December 2, 2018	December 18, 2018
Date of end of plan	December 2, 2022	December 2, 2020 or 2023	December 18, 2020 or 2023
Price of subscription or purchase *(€)*	121.32	NS [(b)]	NS [(b)]
Number of beneficiaries	283	6,744	4,581
Exercise procedures	Résidents : not applicable on this plan. Non-résidents: subject to employment conditions: 100% after 3 years. Then, maximum 100% in the fourth year. Cancellation possible..	Non-residents: award subject only to employment conditions. 100% saleable on award on December 2, 2019. Residents: award subject only to employment conditions. 100% saleable on award on December 2, 2020	No non-residents in this plan. Residents: Award subject only to employment conditions. 100% saleable for registered shares starting on December 18, 2020, for Registred shares starting on December 18, for the French Purchase Plan 2023 or 2025
Number of shares subscribed at December 31, 2017		1 575	1 360
Subscription options or rights to performance shares cancelled	18,085	61,750	7,620
Subscription options or rights to performance shares remaining	81,938	1,188,208	82,640

(a) Capped performance plan. The 2015 capped performance plans are no longer subject to performance conditions.
(b) If the performance shares are awarded, they will be produced and taken from the inventory of treasury shares held by the Company.
(c) 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 5, 2015	May 5, 2015	May 5, 2015
Date of Board of Directors Meeting	September 22, 2016	September 22, 2016	December 6, 2016
Type of plan	Capped performance share subscription option plan [(a)]	Rights to performance shares	Rights to performance shares (France Collective Plan)
Total number of shares that can be subscribed or bought	Maximum 119,392	Maximum 1,372,233	Maximum 67,830
By the corporate directors and officers		67,005	15
Hubert Sagnières		35,000	
Laurent Vacherot		32,005	15
By the top 10 employee beneficiaries	24,281	169,932	75
Starting point for the exercise of options	September 22, 2019	September 22, 2019	December 19, 2019
Date of end of plan	September 22, 2023	September 22, 2022	December 19, 2022
Price of subscription or purchase *(€)*	114.88	NS [(b)]	NS [(b)]
Number of beneficiaries	810	11,227	4,523
Exercise procedures	Résidents: not applicable on this plan Non-résidents: subject to employment conditions: 100% after 3 years. Then, maximum 100% in the fourth year. Cancellation possible.	Non-residents: award subject only to employment conditions. Cancellation possible. 100% saleable on award on September 22, 2020. Residents: award subject only to . 100% saleable on award on September 22, 2021	No non-residents in this plan. Residents: Award subject only to employment conditions. 100% saleable for registered shares starting on December 19, 2021, for Registered shares starting on December 19, for the French Purchase Plan 2024 or 2026
Number of shares subscribed at December 31, 2017		1,191 [(c)]	765 [(c)]
Subscription options or rights to performance shares cancelled	22,617	51,046	3,330
Subscription options or rights to performance shares remaining	96,775	1,319,996	63,735

(a) Capped performance plan. The 2015 capped performance plans are no longer subject to performance conditions.
(b) If the performance shares are awarded, they will be produced and taken from the inventory of treasury shares held by the Company.
(c) Shares become fully vested in the case of death or invalidity.

Plan	10/03/2017	10/03/2017	12/21/2017
Date of Shareholders' Meeting	May 5, 2015	May 5, 2015	May 5, 2015
Date of Board of Directors Meeting	October 3, 2017	October 3, 2017	December 6, 2017
Type of plan	Capped performance share subscription option plan [(a)]	Rights to performance shares	Rights to performance shares (France Collective Plan)
Total number of shares that can be subscribed or bought	Maximum 132,016	Maximum 1,481,219	Maximum 91,200
By the corporate directors and officers		82,045	
◖ Hubert Sagnières		50,000	
◖ Laurent Vacherot		32,045	
By the top 10 employee beneficiaries	23,583	151,604	60
Starting point for the exercise of options	October 3, 2020 [(c)]	October 3, 2020 [(d)]	December 21, 2020 [(e)]
Date of end of plan	October 3, 2024	October 3, 2023	December 21, 2023
Price of subscription or purchase *(€)*	105.8	NS [(b)]	NS [(b)]
Number of beneficiaries	786	12,112	4,560
Exercise procedures	Non-residents and residents: subject to employment conditions: maximum 100% in the fourth year. Cancellation possible.	Non-residents: award subject to employment and performance conditions. Cancellation possible. 100% saleable on award on October 3, 2021. Residents: award subject to performance. Cancellation possible. 100% saleable starting on October 3, 2022 depending on the vesting date.	No non-residents in this plan. Residents: award subject to employment and performance conditions. Cancellation possible. 100% saleable starting on December 21, 2022, for Registered shares starting on December 21, 2025 or 2027 depending on the vesting date.
Number of shares subscribed at December 31, 2017		740 [(f)]	
Subscription options or rights to performance shares cancelled			
Subscription options or rights to performance shares remaining	132,016	1,480,479	91,200

(a) *Capped performance plan. The capped performance plans are, moreover, subject to a market performance condition (like performance shares) and may be cancelled if the 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 2% greater than the price of €€105.80.*

(d) *The shares may be awarded to residents when the calculated annualized average is 2% greater than the price of €€105.80.*

For *non-residents, the shares may be awarded no earlier than October 3, 2020.*

(e) *The shares may be awarded to residents when the calculated annualized average is 2% greater than the price of €€107.14.*

(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 fiscal 2017 and at the beginning of fiscal 2018, BlackRock Inc. declared that it had crossed the threshold of 5% of Essilor International's capital, upwardly and downwardly:

Date of crossing	Upwards/downwards	% of the share capital	% of the voting rights
09/20/2017	Upwards	5.04	4.69
09/21/2017	Downwards	4.96	4.61
09/22/2017	Upwards	5.03	4.68
09/25/2017	Downwards	4.92	4.58
09/29/2017	Upwards	5.01	4.66
10/02/2017	Downwards	4.88	4.54
11/27/2017	Upwards	5.01	4.67
11/28/2017	Downwards	4.95	4.61
12/07/2017	Upwards	5.01	4.65
12/08/2017	Downwards	4.96	4.61
01/09/2018	Upwards	5.07	4.70
01/10/2018	Downwards	4.94	4.58
01/16/2018	Upwards	5.08	4.72
01/17/2018	Downwards	4.98	4.62
01/18/2018	Upwards	5.10	4.74

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 shares freely 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, 2017, the Company's bylaws did not contain any restrictions on the exercise of voting rights.

5.2.6.2 Employee shareholding

With a strong network of active employee shareholders and represented and managed independently and autonomously throughout the world by a French non-profit association, "Valoptec Association", provides Essilor 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. The Group's ambition to have 50% of its employees as shareholders was reached quickly in 2017 thanks to the international employee shareholding plan which enabled this employee shareholding culture to be developed and further strengthened.

As a result of these systems, 41,415 internal shareholders of the Group currently own Essilor shares. They represent 8.2% of the share capital and 14.1% 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 mutual funds (FCPE) 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 lock-up period of between two and five years, depending on the country.

- FCPE concerned: Valoptec International FCPE; Essilor group five-year FCPE; Essilor group seven-year FCPE Essilor International FCPE;
- Shareholdings outside of France: *Essilor Shareholding Plan* (United States); *Australian Shareholding Plan; Share Incentive Plan* (UK); *Irish and Transitions Shareholding Plan;* ESPP Korea;
- Direct shareholding purchase plans: South Africa; Germany; Austria; Belgium; Brazil; Canada; Chile; China; Ivory Coast; Croatia; Denmark; United Arab Emirates; Spain; Estonia; Finland; Hong Kong; Hungary; India; Indonesia; Ireland; Italy; Laos; Malaysia; Morocco; Mexico; Norway; Netherlands; Philippines; Poland; Portugal; Czech Republic; Romania; Singapore; Sweden; Switzerland; UK; Taiwan; Thailand and Turkey.

STOCK OPTIONS

Employees can also acquire shares by exercising stock options. Note that French employees may finance the exercise price using funds released from the Company Savings Plan (PEE): in which case the shares are registered in the employee's name and then locked up for five years in the plan and are tax-free until sold.

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 pursues a balanced dividend policy aimed at ensuring the remuneration of its shareholders and the reinvestment of its earnings to further its development. In fact, over the past 20 years, the Company has assured its shareholders a steadily increasing dividend representing an average of one third of its net income.

2018 dividend in respect of fiscal year 2017

For fiscal year 2017, the Board of Directors will recommend to the Extraordinary Shareholders' Meeting of April 24, 2018, a 2% increase in the net dividend to €1.53 euro per share from €1.50 euro per share for the previous year.

The recommended dividend represents 40% of the consolidated net income (Group share) and reflects the Group's solid performance in 2017.

The dividend will be paid after April 30, 2018. It will be paid in cash.

History of the overall dividend distribution and growth

Total dividends for 2017 and the previous six years were as follows:

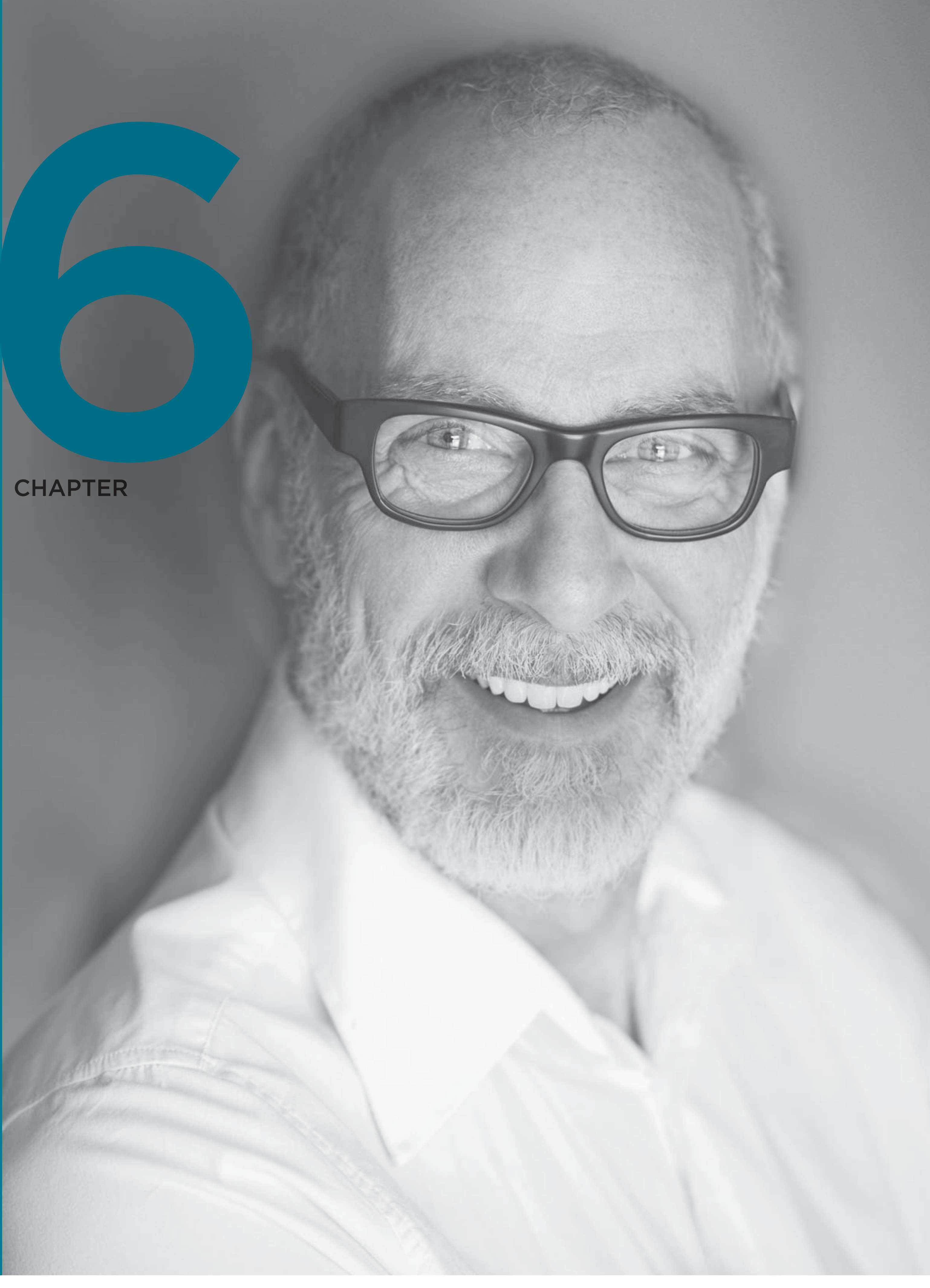
€ millions	Net income Group share	Amount distributed	Pay out ratio	Net dividend *(€)*	Pay out date
2017	833	333 [(a)]	40%	1.53 [(a)]	04/30/2018
2016	813	325	40%	1.50	05/19/2017
2015	757	237	31%	1.11	06/08/2016
2014	642 [(b)]	216	34%	1.02	05/21/2015
2013	593	198	33%	0.94	05/27/2014
2012	584	185	32%	0.88	06/04/2013
2011	506	177	35%	0.85	05/29/2012

(a) *Based on treasury shares held at January 31, 2018 and subject to the decision of the Extraordinary Shareholders' Meeting on April 24, 2018.*
(b) *Adjusted to include non-recurring items 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.



6
CHAPTER

ADDITIONAL INFORMATION ON 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-Chief Executive Officer

Statutory Auditors

PricewaterhouseCoopers Audit

63, rue de Villiers

92208 Neuilly-sur-Seine

Mazars

61, rue Henri-Regnault

92075 Paris-La Defense Cedex

Trademarks

Essilor®, Orma®, Varilux®, Varilux Comfort®, Varilux® S™ Series, Varilux® X Series™, Xtend™, Crizal®, Prevencia®, Crizal® Sapphire™ 360°, Eyezen™, E-SPF®, Eye Protect System™, Xperio®, Essilor® Vivalite™, Delta 2™, Pro-E™ 600, HouseLab™, Foster Grant®, Gargoyles®, Magnivision®, Corinne McCormack®, Sight Station™, Ryders Eyewear®, Solar Shield®, Freedom Polarized™, Suuna™, Monkey Monkey™, Suntech Optics™, Polinelli®, Costa®, Pulseo™, Transitions®, Transitions® Signature™, Transitions® XTRActive®, Flash To Mirror™ Activated by Transitions®, EyeBuyDirect™, Frames Direct™, Coastal™, Clearly™, LensOn®, Lensway™, Vision Direct™, Glasses Direct™, Coolwinks™, Coastal Vision™, Think About Your Eyes™, Put Vision First™, 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™ and Prosun™ are trademarks of Xiamen Yarui Optical Co. Ltd.

Kodak® is a trademark of Eastman Kodak Company.

Nikon® is a trademark of Nikon Corporation.

Blue Secure™ is a trademark of Nikon-Essilor Co.,Ltd.

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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 26, 2018

Hubert Sagnières

6.2 Statutory Auditors

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 and Cédric Gal (registered members 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*).

6.2.2 Resignation or non-renewal

No auditors resigned in 2017.

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. The printed versions of the Registration Document and the 2017 Annual Report, or a copy of those documents, will be available at the Shareholders' Meeting called to approve the financial statements for the fiscal year, to be held on April 24, 2018.

Essilor regularly provides its shareholders with transparent, accessible information about the Group, its activities and its financial results via a large range of resources.

Information published by the Company in the past year

Documents published in the BALO may be viewed at *http://balo. journal-officiel.gouv.fr/*

The Group's website *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.

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20.6.2	Interim financial information covering the first six months of the following fiscal year		N/A
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7

CHAPTER

COMBINATION BETWEEN ESSILOR AND LUXOTTICA

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This section presents the main characteristics of the proposed combination between Essilor International (*Compagnie Générale d'Optique*) ("**Essilor**") and Luxottica group SpA ("**Luxottica**") announced on January 16, 2017 and describes the progress of this combination over the course of the 2017 financial year and the first quarter of 2018. In connection with this proposed combination, Essilor entered into a combination agreement on January 15, 2017 (the "**Combination Agreement**") with Delfin, a Luxembourg holding company of the Del Vecchio family, which holds the majority of Luxottica shares. Following the combination, Essilor will be renamed "EssilorLuxottica" and will be the parent company of New Essilor International (as this term is defined below), on the one hand, and Luxottica, on the other hand.

7.1 Presentation of the Combination

7.1.1 Presentation of the Transaction

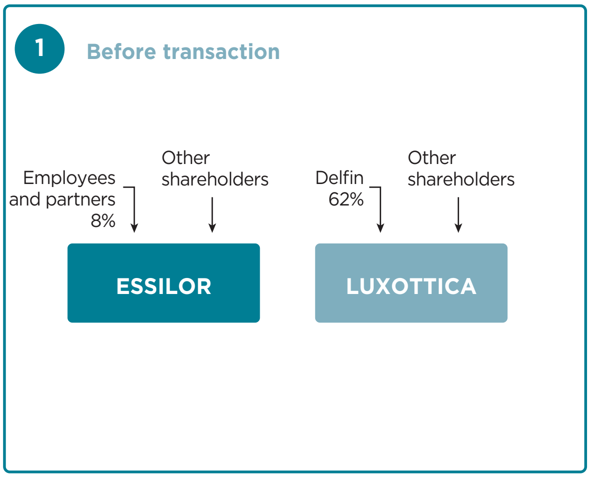
On January 15, 2017, Mr. Hubert Sagnières, Chairman and Chief Executive Officer of Essilor, and Mr. Leonardo Del Vecchio, Chairman of Delfin executed the Combination Agreement which set forth the terms of the combination between Essilor and Luxottica. This combination will result from the completion of the Contribution, the Hive Down and the Offer (as such terms are defined below) (the "**Transaction**" or the "**Combination**").

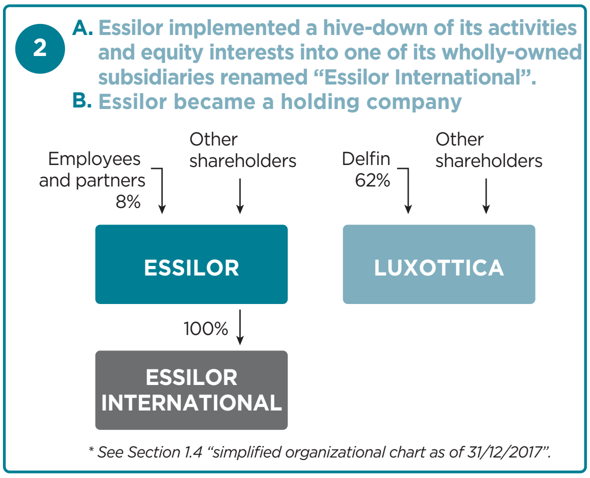
The Transaction entails a strategic combination of Essilor's and Luxottica's businesses consisting of:

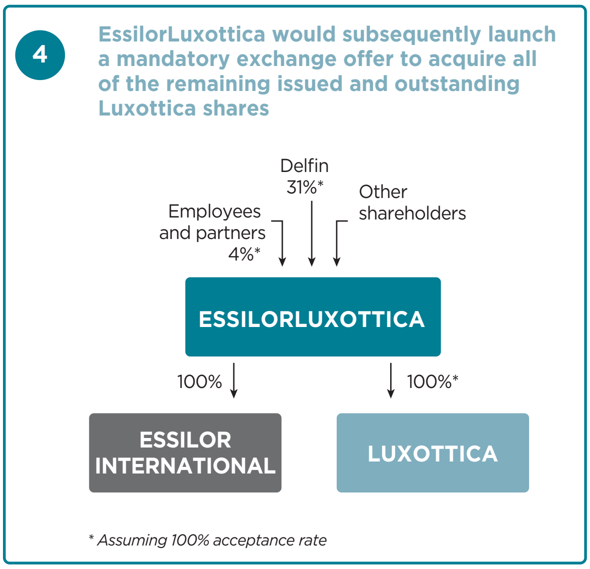
- the contribution by Essilor of substantially all of its operating activities and its equity investments into a wholly-owned subsidiary within the framework of a partial asset contribution transaction (*apport-scission* regime) approved by the Essilor's General Shareholders' Meeting on May 11, 2017 (the "**Hive-Down**", described below);
- the contribution by Delfin of its entire equity interest in Luxottica (approximately 62%) to Essilor, in exchange for new shares to be issued by Essilor within the framework of a partial asset contribution transaction (*apport-scission* regime) approved by the Essilor's General Shareholders' Meeting on May 11, 2017 (the "**Contribution**", described below). As of the closing date of the Contribution, Essilor will be renamed EssilorLuxottica; and
- EssilorLuxottica will subsequently make an offer, in accordance with the provisions of Italian law, to acquire all of the remaining issued and outstanding shares of Luxottica, with a view to delist Luxottica's shares (the "**Offer**").

Following the completion of the Transaction, Delfin will own between 31% and 38% (on a fully diluted basis) of the issued shares of EssilorLuxottica and will become its largest shareholder with voting rights capped at 31%..

7.1.2 Four Key Steps







7.2 Main steps achieved over the course of the 2017 financial year

7.2.1 Approval of the Transaction by the Essilor's Works Councils

On March 22, 2017, following completion of the information-consultation process of (i) Essilor's Works Council (*comité central d'entreprise*) and European Works Council (*comité d'entreprise européen*) on March 6, 2017 and (ii) BBGR's Works Council (wholly-owned French subsidiary of Essilor specialised in the manufacturing and distribution of ophtalmic lenses) on February 23, 2017, Essilor sent an acceptance notice to Delfin stating its consent to pursue the Transactions contemplated by the Combination Agreement.

7.2.2 Approval of the Transaction by holders double voting rights and by the shareholders

On April 7, 2017, the information document relating to the share capital increase through the issuance of ordinary Essilor shares in consideration for the Contribution and the admission to trading of Essilor shares issued in connection with such Contribution was registered with the French *Autorité des Marchés Financiers* (Document E of 2017) and was made available to the shareholders prior to the Special Shareholders' Meeting for shareholders holding double voting rights and to the Combined General Shareholders' Meeting, held on May 11, 2017.

At the Essilor's Special Meeting for shareholders holding double voting rights and at the Combined General Shareholders' Meeting, held on May 11, 2017, Essilor's shareholders approved all the resolutions proposed to each of the two meetings, including those concerning the Combination between Essilor and Luxottica

The shareholders therefore approved:

- the appointment of members of the future EssilorLuxottica Board of Directors;
- the Contribution;
- the Hive-Down to a wholly-owned subsidiary of Essilor which, as of the closing date of the Hive-Down, will be renamed "Essilor International" (the "**New Essilor International**");
- the issuance of new shares in connection with the mandatory public exchange offer, to be launched by EssilorLuxottica for the remaining Luxottica shares;
- the cancellation of double voting rights; and
- the modified bylaws of Essilor and the future bylaws of EssilorLuxottica, including, in particular, the new corporate name "EssilorLuxottica", the update of the corporate purpose, the cancellation of double voting rights and a new voting cap provision at 31%.

Moreover, pursuant to the terms of the Combination Agreement, Delfin has agreed not to file a tender offer for shares of EssilorLuxottica for a period of ten (10) years as from the Combination Agreement, provided that no third party (acting alone or in concert) comes to hold, directly or indirectly, more than twenty percent (20%) of the share capital or voting rights of EssilorLuxottica or announces its intention to file a tender offer for all of the shares of EssilorLuxottica.

7.2.3 Hive-Down of Essilor's operating activities in view of the completion of the Transaction

The Hive-Down, contribution by Essilor of substantially all of its operating activities and its equity investments to New Essilor International, was completed on November 1, 2017. As from this date, New Essilor International carries on the operational activities formerly performed by Essilor. The hive-down was a condition precedent to the completion of the Contribution.

Once the other conditions precedent to complete the Contribution are satisfied, Essilor will be renamed "EssilorLuxottica" and will become a holding company at the top of the combined group, holding New Essilor International and Luxottica.

The Board of Directors of New Essilor International is composed of the current members of the Board of Directors of Essilor (composition similar to the one existing before the Completion Date) subject to any change and except for the two Directors representing the employees who will remain at the level of EssilorLuxottica. Mr Hubert Sagnières is Chief Executive Officer, and Mr Laurent Vacherot is Deputy Chief Executive Officer.

The information relating to the Board composition of Essilor is described in the Chapter 2 of this Registration Document.

7.2.4 Approvals from competition authorities

The Combination Agreement stipulates that the completion of the Contribution is subject to conditions precedent requiring approvals from competition authorities in Canada, the European Union, the United States, China and Brazil and an approval was requested in 20 countries (such as the European Union).

The Combination has already been unconditionally approved in the European Union, the United States, Canada and 13 other countries: South Africa, Australia, Chile, Colombia, South Korea, India, Israel, Japan, Morocco, Mexico, New Zealand, Russia and Taiwan, with Taiwan declaring that it lacked jurisdiction.

7.3 Risks relating to the Combination with Luxottica

For information relating to the risks of the proposed Combination with Luxottica, readers are referred to Section 1.7 "Risk factors" of this Registration Document.

7.4 Termination clause of the Combination Agreement

The Combination Agreement provides for a €200,000,000 break-up fee (the "**Termination Fee**") that may be paid, depending on the circumstances, by Essilor or Delfin if the Combination does not occur.

The circumstances under which Essilor could be obliged to pay the break-up fee are outlined in Section 2.2.1, "Legal context of the Contribution," in Document E of 2017 and discussed in this Registration Document in Section 1.7.2.14, "Risk factors relating to the transaction."

7.5 Conditions Precedent not satisfied at the date of this Registration Document

The Contribution is subject to the following conditions precedent that have not been satisfied or waived as of the date of this Registration Document:

- approval for listing on Euronext Paris of the new shares of Essilor to be issued as consideration for the Contribution;
- approvals from competition authorities in China and Brazil;
- approval of the Contribution by Delfin's General Shareholders' Meeting.

7.6 Disclaimer on forward-looking information

This section contains forward-looking information and statements about the combined businesses of Essilor and Luxottica after completion of the Transaction that have not been audited or independently verified. These statements are not historical facts. These statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations. Although such forward-looking statements are believed to be reasonable, readers are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of the companies, that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. Readers are referred to Section 1.7 "Risk factors" of this Registration Document. The Transaction may not achieve its expected benefits. The information in this section does not constitute an offer to exchange or the solicitation of an offer to exchange any securities of Luxottica.

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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Designed & published by LABRADOR +33 (0)1 53 06 30 80

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A French Limited Company *(Société Anonyme)*

with capital of €39,442,579.02

Créteil trade and Company registry n°712 049 618

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