



**2019**

**Universal  
Registration  
Document**

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# Contents

|          |   |            |          |  |
|----------|---|------------|----------|--|
| <b>1</b> | <b>Presentation of EssilorLuxottica</b>   | <b>5</b>   |          |  |
| 1.1      | EssilorLuxottica, a global leader in the eyecare and eyewear industry   | 7          | 3.8      | Fees paid to the Auditors and the members of their network <b>AFR</b> 265  |
| 1.2      | Company history   | 12         | 3.9      | Financial statements of EssilorLuxottica <b>AFR</b> 266  |
| 1.3      | The eyecare and eyewear industry  | 16         | 3.10     | Notes to the 2019 financial statements of EssilorLuxottica <b>AFR</b> 269  |
| 1.4      | Mission and strategy  | 18         | 3.11     | Other information related to the financial statement of EssilorLuxottica 286   |
| 1.5      | EssilorLuxottica activities   | 19         | 3.12     | Statutory Auditors' report on the financial statements <b>AFR</b> 288  |
| 1.6      | Simplified organizational chart   | 39         |          |  |
| 1.7      | EssilorLuxottica in 2019  | 40         | <b>4</b> | <b>Social, environmental and societal information</b> <b>AFR</b> <b>293</b>  |
| 1.8      | Risk factors <b>AFR</b>   | 49         | 4.1      | EssilorLuxottica's approach to Sustainable Development 296   |
| 1.9      | Main characteristics of the risk management and internal control systems implemented by the Company for the preparation and processing of accounting and financial information <b>AFR</b> | 67         | 4.2      | Management of Sustainable Development 301  |
|          |   |            | 4.3      | Fundamental sustainability pillars to support EssilorLuxottica Mission 304   |
| <b>2</b> | <b>Report on Corporate Governance</b>   | <b>71</b>  | 4.4      | Next steps of EssilorLuxottica sustainability program 321  |
| 2.1      | Information on Corporate Governance <b>AFR</b>  | 73         | 4.5      | Methodology note and correspondence table 322  |
| 2.2      | Special procedures for shareholder participation in Shareholders' Meetings <b>AFR</b>   | 98         | 4.6      | Report by one of the Statutory Auditors, appointed as an independent third-party, on the non-financial statement included in the management report 326 |
| 2.3      | Compensation of corporate officers*   | 103        |          |  |
| 2.4      | Appendix: Summary table of recommendations of the AFEF-MEDEF Code that have not been applied  | 138        | <b>5</b> | <b>Information about the Company, its share capital and stock ownership</b> <b>331</b>   |
| 2.5      | Appendix: List of offices and responsibilities  | 141        | 5.1      | The Company 333  |
| 2.6      | Statutory Auditors' report on related-party agreements  | 158        | 5.2      | Share capital <b>AFR</b> 336   |
|          |   |            | 5.3      | Shareholding <b>AFR</b> 341  |
| <b>3</b> | <b>Financial statements</b>   | <b>163</b> | 5.4      | Employee shareholding <b>AFR</b> 343   |
| 3.1      | Comments on the Group's earnings and financial position <b>AFR</b>  | 165        | 5.5      | Dividend distribution policy 348   |
| 3.2      | Trend information <b>AFR</b>  | 173        | 5.6      | Key stock market data 349  |
| 3.3      | Consolidated Group Financial Statements <b>AFR</b>  | 176        | 5.7      | Historical data 351  |
| 3.4      | Notes to the Consolidated Group Financial Statements <b>AFR</b>   | 183        |          |  |
| 3.5      | Statutory Auditors' report on the consolidated financial statements <b>AFR</b>  | 251        | <b>6</b> | <b>Additional information on the Universal Registration Document</b> <b>363</b>  |
| 3.6      | Restated Unaudited Pro Forma Consolidated Financial Information   | 256        | 6.1      | Persons responsible <b>AFR</b> 365   |
| 3.7      | Statutory Auditors' report on the <i>Pro Forma</i> Financial Information for the year ended December 31, 2018   | 264        | 6.2      | Statutory Auditors 366   |
|          |   |            | 6.3      | Publicly available documents 366   |
|          |   |            | 6.4      | Cross-reference tables 367   |

\* Includes the report on the compensation policy of Executive Corporate Officers subject to the approval of shareholders on June 25, 2020. The information from the Annual Financial Report is clearly identified in the table of contents by the **AFR** symbol.

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# 2019 Universal Registration Document

Including the Annual Financial Report

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This document is a non-certified translation into English of the Universal Registration Document issued in French and filed on April 21, 2020 with the Autorité des Marchés Financiers (AMF), as competent authority under Regulation (EU) 2017/1129, without prior approval pursuant to article 9 of said Regulation.

The Universal Registration Document may be used for the purposes of an offer to the public of securities or the admission of securities to trading on a regulated market if completed by a securities note and, if applicable, a summary and any amendments to the Universal Registration Document. The whole is approved by the AMF in accordance with Regulation (EU) 2017/1129.



Dear Shareholders,

We deliver this report with great pride and appreciation for what EssilorLuxottica achieved in 2019. Since the founding of our new Company eighteen months ago, we have worked together to outline a strategic vision for the business that will meet the needs of an industry with incredible market potential while delivering on our ambition to eliminate poor vision. Our pioneering products – advanced lenses and iconic branded eyewear – make us *who we are*. At the same time, the true potential of EssilorLuxottica lies in *what we can do*. Through an open business model, we have the ability to connect the industry’s global network of players, including 400,000 opticians, optometrists, labs and wholesale customers, as well as ophthalmologists. We defined this open model around six pillars: a global footprint across 150 different countries; world-famous brands that consumers love and trust; a powerful go-to-market strategy comprised of wholesale, retail and e-commerce; superior innovation and digital capabilities; a powerful, vertically integrated supply chain, and the best talent in the industry. This unique model will allow us to deliver eyewear and eyecare in unimaginable ways for the benefit of all our stakeholders.

Among our first milestones as EssilorLuxottica, we made an investment in our people, expanding the international Employee Share Ownership Plan to reward more of our hard-working employees with an opportunity to have a much-deserved equity in EssilorLuxottica. Thanks to the last plan, a total of 56,000 current employees today own EssilorLuxottica shares, in addition to the more than 10,000 former and retired employees who continue to put their trust in us and have maintained a financial stake in the Company. The global footprint of this shareholding reflects the Group’s desire to align the interests of employees with those of the Company over the long-term. We also made significant investments in new technologies, operational excellence and our expanded portfolio of brands. We continued our digital transformation, which could be felt from the factory floor to our digital showrooms to our retail stores and in our own offices. From automation in our plants and breakthrough lens manufacturing processes to digital screens and advanced retail experiences, our Company strengthened its reputation as an optical and retail innovator.

In 2019, we announced plans to acquire GrandVision, a global leader in optical retail with more than 7,000 stores across 40 different countries and we expect to close in the coming months. This will help us grow our retail footprint in key areas, particularly Europe, and help us set a new global standard for the optical retail experience. At the same time, EssilorLuxottica continued to make good progress on the integration front, taking the first steps toward an integrated lab network, transitioning Costa into the Luxottica portfolio and optimizing real estate, procurement and other functional areas. Every day, our teams are working tirelessly together on meaningful initiatives that will not only generate growth opportunities for the Company, but also create value and benefit our customers, consumers and the overall industry. As a result, we reached a combined Euro 17.4 billion in annual revenues last year.

Most notably, in 2019, we continued to develop sustainable access to vision care through our inclusive business and philanthropic programs. These efforts now serve over 300 million people who would not have otherwise had access to the care they need. To give vision a greater voice, we worked with the highest levels of government, multilateral agencies and partners inside and outside the sector to put vision on the global agenda. All this and more has contributed to our Mission to help people *see more, be more and live life to its fullest*. These activities earned EssilorLuxottica a spot on Fortune’s “Change the World” list, giving more visibility to our commitment to bring good vision to all.

Essilor and Luxottica each enjoy a history of social responsibility and sustainability and together we built a framework that will bring this topic to the forefront. Over the past year, we continued to make Sustainable Development an integral pillar of the Company’s growth and innovation strategy. Key examples include tangible progress made in water reduction and energy consumption practices, increased momentum in our Climate Change Program and initiatives that enhance the wellbeing of our employees.

At the start of 2020, we are balancing the complex needs of our business with the global health challenge of COVID-19. Despite the tough environment, we are navigating it as we always do – by keeping our commitment to our customers and ensuring the health and wellbeing of our employees. Our strong global footprint gives us the flexibility we need to keep the business running without getting distracted or sacrificing what matters. Our teams are staying the course, continuing to imagine, build and grow the vision care Company of the future. We will be a Company that our people, partners, investors and customers are proud to work with, a Company that leads with your best interests in mind, and a Company that continues to share the value we create in the industry. We look forward to sharing more with you as the year goes on.

Leonardo Del Vecchio

Hubert Sagnières



# GIVE THE EYES THE PRECISION THEY DESERVE

**#1** IN SPECTACLE LENSES WORLDWIDE\*



A NEW JOURNEY OF HIGH PRECISION VISION WITH  
A BREAKTHROUGH AND MORE PRECISE REFRACTION  
INTEGRATED IN THE EYEGLASS LENS DESIGN.

SEE MORE.  
DO MORE.



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# CHAPTER 1

## PRESENTATION OF ESSILORLUXOTTICA

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|            |  |           |            |   |           |
|------------|--|-----------|------------|---|-----------|
| <b>1.1</b> | <b>ESSILORLUXOTTICA, A GLOBAL LEADER IN THE EYECARE AND EYEWEAR INDUSTRY</b> | <b>7</b>  | <b>1.7</b> | <b>ESSILORLUXOTTICA IN 2019</b>   | <b>40</b> |
| 1.1.1      | Overview of the Group  | 7         | 1.7.1      | Significant events  | 40        |
| 1.1.2      | Vision care and eyewear brands   | 8         | 1.7.2      | Full year 2019 revenue  | 41        |
| 1.1.3      | EssilorLuxottica 2019 key figures  | 11        | 1.7.3      | Fourth quarter 2019 revenue   | 45        |
| <b>1.2</b> | <b>COMPANY HISTORY</b>   | <b>12</b> | 1.7.4      | Acquisitions and partnerships   | 47        |
| 1.2.1      | History of Essilor   | 13        | 1.7.5      | Investments made and planned for 2020   | 48        |
| 1.2.2      | History of Luxottica   | 14        | <b>1.8</b> | <b>RISK FACTORS</b>   | <b>49</b> |
| <b>1.3</b> | <b>THE EYECARE AND EYEWEAR INDUSTRY</b>                                      | <b>16</b> | 1.8.1      | Introduction  | 49        |
| <b>1.4</b> | <b>MISSION AND STRATEGY</b>  | <b>18</b> | 1.8.2      | Risk factors summary  | 49        |
| <b>1.5</b> | <b>ESSILORLUXOTTICA ACTIVITIES</b>   | <b>19</b> | <b>1.9</b> | <b>MAIN CHARACTERISTICS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS IMPLEMENTED BY THE COMPANY FOR THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION</b> | <b>67</b> |
| 1.5.1      | Essilor activities   | 20        | 1.9.1      | The Company risk management process   | 67        |
| 1.5.2      | Luxottica activities   | 30        | 1.9.2      | The Company's internal control objectives   | 67        |
| <b>1.6</b> | <b>SIMPLIFIED ORGANIZATIONAL CHART</b>                                       | <b>39</b> | 1.9.3      | Organization of internal controls   | 67        |
|            |  |           | 1.9.4      | Internal Audit department   | 69        |

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## IN BRIEF

EssilorLuxottica is a global leader in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses.

Formed in 2018, its mission is to help people around the world to see more, be more and live life to its fullest by addressing their evolving vision needs and personal style aspirations.

The Company brings together the complementary expertise of two industry pioneers, one in advanced lens technology and the other in the craftsmanship of iconic eyewear, to set new industry standards for vision care and the consumer experience around it.

Influential eyewear brands including Ray-Ban and Oakley, lens technology brands including Varilux and Transitions, and world-class retail brands including Sunglass Hut and LensCrafters are part of the EssilorLuxottica family.

In 2019, EssilorLuxottica had more than 150,000 employees and consolidated revenues of Euro 17.4 billion.

The EssilorLuxottica share trades on the Euronext Paris market and is included in the Euro Stoxx 50 and CAC 40 indices. Codes and symbols: ISIN: FR0000121667; Reuters: ESLX.PA; Bloomberg: EL:FP





# 1.1 EssilorLuxottica, a global leader in the eyecare and eyewear industry

## 1.1.1 Overview of the Group

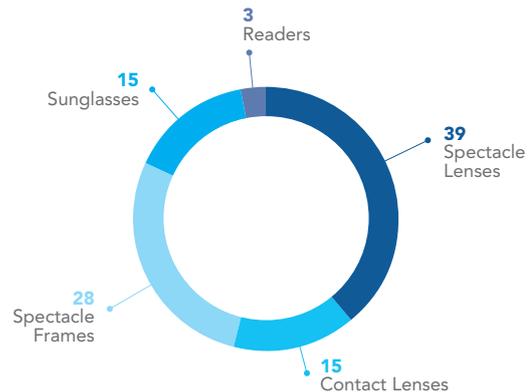
EssilorLuxottica is a global leader in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses. The Company brings together the complementary expertise of two industry pioneers, one in advanced lens technologies and the other in the craftsmanship of iconic eyewear, to create a vertically-integrated business that is uniquely positioned to address the world’s evolving vision needs and the global demand of a growing eyecare and eyewear industry.

### A growing eyecare and eyewear industry

Across the world, 6.2 billion people <sup>(1)</sup> are in need of sunglasses and 4.7 billion people <sup>(1)</sup> are in need of vision correction, among which 2.7 billion <sup>(1)</sup> suffer from uncorrected poor vision.

The global eyecare and eyewear industry represents a value estimated at over Euro 100 billion <sup>(2)</sup> in sell-out/retail price terms, with a long-term growth trend of around 3-4% <sup>(2)</sup> per annum. The industry is comprised of five segments: spectacle lenses, contact lenses, spectacle frames, sunglasses and readers. The growth patterns of each segment are relatively homogeneous, with the exception of the contact lenses category which is projected to grow faster than the rest.

Breakdown of the global eyecare and eyewear industry in 2019 (in percentage terms) <sup>(2)</sup>



### A unique global footprint

With a worldwide presence across all stages of the value chain, EssilorLuxottica has more than 150,000 employees committed to providing vision care and eyewear products that meet the individual needs and style aspirations of each consumer. The unique business model and relentless pursuit of operational excellence ensures that consumers everywhere have access to products that have been rigorously tested to meet internationally recognized standards, from the simplest pair of glasses to the most sophisticated custom-made lenses and branded eyewear.

### A deeply rooted commitment to vision and innovative eyewear

By investing heavily in R&D for cutting edge lens and frame technology, as well as reimagining the design, form and function of eyewear, EssilorLuxottica constantly sets new industry standards for vision care and eyewear and the consumer experience around it. Beyond the products we make, our Company and our people are deeply committed to elevating the importance of vision as both a basic human right and a key lever for global development.

(1) Source: EssilorLuxottica, Vision Impact Institute, Eyelliance: Eyeglasses for Global Development: Bridging the Visual Divide.

(2) Source: EssilorLuxottica, Euromonitor.

## Presentation of EssilorLuxottica

EssilorLuxottica, a global leader in the eyecare and eyewear industry

### 1.1.2 Vision care and eyewear brands

EssilorLuxottica is home to some of the most loved and widely recognized vision care and eyewear brands in the world. With a portfolio of proprietary and licensed brands that cover a wide variety of market segments, the Company taps into the needs and desires of consumers, innovates on everything from design to service, and ultimately delivers products and experiences that stand out in the industry.

#### Lens Technologies

EssilorLuxottica's innovation in lens technology has led to the creation of lens brands that regularly rank among the highest in terms of consumer satisfaction.

Today, it has an unparalleled portfolio of proprietary brands, including Varilux, Transitions, Crizal, Ray-Ban, Oakley, Eyezen, Xperio and Barberini. The Company has also successfully partnered with leading companies such as Nikon to distribute specific technologies that enable each consumer's needs to be fully addressed. These brands make an important contribution to educating consumers about the importance of eyecare.



EssilorLuxottica also has a long history of designing equipment and solutions used by opticians, optometrists and ophthalmologists around the world. This includes lens surfacing and coating equipment and instruments for refraction, diagnostic and imaging, measurement, edging and mounting tools as well as sales support services.



#### Eyewear brands

The vision and inventiveness of EssilorLuxottica has helped eyewear become a category on its own over the past few decades, evolving from a necessary device that improves vision to a desirable fashion accessory which enables self-expression and enhances self-confidence. A relentless pursuit of excellence down to the smallest detail, along with ongoing investment in R&D, new technologies, equipment, materials and processes, has earned us a

reputation as a product and branding trailblazer. The Company has an outstanding portfolio of proprietary eyewear brands, including Ray-Ban, Oakley, Vogue Eyewear, Persol, Oliver Peoples, Alain Mikli, Arnette, Bolon and Costa and prestigious licensed brands including Giorgio Armani, Burberry, Bulgari, Chanel, Coach, Dolce&Gabbana, Ferrari, Michael Kors, Miu Miu, Prada, Ralph Lauren, Starck Eyes, Tiffany & Co., Tory Burch, Valentino and Versace.

|   |   |  |   |
|---|---|--|---|
|  |  | <b>ARNETTE</b>   | <b>BOLON</b>  |
|  | <b>BURBERRY</b>   | <b>BVLGARI</b>   | <b>CHANEL</b>   |
|  |  | <b>DOLCE &amp; GABBANA</b>   | <b>EMPORIO ARMANI</b>   |
|  | <b>FOSTER GRANT</b>   | <b>GIORGIO ARMANI</b>  | <b>LUXOTTICA</b>  |
| <b>MICHAEL KORS</b>   | <b>MIU MIU EYEWEAR</b>  |   |  |
| <b>OLIVER PEOPLES COVVEE</b>  |  | <b>POLO RALPH LAUREN</b>   | <b>PRADA EYEWEAR</b>  |
| <b>RALPH RALPH LAUREN EYEWEAR</b>   | <b>RALPH LAUREN</b>   |  | <b>Sferoflex</b>  |
| <b>STARCK BIOTECH PARIS</b>   | <b>TIFFANY &amp; Co.</b>  | <b>TORY BURCH</b>  | <b>VALENTINO</b>  |
|   | <b>VERSACE</b>  | <b>vogue eyewear</b>   |   |

**Direct to consumer**

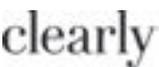
EssilorLuxottica’s retail network counts approximately 11,000 stores that offer high quality vision care and shopping experiences to patients and consumers, from highly digital eye exam technology to the latest eyewear trends curated for every type of consumer. A true omnichannel approach to distribution has enabled the magic of the Company’s stores to be replicated in the digital space, enabling visitors to enjoy everything from customization to an endless aisle of frames. This approach enhances the consumer experience by offering a connected experience across all customer touch-points. Developing online activities enables EssilorLuxottica to

reach a greater number of consumers while ensuring the distribution of quality optical products and improving the quality of information available for consumers to understand the importance of vision and the solutions available.

The Company has a widespread brick-and-mortar retail network, under banners like LensCrafters, Pearle Vision, Target Optical, Salmoiraghi & Viganò, David Clulow Opticians, OPSM, Óticas Carol, GMO, Óticas Place Vendôme, Óticas Visión, Sunglass Hut, Ray-Ban and Oakley, complemented by best-in-class e-commerce platforms like Ray-Ban.com, Oakley.com, SunglassHut.com, EyeBuyDirect.com, FramesDirect.com, Clearly.ca and Vision Direct (in Europe).

## Presentation of EssilorLuxottica

EssilorLuxottica, a global leader in the eyecare and eyewear industry

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|  |  |   |  |
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|  |  |   |   |

As of December 31, 2019 EssilorLuxottica operated 10,941 stores as follows:

|                         | North America | Europe       | Asia, Oceania, Africa | Latam        | Total Corporate | Franchise and license | Total Stores  |
|-------------------------|---------------|--------------|-----------------------|--------------|-----------------|-----------------------|---------------|
| Sunglass Hut            | 1,796         | 501          | 475                   | 446          | 3,218           | 185                   | 3,403         |
| LensCrafters            | 1,054         |              | 101                   |              | 1,155           | 1                     | 1,156         |
| Óticas Carol            |               |              |                       | 21           | 21              | 1,335                 | 1,356         |
| Pearle Vision           | 111           |              |                       |              | 111             | 429                   | 540           |
| Target Optical          | 524           |              |                       |              | 524             |                       | 524           |
| GMO                     |               |              |                       | 458          | 458             |                       | 458           |
| Salmoiraghi & Viganò    |               | 376          |                       |              | 376             | 32                    | 408           |
| Oakley retail locations | 196           | 10           | 63                    | 17           | 286             | 102                   | 388           |
| OPSM                    |               |              | 336                   |              | 336             | 39                    | 375           |
| Ray-Ban                 | 19            | 35           | 173                   | 29           | 256             |                       | 256           |
| Sears Optical           | 115           |              |                       |              | 115             |                       | 115           |
| David Clulow Opticians  |               | 122          |                       |              | 122             |                       | 122           |
| Luxury House Brands     | 34            | 8            | 7                     |              | 49              | 8                     | 57            |
| All Others Luxottica    |               |              | 67                    |              | 67              | 10                    | 77            |
| <b>LUXOTTICA</b>        | <b>3,849</b>  | <b>1,052</b> | <b>1,222</b>          | <b>971</b>   | <b>7,094</b>    | <b>2,141</b>          | <b>9,235</b>  |
| Mujosh                  |               |              | 119                   |              | 119             | 583                   | 702           |
| Aojo                    |               |              | 73                    |              | 73              | 370                   | 443           |
| Óticas Visión           |               |              |                       | 158          | 158             | 2                     | 160           |
| Bolon                   |               |              | 24                    |              | 24              | 72                    | 96            |
| Óticas Place Vendôme    |               |              |                       | 72           | 72              |                       | 72            |
| Optical Center          |               |              |                       | 61           | 61              |                       | 61            |
| MJS                     |               |              | 15                    |              | 15              | 39                    | 54            |
| All Others Essilor      | 3             |              | 70                    | 15           | 88              | 30                    | 118           |
| <b>ESSILOR</b>          | <b>3</b>      | <b>0</b>     | <b>301</b>            | <b>306</b>   | <b>610</b>      | <b>1,096</b>          | <b>1,706</b>  |
| <b>TOTAL</b>            | <b>3,852</b>  | <b>1,052</b> | <b>1,523</b>          | <b>1,277</b> | <b>7,704</b>    | <b>3,237</b>          | <b>10,941</b> |

### 1.1.3 EssilorLuxottica 2019 key figures

2019 is the first year in which EssilorLuxottica's consolidated statement of profit or loss shows the full year performance of both Essilor's and Luxottica's businesses. However, since the 2018 information presented in the consolidated statement of profit or loss is affected by the

accounting of the combination between Essilor and Luxottica ("EL Combination"), the financial information deemed relevant to compare 2019 performance is based on the restated <sup>(2)</sup> *pro forma* <sup>(1)</sup> information for the year ended December 31, 2018.

| € millions                                      | 2019          | 2018<br>Restated <sup>(2)</sup><br><i>Pro forma</i> <sup>(1)</sup> | Change       | Change at<br>constant exchange<br>rate <sup>(3)</sup> |
|---|---------------|--|--------------|---|
| Revenue   | 17,390        | 16,194   | 7.4%         | 4.4%  |
| Gross profit                                    | 10,817        | 10,063   | 7.5%         | 4.3%  |
| <b>Adjusted <sup>(4)</sup> gross profit</b>     | <b>10,887</b> | <b>10,209</b>  | <b>6.6%</b>  | <b>3.5%</b>   |
| <b>% of revenue</b>                             | <b>62.6%</b>  | <b>63.0%</b>   | -            | -   |
| Operating profit                                | 1,678         | 1,511  | 11.1%        | 6.2%  |
| <b>Adjusted <sup>(4)</sup> operating profit</b> | <b>2,812</b>  | <b>2,618</b>   | <b>7.4%</b>  | <b>3.3%</b>   |
| <b>% of revenue</b>                             | <b>16.2%</b>  | <b>16.2%</b>   | -            | -   |
| Net profit                                      | 1,185         | 1,131  | 4.7%         | 0.1%  |
| <b>Adjusted <sup>(4)</sup> net profit</b>       | <b>2,054</b>  | <b>1,866</b>   | <b>10.1%</b> | <b>5.7%</b>   |
| <b>% of revenue</b>                             | <b>11.8%</b>  | <b>11.5%</b>   | -            | -   |

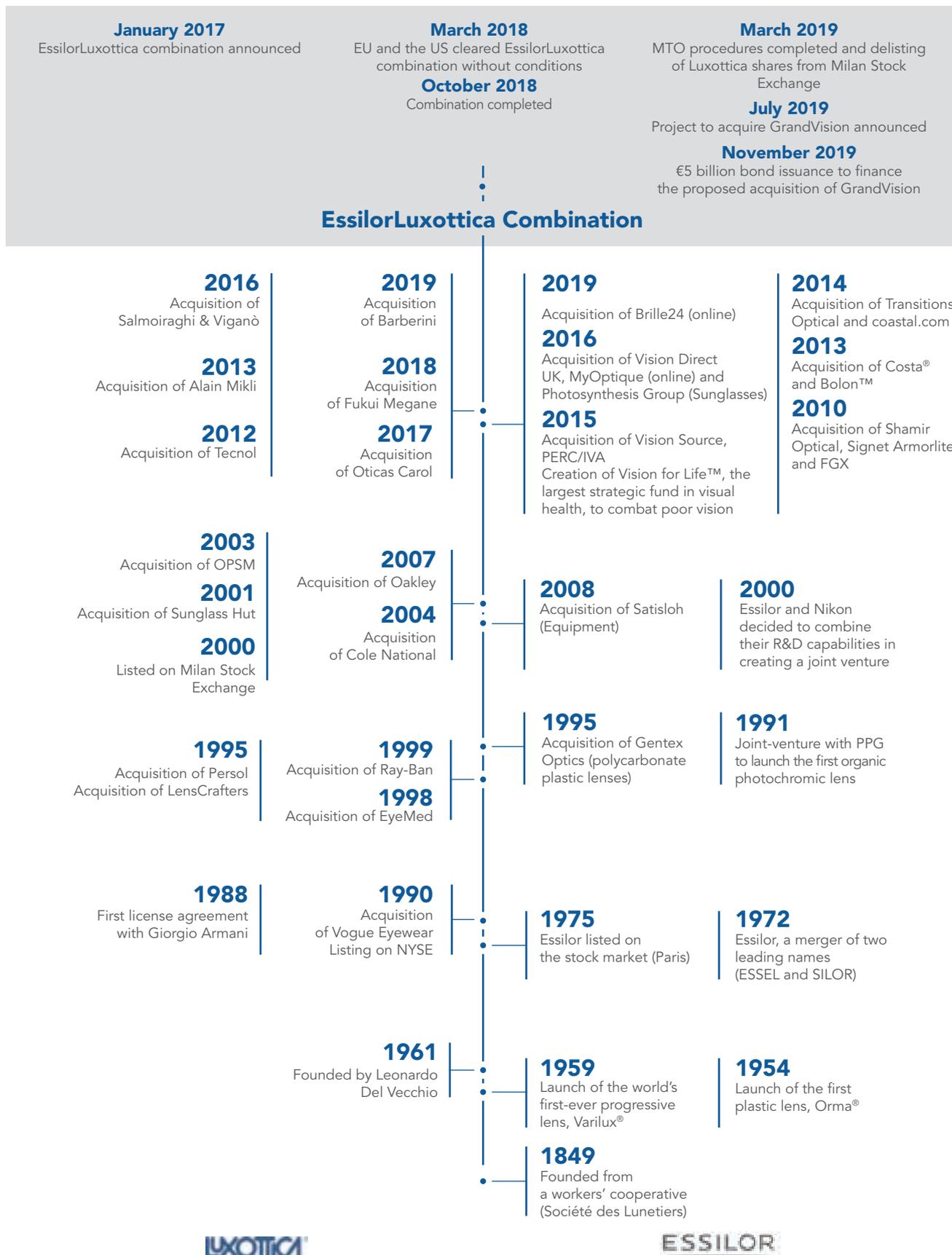
(1) The Restated Unaudited *Pro Forma* Consolidated Financial Information has been produced for illustrative purposes only, with the aim of providing comparative information for the year ended December 31, 2018 as if the combination between Essilor and Luxottica had occurred on January 1, 2018. For further details, please refer to Section 3.6 of this Universal Registration Document.

(2) 2018 information has been restated following the application of IFRS 16 Leases, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination.

(3) Figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.

(4) Adjusted from income and expenses related to the combination between Essilor and Luxottica and other transactions that are unusual, infrequent or unrelated to the normal course of business as the impact of these events might affect the understanding of the Group's performance. Such adjusted measures are reconciled to their most comparable *pro forma* measures in the Restated Unaudited *Pro Forma* Consolidated Financial Information for the year ended December 31, 2018, and to the most comparable reported measures in the consolidated statement of profit or loss for the year ended December 31, 2019. The reconciliation tables as well as the list of adjusting items are presented in Section 3.1.1 of this Universal Registration Document.

## 1.2 Company history



EssilorLuxottica has a combined two centuries of innovation and human endeavor behind it. Created in 2018, it is a culmination of two very complementary and inspiring business stories, equally rich in their successes, which have revolutionized an entire industry more than once, changing the very nature of eyewear and how we care for our eyes.

Founded in 1849, Essilor's long history is bound to its mission of improving lives by improving sight. This mission has borne major technological advances such as the invention of the organic lens and the progressive lens. The company has built a strong culture of employee shareholding combined with a unique governance model that associates employees with the company's decision-making process. This model is at the heart of Essilor's ambition to eradicate poor vision worldwide within one generation.

## 1.2.1 History of Essilor

### 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* (renamed *Société des Lunetiers* and then ESSEL), an eyewear makers' cooperative founded in 1849 in Paris. In 1953, it filed a patent for its 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 Opthalmiques Rationnelle*), which had launched the first plastic lens, Orma, in 1954.

### 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. 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.

Starting its journey in 1961, Luxottica transformed eyeglasses from a necessary device into a desirable fashion accessory and vehicle for self-expression by building a unique vertically integrated business model which covers the entire value chain from design to final consumers and makes it possible to verify the quality of both products and processes. This revolution has created a growing appetite and demand for premium branded frames with a positive impact on the eyewear industry globally.

Where the stories overlap is in vision and values, including an entrepreneurial spirit and a shared desire to create the very best products for all consumers around the world and to do so responsibly. Yesterday Essilor and Luxottica were two companies using their individual strengths to unlock the potential of eyecare and eyewear around the world; today EssilorLuxottica looks forward to combining those strengths as one Group.

In the 1980s, 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.

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

In the early 1990s, 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 earlier 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 Optics in 1995, which brought it the polycarbonate lens. 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.

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

Technological innovation accelerated at the turn of the 21<sup>st</sup> century with a growing number of innovations beneficial to opticians and consumers. New products targeted both optical quality and wearer comfort thanks to: new and increasingly effective designs such as the Varilux X series lenses; UV protection, even in clear lenses, with the launch of the E-SPF index; lenses selectively protecting against harmful blue light, such as the Crizal Previncia lenses; products intended for new consumer behaviors and habits, such as the new Eyezen lens line for all users of digital devices.

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.

The 2000-2010 decade was also marked by major strategic partnerships with: Nikon through the joint venture Nikon Essilor Co., Ltd (1999); Samyung Trading Ltd through the joint venture Essilor Korea Ltd (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.

## 1.2.2 History of Luxottica

### Incorporation

Luxottica was founded by Leonardo Del Vecchio in 1961. The company started out as a small workshop and operated until the end of the 1960s as a contract producer of dyes, metal components and semi-finished goods for the optical industry.

It gradually widened the range of processes offered until it had an integrated manufacturing structure capable of producing a finished pair of glasses. In 1971, Luxottica's first collection of prescription eyewear was presented at Milan's MIDO (an international optics trade fair), marking Luxottica's definitive transition from contract manufacturer to independent producer.

### 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.

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.

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 and in the online business, with the acquisition of Coastal, a major online retailer of optical products.

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.

### Expansion in wholesale distribution

In the early 1970s, the company sold its frames exclusively through independent distributors. In 1974, after five years of sustained development of its manufacturing capacity, it started to pursue a strategy of vertical integration, with the goal of distributing frames directly to retailers. The first step was the acquisition of Scarrone S.p.A., which had marketed the company's products since 1971, bringing with it a vital knowledge of the Italian eyewear market.

Luxottica's international expansion began in the 1980s with the acquisition of independent distributors and the formation of subsidiaries and joint ventures in key markets.

Luxottica's wholesale distribution expansion focuses on customer differentiation, customized service and new sales channels, such as large department stores, travel retail and e-commerce, as well as continuous penetration into new markets.

## Eyewear, a new frontier of fashion

The 1981 acquisition of La Meccanoptica Leonardo, owner of the Sferoflex brand and developer of an important flexible hinge patent, enabled the company to enhance the design and quality of its products and increase its market share. From the late 1980s, eyeglasses, previously perceived as mere sight-correcting instruments, began to evolve into eyewear.

An aesthetic focus on everyday objects and designers' interest in the emerging accessories market led Luxottica to embark on its first collaboration with the fashion industry in 1988 by entering into a licensing agreement with Giorgio Armani. The company followed that initial collaboration with numerous others and, with the acquisition of new brands, gradually began building its current world-class brand portfolio.

Over the years Luxottica has launched collections from names like Bulgari (1997), Chanel (1999), Prada (2003), Versace (2003), Dolce&Gabbana (2006), Burberry (2006), Ralph Lauren (2007), Tiffany & Co. (2008), Tory Burch (2009), Coach (2012), Starck Eyes (2013), Giorgio Armani (2013), Michael Kors (2015) and Valentino (2017).

Moreover, in 1999 Luxottica acquired Ray-Ban, one of the world's best-known sunglasses brands, along with its crystal sun lens technology.

In 2007, Luxottica acquired California-based Oakley, a leading sport and performance brand, which owned the Oliver Peoples brand. At the time of the acquisition, Oakley had its own retail network of over 160 stores.

In 2013, Luxottica acquired Alain Mikli International, a French luxury and contemporary eyewear company, which owned the Alain Mikli brand and the Starck Eyes license. As a result of the acquisition, Luxottica strengthened both its luxury brand portfolio and prescription offerings.

## Expansion in retail distribution

In 1995, Luxottica acquired The United States Shoe Corporation, which owned LensCrafters, one of North America's largest optical retail chains. Luxottica became the world's first significant eyewear manufacturer to enter the retail market, maximizing synergies with its production and wholesale distribution and increasing penetration of its products through LensCrafters stores.

Since 2000, Luxottica has strengthened its retail business by acquiring a number of chains, including Sunglass Hut (2001), a leading retailer of premium sunglasses, OPSM Group (2003), a leading optical retailer in Australia and New Zealand, and Cole National (2004), which brought with it another important optical retail chain in North America, Pearle Vision, and an extensive retail licensed brands store business (Target Optical and Sears Optical). In 2005, the company began its retail expansion into China, where LensCrafters has become a leading brand in the country's high-end market. In the same year, the group also started to expand Sunglass Hut globally in high-potential markets like the Middle East, South Africa, India, Southeast Asia, Mexico, Brazil, Europe and China. In 2011, Luxottica started its optical retail expansion in Latin America by completing the acquisition of GMO, a leading retailer in Chile, Peru, Ecuador and Colombia. In 2016, Luxottica completed the acquisition of Salmoiraghi & Viganò, one of the leading optical retail chains in Italy, in which Luxottica has held a minority stake since 2012. In 2017 the group extended its presence in Brazil through the acquisition of Óticas Carol, one of the largest franchising optical retailers in the country. Eventually, in 2018 the group extended its retail footprint in Southeast Asia acquiring the Spectacle Hut brand.

## A step further in the lens business

Luxottica is already a global leader in lens manufacturing. Ray-Ban, Oakley and Persol brands all carried a distinctive know-how in sun lenses when Luxottica acquired them and the acquisition of LensCrafters in 1995 brought an expertise in ophthalmic lenses. Since 2016, the company has taken further steps into the lens business developing new state-of-the-art production facilities in Italy, the United States and China to increase its production capacity for both sun and ophthalmic lenses. In August 2019, Luxottica completed the acquisition of Barberini S.p.A., the world's leading optical glass sun lens manufacturer.

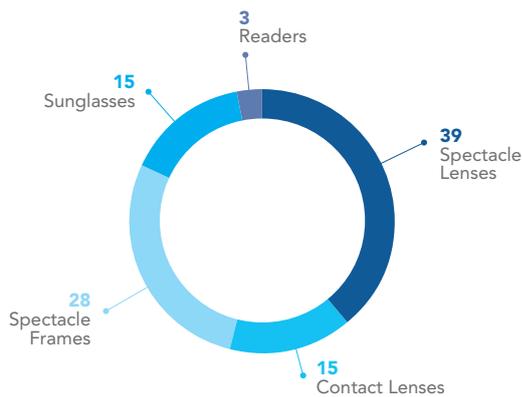
## 1.3 The eyecare and eyewear industry

### Solid growth for an industry worth more than Euro 100 billion

The global industry is estimated to be worth over Euro 100 billion <sup>(1)</sup> (price to the consumer) with a long-term growth trend estimated at 3-4% <sup>(1)</sup> a year. The industry comprises five segments: ophthalmic lenses, contact

lenses, spectacle frames, sunglasses and readers. The growth patterns of each segment are relatively homogeneous, with the exception of the contact lenses category which is projected to grow faster than the rest.

#### Breakdown of the global eyecare and eyewear industry in 2019 (in percentage terms)<sup>(1)</sup>



### Ophthalmic lenses

The mission of 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.

According to Group estimates, the world ophthalmic optics market represents around 1.45 billion lenses a year <sup>(2)</sup>, or approximately 700 million consumers a year <sup>(2)</sup>. Corrective lenses make up approximately 75% of vision correction solutions worldwide <sup>(2)</sup>.

The value chain in the ophthalmic lens industry includes four phases: production of raw materials, manufacturing of lenses, finishing of lenses in prescription laboratories and edgingmounting facilities, and distribution to consumers.

Manufacturers make lenses using raw materials developed and produced by glass manufacturers for mineral lenses or by chemical companies for the polymerizable thermoset resins and injectable thermoplastic resins used in plastic lenses.

Their plants produce finished lenses for simple eyesight corrections and semi-finished lenses for more complex prescriptions. The plants also apply all types of coatings

(tinting, anti-UV, anti-blue light, antiscratch, antireflective, antimudge, antistatic, antifog, etc.) on single-vision lenses that do not require surfacing and polishing in the laboratories.

EssilorLuxottica makes both single-vision finished lenses and semi-finished lenses.

The prescription laboratories transform the semi-finished lenses, only the front surface of which is finished at the plants, into finished lenses meeting the exact specifications of opticians' or optometrists' orders. This customization enables them to deliver the broadest possible array of correction combinations, especially for presbyopia. In the process, the labs also surface and polish lenses and apply the different coatings.

EssilorLuxottica operates a wide network of prescription laboratories and edging facilities around the world.

The Company also designs a range of optical instruments for opticians and eyecare professionals as well as equipment (primarily machines for surfacing and antireflective coatings) and sells consumables to prescription laboratories.

(1) Source: EssilorLuxottica, Euromonitor.  
(2) 2019 estimates; Source: Essilor.

## Contact lenses

Contact lenses are the main alternative to corrective lenses for treating visual acuity problems, particularly myopia. They make up approximately 10% of vision correction solutions worldwide<sup>(1)</sup>.

Contact lenses are plastic discs made primarily of hydrogel or silicone hydrogel and worn directly on the cornea. They

can be disposed of daily or replaced frequently (every two weeks, once a month).

EssilorLuxottica distributes contact lenses through its retail businesses (physical stores and e-commerce) and is a wholesale distributor in some countries, notably the United States.

## Readers

Readers are non-prescription reading glasses sold by specialty retailers, notably pharmacies and mass retailers, and by optical retailers. This type of eyewear facilitates close-up viewing, particularly when presbyopia starts to develop, and covers about 10% of vision correction needs<sup>(1)</sup>.

EssilorLuxottica sells readers through major retailers under a wide range of proprietary and licensed brands and has a significant presence in the United States.

## Spectacle frames

Spectacle frames are the device which ophthalmic lenses are typically set in (mounted into the frames or rimless mount). In 2019, the global market of spectacle frames is estimated around 650 million units<sup>(2)</sup>.

Frames are typically made of metals or plastic (injected or acetate), which offer a wide variety of design solutions. This is for both spectacle and sunglass frames.

Metal frame production begins with the production of basic components such as rims, temples and bridges using a molding process, then these components are welded together to form frames over numerous stages of detailed assembly work. Once assembled, the metal frames are treated with various coatings to improve their resistance and finished.

Plastic frames are manufactured using either a milling or an injection molding process. In the milling process, a computer-controlled machine carves frames from colored acetate slabs. This process produces rims, temples and bridges that are then assembled and finished. In the injection molding process, plastic resins are liquefied and injected into molds. The plastic parts are then assembled, coated and finished.

EssilorLuxottica manufactures and distributes a huge number of different models of frames, made of all the described materials, under a number of very well-known brands (house frame brands and third party's licensed brands). In the prescription category, those frames need to be complemented by ophthalmic lenses, by the vast majority internally produced by the group's laboratories.

## Sunglasses

Sunglasses are typically made of a frame with sun plano lenses (but they can be equipped also with prescription sun lenses, currently representing just a small portion of the market). Plano lenses can be made of plastic, polycarbonate or glass. In 2019, the global market of

sunglasses is estimated slightly above 400 million units<sup>(2)</sup>.

EssilorLuxottica manufactures and distributes a great number of different models and brands of sunglasses and is uniquely positioned as a global producer of branded sun prescription lenses.

## Retailers and optical chains

Products are marketed through a number of channels, including independent eyecare professionals/optometrists, cooperatives, central purchasing agencies, retail optical chains, specialty stores, duty free (travel retail) chains and online channels.

EssilorLuxottica has a significant presence in physical stores in the United States, Latin America and some Asian

and European countries including China, Australia and Italy. The company also has an outstanding e-commerce presence (sunglasses, prescription glasses and contact lenses). Lastly, EssilorLuxottica is a top-tier supplier to third-party distributors operating in all distribution channels and across all geographic markets.

(1) 2019 estimates; Source: Essilor.

(2) Source: EssilorLuxottica, Euromonitor.

# 1.4 Mission and strategy

## EssilorLuxottica's Mission

EssilorLuxottica's mission is to help people see more, be more and live life to its fullest.

The Company's ground-breaking products correct, protect and frame the beauty of the most precious sensory organ – the eyes. By combining proven expertise in lens technology and eyewear manufacturing, a portfolio of brands that consumers love and global distribution capabilities, EssilorLuxottica enables people everywhere to learn, to work, to express themselves and to fulfill their potential.

Lack of awareness and access have led to a global vision crisis with severe social and economic consequences for billions of people. EssilorLuxottica exists to give vision

a voice and to respond to the world's growing vision needs by meeting the changing lifestyles of existing consumers and inventing new ways to reach the 2.7 billion people <sup>(1)</sup> who suffer from uncorrected poor vision and the 6.2 billion people <sup>(1)</sup> who do not protect their eyes from harmful rays.

EssilorLuxottica is a powerful advocate for the vision cause, a passionate campaigner for greater awareness, and a pioneering eyewear innovator with solutions and styles that bring ever greater improvements so that everybody, everywhere can enjoy the life-changing benefits of good vision.

## Powering sight

80% of what people learn is processed through the eyes. But one out of three people around the world still do not have the vision care they need, and billions more are at risk of deteriorating vision. Beyond essential vision correction, EssilorLuxottica will seek to respond to the vast need for vision protection from sunlight and harmful blue light.

Thanks to its portfolio of lens technologies combined with some of the world's most loved eyewear brands, EssilorLuxottica is uniquely positioned to make wearing eyeglasses and sunglasses both a desirable and life-improving experience.

The Company will act on many levels to elevate awareness on the importance of vision correction and vision protection, educating policy makers and consumers with dedicated campaigns but also supporting expert-to-expert knowledge sharing on vision science and patient needs. EssilorLuxottica already supports the Vision Impact Institute, whose mission is to make good vision a global priority, and several other non-profit organisations such as OneSight and Essilor Vision Foundation whose focus is on providing free eye exams and eyeglasses to the people most in need.

## Powering style

Combining the best in advanced lens technology with beautifully crafted and branded frames turns a necessary device that improves vision into an accessory that not only fits comfortably in form and function, but also serves as a true expression of personal style. Eyewear is one of the most visible of all fashion accessories and has become part of our cultural fabric. From the moment frame meets face,

there is a sense of authenticity, creativity and confidence that consumers have come to love. Because of the power they wield, each pair of frames will be considered as a little work of art, from its first sketches to the final handcrafted details. Every frame will illustrate the passion, skill and commitment of EssilorLuxottica's people who will be committed to making the best eyewear possible.

(1) Source: EssilorLuxottica, Vision Impact Institute, Eyelliance: Eyeglasses for Global Development: Bridging the Visual Divide.

## 1.5 EssilorLuxottica activities

Leveraging over 150 years of innovation, operational excellence, entrepreneurial spirit and international mindset, EssilorLuxottica develops groundbreaking eyecare and eyewear solutions to meet the changing lifestyles of existing consumers, while inventing new ways to reach the 2.7 billion people <sup>(1)</sup> who suffer from uncorrected poor vision and the 6.2 billion people <sup>(1)</sup> who do not protect their eyes from harmful rays. Its vertically integrated business draws on the complementary expertise of two industry pioneers, one in advanced lens technologies and the other in the craftsmanship of iconic eyewear, to offer an unprecedented set of comprehensive solutions to consumers and eyecare professionals.

EssilorLuxottica's operates an open, non-exclusive business model, that benefits all stakeholders, including customers, employees, shareholders, business partners, suppliers and communities in which they reside. This business model respects the characteristics of the various activities of the Company, by providing centralization when required (for global frame brands and retail banners) and more decentralization when appropriate (for prescription lenses, which cater for multiple individual eye defects at local level). It is built around six unique pillars, which contribute to the Company's strength and support its determination to play the role of an accelerator of the industry growth in the coming years.

**Global footprint.** Operating across more than 150 different countries, the locations of EssilorLuxottica's manufacturing capabilities, distribution network and human capital are geographically balanced and well diversified shielding it from volatility in single economic areas.

**World-famous brands.** EssilorLuxottica showcases a portfolio of more than 100 renowned brands spanning across various categories, *i.e.* frames, lenses, instruments, distribution, and positioning, *i.e.* entry level to premium segment. Among them feature the most recognized brands in the industry, whose equity is protected by strong investments to fight counterfeit products and the parallel market. The unique assembly of brands allows EssilorLuxottica to address all customer needs at every price point.

**Comprehensive go to market.** EssilorLuxottica has implemented a comprehensive go to market strategy, comprising retail, wholesale, e-commerce and last-mile inclusive models. Through its direct-to-consumer platforms, the Company gains valuable insight into the behavior and preferences of the end-consumer. Retail and e-commerce play together in synchronization combining a physical "touch and feel", particularly important in the eyecare and eyewear industry, with an immersive digital experience. Wholesale networks complement the distribution footprint in a still fragmented market. Through EyeMed and its US managed vision care business, EssilorLuxottica completes its holistic go to market approach. Finally, innovative inclusive models make last-mile distribution a reality in emerging markets.

**Superior innovation capabilities.** A drive for excellence coupled with an innovative spirit stand at the forefront of EssilorLuxottica's aspirations. The Company has built a powerful global R&D network supported by leading scientific, industrial and academic communities and centered around four main initiatives: enhancing vision, powering style, revolutionizing eye exams, making eyewear smart. It owns more than 10,000 patents and produces over 2,000 new products every year.

**Powerful supply chain.** EssilorLuxottica operates a vertically integrated business model exercising full control over every single step of the value creation process, from product development and manufacturing to the sale to the end consumer. Balancing speed, efficiency and proximity, the Company manages a global supply chain based on centralization for frames and on a capillary network for lens production and prescription laboratories.

**Talented people.** At the very core of EssilorLuxottica are its people, who bring these assets to life. A team of more than 150,000 enthusiastic employees work together relentlessly to make the Company better every day. Diversity is a key priority with 60% of the total workforce represented by women and approximately 50% of it below the age of 35 years. The Company strives to attract the best talent engaging employees with extensive training and development programs, personal wellbeing initiatives, subsidized employee shareholding schemes and the continuous promotion of health and safety in the workplace.

By putting these distinctive assets to play, EssilorLuxottica's is uniquely positioned to drive the evolution and elevation of the entire industry for the benefit of all stakeholders.

(1) Source: EssilorLuxottica, Vision Impact Institute, Eyelliance: Eyeglasses for Global Development: Bridging the Visual Divide.

## 1.5.1 Essilor activities

### 1.5.1.1 Strategy

Essilor International (“Essilor”) is the world’s leading ophthalmic optics company. Essilor designs, manufactures and markets a wide range of lenses to improve and protect eyesight. Its mission is to improve lives by improving sight. To support this mission, Essilor allocates more than Euro 200 million to research and innovation every year, in a commitment to continuously bring new, more effective products to market. It also develops and markets equipment, instruments and services for eyecare professionals and operates in the readers and sunglasses market segments. Its flagship brands are Varilux, Crizal, Transitions, Eyezen, Xperio, Foster Grant and Bolon.

Across its operating activities, the strategy of Essilor 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 address unresolved vision problems;

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

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

### Breakdown of Essilor revenue by operating segment

| Revenue<br><i>Euro millions</i>               | 2019         | %           |
|---|--------------|-------------|
| Lenses and Optical Instruments <sup>(a)</sup> | 6,791        | 86.0%       |
| Sunglasses & Readers <sup>(b)</sup>           | 885          | 11.2%       |
| Equipment <sup>(c)</sup>                      | 221          | 2.8%        |
| <b>TOTAL</b>                                  | <b>7,897</b> | <b>100%</b> |

(a) Corrective lenses as well as lens preparation and optometry instruments for eyecare professionals and other institutions.

(b) Reading glasses and non-prescription sunglasses.

(c) Lens manufacturing and prescription laboratory equipment, mainly supplied by Satisloh.

### 1.5.1.2 Mission

Good vision is essential for everyday wellbeing and quality of life. Seeing well enables to learn, work, and fully interact with the world around us.

For 170 years, Essilor has been on a mission to improve lives by improving sight. Every day, Essilor group employees work to better correct and protect the vision of everyone on the planet. While 2 billion people<sup>(1)</sup> enjoy vision correction, 2.7 billion people<sup>(2)</sup>, 1 in 3, live with uncorrected poor vision. Today, uncorrected poor vision remains the world’s most widespread unaddressed disability, one that crosses cultural, geographic and economic lines. This is why, in line with its mission to improve lives by improving sight, Essilor is working to eliminate poor vision from the world by 2050.

#### Reaching the 2.7 billion underserved

One third of the global population live with uncorrected poor vision and its consequences. Faced with a largely unrecognized global vision crisis, Essilor is working with partners to launch and scale up several inclusive business and non-profit initiatives so that in the future everyone can see well and live well. Essilor’s efforts are channeled into three main areas:

#### 1) Raising awareness on the importance of good vision

Created in 2012 by Essilor and led by five independent directors, the Vision Impact Institute is a non-profit

organization that collects global scientific data on visual health. Its goal is to consolidate this research and share it with policymakers and the general public in order to raise awareness of the socio-economic impact of poor vision. Today, the Vision Impact Institute website has one of the richest databases in the world on visual correction and eye health.

The company works on a local, national and international level to raise awareness about visual health. Actions include events and media campaigns such as Think About Your Eyes in the United States and in Britain and local campaigns for eye screening, including a global campaign each World Sight Day.

#### 2) Deploying inclusive business models:

The gap between individuals and access to vision correction can sometimes seem insurmountable. Essilor develops innovative solutions to reduce this gap. It has a dedicated resource, the Base of Pyramid (BoP) Innovation Lab, which develops new inclusive business models and acts as an incubator to test new approaches in partnership with NGOs, foundations or development funds. The BoP Innovation Lab works closely with the 2.5 New Vision Generation (2.5 NVG) Division that is responsible for implementing and scaling up the business models that reach consumers who are too often forgotten.

(1) Source: Essilor.

(2) Source: EssilorLuxottica, Vision Impact Institute, Eyelliance: Eyeglasses for Global Development: Bridging the Visual Divide.

Training people to provide primary vision care is a key way to improve access to good vision; this also helps generate local employment and alleviate poverty. The 2.5 NVG teams have developed training modules that range from one day – to acquire basic near vision screening skills – to twelve months for certification in vocational training, including a specific focus on the commercial skills required to set up and run a successful small vision care business. These modules are to date being successfully deployed in India, China, Brazil, Mexico, Indonesia and Kenya with new programs underway in Cambodia, Vietnam, Ivory Coast, South Africa and Malawi.

### 3) Driving philanthropic programs:

To make good vision truly accessible to all, including those people living below the poverty line, the Essilor group is actively engaged in both local and global philanthropic initiatives. It takes many forms: lens donations, free vision screenings, awareness campaigns and fundraising. Essilor brings additional support to local programs building on close relationships with municipalities, health authorities and the non-profit sector.

The Essilor Vision Foundation (EVF) is one of the cornerstones of this approach. Launched in the US in 2007 to provide children and disadvantaged young people with visual care, it has since expanded to other countries and regions, including India, China, South-East Asia, Australia, New Zealand and Canada.

By creating the Vision for Life fund in 2015, Essilor stepped up its commitment to social responsibility. With an initial investment of Euro 30 million, it represents the world's biggest strategic giving initiative in the fight against uncorrected vision. Its ambition: fund, monitor and measure the impact of projects that aim to improve the lives of as many underprivileged people as possible by improving sight.

### Eliminating poor vision around the world

Essilor has created more than 15,000 inclusive businesses worldwide since 2013, which have the potential to give more than 300 million people access to vision health. These access points delivered vision solutions to 10.7 million new eyeglass wearers in 2019 alone, bringing the total for the past seven years to 33.5 million.

These efforts earned EssilorLuxottica the 17<sup>th</sup> slot in Fortune Magazine's annual Change the World list in 2019. The ranking was recognition of the company's commitment to bring good vision to everyone everywhere and eliminate poor vision around the world as part of its mission to "see more, be more and live life to its fullest". In this same spirit of raising awareness on good vision, Essilor made presentations in different parts of the world to leverage the report it published on the sidelines of the last United Nations General Assembly session, entitled "Eliminating Poor Vision in a Generation: What will it take to eliminate uncorrected refractive errors by 2050?". The report quantifies the scale of uncorrected poor vision in the world and recommends that stakeholders invest \$14 billion over the next 30 years to eliminate it.

Over the course of 2019, Essilor worked toward this goal through partnerships to eliminate poor vision in many regions. In Bhutan, 30,000 pairs of glasses have been delivered to date to make this country the first in the world

to eliminate poor vision. In India, more than 143,000 people were screened to put the Doddaballapura region on track to be the first in the country to also eliminate poor vision by 2021. In Nepal, the company signed a letter of intent to provide access to eye care to the 350,000 residents of the Bhaktapur district. And in China, Essilor worked with the Huoqiu County to eliminate poor vision in the county within three years. Partnerships were also launched with governmental ministries in France, Kenya and India to promote eye exams and raise awareness about the importance of visual health in schools or among underprivileged children. Lastly, Essilor put its culture of innovation to work for Base of Pyramid consumers in 2019: it developed new refraction technologies to make eye screening available to all, and launched the new "Ready2Clip Generation II" prescription glasses that can be dispensed on the spot.

This strong dynamic continued in the first few months of 2020. In January, Essilor's flagship inclusive business program Eye Mitra – the world's largest rural optical network – was featured at the World Economic Forum in Davos in a newly launched report called "Business as Unusual". And in February, Essilor pledged to donate 1 million eyeglasses and sunglasses to the United Nations Road Safety Fund (UNSRF). This partnership promotes global action on good vision for road users while contributing to the United Nations' Sustainable Development Goals.

## 1.5.1.3 Lenses and Optical Instruments

### 1.5.1.3.1 Overview

The **Lenses and Optical Instruments** division accounted for 86% of Essilor consolidated revenue in 2019, or close to Euro 6.8 billion.

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

Its 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.

Essilor serves 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 Transitions Style Colors and Transitions Style Mirrors lines launched in 2018 as well as Transitions Signature GEN 8 in 2019;
- Eyezen, a line of lenses for users of computers, tablets, smartphones and other connected devices, including the latest innovation, Eyezen Start lenses, launched early in 2019;
- Xperio polarized sun lenses;
- The Nikon and Kodak corrective lens brands used under licensing agreements with Nikon Corporation and Eastman Kodak, respectively.

Within this division, Essilor also designs, develops, markets and maintains a range of **optical instruments** in two main specialty segments: (i) lens edging and mounting instruments for opticians and prescription laboratories, and (ii) optometry instruments for eyecare professionals, schools, occupational medicine centers, the military and other institutions. This business unit continued to roll out two major new instruments in 2019: Visioffice X, a tool for personalizing lenses in optical stores, and the Vision-R 800 phoropter. A world first, the latter radically changes the eye exam process and customer experience, allowing measurement up to 0.01 Diopter versus 0.25 Diopter with other machines on the market. In addition to revolutionizing optometry, the Vision-R 800 paves the way for ophthalmic lenses with much greater accuracy.

In addition, Essilor has 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**);
- The United States (**eyebuydirect.com**, **framesdirect.com**, and **coastal.com**);
- Europe (**LensWay** websites and **Vision Direct**, **MyOptique Group**, **4Care** and **Brille24**);
- India (**coolwinks.com**);
- New Zealand (**clearly.co.nz**).

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 company's websites and retail stores that sell optical products.

The ophthalmic optics industry is highly fragmented and served primarily by local **competitors**. Essilor's main global competitors are Hoya (Japan) and Carl Zeiss Vision (Germany).

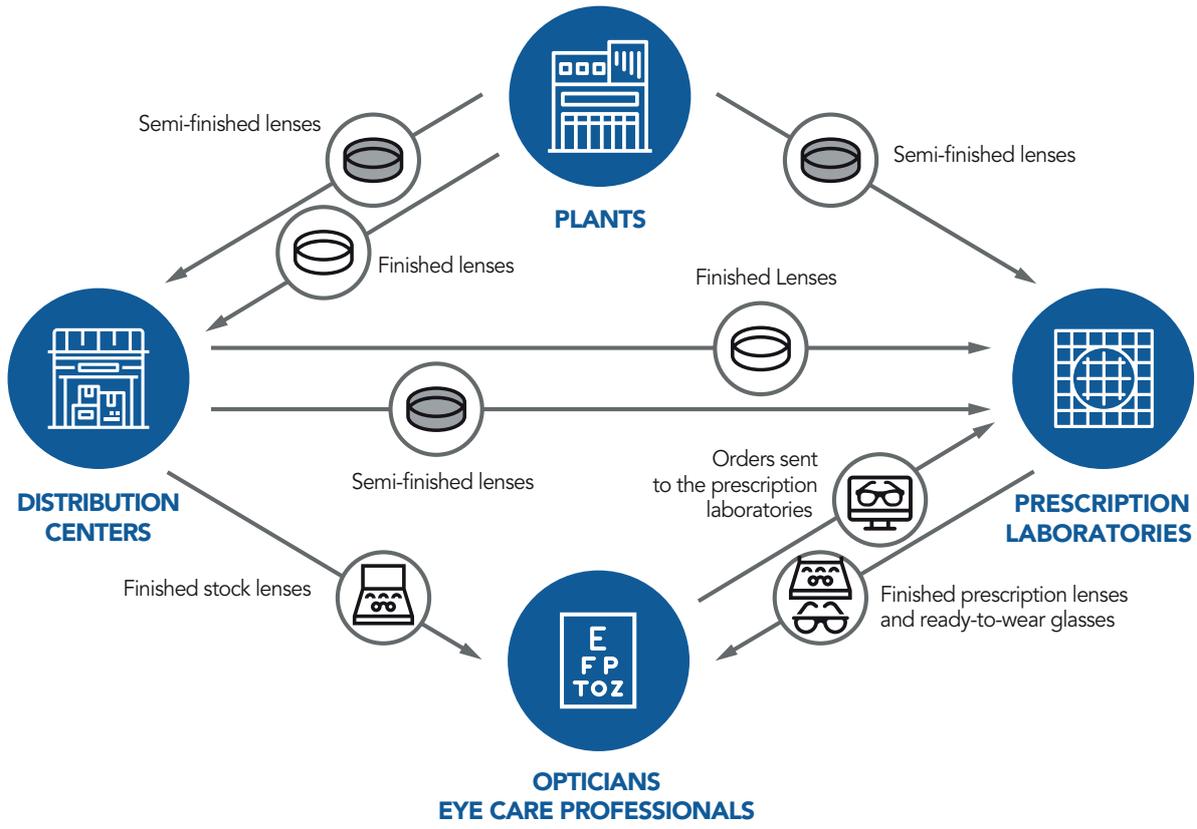
#### 1.5.1.3.2 Production and supply chain

##### Steps in the lens manufacturing process

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

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

Finished and semi-finished lenses manufactured in the production plants are sent to the **distribution centers**. The latter ship the lenses either to company-owned businesses (distribution subsidiaries, prescription laboratories and edging-mounting facilities) or to third parties (certain distributors when the company does not have its own subsidiaries, prescription labs, retailers and optical chains).

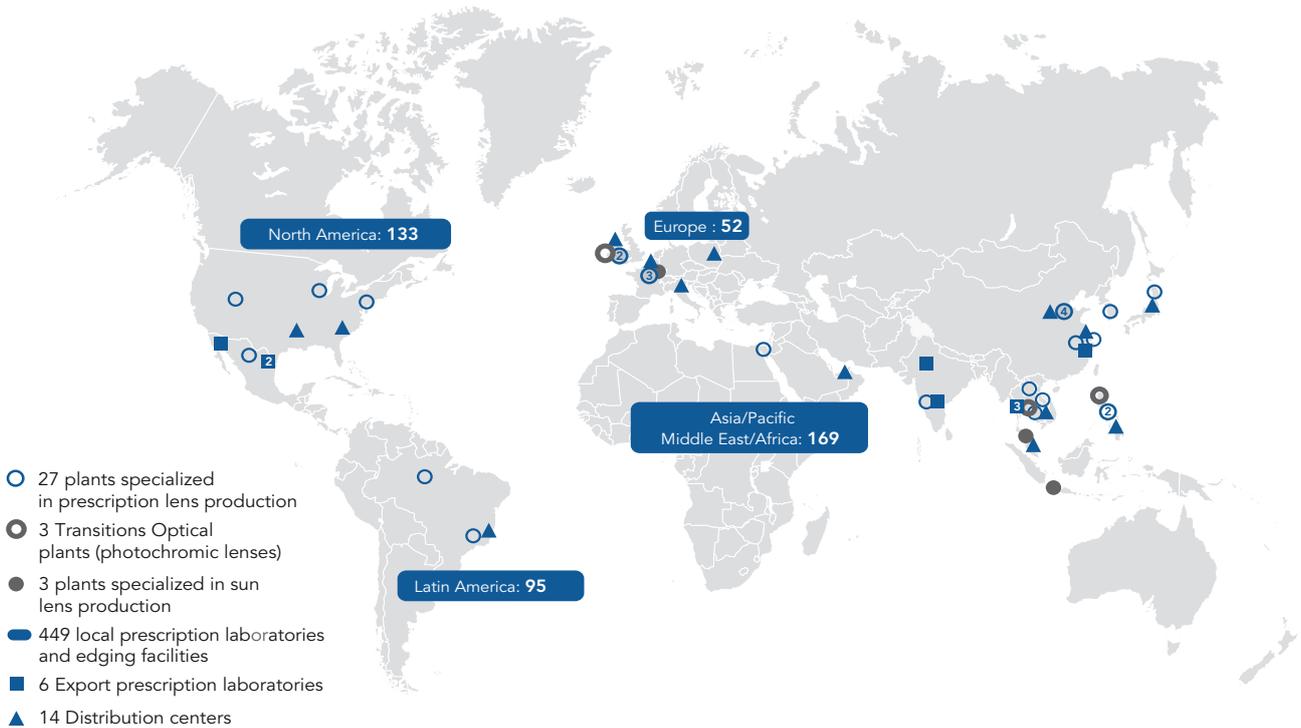


**Manufacturing and supply chain**

Essilor oversees every aspect of its lens businesses, from manufacturing through 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).

**A UNIQUE GLOBAL NETWORK**



## Presentation of EssilorLuxottica

### EssilorLuxottica activities

As of December 31, 2019, Essilor and its partners operated **33 production facilities worldwide**. This total takes into account the acquisition of a plant in Danyang, China. Of these 33 plants, 27 produce prescription lenses, 3 make photochromic lenses and 3 specialize in non-prescription sun lenses.

The company has a **network of 449 prescription laboratories and edging-mounting facilities around the world**, including eight large export laboratories that make lenses primarily for the Asian, European and North American markets.

In addition, Essilor has **five integrated lens and frame platforms** in Bangkok (Thailand), Dallas (United States), Shanghai (China) and Warsaw (Poland) as well as in Danyang (China) with a dedicated e-tailing unit. 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 routes per day and more than 2 million SKUs.

|  | <b>North<br/>America</b> | <b>Europe</b> | <b>Asia/Pacific/<br/>Middle East/<br/>Africa</b> | <b>Latin<br/>America</b> |
|--|--------------------------|---------------|--|--------------------------|
| 33 production plants   | 4                        | 7             | 20   | 2                        |
| 449 prescription laboratories and edging-mounting facilities | 133                      | 52            | 169  | 95                       |
| Including 8 large export laboratories                        |                          |               | 5  | 3                        |
| 5 integrated lens and frame platforms                        | 1                        | 1             | 3  |                          |
| 14 distribution centers                                      | 2                        | 4             | 7  | 1                        |



Geographical distribution of the 33 plants owned by the Essilor and its partners at December 31, 2019

|  | <b>North America: 4</b>  | <b>Latin America: 2</b>   | <b>Europe: 7</b>   | <b>Asia/Middle East: 20</b>  |
|--|--|---|--|--|
| <b>14 Essilor plants</b>   | <ul style="list-style-type: none"> <li>• <b>United States:</b> <ul style="list-style-type: none"> <li>• Dudley, Massachusetts (1995)</li> <li>• Salt Lake City, Utah (2003)</li> </ul> </li> <li>• <b>Mexico:</b> <ul style="list-style-type: none"> <li>• Chihuahua (1985)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• <b>Brazil:</b> <ul style="list-style-type: none"> <li>• Manaus (1989)</li> </ul> </li> </ul>                                 | <ul style="list-style-type: none"> <li>• <b>France:</b> <ul style="list-style-type: none"> <li>• Ligny-en-Barrois, Les Battants (1959)</li> <li>• Dijon (1972)</li> <li>• Sézanne (1974)</li> <li>• Bellegarde-sur-Valserine (2003)*</li> </ul> </li> <li>• <b>Ireland:</b> <ul style="list-style-type: none"> <li>• Ennis (1991)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• <b>China:</b> <ul style="list-style-type: none"> <li>• Shanghai (1997)</li> </ul> </li> <li>• <b>Laos:</b> <ul style="list-style-type: none"> <li>• Savannakhet (2013)</li> </ul> </li> <li>• <b>Philippines:</b> <ul style="list-style-type: none"> <li>• Mariveles (1980)</li> <li>• Laguna (1999)</li> </ul> </li> <li>• <b>Thailand:</b> <ul style="list-style-type: none"> <li>• Bangkok (1990)</li> </ul> </li> </ul>   |
| <b>3 Transitions Optical plants</b>  |  |   | <ul style="list-style-type: none"> <li>• <b>Ireland:</b> <ul style="list-style-type: none"> <li>• Tuam (2014)</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>• <b>Philippines:</b> <ul style="list-style-type: none"> <li>• Laguna (2014)</li> </ul> </li> <li>• <b>Thailand:</b> <ul style="list-style-type: none"> <li>• Amphoe Phan Thong (2014)</li> </ul> </li> </ul>   |
| <b>16 plants operated in partnership or recently acquired by the company</b> | <ul style="list-style-type: none"> <li>• <b>United States:</b> <ul style="list-style-type: none"> <li>• X-Cel Optical, Sauk Rapids, Minnesota (2012)</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>• <b>Brazil:</b> <ul style="list-style-type: none"> <li>• Segment Produtos Oftalmicos, São Paulo (2015)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• <b>United Kingdom:</b> <ul style="list-style-type: none"> <li>• Crossbows Optical (2010)</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>• <b>China:</b> <ul style="list-style-type: none"> <li>• Essilor Korea via its subsidiary Chemilens, JiaXing (2006)</li> <li>• Wanxin Optical, Danyang (2010)</li> <li>• Youli Optics, Danyang (2011)</li> <li>• Seeworld Optical, Danyang (2012)</li> <li>• Jiangsu Creasky Optical, Danyang (2017)</li> <li>• Future Vision, Danyang (2019)</li> </ul> </li> <li>• <b>India:</b> <ul style="list-style-type: none"> <li>• GKB Vision, Bardez, Goa (2015)</li> </ul> </li> <li>• <b>Indonesia:</b> <ul style="list-style-type: none"> <li>• Polycore, Karawang (2013)*</li> </ul> </li> <li>• <b>Israel:</b> <ul style="list-style-type: none"> <li>• Shamir Optical, Kibbutz Shamir (2011)</li> </ul> </li> <li>• <b>Japan:</b> <ul style="list-style-type: none"> <li>• Nikon-Essilor, Nasu (2000)</li> </ul> </li> <li>• <b>Malaysia:</b> <ul style="list-style-type: none"> <li>• Polycore, Johor Baru (2013)*</li> </ul> </li> <li>• <b>South Korea:</b> <ul style="list-style-type: none"> <li>• Essilor Korea via its subsidiary Chemiglas, Yangsan (2002)</li> </ul> </li> <li>• <b>Vietnam:</b> <ul style="list-style-type: none"> <li>• Essilor Korea via its subsidiary Chemiglas, Dai An (2013)</li> </ul> </li> </ul> |

\* Plant specialized in sun lens production.

Key figures

|   | At December 31, 2018  | At December 31, 2019  |
|---|---|---|
| <b>Output from Essilor plants and partner facilities <sup>(a)</sup></b> | <ul style="list-style-type: none"> <li>• c. 570 million prescription lenses</li> <li>• c. 20 million non-prescription sun lenses</li> </ul> | <ul style="list-style-type: none"> <li>• c. 562 million prescription lenses</li> <li>• c. 13 million non-prescription sun lenses</li> </ul> |
| <b>Lenses coated and surfaced in the prescription laboratories</b>      | • c. 139 million lenses <sup>(b)</sup>  | • c. 152 million lenses <sup>(b)</sup>  |
| <b>Inventory days <sup>(c)</sup></b>                                    | • 5.1 months  | • 5.1 months  |

(a) Includes photochromic lenses made by Transitions Optical and sold to other lens manufacturers.

(b) Excludes acquisitions and partnerships finalized during the year.

(c) Number of days of consumption current inventory levels can sustain at constant perimeter.

Highlights of the year

**New products**

Teams from Operations and Global Engineering mobilized to support new product launches in 2019. For instance, all photochromic lens production lines had to be adapted to prepare for the launch of the new Transitions Signature Gen 8 photochromic lens. In particular, the new polyurethane-based material used to fix the photochromic pigments used specifically with this innovation needed to be tested on all materials and substrates before mass production and marketing could begin in the United States and then in Latin America, with a rollout to the rest of the world planned for 2020.

Global Engineering also laid the groundwork for the new Crizal lens to launch in 2020, working specifically on the production parameters associated with the stacking of layers this innovation involves.

**Capital expenditure and integration of new technologies**

Capital spending in 2019 notably focused on expanding capacity at certain facilities, in particular:

- creation of a new production line for photochromic lenses in the Philippines;
- increase in production capacity for high-index lenses (1.6 and 1.67) in Vietnam;
- increase in production capacity for semi-finished and polycarbonate lenses in Laos.

The Company also stepped up its investments in integrating new technologies into prescription laboratories that handle high volumes. Twelve laboratories in the United States and Europe were equipped during the year with new surfacing lines that include Alloy Replacement Technology (ART) blocking machines and an automatic lens surfacing, polishing and optical inspection technology. Similar projects were initiated in some Asian countries as well.

Certain Luxottica laboratories began using Essilor manufacturing technologies in the areas of surfacing, coating and processing. And efforts got underway at some Essilor industrial facilities to adapt equipment to allow prescription sunglasses to be produced for certain brands in the Luxottica portfolio.

**Minimizing the environmental footprint of the production plants and laboratories**

In 2019, 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, the company notably introduced solutions to reduce water consumption and reuse water in coating machines at its main production facilities, and put into place new energy consumption standards at several production plants, notably for its polymerization ovens and vacuum film deposition equipment. A new program was also launched during the year to develop semi-finished lenses that are smaller in diameter and thickness to reduce organic material waste.

1.5.1.3.3 Research and Development

**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.

The company allocates a meaningful portion of its revenue to Research and Innovation every year. In 2019, this investment amounted to Euro 229 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 through research partnerships.

**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, are creating major R&D challenges and opportunities for the vision care sector. As a result, new needs are emerging linked to pathologies such as cataracts and age-related macular degeneration.

Early in 2019, the company reorganized its R&D activities into five segments: myopia, presbyopia, light management, digital solutions and smart eyewear.

In each of these segments, 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.).

Moreover, the company has developed new methodologies for testing its products with consumers. One example is HouseLab, which makes it possible to observe wearers in real-life situations and learn from their experiences.



**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 (Créteil, France), the United States (Dallas) and Asia (Singapore). These facilities 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.

This network was expanded in 2019 with the opening of a new Innovation and Technologies Center in Shanghai, China. Its work will focus on myopia, new technologies for improving the customer experience in China, and the development of products tailored to the needs of Chinese consumers.

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



- **R&D partners**
  - **Universities, joint R&D laboratories**
1. CI&T : Essilor Innovation and Technologies Centers.  
 2. AMERA : Asia, Middle East, Russia, Africa.

**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 Sorbonne Université in Paris, France;
- a laboratory run jointly with Wenzhou University in China to study myopia in children;
- a multisector research chair for coatings and surface engineering with Polytechnique Montréal and three other industrial partners. The chair's work focuses on developing the next generations of innovative surface coatings. These coatings will notably allow Essilor to add new optical and/or mechanical functions to its lens surfaces;

- a research laboratory run jointly with CNRS-LAAS in France, "OPERA", focusing on lenses and eyeglasses with active and connected functions.

**New products launched in 2019**

The main launches involved, firstly, rolling out the innovations of 2018 at a global scale and, secondly, introducing new products to markets.

2019 marked the 60<sup>th</sup> anniversary of the Varilux brand, and Essilor celebrated it across the world with client events, exhibits, and testimonials from opinion leaders. A major French invention when it was unveiled in 1959, the Varilux progressive lens reflected the pioneering spirit of Bernard Maitenaz and went against all the principles of optometry of the day. It began an amazing 60-year industrial and technological adventure that has changed the lives of countless consumers.

Varilux was also named the brand most recommended by eyecare professionals <sup>(1)</sup> in 2019.

(1) Survey conducted among independent ECPs in nine countries (France, Germany, Spain, UK, Italy, US, Brazil, Canada, India) in April 2018.

In the Varilux progressive lens range, the company stepped up the global rollout of the **Varilux X series** lens launched in 2017. This lens uses Xtend technology to resolve a recurring and common problem with most progressive lenses: the need for wearers to move their head to find the right angle for optimal vision. It allows wearers to see clearly at different distances with one gaze direction, especially in the “arm’s length vision” range where a growing number of everyday activities occur.

Lastly, the new **Varilux Comfort Max** lens debuted in North America early in 2020 and will be rolled out across the globe over the year. Building on the ongoing popularity of the iconic Varilux Comfort brand, the Varilux Comfort Max lens ensures long-lasting visual comfort by making it possible to maintain different natural postures throughout the day.

One highlight of the year for the Crizal antireflective lens range was the global rollout of the **Crizal Sapphire 360°** lens. It features the new 360° Multi-Angular Technology that sharply reduces reflections from any angle of light, resulting in greater comfort for the wearer, while enhancing the aesthetic of the lens. Launched in the United States in September 2017, the lens was rolled out in Europe and Latin America in 2018 and in Asia and the rest of the world in 2019. Essilor will build on this success in 2020 by expanding the Crizal line-up in North America to include a new antireflective coating that addresses a primary concern of consumers, durability. This innovation will be rolled out in other markets across the globe in 2021.

The range of lenses offering protection from UV and harmful blue-violet light was also expanded during the year with the launch of **Blue UV Capture**. In addition to protecting the eyes from UV rays and harmful blue-violet light, this lens also ensures optimal clarity thanks to specific molecules and, in some cases, nanotechnologies integrated directly into the material (patents applied for). As it becomes more important to protect eyes from harmful blue light, Essilor is working to deliver a response that benefits as many people as possible. The global launch in 2019 of **Blue UV Capture** lenses gave a good indication of the success of this new solution and, more generally, of the work Essilor teams have done in this area in recent years.

To round out the **Transitions** photochromic lens range, 2019 saw the launch of a new generation of photochromic lenses, **Transitions Signature Gen 8**. The new model was successfully rolled out in North America during the summer of 2019, and will solidify the brand’s technological superiority. It will reach markets in Europe and the rest of the world throughout 2020.

Essilor worked during the year to further extend the Eyezen range of single-vision lenses for connected life. The launch in 2018 of the **Eyezen Expert** lens was a success. Intended for wearers in the 45 to 50 range, it adds extra power to the lower portion of the lens to reduce eyestrain and make it easier to read small print, notably on digital devices. In 2019, Essilor followed up with the successful launch of **Eyezen Start** in Europe, Canada and South America. This new product uses a breakthrough technology to optimize vision when using digital devices and allows high-definition viewing in all directions. It will be marketed in China and the United States in 2020.

More new instruments were developed for eyecare professionals as well, following the introduction in 2018 of the new **Vision-R 800** phoropter, which makes eye exams more precise, more reliable (less risk of human error), more comfortable for patients, and easier for practitioners to perform. A product of four years of R&D, this new phoropter makes it possible to deliver prescriptions up to 0.01 diopter precision, compared with previous accuracy of 0.25 diopter. It won a Silmo d’Or in the “Material/Equipment” category at the Silmo international optics tradeshow in Paris in October 2018. Essilor continued throughout 2019 to roll out this new instrument, a central component of the new AVA protocol designed to significantly improve the customer experience across the Essilor group.

Finally, the company continued its **consumer marketing** efforts. Spending on consumer marketing across all businesses (lenses, Sunglasses & Readers and e-commerce) was close to Euro 223 million in 2019, almost half of it devoted to the corrective lens brands. This expenditure was focused on some 20 countries globally.

### 1.5.1.4 Equipment

#### 1.5.1.4.1 Overview

The Equipment Division accounted for 2.8% of Essilor consolidated revenue in 2019, or Euro 221 million.

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

With globally recognized expertise, Satisloh is one of the world’s leading manufacturers of surfacing machines and hard-coating and antireflective coating units. 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 antireflective coating machines, and Optimal (United Kingdom) in hard-coating surfacing machines.

#### 1.5.1.4.2 Organization and facilities

Satisloh, which is headquartered in Baar, Switzerland, together with its subsidiaries, own production units in China (Zhongshan), France (Archamps and Mantes-la-Jolie), Germany (Wetzlar), Italy (Milan) and the United States (Charlottesville, Concord and Dallas), and have representative offices in many other countries.



### 1.5.1.5 Sunglasses & Readers

#### 1.5.1.5.1 Overview

The Sunglasses & Readers Division accounted for 11.2% of Essilor consolidated revenue in 2019, or Euro 885 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 market readers and sunglasses under proprietary brands such as Foster Grant, Freedom Polarised, Gargoyles, Magnivision, Corinne McCormack, Monkey Monkey, Ryders Eyewear, SolarShield and Suuna and licensed brands including Dockers, French Connection, Hello Kitty, Ironman, Karen Millen, Nine West, Reebok and a variety of Disney trademarks;
- Costa and its high-performance sunglasses for water-based activity enthusiasts; Late in 2019, Costa started being integrated into the Luxottica portfolio, which should help this young brand expand its global footprint more quickly.
- Xiamen Yarui Optical, which designs, manufactures and markets mid-tier sunglasses in China under the Bolon, Molsion and Prosun brands;

- Photosynthesis Group, which markets sunglasses and corrective glasses in China and Southeast Asia under several brands including MJS.

Among the companies in the Sunglasses & Readers Division, FGX International is a key player in reading glasses in the United States. 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 a leading Chinese manufacturer 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.

#### 1.5.1.5.2 Organization and facilities

The Sunglasses & Readers Division has subsidiaries and representative offices in Canada, China, Great Britain, Italy, Mexico 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;
- Photosynthesis Group is in Hong-Kong;
- Xiamen Yarui Optical is in Xiamen, southeastern China; Xiamen Yarui Optical (the owner of the Bolon, Molsion and Prosun trademarks) has a production plant in Xiamen.



#### 1.5.1.6 Intellectual property

##### Patents, trademarks and domain names

At the end of 2019, the Essilor group, including all of its subsidiaries, held:

- **2,050** patent families each representing an invention protected in several countries around the world (**9,860** patents pending or granted);
- **2,130** trademark families each representing a trademark protected in several countries around the world (**10,630** trademarks pending or registered);
- **4,420** domain names;
- **770** designs and models.

During the year 2019, Essilor applied for **129** new patents, **203** new trademarks and **73** new domain names.

#### 1.5.2 Luxottica activities

##### 1.5.2.1 Overview

Luxottica group is a leader in the design, manufacture and distribution of fashion, luxury, sports and performance eyewear. Founded in 1961 by Leonardo Del Vecchio, Luxottica is a vertically integrated organization whose manufacturing of sun and prescription eyewear is backed by a wide-reaching wholesale organization and a retail network located primarily in North America, Latin America, Asia-Pacific and Western Europe.

Product design, development and manufacturing for frames take place in Luxottica's seven production sites in Italy, one factory in Germany, three factories in China, one in Brazil, one facility in the United States devoted to sports and performance eyewear and two plants in Japan and India, the latter serving the local market. In 2019, Luxottica's worldwide production reached approximately 91 million units.

Luxottica also has produced sun and ophthalmic lenses for more than 20 years. The company has increased its manufacturing capacity since the end of 2016 with the addition of three new central laboratories in Europe, North America and Asia-Pacific which are completely integrated with its logistics hubs.

The design and quality of Luxottica's products and strong well-balanced brand portfolio are recognized throughout the world. Proprietary brands include Ray-Ban, one of the world's best-known eyewear brands, Oakley, one of the leading product design and sport performance brands globally, Vogue Eyewear, Persol, Oliver Peoples, Alain Mikli and Arnette. Licensed brands include Giorgio Armani, Burberry, Bulgari, Chanel, Coach, Dolce&Gabbana, Ferrari, Michael Kors, Miu Miu, Prada, Ralph Lauren, Starck Eyes, Tiffany & Co., Tory Burch, Valentino and Versace.

Essilor's approach to innovation is supported and strengthened by a proactive intellectual property policy, both upstream, to drive innovation, and downstream, to enhance protections of patents, trademarks, designs and copyrights.

Another priority is to prevent infringement, notably by providing each employee with a best practice guide and infringement reporting tools. The Intellectual Property Department offers IP awareness training courses to many employees to encourage the creation, protection and defense of 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.

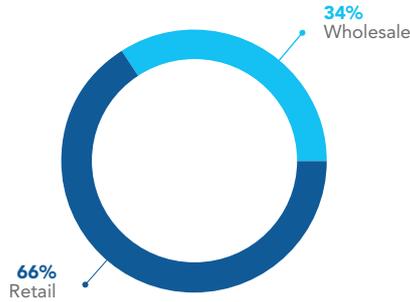
Luxottica's wholesale distribution network covers more than 150 countries across five continents and has approximately 50 commercial subsidiaries providing direct operations in key markets. Direct wholesale operations are complemented by an extensive retail network comprised of over 9,200 stores worldwide, including franchising, as of December 31, 2019.

Luxottica is a leader in the optical retail business in North America with its LensCrafters and Pearle Vision brands, in Australia and New Zealand with the OPSM and Laubman & Pank brands, in China with the LensCrafters brand, in Singapore with Spectacle Hut, in Italy with the Salmoiraghi & Viganò brand and in Latin America with the GMO and Óticas Carol brands. Luxottica also operates its licensed optical retail brand Target Optical in North America and one of the fastest growing managed vision care networks in the United States through EyeMed.

Luxottica is home to Sunglass Hut, the largest retailer of premium sunglasses in North America, Latin America, Europe, Asia-Pacific, South Africa and the Middle East. Additionally, Luxottica has developed the Ray-Ban retail concept in China and worldwide, offering an interactive space created for consumers to embrace the unique Ray-Ban experience and culture. The Oakley brand provides a powerful wholesale and retail presence in both the performance optics and sport channels with its "O" stores, offering Oakley-branded eyewear as well as apparel, footwear, backpacks and accessories designed for athletic lifestyles. Finally, retail brands including Oliver Peoples, Alain Mikli and Persol, give Luxottica a foothold in the luxury space.

Luxottica's distribution channels are complemented by its e-commerce platforms, including Ray-Ban.com, Oakley.com, OliverPeoples.com, Persol.com, Vogue-Eyewear.com and SunglassHut.com.

Net sales by operating segment



1.5.2.2 Strategy

As a global leader in the design, manufacture and distribution of sun and prescription eyewear with high technical and design standards, Luxottica’s mission is multi-fold: to improve the well-being and satisfaction of its customers while simultaneously creating value for its employees and the communities in which it operates.

1.5.2.2.1 Vertical integration

Luxottica delivers on its mission through a vertically integrated business model with manufacturing excellence, focus on service and a geographically diversified footprint. This has led to greater efficiency, flexibility and speed in product design, engineering, manufacturing, supply chain and logistics, and uncompromising quality.

Luxottica’s present structure, covering the entire value chain, is the result of a visionary choice made by the company’s founder and current Executive Chairman, Leonardo Del Vecchio, who understood the potential of a vertical integration strategy when he decided to make entire frames rather than just components. Vertical integration of manufacturing was gradually accompanied by the expansion of distribution, first with wholesale, then in 1995 with retail and later with e-commerce, and by the creation of a key presence in the high value-added businesses of lens processing.

Direct oversight of the entire production platform makes it possible to verify the quality of both products and processes, introduce innovations, identify synergies and new operating methods and optimize service, quality and costs.

Direct distribution enables Luxottica to offer its products in major developed and emerging markets and achieve a unique understanding of consumer needs and tastes both globally and locally. This capability is viewed as a strength by fashion houses that come to Luxottica to produce their eyewear collections and access Luxottica’s global and widespread distribution network.

1.5.2.2.2 Innovation

The future of eyewear with all its untapped opportunities is a source of inspiration that drives Luxottica to create, experiment, refine and implement new ideas, from the research of new materials and product development to manufacturing, distribution and digital platforms.

Innovative thinking provided the foundation for Luxottica in its early years, when the founder had a far-sighted vision to boost the growth of the company by vertically integrating the entire value chain. Moreover, the R&D team has brought to life some of the biggest innovations in frames and sun lenses by experimenting with new technologies, techniques and new materials – some of which had never been used in the optical industry before. Luxottica currently maintains over 1,000 utility, technology and design patents across the world.

**Design and technological innovation.** Every collection and every frame are the result of an ongoing R&D process that anticipates and interprets the needs, desires and aspirations of consumers all over the world. This process has become more valuable as sun and prescription eyewear are increasingly perceived as a desirable and expressive accessory to complete one’s personal look. Therefore, Luxottica’s designs both reflect and influence emerging fashion trends.

## Presentation of EssilorLuxottica

### EssilorLuxottica activities

While wearable technology is in its early stages, Luxottica has taken a leading role in exploring and developing smart eyewear through partnerships with leading technology innovators.

**Digital transformation.** Luxottica invested heavily to digitize the company from the ground up and today utilizes millions of data points to make decisions in real time and plan and execute its strategies. Today, technology is the backbone of every corporate function: production, distribution and sales in all markets and in all channels – wholesale, retail and online. Luxottica has changed the way it speaks with millions of consumers around the world, being today one of the largest private digital broadcasters globally, with over 18,000 digital windows installed in its stores and customers' shops.

**Automation and robotics.** In order to improve speed, flexibility, quality and productivity, Luxottica has incorporated robotics, automation, computing and big data into its manufacturing processes. Luxottica is tirelessly committed to operational excellence, tapping into new technologies and digital tools to achieve a higher level of factory digitalization and to improve work and personal safety, allowing teams to solve problems faster and more proactively than ever before.



#### International scientific collaborations

- Stanford University
- Georgia Tech
- Università degli Studi di Padova
- Istituto Italiano di Technologia
- Politecnico di Milano



### 1.5.2.3 Operations

Luxottica’s vertically integrated business model and geographically diversified manufacturing footprint have led to greater efficiency and speed in product design, engineering, manufacturing and logistics, while maintaining uncompromising quality.

#### 1.5.2.3.1 Design

Emphasis on product design and the continuous development of new styles are key to Luxottica’s success. During 2019, Luxottica added approximately 1,900 new styles to its eyewear collections. Each style is typically produced in two sizes and five colors.

The design of Luxottica’s products is the focal point where vision, technology and creativity converge. Each frame expresses Luxottica’s core precepts: innovation in style, materials, technologies and processes, and unparalleled craftsmanship. The design process begins with Luxottica’s in-house designers who work in an environment that promotes inventiveness, originality and a creative process where eyewear is interpreted as art, as an object to put on display. They draw inspiration from both market trends and their own imagination. In addition, the design team works directly with the marketing and sales departments, which monitor the demand for current models, as well as general style trends in eyewear.

#### 1.5.2.3.2 Product development

Product development is the next stage of execution. The research and development efforts of Luxottica’s engineering staff play a crucial role in the development process.

Engineers are continuously looking for new materials, concepts and technology innovations to apply to products and processes in an effort to differentiate them in the eyewear market. During the initial phase of the development process, the prototype makers transform designs into one-off pieces, crafted by hand with meticulous precision. These frame prototypes are then shared with the product department, which analyzes the necessary steps to bring the prototype to mass production.

In the first phase of the cycle, the product department uses visual rendering and 3D software to design new models and the necessary equipment. The mold workshop then assembles the equipment needed to make the components for the new model. The very first samples are assembled and undergo a series of rigorous tests required by internal quality control procedures.

After the quality certification, the sales samples are produced and subjected to a new intensive series of tests to verify the quality of the engineering and production. Finally, Luxottica determines which of its plants is best suited to manufacture the product and large-scale production begins.

By using a launch calendar that focuses on customer and geographic demand, Luxottica has been able to shrink product development timelines in recent years.

#### 1.5.2.3.3 Manufacturing

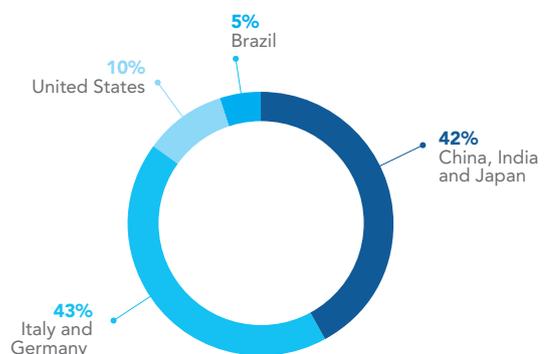
In 2019, Luxottica’s manufacturing facilities located in Italy, Germany, China, the United States, Brazil, Japan and India, produced a combined total of approximately 91 million prescription frames and sunglasses.

Luxottica’s manufacturing footprint includes seven sites located in Italy, the center of Luxottica’s luxury eyewear production, all of which combine the tradition of Italian craftsmanship with the speed and efficiency of modern automation. Five facilities are located in Northeastern Italy, where most of the country’s eyewear industry is based, one near Turin and one in Pescara, in Central Italy – where the recently acquired Barberini has its main manufacturing site. These factories, together with the addition of Barberini’s lens manufacturing site in Germany, represent 43% of Luxottica’s global production output.

Three manufacturing facilities in China and two plants in India and Japan collectively represent another 42% of total production output. From 1997 to 2001, Luxottica operated the Dongguan plant in China’s Guangdong province through a 50%-owned joint venture with a Japanese partner. In 2001 the company acquired the remaining 50% interest and, in 2006, it further increased manufacturing capacity in China through the construction of an entirely new facility. In 2010, Luxottica began producing plastic sun lenses to be paired with frames that are manufactured in the same location. Soon after, the company integrated a new state-of-the-art plant, primarily dedicated to frame details and decorations.

The Foothill Ranch facility in California represents approximately 10% of total production output and manufactures high-performance sunglasses, prescription frames and lenses and assembles most of Oakley’s eyewear products. Oakley apparel, footwear and certain goggles are produced by third-party manufacturers.

In Brazil, the manufacturing facility in Campinas produces both plastic and metal frames for the local market. Shortly after Luxottica acquired the facility in 2012, they launched the first locally designed and produced Vogue Eyewear collection for Brazilians, followed by select Ray-Ban, Arnette, Oakley and A|X Armani Exchange collections and a few smaller local brands. In 2019, the Campinas plant produced the remaining 5% of total production output and approximately 74% of the eyewear sold by Luxottica in the Brazilian market.

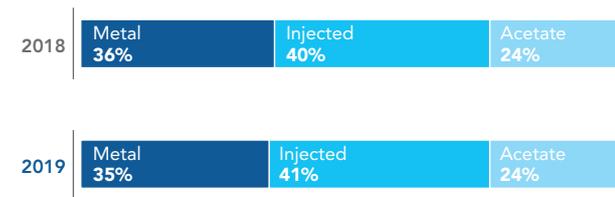


1.5.2.3.4 Products and materials

**Frames.** Over the years Luxottica has progressively diversified its technology mix from the traditional metal, plastic injection and acetate slabs to include aluminum, wood, die casting and fabric inserts. Consumer needs are continuously changing, which requires quick technological adaptations.

Luxottica’s manufacturing process for metal frames has approximately 70 different phases, beginning with the production of basic components such as rims, temples and bridges using a molding process. These components are then welded together to form frames over numerous stages of detailed assembly work. Once assembled, the metal frames are treated with various coatings to improve their resistance and finish, and then prepared for lens fitting and packaging.

Plastic frames are manufactured using either a milling or an injection molding process. In the milling process, a computer-controlled machine carves frames from colored acetate slabs. This process produces rims, temples and bridges that are then assembled, finished and packaged. In the injection molding process, plastic resins are liquefied and injected into molds. The plastic parts are then assembled, coated, finished and packaged.



**Lenses.** Luxottica has gradually developed an expertise in producing its own lenses in-house. Investments in breakthrough technology and processes, rigorous testing and increasing synergies within the company have improved the quality of Luxottica’s lenses for sunglasses and eyeglasses over time.

The Lauriano plant in Italy is a benchmark for the world of Luxottica sun lenses with its multiple roles: production plant, research and experimental lab dedicated to the latest innovations, and logistics center delivering sun lenses to the rest of Luxottica. The Foothill Ranch facility also performs a key role in Luxottica’s sun lens operations, manufacturing high-performance sunglasses, prescription frames and lenses and assembling most of Oakley’s eyewear products.

Between 2016 and 2017, Luxottica opened three new laboratories within its logistics hubs in Italy, the United States and China specifically for the production of ophthalmic lenses. These labs are in addition to the existing lens manufacturing network that has made Luxottica a key player in the high-end ophthalmic lens business. Luxottica also operates two other central labs in North America and two labs in Latin America.

In August 2019, Luxottica completed the acquisition of Barberini, the world’s leading optical glass sun lens manufacturer. Barberini features a cutting-edge industrial site in Italy, a plant in Germany for glass melting, and advanced technologies for the production of polarizing films for sun lenses.

1.5.2.3.5 Logistics

The primary distribution service centers are in strategic locations serving Luxottica’s major markets: Sedico (Italy), Atlanta (United States), Dongguan (China) and Jundiaí (Brazil).

The Sedico hub was opened in 2001 and is one of the most technically advanced in the industry. In 2019, it managed approximately 31,000 orders per day, including eyeglasses and spare parts. The Sedico facility ships an average of approximately 270,000 units daily to customers in Europe, the Middle East, Africa, Mexico, Turkey, select United States markets and Luxottica’s distribution centers in the rest of the world, where they are then delivered to local customers. In addition, it manages customized services, such as Ray-Ban Remix, providing direct global deliveries.

The Dongguan hub was opened in 2006 and manages an average of 195,000 units per day. The growth in the Asia-Pacific region has made this hub a strategic part of Luxottica’s distribution network.

The Atlanta facility, opened in 1996, has consolidated several North America-based facilities into a single state-of-the-art distribution center located close to one of the major airport hubs of the United States. It serves both Luxottica’s retail and wholesale businesses in the North American market. This facility manages an average of 190,000 units per day.

The Jundiaí facility, opened in 2013 in Brazil, offers targeted distribution services to customers and serves the local market. This facility manages an average of 25,000 units per day.

The Sedico, Atlanta and Dongguan service centers include laboratories for the production of ophthalmic lenses to serve the European, North American and Asia-Pacific markets, creating integrated logistics and production hubs for ophthalmic lenses and frames.



#### 1.5.2.4 Brand portfolio

Luxottica's brand portfolio is one of the largest in the industry with leading brands both at a regional level and in particular segments and niche markets.

The portfolio is well-balanced between proprietary and licensed brands and it continues to evolve. The presence of Ray-Ban, one of the world's leading lifestyle eyewear brands, and Oakley, a leader in the sport and performance category, gives the proprietary brand portfolio a strong base, complemented by Persol, Oliver Peoples and Alain Mikli in the high-end of the market, Arnette in the sport market, and Vogue Eyewear in the fashion market. Alongside the proprietary brands, the portfolio has over 20 licensed brands, including some of the most well-known and prestigious names in the global fashion and luxury industries.

With its manufacturing and distribution know-how, its experience in international markets and direct retail operations supported by marketing investment, Luxottica is the ideal partner for fashion houses and stylists seeking to translate their style and values into successful premium eyewear collections. Luxottica differentiates each designer's offering to produce a broad range of models that appeal to a diverse group of consumers lifestyles and geographies.

**Proprietary brands.** In 2019, proprietary brands accounted for approximately 69% of total sales of frames. Ray-Ban and Oakley eyewear, the two largest brands in Luxottica's portfolio, accounted for approximately 27% and 10%, respectively, of Luxottica's 2019 net sales.

**Ray-Ban.** Timeless style, authenticity and freedom of expression are the core values of Ray-Ban, a leader in sun and prescription eyewear for generations. Since the introduction of the iconic Aviator model created for the aviators of the United States Army, Ray-Ban has been at the forefront of cultural change, becoming a symbol of self-expression, worn by celebrities and public figures all around the world. The lifestyle brand joined the Luxottica group in 1999 after which Ray-Ban accelerated its growth and redefined its distribution.

**Oakley.** Established in 1975 and acquired in 2007, Oakley is one of the leading product design and sport performance brands in the world, chosen by world-class athletes to compete at the highest level possible. The holder of more than 850 patents, Oakley is also known for its innovative lens technologies, including PRIZM. Oakley extended its position as a sports eyewear brand into apparel and accessories, offering men's and women's product lines that appeal to sport performance, active and lifestyle consumers.

**Persol.** The iconic made in Italy eyewear brand, Persol, made its debut in 1917 and was acquired by Luxottica in 1995. With its evocative name, meaning "for sun", it is the proud heir to a culture of excellence and craftsmanship, a perfect alchemy of aesthetics and technology. The irresistible appeal of timeless design and art-like quality makes the brand a favorite in the world of cinema.

**Oliver Peoples.** Acquired by Luxottica in 2007, Oliver Peoples was born in the heart of West Hollywood, California on iconic Sunset Boulevard in 1987. The unique culture of Los Angeles, with elements of fashion, film, art and music, continues to inspire the product and vibe of the brand. From the beginning, Oliver Peoples had a passion for superior craftsmanship, a distinctive culture rooted in California, and a chic approach to luxury. Through an authentic and consistent voice, Oliver Peoples has never relied on a logo but instead on fostering relationships with like-minded consumers.

**Vogue Eyewear.** Launched in 1973 under the same name as the famous fashion magazine, Vogue Eyewear was acquired by Luxottica in 1990. It's now recognized as a truly international and contemporary fashion brand geared for young and dynamic consumers who want to stay up-to-speed with the latest trends. With its inclusive approach and playful personality, Vogue Eyewear is an open door to the world of fashion and welcomes everyone to express and celebrate their individuality. To achieve its mission – become the fast-fashion reference in the eyewear category – Vogue Eyewear partners with international ambassadors shaping the industry.

**Arnette.** Born in California in 1992 and acquired by Luxottica in 1999, Arnette is an easy-going eyewear brand that talks to young consumers. Moving away from the original surf & skate positioning, the mission of Arnette today is to become a global streetstyle brand for young Millennials and Gen Zs, looking for an individual style at an affordable price. With authenticity and inclusivity as core values, Arnette aims to become the voice of youth culture, collaborating with young creators like world-renowned singer, songwriter and producer Post Malone.

**Alain Mikli.** Acquired by Luxottica in 2013, Alain Mikli has always targeted an audience of tastemakers and creative people around the world. Since 1978, the brand has been synonymous with distinctiveness and provocation, thanks to its unique design and exclusive color combinations. A union between a piece of art and a consumer product, frames to see as well as to be seen.

**Licensed brands.** Designer lines are produced and distributed through license agreements with major fashion houses. These agreements are exclusive and global contracts which typically have terms of between four and ten years and may contain options for renewal. Under these license agreements, Luxottica is required to pay a royalty ranging from 5% to 13% and a mandatory marketing contribution of between approximately 5% and 12% of net sales of the related collection. Prada is the most significant license in Luxottica's portfolio as measured by total sales. In 2019, sales realized through the Prada, Prada Linea Rossa and Miu Miu brand names together represented approximately 3% of Luxottica's sales.

### 1.5.2.5 Distribution

Luxottica's global distribution network, including retail chains and a wholesale network of third-party stores, is one of its core strengths. It extends to both developed and emerging markets, where Luxottica has made substantial investments over the last few years.

Luxottica's efficient distribution network makes it possible to maintain close contact with customers while maximizing the visibility of its brand portfolio. In addition, Luxottica's expertise in the retail business has given it a unique understanding of consumer needs and tastes in key countries. All of this helps the company achieve strategic optimization of brand diffusion, for both proprietary and licensed brands. Luxottica continues to invest in new channels of distribution, with a current emphasis on e-commerce.

#### 1.5.2.5.1 Wholesale

The wholesale distribution network covers more than 150 countries, with approximately 50 commercial subsidiaries in major markets and approximately 50 independent distributors in other less developed markets. Wholesale customers are mostly retailers of mid to premium-priced eyewear, such as independent opticians, optical retail chains, specialty sun retailers, department stores, duty-free shops and online players. Certain brands, including Oakley, are also distributed to sporting goods stores and specialty sports locations.

In addition to giving wholesale customers access to some of the most popular brands and models, Luxottica provides them with pre- and post-sale services to enhance their business and maintains close contact with distributors in order to monitor sales and the quality of the points of sale.

In 2002, Luxottica introduced the STARS program within its Wholesale division, a true service innovation that leverages Luxottica's knowledge of local markets and brands to deliver fresh, high-turnover products to customers and maintain optimal inventory levels at each point of sale. By strengthening the partnership between Luxottica and its customers, this program directly manages product selection activities, assortment planning and automatic replenishment of Luxottica's products in the store, utilizing ad hoc systems, tools and state-of-the-art planning techniques. At the end of 2019, STARS served approximately 16,600 stores in the major European markets, the United States, the Middle East and emerging markets.

#### 1.5.2.5.2 Retail

With a strong portfolio of retail brands, Luxottica is well positioned to serve the most sophisticated consumers with the latest designer and high-performance frames, advanced lens options, advanced eyecare, everyday value and high-quality vision care health benefits. As of December 31, 2019, Luxottica's retail business consisted of 7,094 stores and 2,141 franchised locations.

Luxottica's retail stores sell not only prescription frames and sunglasses that it manufactures but also a range of frames, lenses and ophthalmic products manufactured by other companies.

In 2019, Luxottica's proprietary and licensed brands represented approximately 90% of the total net sales of frames by the Retail division.

Short descriptions of Luxottica's main retail brands follow.

**LensCrafters** (North America, Greater China). Founded in 1983, LensCrafters pioneered a revolutionary concept to combine eyecare, eyewear and onsite labs to craft glasses in about an hour. Today, LensCrafters is one of the largest optical retail brands in North America in terms of sales.

Most LensCrafters stores are located in high-traffic commercial malls and shopping centers. A wide selection of premium and luxury optical frames, sunglasses and high-quality lenses and optical products made by Luxottica and other suppliers are available in most locations. Each location has an experienced doctor, either an independent or employed Doctor of Optometry, who is focused on building patient relationships. All of the stores have access to the company's state-of-the-art lens processing network with the ability to craft, surface, finish and fit lenses.

As part of its underlying commitment to customer satisfaction and industry innovation, LensCrafters has made significant investments in technology and continued its digital transformation with associate iPads to enhance the customer's omnichannel experience, and a digital eye exam experience, ClarifyeSM, in a growing number of locations.

In 2006, Luxottica began to expand the LensCrafters brand in China by acquiring and then rebranding local retail chains in Beijing, Shanghai, Guangdong and Hong Kong.

**Pearle Vision** (North America). Acquired by Luxottica in 2004, Pearle Vision is one of the largest franchised optical retailers in North America. Built around the neighborhood doctor, Pearle Vision allows local business operators to provide trusted eyecare to their patients with the support and resources of the Pearle Vision brand.

**Target Optical** (North America). With the acquisition of Cole National in 2004, Target Optical, a licensed brand operating within its host stores, became part of the Luxottica retail network. The brand offers consumers the convenience of taking care of their optical needs while shopping at their preferred retailers.

**OPSM** (Australia and New Zealand). OPSM is a leading eyecare and eyewear retailer in Australia and New Zealand with more than 85 years of history. Through its world-class technology and exceptional service, OPSM's goal is to set a new standard of eye health and eyecare. In addition to its eyecare services, OPSM is renowned for its exclusive range of optical frames and sunglasses from international brands.

**GMO** (Latin America). GMO is an optical market leader in Latin America, became a part of Luxottica in 2011, following the acquisition of Multiópticas Internacional. Since its beginning in the late 1990s, GMO has developed a reputation for optical retail excellence among consumers in Chile, Peru, Ecuador and Colombia with its strong Ópticas GMO and Econópticas retail brands.

**Óticas Carol** (Brazil). Óticas Carol, which was founded in 1997 with the goal to satisfy the needs of the Brazilian consumer in the eyewear sector, is one of Brazil's leading optical retail brands. Óticas Carol's mission is to provide the best platform for the sustainable growth of its franchisees, delighting its customers with excellent optical services and products.

**David Clulow Opticians** (United Kingdom and Ireland). Established in 1962, David Clulow has built a strong reputation for providing the highest standard of optical care and services, including sight tests, contact lens fittings, glasses, sunglasses and prescription sunglasses. In addition to optical stores, David Clulow operates inside some of the most luxurious department stores as a sunglasses concession. These include Harrods, Selfridges & Brown Thomas.

**Salmoiraghi & Viganò** (Italy). Founded in 1974 by the merger of two brands that were started respectively by Angelo Salmoiraghi and Angelo Viganò in the mid-nineteenth century, Salmoiraghi & Viganò is an Italian premium optical retail brand. The key principles on which the company was founded are relevant today and include innovation, customer experience, service and quality products. Its retail stores operate under the Salmoiraghi & Viganò and VistaSi brands, and stock a wide assortment of optical and sun eyewear by the premier brands available on the international scene.

**Spectacle Hut** (Singapore). Spectacle Hut, acquired by Luxottica in 2018, has grown to become one of Singapore's largest optical retail chains. Its mission is to become the retailer of choice for the growing group of fashion savvy consumers who have come to expect quality, exceptional service and value.

**Sunglass Hut**. Founded in 1971 as a small kiosk in a Miami mall, Sunglass Hut has grown into one of the world's leading destinations for the most sought-after high quality and performance sunglass brands. Stores can be found in fashionable shopping districts across the globe, from the Americas, Europe and the Middle East to Australia, South Africa, China and Southeast Asia and beyond, providing consumers with a fun, highly engaging shopping experience.

Sunglass Hut offers a consistent and connected experience across all customer touchpoints including online, in-store, social and mobile, and utilizes in-store digital tools to access to an "endless aisle" assortment in every store location. As part of this strategy, the brand is investing in the digitalization of the in-store shopping experience, particularly in North America, Brazil, the United Kingdom and Australia.

In 2018, Sunglass Hut signed an agreement with Bass Pro to open Sunglass Hut shop-in-shops within Bass Pro and Cabela's 170 locations across North America.

**Ray-Ban**. In 2019, Ray-Ban reached a worldwide store count of over 250 bringing the unique brand DNA and experience to new consumers in top cities and locations – from Milan's San Babila flagship to Soho, New York to Huaihai Road in Shanghai. Each store offers a premium, engaging layout, including digital screens, interactive tables and customization tools. The customer offering includes exclusive product, pre-releases and consumer activations that create a totally immersive Ray-Ban experience.

**Oakley "O" Stores**. Oakley "O" stores worldwide offer a full range of Oakley products including sunglasses, apparel, footwear and accessories. These stores are designed and merchandised to immerse consumers in the Oakley brand through innovative use of product presentation, graphics and original audio and visual elements. In the United States, Oakley "O" stores are in major shopping centers. Oakley's retail operations are also located in Latin America, Europe and the Asia-Pacific region.

**Oliver Peoples**. Luxottica operates luxury retail stores under the Oliver Peoples name, which exclusively sell Oliver Peoples branded products.

**EyeMed** (North America). EyeMed Vision Care is the second largest vision benefits company in the United States, serving approximately 55 million members in large, medium and small-sized companies, as well as government entities. EyeMed members are enrolled through employer-sponsored benefits sold directly by EyeMed or bundled with benefits offered in partnership with many of the largest and most-respected healthcare organizations in the United States. EyeMed offers the largest network of eyecare providers in the United States, including a diverse range of independent practitioners and retail locations that include Luxottica optical retail locations.

#### 1.5.2.5.3 E-commerce

Luxottica offers consumers around the globe a premium online shopping experience that lives up to the same high standards found at its brick and mortar locations.

Ray-Ban, Oakley, Sunglass Hut, Oliver Peoples, and recently added Persol and Vogue Eyewear e-commerce websites serve as important sales channels that complement Luxottica's retail operations and wholesale distribution. The websites drive brand awareness and allow consumers to purchase products efficiently, extending superior customer service into the digital space.

**Ray-Ban.com** was launched in the United States in 2009 and is home to the most extensive assortment of premium Ray-Ban, exclusive offerings and a consumer experience that is unique to the brand. Currently, Ray-Ban.com operates in 25 countries. Ray-Ban Remix, the online customization platform first launched in Europe in 2013, is a key driver of the brand's e-commerce expansion and its growing connection with millennials. Its success in allowing customers to personalize the style, material, lens color, engraving and other aspects of their Ray-Ban frames led to Remix launches in the United States, Canada and China in 2014, in Australia, Brazil, Japan and Hong Kong in 2015 and in Mexico in 2016. Recently, Ray-Ban.com introduced in the United States a search-by-image capability, which allows fans to upload a picture of any pair of Ray-Ban frames and then search for them on the extensive Ray-Ban.com catalogue.

**Oakley.com** is a digital window to the Oakley brand, presenting the most comprehensive assortment of Oakley products globally and an e-commerce channel across multiple markets including the United States, Canada, Australia, Japan, Brazil and 23 countries in Europe. Its unique online custom eyewear experience gives Oakley fans the ability to customize their favorite models from

Jawbreaker to Frogskins, selecting frame color, lens tint, personalized etching and other features seamlessly. Moreover, it is a destination for exclusive online offers and collaborations.

Launched in 2008, **SunglassHut.com** has become the digital destination for consumers looking to find the latest trends and hottest premium sunglasses. Over the years, the United Kingdom, Brazil, New Zealand and Mexico, China, Spain, France and Germany joined the United States, Canada and Australia in offering online shopping on their local Sunglass Hut websites. Additionally, Sunglass Hut is developing its mobile and desktop sites across all countries to enhance customer experiences, storytelling and business performance. Specific focus has been given to the implementation of omni-channel experiences that allow the company to seamlessly engage consumers across more than 3,000 Sunglass Hut stores and the website. Sunglass Hut is also appealing to new customers through shop-in-shops and marketplaces online, partnering with many key players in the e-commerce arena.

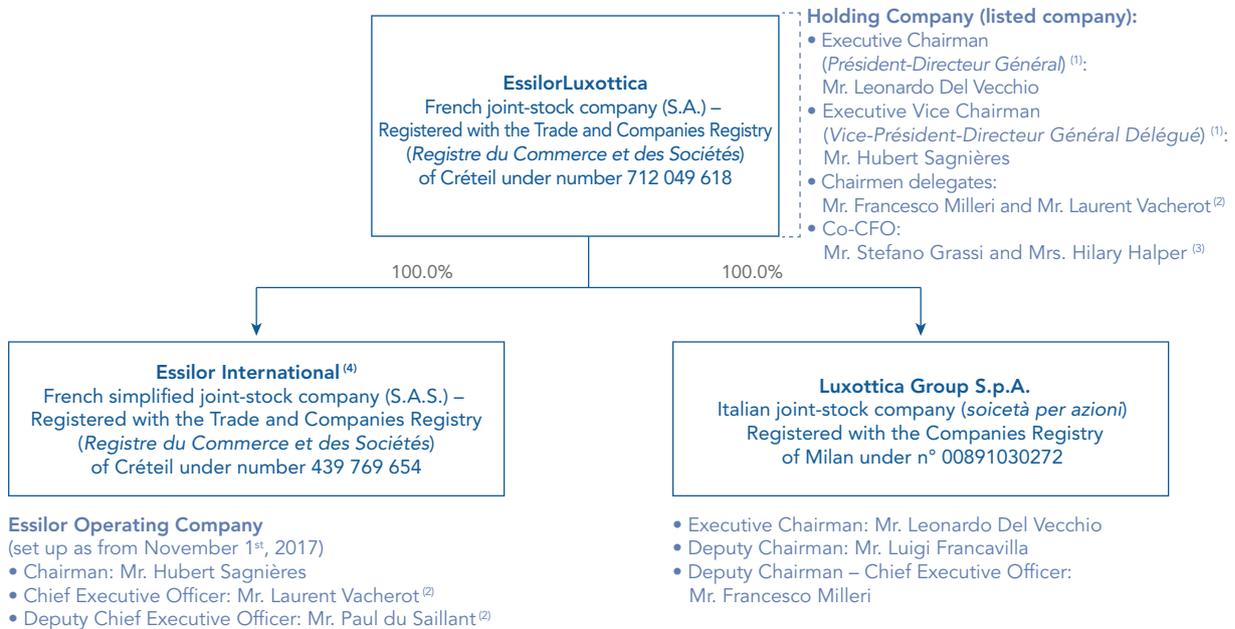
Luxottica introduced the new **Persol** and **Vogue Eyewear** e-commerce platforms at the end of 2017 in Italy, the United Kingdom, France, Germany and Spain, followed by the United States and Canada in 2018. Oliver Peoples is also operating in these same countries.

Luxottica plans to bring its e-commerce strategy to additional markets as the business matures. For example, it formed strategic partnerships in China to open both Ray-Ban and "O" stores within Tmall, the world's largest local online mall.

Luxottica is also investing in increasing its optical e-commerce footprint, with a wide portfolio of brands and solutions that cover vision correction needs, including clear and sun prescription frames and contact lenses such as Glasses.com, LensCrafters.com, ContactsDirect.com.

## 1.6 Simplified organizational chart

### SIMPLIFIED ORGANIZATIONAL CHART OF THE ESSILORLUXOTTICA GROUP AS OF MARCH 5, 2020



(1) Equal powers.

(2) On March 30, 2020, Paul du Saillant was appointed as Chairmen delegate of EssilorLuxottica and as Chief Executive Officer of Essilor International, in replacement of Laurent Vacherot.

(3) On March 5, 2020, David Wielemans was appointed co-CFO of EssilorLuxottica in replacement of Hilary Halper.

(4) All the entities owned by Essilor International (Compagnie Générale d'Optique), renamed EssilorLuxottica on October 1<sup>st</sup>, 2018, were transferred to Essilor International as part of the Hive Down completed on November 1<sup>st</sup>, 2017, except for the following entities remaining directly owned by EssilorLuxottica: Essilor India Private Limited (EIPL), Essilor Manufacturing India Private Limited (EMIL), Essilor Korea Co, Ltd., Onbitt Co., Ltd.

### EssilorLuxottica

EssilorLuxottica functions primarily as a holding company that directly or indirectly owns the companies comprising the Group. EssilorLuxottica is a French *société anonyme* (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 712 049 618. The company is listed on the Euronext Paris market and is included in the Euro Stoxx 50 and CAC 40 indices.

### Essilor International (SAS)

Essilor International (SAS) 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.

### Luxottica Group S.p.A.

Luxottica Group S.p.A. is an Italian *società per azioni* (joint-stock company) whose registered office is located at 3, Piazzale Cadorna, 20123, Milan, Italy, and which is registered with the Milan Companies Register under number 00891030272.

### Consolidated subsidiaries

The list of the main fully consolidated Group companies and subsidiaries is shown in Appendix 2 of the Notes to the consolidated financial statements, in Section 3.4 of this Universal Registration Document.

## 1.7 EssilorLuxottica in 2019

### 1.7.1 Significant events

#### Public exchange offer for Luxottica shares

Further to the contribution by Delfin S.a.r.l. to EssilorLuxottica of Delfin's entire stake in Luxottica on October 1, 2018 and the subsequent mandatory exchange offer launched by EssilorLuxottica on October 11, 2018 for all of the remaining outstanding shares of Luxottica, on January 18, 2019 EssilorLuxottica crossed the 95% threshold in the share capital of Luxottica and initiated a "squeeze-out" procedure that was completed on March 5, 2019. As a result of the "squeeze-out" procedure, of all of the remaining outstanding shares of Luxottica were transferred to EssilorLuxottica in exchange for either a stock or cash consideration. In accordance with the rules of the Italian stock exchange, Borsa Italiana ordered the delisting from the MTA of the Luxottica shares as from March 5, 2019, the settlement date of the "squeeze-out" procedure.

As a consequence of the mandatory exchange offer and the "squeeze-out" procedure, the interest held by Delfin in EssilorLuxottica decreased from the initial 38.93% to 32.05% of the share capital of EssilorLuxottica, it being reminded that voting rights are capped at 31% for any shareholder subject to a formula contained in article 23 of EssilorLuxottica's by-laws.

#### Governance disputes and settlement agreement between EssilorLuxottica and Delfin S.à.r.l.

On May 12, 2019, EssilorLuxottica and Delfin S.à.r.l. signed a settlement agreement to overcome certain governance issues and set the basis for a renewed start of profound collaboration between Essilor and Luxottica. The agreement waived all existing claims and settled legal proceedings among the parties, including the request for arbitration initiated by Delfin against the Company and Mr. Hubert Sagnières in front of the International Court of Arbitration of the International Chamber of Commerce on March 27, 2019.

The Board of Directors of EssilorLuxottica unanimously approved the settlement agreement, according to which, among other things, the Executive Chairman and the Executive Vice Chairman empowered Francesco Milleri (Deputy Chairman and CEO of Luxottica group) and Laurent Vacherot (CEO of Essilor International until March 30, 2020, date of his replacement by Paul du Saillant) with the responsibility to develop and implement the EssilorLuxottica strategy and integration process and accelerate the simplification of the new Group by integrating the two operating companies within the following 12 to 24 months.

In light of this agreement, Valoptec decided to withdraw the proposal submitted on April 18, 2019 for the appointment, at the Shareholders' Meeting convened for May 16, 2019, of one additional Director of EssilorLuxottica and, together with the majority of the shareholders, voted against the proposals submitted by certain institutional investors for the appointment of two additional Directors. Additionally, the representative of Valoptec at the Board of Directors of EssilorLuxottica joined the Strategy and the Integration Committees of the Company.

The equal-powers governance, set forth in the Combination Agreement and the Company's Internal Rules, will remain in place until the date of the Shareholders' Meeting to be called in 2021 to approve the financial statements for the year ended December 31, 2020.

#### Acquisition of GrandVision

On July 31, 2019, EssilorLuxottica announced an agreement with Hal Optical Investments B.V. ("HAL"), a wholly-owned subsidiary of HAL Holding N.V, for the sale of HAL's 76.72% ownership interest in GrandVision N.V. ("GrandVision"), a global leader in optical retail, listed on the Amsterdam Stock Exchange. Pursuant to the acquisition agreement, EssilorLuxottica will buy HAL's shares for a price of €28 per share, to be increased by 1.5% to €28.42 if closing of the acquisition does not occur within 12 months from the announcement date. GrandVision supported the transaction under the terms of a support agreement with EssilorLuxottica.

Closing of the acquisition is expected in 12 to 24 months since the announcement date and is subject to various conditions, including obtaining antitrust clearance of eight jurisdictions: EU, US, Brazil, Chile, Colombia, Mexico, Russia and Turkey. By the end of December 2019 the transaction was cleared in the US, Colombia and Russia.

Following the successful completion of the acquisition, EssilorLuxottica will launch a mandatory cash public offer for all of GrandVision's outstanding shares in accordance with applicable Dutch public offer rules.

#### EssilorLuxottica's new bond issuance and transfer of Luxottica outstanding notes

On November 20, 2019, EssilorLuxottica successfully launched a bond issuance for a total amount of €5 billion. The tranche with tenor of 3.5 years carried a coupon of 0% (negative yield of -0.02%). The tranches with tenors of 5.5, 8 and 12 years carried a coupon of 0.125%, 0.375% and 0.750%, respectively.

The final orderbook amounted to more than €13 billion, attracting high quality institutional investors, which demonstrated the high confidence of investors in EssilorLuxottica's business model as well as the quality of its credit profile.

This issuance allowed EssilorLuxottica to refinance a portion of the consideration to be paid in relation to the acquisition of GrandVision and certain indebtedness of GrandVision upon consummation of its acquisition, to refinance the existing indebtedness of the Group, including its 2019's maturing indebtedness, and to fund the Company's general corporate purposes.

Admission of the bonds to trading on Euronext Paris was effective on the settlement date, November 27, 2019.

Following the new bond issuance, on December 2, 2019, EssilorLuxottica and Luxottica Group S.p.A. announced the completion of the transfer of €500,000,000 2.625 per cent fixed rate notes due February 10, 2024 (ISIN: XS1030851791) issued in 2014 from Luxottica to EssilorLuxottica.

## 2019 International Share Ownership Plan

In November 2019, EssilorLuxottica launched the first employee share ownership initiative of the newly combined Group, which for the first time was open to 12,000 eligible Luxottica employees in Italy. The plan was directed to nearly 70,000 eligible employees in 73 countries (vs 43 in 2018).

This initiative gave Luxottica employees in Italy the opportunity to join more than 48,000 Essilor colleagues worldwide who, since the origins of Essilor and in particular over the past few years, decided to co-invest in the Company by purchasing shares on favorable terms.

On December 12, 2019, EssilorLuxottica announced that its International Share Ownership Plan ("Boost 2019") achieved an outstanding subscription rate of over 67% of eligible employees. Embracing the Boost plan for the very first time, the subscription rate of Luxottica's Italian employees was 68%, above the Group's average. After this transaction, more than 56,000 employees of EssilorLuxottica now hold a financial stake in the Company.

## Fraudulent financial activities at an Essilor plant in Thailand

On December 30, 2019, EssilorLuxottica announced that its subsidiary Essilor International discovered fraudulent financial activities in one of its plants in Thailand.

Internal controls have been circumvented by colluding employees at the plant (including its finance manager) during the second half of 2019. The Fraud was discovered by Essilor International through its control activities. Investigation shows that fraudulent payments have been perpetrated outside of the company's regular payment process and systems.

Essilor International filed complaints in Thailand and in other jurisdictions and mobilized all available internal and external resources to put an immediate end to these fraudulent activities and implement remedial actions. This includes stopping payments, communication to the organisation, launching internal investigations, etc. Since then, the Company has carried out comprehensive investigations and taken actions to seek to recover the misappropriated funds in order to mitigate the impact on the Group.

The employees known to date to be associated with these fraudulent activities have been dismissed. Additional internal controls have been put in place at Essilor International worldwide in order to strengthen existing security processes.

The financial impact of those fraudulent financial activities has been fully recorded in the 2019 consolidated statement of profit or loss for an amount of €185 million after taking into account foreign exchanges impacts. This amount does not take into account potential future insurance proceeds, positive outcome of legal actions and recovery of funds currently frozen on various bank accounts.

## 1.7.2 Full year 2019 revenue

### Notes

(1) **Pro forma:** the Restated Unaudited *Pro Forma* Consolidated Financial Information has been produced for illustrative purposes only, with the aim of providing comparative information for the year ended December 31, 2018 as if the combination between Essilor and Luxottica had occurred on January 1, 2018. For further details, please refer to Section 3.6 of this Universal Registration Document.

(2) **Constant exchange rates:** figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.

(3) **Like-for-like:** growth at constant scope and exchange rates.

(4) **Fast-growing countries or markets:** include China, India, ASEAN, South Korea, Hong Kong, Taiwan, Africa, the Middle East, Russia, Eastern Europe and Latin America.

(5) **Comparable store sales or comps:** reflect, for comparison purposes, the change in sales from one period to another by taking into account in the more recent period only those stores already open during the comparable prior period. For each geographic area, the calculation applies the average exchange rate of the prior period to both periods.

EssilorLuxottica's revenue amounted to €17,390 million and increased by 4.4% at constant exchange rates<sup>(2)</sup> in 2019, in the upper half of the Group's 3.5% to 5% outlook.

Full year 2019 revenue by operating segment

| <i>Euro millions</i>         | 2019          | 2018<br>Restated*<br>Pro forma <sup>(1)</sup> | Change at<br>constant rates <sup>(2)</sup> | Currency<br>effect | Change<br>(reported) |
|------------------------------|---------------|---|--|--------------------|----------------------|
| Lenses & Optical Instruments | 6,791         | 6,283   | +5.5%                                      | +2.6%              | +8.1%                |
| Sunglasses & Readers         | 885           | 787   | +8.9%                                      | +3.6%              | +12.5%               |
| Equipment                    | 221           | 210   | +2.0%                                      | +3.3%              | +5.3%                |
| <b>ESSILOR REVENUE</b>       | <b>7,897</b>  | <b>7,280</b>                                  | <b>+5.8%</b>                               | <b>+2.7%</b>       | <b>+8.5%</b>         |
| Wholesale                    | 3,260         | 3,145   | +1.8%                                      | +1.9%              | +3.7%                |
| Retail                       | 6,232         | 5,769   | +4.0%                                      | +4.0%              | +8.0%                |
| <b>LUXOTTICA REVENUE</b>     | <b>9,493</b>  | <b>8,914</b>                                  | <b>+3.2%</b>                               | <b>+3.3%</b>       | <b>+6.5%</b>         |
| <b>TOTAL</b>                 | <b>17,390</b> | <b>16,194</b>                                 | <b>+4.4%</b>                               | <b>+3.0%</b>       | <b>+7.4%</b>         |

\* 2018 information has been restated following the application of IFRS 16 – Leases.

### Lenses & Optical Instruments

The **Lenses & Optical Instruments** division grew by 5.5% at constant exchange rates <sup>(2)</sup> in 2019, for total sales of €6,791 million. The division showed strength across all regions through a continued focus on innovation, fast growing markets <sup>(4)</sup> and e-commerce. Key milestones in 2019 included the launch of Transitions Signature GEN 8 in the US market, the success of the Vision-R 800 phoropter in Europe, double-digit growth both in China, thanks to branded lenses (notably Eyezen, Crizal and Varilux), and Latin America owing to market expansion activities and a new partnership with a key player in the region.

### Sunglasses & Readers

The **Sunglasses & Readers** division performed well in 2019, with revenue rising 12.5% to €885 million (+8.9% at constant exchange rates <sup>(2)</sup>). This reflected robust results in China, especially for Xiamen Yarui Optical (Bolon) and strong market demand for readers and sunglasses at Costa and FGX International in the United States. Furthermore, e-commerce sales were once again buoyant for the division, with revenue ending the period up by more than 20% on a like-for-like <sup>(3)</sup> basis.

Lastly, in keeping with the commitments made to Turkish antitrust authorities at the time of the combination with Luxottica, Essilor divested its subsidiary Merve, which markets sunglasses to consumers in Turkey.

### Equipment

The **Equipment** division grew by 2% at constant exchange rates <sup>(2)</sup> with a mix of solid market trends in Europe, Latin America and Asia offset by a slowdown in the capital investment cycle in other developed markets, partly due to industry consolidation. On a consolidated financial basis, Europe and Asia contributed to growth while North America and Latin America were headwinds. With respect to products, performance was driven by digitalization, new generation surfacing machines and coating machines. The order book ended the year slightly up. The business contributed to group profitability, which enabled continued R&D investment to support innovation in production methods and lab efficiency across the global ophthalmic lens industry.

### Wholesale

The **Wholesale** division closed the year with revenue up by 3.7% to €3,260 million, or +1.8% at constant exchange rates <sup>(2)</sup>, the strongest pace since 2015 thus proving the effectiveness of the set of strategic initiatives undertaken. All regions were on the rise, with a remarkable acceleration experienced by North America over the second part of the year supported by positive trends at independents, department stores and third-party e-commerce. The steady growth posted by Europe was driven by volumes and benefited from the relentless evolution of STARS. On a global basis, the program is now comprised of approximately 16,600 doors, representing over 13% of sales for the Wholesale division. As for Asia, Oceania and Africa and Latin America, both the regions experienced a deceleration in the second half of 2019, mainly attributable to poor trends in Hong Kong and travel retail and a weakening performance in Mexico respectively. Conversely, Brazil was among the top performers and recorded a sustained growth, at high single digit pace during the twelve months, boosted by STARS and Óticas Carol (both meaningfully increasing the number of doors). Mainland China continued to leverage the success of the strategic repositioning of the business undertaken two years ago.

### Retail

The **Retail** division was up 8.0% in revenue to €6,232 million in the full year, or +4.0% at constant exchange rates <sup>(2)</sup>, with accelerating momentum in the fourth quarter. Revenue was positive throughout the entire year, with comparable store sales <sup>(5)</sup> slightly above the parity in the twelve months. In North America all the networks contributed to the division growth, in particular the Optical Retail Business led the growth with LensCrafters posting the strongest quarter of the year (thanks to a healthy insurance week and a strong price-mix), a solid contribution from the insurance business unit EyeMed as well as Target Optical and Pearle Vision. During the fourth quarter the sales drop was amplified at Sears Optical. In Europe Sunglass Hut and Salmoiraghi & Viganò kept nicely growing, like both optical and sun business did in Australia and sun in Brazil. Hong Kong confirmed to be a drag, with no signs of improvement, while GMO was impacted by protests in Chile and Ecuador in the last quarter of the year. Direct e-commerce grew double digit across all the platforms in the full year, mostly driven by North America that posted in the fourth the best quarter of the year.

## Full year 2019 revenue by geographical area

| <i>Euro millions</i>     | 2019          | 2018<br>Restated*<br>Pro forma <sup>(1)</sup> | Change at<br>constant rates <sup>(2)</sup> | Currency<br>effect | Change<br>(reported) |
|--------------------------|---------------|---|--|--------------------|----------------------|
| North America            | 9,154         | 8,433   | +3.1%                                      | +5.4%              | +8.5%                |
| Europe                   | 4,236         | 4,038   | +5.1%                                      | -0.2%              | +4.9%                |
| Asia, Oceania and Africa | 2,892         | 2,694   | +5.4%                                      | +2.0%              | +7.4%                |
| Latin America            | 1,108         | 1,028   | +9.5%                                      | -1.8%              | +7.7%                |
| <b>TOTAL</b>             | <b>17,390</b> | <b>16,194</b>                                 | <b>+4.4%</b>                               | <b>+3.0%</b>       | <b>+7.4%</b>         |

\* 2018 information has been restated following the application of IFRS 16 – Leases.

### North America

In **North America** revenue increased by 8.5% to €9,154 million (+3.1% at constant exchange rates <sup>(2)</sup>).

The Lenses & Optical instruments division posted another strong full year through a continued focus on its go to market strategy in the core United States lens business along with strong e-commerce growth. The lens strategy in the United States, led by key brands and innovation, partnerships with Independent Eyecare Professionals (ECP) and key accounts, continued to deliver results. Performance was stronger in the second half owing to the launch of Transitions Signature GEN 8. Full year 2019 growth was further boosted by robust engagement with Luxottica both for select key accounts and sales of value added lenses through the Group's retail channels. Canada and sales of Transitions to other lens casters were headwinds while contact lens distribution activities added to growth.

Trends were strong in Sunglasses & Readers. Costa made further inroads with Eyecare professionals as well as in sporting goods stores and online channels, while increasing its presence in the United States. The brand notably solidified its leadership in fishing stores, selling to fishing enthusiasts and those living near beaches, lakes and rivers. Late in 2019, Costa started being integrated into the Luxottica portfolio, which should help this young brand expand its global footprint more quickly and benefit from significant synergies, given Luxottica's expertise in sunwear. In addition, strong market demand for readers and sunglasses allowed FGX International to make up in the second half for the impact of a demanding comparison basis in the first six months. It continued to diversify its distribution network in the United States and to expand its international and online operations.

The Equipment division posted a modest decline for the year, owing mainly to softer fourth quarter dynamics, as key customers work to absorb capacity from recent investment programs.

In North America, Luxottica posted its best year since 2015 in terms of sales growth with Wholesale and Retail both accelerating in the fourth quarter. The growth in Wholesale was reinforced by the solid performance in the independent, department store and the third-party e-commerce channels. The Retail business had a strong year with Target Optical and EyeMed leading the way at double-digit sales growth. Sunglass Hut posted positive performance building on a winning omnichannel proposition, further articulated and resonating well with its customers. LensCrafters closed the year on a positive note benefitting from an expanding store remodeling program and a favorable price-mix boosted by a higher

penetration of value-added lenses. The crisis of Sears had a significant impact on the overall performance of the Retail business leading to the decision to exit the banner by the end of January 2020. The proprietary e-commerce platforms delivered exceptional growth, with a further acceleration in the fourth quarter. Oakley eyewear experienced a relevant uplift from the partnership with the NFL (with its testimonial Patrick Mahomes winning the Superbowl and the related MVP trophy), posting mid-single digit growth in the second half of the year.

### Europe

In **Europe**, revenue increased by 4.9% to €4,236 million (+5.1% at constant exchange rates <sup>(2)</sup>).

Operating in a fiercely competitive environment, the Lenses & Optical Instruments division demonstrated resilience in France, the largest market in the region, and in all Eastern European countries, particularly Poland and Russia. Gains were driven by value-added lenses, especially progressive lenses. Elsewhere in Europe, revenue was either flat or slightly lower. Growth in E-commerce sales was satisfactory, especially for contact lenses distributed through the VisionDirect website. The Instruments business saw strong growth in 2019, fueled by the launch and marketing of two major new products during the year: Visioffice X, a tool for personalizing lenses in optical stores, and the Vision-R 800 phoropter. A world first, the latter radically changes the eye exam process and customer experience, allowing measurement up to 0.01 diopter versus 0.25 diopter with other machines on the market. In addition to revolutionizing optometry, the Vision-R 800 paves the way for ophthalmic lenses with much greater accuracy.

Within the Sunglasses & Readers division, FGX International delivered robust sales, notably in the United Kingdom and Germany.

The Equipment division had a strong finish to the year in the fourth quarter, following an exceptional third quarter performance.

In 2019, Europe continued to contribute to the overall Luxottica growth, with a positive evolution at both Wholesale and Retail divisions, supported by best-selling proprietary brands (also online) as well as main luxury licenses. The Wholesale channel showed steady growth over the year, supported by volumes expansion. Among major countries, Italy, Germany, Turkey and Eastern Europe outperformed other markets. The successful development of the STARS program remains a key pillar of Luxottica's strategy, and currently represents over 20% of Wholesale revenue in the region, showing a nice acceleration in the last part of the year. Sales in Europe were also supported by the growth around double-digit of

the Retail division, on the back of effective in-store execution empowering positive results in all countries. Sunglass Hut confirmed its healthy growth trajectory, growing at mid-single digit in comparable sales <sup>(5)</sup> in Continental Europe and with 21 successful new openings during the year. In Italy, Salmoiraghi & Viganò, the leading multi-brand retailer in the country, consolidated further its position, growing nicely in both comparable sales <sup>(5)</sup> and total revenues, also thanks to a successful store renovation plan that will be carried forward in 2020 as well. Finally, Persol opened its first store in Europe (in Milan).

### Asia, Oceania and Africa

In **Asia, Oceania and Africa**, revenue increased by 7.4% to €2,892 million (+5.4% at constant exchange rates <sup>(2)</sup>).

The Lenses & Optical Instruments division was a major contributor to the regional performance. It delivered double-digit growth in China, thanks to branded lenses (notably Eyezen, Crizal and Varilux), instruments, myopia control solutions and innovation in the midrange. Good performances from progressive and photochromic lenses have accelerated gains in South Korea quarter after quarter, and kept momentum strong in Southeast Asia. In India, promotional campaigns, online sales and innovative business models for Base-of-Pyramid consumers only partially offset the decline in sales through traditional distribution channels. Revenue in Japan got a lift from value-added lenses and a series of commercial successes with optical chains.

The Sunglasses & Readers division also saw double-digit revenue growth in the region with excellent results at Xiamen Yarui Optical (Bolon and Molsion) in optical frames and robust online sales. The division strengthened its positions in the Chinese sunwear market, its main market in the region.

The Equipment division posted solid growth as market conditions in Fast-Growing Markets <sup>(4)</sup> remained favorable. 2019 was positive for Luxottica in the region as a whole, with growing sales at constant exchange rates <sup>(2)</sup> in both Wholesale and Retail divisions. The second half of the year decelerated versus the first, particularly due to weaker Wholesale in the third quarter (mostly reflecting political turmoil in Hong Kong, dropping travel retail business and unfavorable weather conditions in Japan), but turning positive in the fourth quarter. Australia, Mainland China, South East Asia and Middle-East drove the group's performance in the area, more than balancing the decline in Hong Kong and travel retail business, while Japan and Korea closed the year at around the par. Wholesale growth was basically driven by Mainland China, where the business restarted on much cleaner basis. In Retail,

Australia and New Zealand kept on a nice growing trajectory in both optical at OPSM, posting the 14<sup>th</sup> consecutive quarter of positive comps <sup>(5)</sup> and sales, and sun business at Sunglass Hut, consistently in terms of sales and comparable store sales <sup>(5)</sup> growth, reaping the fruits of the store refurbishment program carried out last year. Hong Kong retail remained negative, for the fourth consecutive year.

### Latin America

In **Latin America**, revenue increased by 7.7% to €1,108 million (+9.5% at constant exchange rates <sup>(2)</sup>).

The Lenses & Optical Instruments division generated significantly improved growth at constant exchange rates <sup>(2)</sup> for the full year 2019 when compared to 2018 consisting of balanced growth in Brazil and Spanish speaking markets through most of the year. 2019 was marked by several key initiatives including marketing programs such as "Varilux em Dobro" in Brazil, "Cambia tu cara" in Colombia, and enhanced client marketing at Grupo Vision in Costa Rica. The division also rolled out new technological advances and product ranges to independent laboratories to further support growth. After having bought the assets of the laboratory of Devlyn Holdings, Essilor signed a supply contract with Opticas Devlyn, the leading optical chain in Mexico, which boosted growth in constant currency terms <sup>(2)</sup>. In e-commerce, online sales in Brazil continue to develop rapidly. Major strides were also made in digital marketing with consumers in Mexico and Colombia now able to access the Spanish-language edition of the eye care information website "AllAboutVision.com".

The Sun & Readers division contributed modestly to regional growth.

The Equipment division was a slight headwind to regional growth on a consolidated basis despite solid underlying activity as market conditions in Fast-Growing Markets <sup>(4)</sup> remained favorable.

Luxottica continued to grow in Latin America last year, expanding sales at constant exchange rates <sup>(2)</sup> in both Wholesale and Retail divisions. The second half of the year slightly slowed down compared to the first, mostly due to a weakening performance in the fourth quarter in Mexico. The key market of Brazil kept the positive momentum it showed throughout the entire year, made of high-single digit growth in Wholesale, boosted by STARS and Óticas Carol (reaching 1,335 franchise locations), as well as double-digit growth in Retail, primarily sustained by Sunglass Hut. GMO closed the year positive in sales and comparable store sales <sup>(5)</sup>, absorbing the negative impact of the protests in Chile and Ecuador in the last quarter.

### 1.7.3 Fourth quarter 2019 revenue

#### Fourth quarter 2019 revenue by operating segment

| <i>Euro millions</i>         | <b>Q4 2019</b> | <b>Q4 2018 Restated*</b> | <b>Change at constant rates <sup>(2)</sup></b> | <b>Currency effect</b> | <b>Change (reported)</b> |
|------------------------------|----------------|--------------------------|--|------------------------|--------------------------|
| Lenses & Optical Instruments | 1,701          | 1,589                    | +5.2%  | +1.8%                  | +7.0%                    |
| Sunglasses & Readers         | 242            | 214                      | +10.1%   | +2.8%                  | +12.9%                   |
| Equipment                    | 70             | 73                       | -6.8%  | +2.1%                  | -4.7%                    |
| <b>ESSILOR REVENUE</b>       | <b>2,012</b>   | <b>1,876</b>             | <b>+5.3%</b>                                   | <b>+2.0%</b>           | <b>+7.3%</b>             |
| Wholesale                    | 753            | 725                      | +2.4%  | +1.4%                  | +3.8%                    |
| Retail                       | 1,539          | 1,439                    | +4.6%  | +2.3%                  | +6.9%                    |
| <b>LUXOTTICA REVENUE</b>     | <b>2,291</b>   | <b>2,164</b>             | <b>+3.9%</b>                                   | <b>+2.0%</b>           | <b>+5.9%</b>             |
| <b>TOTAL</b>                 | <b>4,304</b>   | <b>4,040</b>             | <b>+4.5%</b>                                   | <b>+2.0%</b>           | <b>+6.5%</b>             |

\* 2018 information has been restated following the application of IFRS 16 – Leases.

EssilorLuxottica's revenue increased by 4.5% at constant exchange rates <sup>(2)</sup> during the fourth quarter of 2019.

#### Fourth quarter 2019 revenue by geographical area

| <i>Euro millions</i>     | <b>Q4 2019</b> | <b>Q4 2018 Restated*</b> | <b>Change at constant rates <sup>(2)</sup></b> | <b>Currency effect</b> | <b>Change (reported)</b> |
|--------------------------|----------------|--------------------------|--|------------------------|--------------------------|
| North America            | 2,273          | 2,113                    | +4.3%  | +3.3%                  | +7.6%                    |
| Europe                   | 971            | 918                      | +4.9%  | +0.8%                  | +5.7%                    |
| Asia, Oceania and Africa | 756            | 707                      | +5.0%  | +1.8%                  | +6.8%                    |
| Latin America            | 304            | 301                      | +3.8%  | -2.9%                  | +0.9%                    |
| <b>TOTAL</b>             | <b>4,304</b>   | <b>4,040</b>             | <b>+4.5%</b>                                   | <b>+2.0%</b>           | <b>+6.5%</b>             |

\* 2018 information has been restated following the application of IFRS 16 – Leases.

#### North America

In **North America**, revenue increased by 7.6% to €2,273 million (+4.3% at constant exchange rates <sup>(2)</sup>).

The Lenses & Optical Instruments Division benefitted from the continued momentum from the Transitions Signature GEN 8 launch, both with Independent Eyecare Professionals and through the Company's retail channels. Robust growth continued with Alliance members and Essilor Experts while key accounts expanded at a modest pace. Similar to the full year trend, contact lens distribution activities contributed to growth.

Sunglasses & Readers performance in the United States was driven primarily by FGX during the fourth quarter.

Trends in the Equipment division moderated after a particularly strong third quarter and an elevated prior year comparison base.

Both Luxottica divisions posted the best quarter of the year. Wholesale grew high-single digit thanks to the sound execution across all channels. The benefit from the consolidation of Barberini weighted to a smaller extent. On the Retail side, sales were up mid-single digit, led by LensCrafters delivering strong results especially during the ramp up towards the end of the insurance year. The performance at Sunglass Hut was mixed. The brick and mortar stores were impacted by an unfavorable timeframe of the holiday season and lower traffic in the touristic locations, but the shortfall was made up online.

Target Optical and EyeMed confirmed their sound growth path, while Sears continued to be a heavy drag. The direct e-commerce business had another exceptional quarter growing at 27% at constant exchange rates <sup>(2)</sup> and all major websites contributed to the success.

#### Europe

In **Europe** revenue increased by 5.7% to €971 million (+4.9% at constant exchange rates <sup>(2)</sup>).

The performance of the Lenses & Optical Instruments in the quarter was driven by robust gains in Russia, Turkey, Instruments and online sales of contact lens through VisionDirect.

The Equipment division continued its strong performance in the fourth quarter, ending the year sharply higher.

Luxottica's turnover in Europe kept expanding in the last quarter of the year. The Wholesale division saw robust trends in particular in Spain, Portugal, Greece, UK, Turkey and Eastern Europe. Performance of the sun category stood out in the fourth quarter. The company continued to develop its STARS program, thanks to top key accounts, and related turnover experiencing a further acceleration, up by more than 50% compared to the fourth quarter of last year. Retail sales increased soundly in the quarter in high-single digit area, posting its 24th consecutive quarter of turnover expansion. All major countries showed a positive evolution in the division, led by Sunglass Hut in Continental Europe and Salmoiraghi & Viganò in Italy.

### Asia, Oceania and Africa

In **Asia, Oceania and Africa** revenue increased by 6.8% to €756 million (+5.0% at constant exchange rates<sup>(2)</sup>).

The Lenses & Optical Instruments division delivered strong in the region, with business up sharply in China, South Korea, Southeast Asia and Japan. Growth was fueled by value-added lenses in all countries.

The Sunglasses & Readers division continued to benefit from its expansion in optical frames and online sales, primarily in China.

Following an exceptional performance through the first nine months of the year, the Equipment division slowed down during the fourth quarter.

Luxottica's regional sales accelerated in the fourth versus the third quarter, driven by Australia, Mainland China and South East Asia. Australia and New Zealand retail gained further momentum, even amid wildfires emergency, with the optical business recording the 14<sup>th</sup> consecutive quarter of positive sales, also helped by refurbishments, and the sun business contributing as well, both positive in comparable store sales<sup>(5)</sup>. Mainland China speeded up at double-digit pace, fueled by both revamped Wholesale and positive Retail in sales and comparable store sales<sup>(5)</sup>. On the opposite, Hong Kong did not improve, deteriorating further in Retail sales and comparable store sales<sup>(5)</sup>. Ray-Ban mono-brand store roll-out made further progress last year in the region, focused on Mainland China which reached 141 locations at the end of December, out of a total 171 in the whole Asia-Pacific area.

### Latin America

In **Latin America**, revenue increased by 0.9% to €304 million (+3.8% at constant exchange rates<sup>(2)</sup>).

Growth in the Lenses & Optical Instruments division remained in double digits at constant exchange rates<sup>(2)</sup> through a mix of strong underlying trends and new partnerships. In Brazil, the solid dynamics through the first nine months eased as the focus shifted to the Transitions Signature GEN 8 launch anticipated in the earlier part of 2020. E-commerce activity in Brazil supported regional growth. Elsewhere in the region growth was supported by continued market development and improved product mix, which more than offset economic headwinds in select markets, notably Chile and Colombia. Recently formed partnerships contributed to growth at constant exchange rates<sup>(2)</sup>, particularly in Mexico where sales expanded at a double-digit rate during the fourth quarter.

The Sunglasses & Readers division contributed modestly to regional growth during the quarter.

For Luxottica, in the fourth quarter the still sound performance of Brazil was counterbalanced by weakening result of Mexico, all in all ending up in flattish sales at constant exchange rates<sup>(2)</sup> in the region. Brazil confirmed sound performance in the fourth quarter, even accelerating in retail sales at constant exchange rates<sup>(2)</sup>, essentially boosted by Sunglass Hut comparable store sales<sup>(5)</sup>. On the opposite, after a positive first half of the year, the Mexican wholesale business started deteriorating in the third quarter and failed to recover in the final three months, mostly due to the poor performance of independents and key accounts. The abovementioned political unrests in Chile and Ecuador affected the sales performance of GMO in the last quarter of the year, negative in sales and comparable store sales<sup>(5)</sup>.

## 1.7.4 Acquisitions and partnerships

EssilorLuxottica completed 29 transactions in 2019, representing full-year revenue of close to €218 million. The major transactions are indicated in the table below.

| Company   | Country                 | Business  | Full-year revenue          | % held | Consolidated from |
|---|-------------------------|---|----------------------------|--------|-------------------|
| <b>WHOLESALE</b>  |                         |   |                            |        |                   |
| Barberini   | Italy                   | Optical glass sun lens manufacturer                         | €85 million <sup>(1)</sup> | 100%   | September 2019    |
| <b>LENSES &amp; OPTICAL INSTRUMENTS – LATIN AMERICA</b> |                         |   |                            |        |                   |
| Devlyn  | Mexico                  | Integrated prescription laboratory operating optical stores | €13 million                | 100%   | July 2019         |
| <b>SUNGLASSES &amp; READERS</b>                         |                         |   |                            |        |                   |
| Future  | Sweden                  | Distribution Sun & Readers                                  | €14 million                | 100%   | November 2019     |
| <b>ONLINE</b>   |                         |   |                            |        |                   |
| Brille 24   | Germany                 | Online retail platform for optical products                 | €25 million                | 100%   | April 2019        |
| <b>INSTRUMENTS</b>                                      |                         |   |                            |        |                   |
| Optimed   | Australia & New Zealand | Distribution of Ophthalmic Instruments                      | €11 million                | 75%    | September 2019    |

(1) Barberini S.p.A. annual consolidated revenue on a stand-alone basis, as disclosed at the time of the announcement of the acquisition (on June 22, 2019), which does not represent the net contribution to the EssilorLuxottica group's turnover.

On December 5, 2019, EssilorLuxottica announced the closing of the disposal of its 100% stake in Merve Optik in Turkey. Merve is a leading Turkish wholesaler of sunglasses and optical frames with five proprietary brands (Ossé, Mustang, Hawk, Optelli, Soleil) and 16 licensed brands from Marcolin, generating a total of around €19 million of revenue in 2018. This divestment was a requirement from the Turkish Competition Authority (TCA) as a remedy from the combination between Essilor and Luxottica.

On January 3, 2020, EssilorLuxottica completed the purchase of a 51% stake in Optical House, the leader in the optical market in Ukraine. Optical House operates through a network of around 190 stores under the Luxoptica brand and is the country's leading wholesale platform for lenses, frames and contact lenses. In 2019, Optical House generated around €65 million of revenue.

## 1.7.5 Investments made and planned for 2020

| <i>Euro millions</i>   | <b>EssilorLuxottica</b> | <b>Essilor</b> |             | <b>Luxottica</b> |             |
|--|-------------------------|----------------|-------------|------------------|-------------|
|  | <b>2019</b>             | <b>2018</b>    | <b>2017</b> | <b>2018</b>      | <b>2017</b> |
| Property, plant and equipment and intangible assets (gross of disposals) | 903                     | 334            | 308         | 593              | 666         |
| Depreciation and amortization  | 2,121                   | 361            | 375         | 515              | 541         |
| Financial investments net of cash acquired                               | 370                     | 270            | 334         | 19               | 136         |
| Purchase of treasury shares  | 0                       | 0              | 0           | 0                | 0           |

### Capital expenditure

In the industrial sector, cash out related to capital expenditures amounted to €903 million in 2019, 5.2% of net sales, compared to €927 million in the previous year. 2018 was characterized by one-off investments for the new Logistics plant in Italy, the remaining portion of recurring investment is growing to support the Group's growth in the areas of IT and the development of the retail network.

### Financial investments

Financial investments net of cash acquired amounted to €370 million in 2019, compared to €289 million in 2018.

These investments include mainly the effects of the business combinations completed in 2019, which include mainly Barberini S.p.A., the world's leading optical glass sun lens manufacturer, as well as the acquisitions of Brille 24 in the online business, Devlyn in Mexico, Future in Sweden, and Optimed in the instruments division. This also includes, to a lesser extent, price supplements on acquisitions completed prior to 2019.

### Main future investments

In 2020, the Group will continue investing in production, development of the retail network, integration activities, M&A and partnerships projects.



# 1.8 Risk factors

## 1.8.1 Introduction

As of the date of this Universal Registration Document, the significant risks to which EssilorLuxottica is exposed are those described below. In this section only the main risks that may affect EssilorLuxottica in its course of business and that may have a material impact on the Group financial or operational result, reputation and/or prospects are reported. The risk identification and assessment

process used is described in Section 1.9.1. *The Company risk management process.*

Within each category, risk factors are presented in decreasing order of severity as determined by the relative weight of impact and likelihood of occurrence on the date of this Universal Registration Document, taking into account the mitigation measures ("net impact").

## 1.8.2 Risk factors summary

| Risk category                | Risk factor  | Severity         | Impact | Likelihood |     |
|------------------------------|--|------------------|--------|------------|-----|
| External risks               | Pandemic   | ▲▲▲              | ●●●    | ■ ■ ■      |     |
|                              | Political & social environment                               | ▲▲▲              | ●●●    | ■ ■        |     |
| Strategic risk               | Industry and market  | ▲▲▲              | ●●●    | ■ ■        |     |
|                              | Governance & organizational framework                        | ▲▲               | ●●     | ■ ■        |     |
|                              | Key people attraction, talent management & knowledge capital | ▲▲               | ●●     | ■ ■        |     |
|                              | Intellectual property  | ▲▲               | ●●     | ■ ■        |     |
|                              | Business model   | ▲▲               | ●●     | ■          |     |
|                              | Strategic innovation and product development                 | ▲                | ●●     | ■          |     |
|                              | M&A and joint ventures                                       | ▲                | ●●     | ■          |     |
|                              | Licensing  | ▲                | ●      | ■          |     |
|                              | Financial risk   | Currency risk    | ▲      | ●          | ■ ■ |
|                              |  | Financial market | ▲      | ●          | ■   |
| Credit                       |  | ▲                | ●      | ■          |     |
| Liquidity                    |  | ▲                | ●      | ■          |     |
| Operational risk             | Business interruption  | ▲▲▲              | ●●●    | ■ ■        |     |
|                              | IT system and data management                                | ▲▲               | ●●     | ■ ■        |     |
| Compliance & Litigation risk | Antitrust  | ▲▲               | ●●     | ■ ■        |     |
|                              | Data privacy   | ▲▲               | ●●     | ■ ■        |     |
|                              | Corporate compliance & reporting                             | ▲                | ●●     | ■          |     |
|                              | Material claims and litigation, proceedings, arbitration     | ▲                | ●●     | ■          |     |
|                              | Taxation   | ▲                | ●●     | ■          |     |

|                 |                 |     |               |     |                   |
|-----------------|-----------------|-----|---------------|-----|-------------------|
| <b>Legend :</b> | <b>Severity</b> |     | <b>Impact</b> |     | <b>Likelihood</b> |
|                 | High            | ▲▲▲ | High          | ●●● | High              |
|                 | Medium          | ▲▲  | Medium        | ●●  | Medium            |
|                 | Low             | ▲   | Low           | ●   | Low               |

## External risks

| Risk factors  | Risk details   | Mitigation measures  |
|---|--|--|
| <p><b>Pandemic</b></p> <p>Severity: ▲▲▲</p> <p>Impact: ●●●</p> <p>Likelihood: ■■■</p> | <p>In December 2019, the outbreak of a new coronavirus, COVID-19, emerged in China. Despite significant containment efforts it spread globally beyond China's borders and continues to hit many geographies.</p> <p>EssilorLuxottica, with its global lenses and frames manufacturing footprint and worldwide distribution and retail networks, may be negatively affected by this pandemic outbreak which is currently impacting its production and distribution worldwide. More specifically, following health and governmental authorities' obligations and guidance as well as travel restrictions, EssilorLuxottica production and distribution had to be temporarily suspended in several locations.</p> | <p>EssilorLuxottica has been monitoring the outbreak of COVID-19 since the very beginning with utmost care and putting the health and safety of its employees, partners and customers as a first priority.</p> <p>EssilorLuxottica has organized its response around geographically and centrally organized crisis teams, in charge of maintaining coordination, communication and implementing contingency plans to maintain business activities while respecting individual national responses to the crisis. These multi-specialty teams gather internal experts from Manufacturing, Supply, IT, Finance, HR and Distribution to ensure that holistic actions at the local and global levels are put in place such as:</p> <ul style="list-style-type: none"> <li>• Deploying stringent safety measures and rightsizing global capacity to meet current demand levels (e.g. remote work, partial stoppage of activities);</li> <li>• Managing national lockdowns efficiently;</li> <li>• Establishing cost and cash control measures, including, but not limited to, putting on hold non-crucial investment initiatives;</li> <li>• Defining alternative supply roads and leveraging its network of production sites;</li> <li>• Strengthening the Group's e-commerce activities and networks.</li> </ul> |

| Risk factors  | Risk details  | Mitigation measures  |
|---|---|--|
| <b>Political &amp; social environment</b><br><br>Severity: ▲▲▲<br>Impact: ●●●<br>Likelihood: ■■ | <p>EssilorLuxottica business may be adversely affected by political, governmental or social instabilities in countries where: i) it has invested or plans to invest; ii) it carries on a substantial share of revenues; iii) it has signed agreements with local counterparties.</p> <p>EssilorLuxottica currently operates worldwide, including fast growing countries in Latin America, Middle East, Asia and Africa (around 60 countries). Therefore, the Company is subject to various risks inherent in conducting business internationally. The likelihood of such risks and their potential effect over the Company may vary from country to country and are mostly unpredictable. They may result in loss of market share, loss of sales or increased costs of doing business. Below are some examples of risks related to the social and political environment:</p> <ul style="list-style-type: none"> <li>• EssilorLuxottica activities may be impacted by events such as the COVID-19 (see Pandemic risk).</li> <li>• Commercial relations between China and the US are becoming more and more complex (e.g. changes in custom fees). Socio-political events are currently impacting certain geographies (e.g. Hong Kong, Colombia and Chile).</li> <li>• Failing to achieve an agreement on the future of EU/UK relations may cause restrictions on imports and exports between the United Kingdom and European Union countries and increase regulatory complexities as well as the cost of custom duties. The strengthening of customs procedures could lengthen delivery times and part of the production could be relocated, which would increase costs and diminish the competitive advantage in the UK market (2019 UK revenues: €621 millions).</li> <li>• Some countries where the Company operates (e.g. US, Indonesia, Thailand, 2019 total turnover: €8,850 million) are applying protectionist laws, with relevant impact on imports and exports.</li> </ul> | <p>EssilorLuxottica's international presence (more than 80 countries) represents a "natural hedge" to risks related to the political and social environment.</p> <p>The Company, when entering new countries, conducts in-depth due diligences (including risk analysis and legal analysis) in order to consider beforehand any peculiarities relating to the local context that may impact the conduct of the business. This approach allows EssilorLuxottica to decide whether to remain in or leave high-risk areas, as well as to identify development opportunities in countries whose socio-economic stability has improved.</p> <p>The Company has defined a methodology to prioritize monitoring activities in the regions where the Group operates based on the exposure in terms of political and economic risks. Operations and business activities in fragile countries are closely monitored, and mitigation actions can lead to outright withdrawal from certain countries.</p> <p>Revenues generated in "at risk countries" (based on Group's internal definition, such as Mexico, Chile, Colombia Hong Kong, Ecuador and Turkey) represent only 3,80% of global sales. EssilorLuxottica's higher share of revenues derive from stable geographies such as the United States and Europe (€8,722 million and €4,236 million respectively).</p> <p>EssilorLuxottica implements and periodically revises its planning strategy to ensure efficiency of its operations and logistics, especially towards countries where custom procedures can be more complex, in order to avoid delays that may lead to loss of business opportunities. Sensitivity analyses are also performed at the local level to better support decision-making processes. Analyses are performed in order to anticipate consequences resulting from any crisis related event (e.g. Brexit, pandemic outbreaks...) and thus assess and mitigate potential risks.</p> |

## Strategic risks

| Risk factors  | Risk details  | Mitigation measures   |
|---|---|---|
| <p><b>Industry and market</b></p> <p>Severity: ▲▲▲<br/>Impact: ●●●<br/>Likelihood: ■■</p> | <p>EssilorLuxottica is subject to possible changes in the market and industry, which may adversely affect demand for products and margins. The market is evolving at a sustained pace that EssilorLuxottica must face to maintain its competitive advantage.</p> <p><b>Change in customer preferences and market commoditization</b><br/>Customer preferences are continuously changing, with different trends all over the world (e.g. request for product personalization in Asian market), and progressive shifting towards less premium lenses (in US and China), which could represent a risk in the medium term. Inability to timely detect and anticipate such trends may lead to loss of market share or margins reduction. Further, the capacity of the market to absorb our products may be adversely affected by a pandemic outbreak.</p> <p><b>Managed Vision Care</b><br/>US optical retail and managed vision care markets are experiencing increased competition with the mergers or acquisitions of several players. This may lead EssilorLuxottica to suffer from a decrease in customer or product demand. Insurance companies could also direct customers to other vision care players, potentially endangering significant revenue from customers supported by third party insurance carriers.</p> <p><b>Health Care Reimbursement Policies</b><br/>In some regions where EssilorLuxottica operates, the cost of certain products is reimbursed by health insurance funds, insurance companies or government schemes (e.g. US and some European countries including Italy and France). Adverse changes in the health care reimbursement policies may lead insurances to reduce reimbursements, possibly leading to reduction in demand for products.</p> <p><b>Online channel</b><br/>The online channel is growing worldwide, especially for entry-price products. The Company may not be able to successfully compete with online players that focus their business on competitive pricing strategies (5% of the Group turnover is generated by online channel).<br/>For more information, see Chapter 1.</p> | <p>EssilorLuxottica monitors customers' preferences in order to anticipate trends and to develop new competitive products.</p> <p>EssilorLuxottica is continuously strengthening relations and agreements with insurance companies in order to broaden its customer base. In the US, EssilorLuxottica is competing in the managed vision care area with its subsidiary (EyeMed). EyeMed is committed in building, maintaining and strengthening long-term business relations with key clients, including those subjects to acquisition from other parties.</p> <p>EssilorLuxottica develops and implements continuous professional training programs to its in-store personnel to ensure a best in class customer experience and promote high quality products, moving sales to higher margin products.</p> <p>EssilorLuxottica continues to develop its e-commerce channel and is progressively expanding its portfolio through new entry-price products. This expansion allows EssilorLuxottica to meet online customer expectations, hence growing its customer base. The Group is also developing an omni-channel business model, allowing customers to have a combined online and in store sales experience.</p> |

**Risk factors**

**Governance & organizational framework**

Severity: ▲▲  
 Impact: ●●  
 Likelihood: ■■

**Risk details**

EssilorLuxottica is the result of the combination of two entities with different cultural and organizational operating models. This accounts for the complex governance system that the Company currently has, which include several co-heads at key corporate functions at parent company level and different organizational structures at its two main operating subsidiaries. This complex structure is expected to be simplified at both central and local level in the context of the post-merger integration process.

Pursuant to the combination agreement entered into between Delfin and Essilor, the Executive Chairman and the Executive Vice-Chairman of EssilorLuxottica have equal powers and neither of them will have a casting vote. The equal power structure is also reflected at Board of Directors level, where Directors will have been designated in equal numbers by Delfin and by Essilor.

The complexity of the EssilorLuxottica governance and the possible disagreements between co-heads may cause inefficiencies and delays in the decision-making process and, therefore, in achieving the expected synergies. This may negatively affect the Group's business, operating results, financial position and prospects.

Additionally, this situation may have a significant impact on employees' retention.

**Mitigation measures**

EssilorLuxottica intends to define a clear and simpler governance model with limited or no duplication of key positions and a clear definition of roles and responsibilities.

The Group has appointed an Integration Committee in order to facilitate the post-merger integration process and manage possible deadlocks.

More than 20 integration workstreams started during 2019 with a step by step integration approach, aimed at achieving synergies within the Group.

These workstreams include e.g. the integration of legal entities and the implementation of four Global Business Service Centers to support operations in Europe/Africa, North America, Latin America, and Asia/Middle East regions.

To date, strategic decisions have been managed in a timely manner by reaching the necessary consensus and the Company the share price and overall profitability do not appear to have been negatively impacted by the current governance structure

For more information, see Chapter 2 of this Universal Registration Document.

**Key people attraction, talent management & knowledge capital**

Severity: ▲▲  
 Impact: ●●  
 Likelihood: ■■

Due to the transition period, the complexity of the governance and the integration process, EssilorLuxottica may be exposed to high turnover and difficulties to attract new employees. Some key roles, such as certain back office employees, salesforce and top managers (both at corporate and regional level), may experience higher turnover than others. In addition, labor markets in several regions (e.g. US, China and Australia) are experiencing a shortage of optometrists who support sales of specific products (e.g. contact lens in China). The inability to attract and retain such key personnel could prevent EssilorLuxottica from achieving its overall objectives and could therefore have a material impact on its operations, selling capabilities, operating results, financial position and prospects. In addition, the topics below could influence the level of risk:

- lack of inclusion and diversity;
- inadequate working conditions (e.g. inadequate safety measures to prevent work-related accidents & occupational illnesses);
- lack of social dialogue that could lead to social conflicts (e.g. strikes).

For more information, see Section 4.2.4 of this Universal Registration Document.

The Group has always built its growth around very strong societal values, today represented by the "See More – Be More" claim and by the publication of its first Code of Ethics in 2019. These actions are aimed at promoting the ethical commitment of all employees, which contributes to the strengthening of retention rates. During the combination, to meet employees' expectations, the Group developed and implemented effective actions to foster loyalty and improve retention in Key talents such as an ambitious employee shares program, reinforced by competitive welfare, flexible benefits favoring the work-life balance. EssilorLuxottica has also defined a communication plan to facilitate the internal change management process and also identified a succession plan for the Group key positions. EssilorLuxottica has put in place and developed through the years strong training policies and talent development and retention programs to ensure Group capabilities to attract, retain and develop talents. The Company is starting to develop training centers in key areas (e.g. China). Attraction and retention strategies are country specific and customized. As an example, in countries where there is shortage of optometrists, the Company is developing specific strategies such as collaboration with universities and tele-optometry.

#### Risk factors

##### Intellectual property

Severity: ▲▲

Impact: ●●

Likelihood: ■■

#### Risk details

EssilorLuxottica relies on trade secret, competition, trade dress, trademark, patent, design and copyright laws to protect its assets, including non exhaustively product designs, services, brand names, proprietary manufacturing processes and technologies, product research, innovation and goodwill.

In this area, EssilorLuxottica could face different types of exposure:

- trademarks and patents may not always be successfully granted during the official examinations, and registered trademarks and patents may be invalidated in the event of third parties action;
- our proprietary and confidential information could become known to competitors, and be used in a misappropriate way and we may not be able to efficiently protect our know how;
- the actions EssilorLuxottica takes to protect its intellectual proprietary may be insufficient to prevent counterfeiting of its products and services, especially in countries where IP litigations are not a current practice. Additionally, EssilorLuxottica operates and sells products in countries where counterfeiting market is pervasive. Widespread of counterfeit products on the market may be a barrier to sales growth in these countries and ultimately lead to changes in customer habits, but also hurt the value of EssilorLuxottica brands;
- third parties may independently develop alternative products or services that do not infringe our intellectual property rights;
- third parties may assert patent, copyright, trademark or other rights against EssilorLuxottica, leading to litigations and other legal processes with potential negative outcomes for the Group.

For more information, see Chapter 1.

#### Mitigation measures

A global framework has been put in place to protect intellectual property. It includes awareness, trainings and strategic monitoring.

Dedicated resources are devoted to the enforcement of patents and trademarks, to the protection of trade secrets or other intellectual property rights, to the determination of the appropriate scope of protection of EssilorLuxottica assets, to the assessment of the intellectual proprietary rights of others that might be relevant in EssilorLuxottica's domain and the implementation of mitigation actions.

EssilorLuxottica actively supports Governmental Agencies around the world aiming at enhancing intellectual property protection.

EssilorLuxottica is continuing to implement a structured and strong worldwide program to guarantee reliability of Group products' origin at worldwide level. Through this program, the Group local entities cooperate with central corporate functions in assessing local risk related to IP protection (counterfeiting and parallel market), performing and supporting both in-store and online audits to timely identify possible infringements, define and implement related operational and legal countermeasures.

EssilorLuxottica aims to mitigate the risk also through contractual protection, ensuring contracts (e.g. with franchisee) can be terminated in case of unauthorized use of Group IP or sale of counterfeited products within stores where EssilorLuxottica products are sold.



**Risk factors**

**Risk details**

**Mitigation measures**

**Business model**

Severity: ▲▲  
 Impact: ●●  
 Likelihood: ■

EssilorLuxottica may undertake strategic initiatives that may lead to changes in its business model, affecting current key success factors and its ability to deliver on its Mission (for more information, see Section 4.1 of this Universal Registration Document). Inability to evaluate and anticipate consequences of these initiatives may lead to the loss of existing competitive advantage.

Through the eventual acquisition of GrandVision, EssilorLuxottica will expand its optical retail platform, primarily in Europe, by adding up to 7,300 stores globally.

Furthermore, if the Group fails in consolidating relationships with its clients, the shift of business model could lead to possible retaliation actions from the wholesalers (both key accounts and independents).

Other changes in business model may rise from the integration of companies with different business models (e.g. the Brazilian Óticas Carol which relies on franchising retail stores).

The Group is carefully managing relations with both wholesalers and retailers in order to ensure maintenance of successful long-term partnership with wholesalers and avoiding intra-channel competition (channel cannibalization).

Thanks to a fully integrated business model, EssilorLuxottica is able to capture all market trends and weak signals, allowing it to adjust accordingly and thus be able to perfectly meet the clients' expectations.

**Strategic innovation and product development**

Severity: ▲  
 Impact: ●●  
 Likelihood: ■

EssilorLuxottica operates in a rapidly evolving industry affected by product innovation, new developments in vision correction therapies and changing consumer preferences, including changes in fashion and retail product trends. Failure to adapt to such changes and to continually improve product offering to meet societal trends could limit Group's growth and negatively affect its competitive advantage, sales and profitability.

If EssilorLuxottica is unable to successfully introduce innovative and sustainable products (for more information, see Section 4.1.3 of this Universal Registration Document), future sales could decline, inventory levels could rise, and production capacity could be underutilized.

**Technological innovation, vision correction alternatives and trends**

Specifically the demand for prescription glasses and lenses (growth of 16.28% in 5 years in the Lenses and Optical Instruments segment) could be negatively affected by:

- the availability and acceptance of vision correction alternatives, such as refractive optical surgery;
- the increased usage of contact lenses due to changing consumer preferences or improvements in contact lens technology.

EssilorLuxottica's efforts to develop new technologies and products may entail significant investment, yet ultimately fail to meet desired objectives (e.g. suitability for driving of new lens, product sustainability to meet customer preferences).

**Competitors**

Current competitors may have greater resources than EssilorLuxottica and may be able to devote significant funds to research and development efforts.

EssilorLuxottica invests significant funds in R&D (€291 millions, for more information see Sections 1.5.1.3.3 and 1.5.2.2.2, paragraph *Consolidated statement of profit or loss*) and develops valuable partnerships with top innovation players to detect technological/digital opportunities and threats, anticipate product innovation and monitor new trends (e.g. smart wearables) or customer consumption patterns (for more information, see Section 4.1.3 of this Universal Registration Document, paragraph *Improving lives by improving sight*). EssilorLuxottica is recognized as a primary counterpart in innovation initiatives by players operating in other businesses.

Furthermore, the EssilorLuxottica combination, acquisition and partnership strategy of new or existing players (e.g. Johnson and Johnson Vision Care Inc.' Spectacle Lens Group, Transitions Optical) may create new significant synergies in R&D projects (e.g. contact lens using photochromic technology).

| Risk factors   | Risk details  | Mitigation measures  |
|--|---|--|
| <p><b>M&amp;A and joint ventures</b></p> <p>Severity: ▲<br/>Impact: ●●<br/>Likelihood: ■</p> | <p>Actors of change as tech giants (GAFA<sup>(1)</sup>, BATX<sup>(2)</sup>) and small innovative companies are now present in optics (through augmented reality for instance). Their investment &amp; innovation capacities being incomparable with those of traditional actors, their actions could deeply unbalance EssilorLuxottica footprint. Companies operating in other industries (such as e-commerce and online services) may become competitors of EssilorLuxottica by leveraging on innovation capabilities.</p> <p>EssilorLuxottica growth strategy is based in part both on performing acquisitions and on developing strategic Joint Ventures with local partners, leveraging on their expertise and knowledge of the local market (14 acquisitions and 1 minority participation for 2019). Group failure to successfully identify M&amp;A targets or partners in JVs, together with inappropriate management of alliances (e.g. failure in operating JVs or in performing post-merger integrations) may adversely impact the Group's growth and its ability to compete on the market.</p> <p>Concerning M&amp;A transactions (full acquisitions and JVs), a risk may result, <i>inter alia</i>, from possible (i) inadequate due diligence on the targets, (ii) low contractual protections and (iii) purchase price adjustments.</p> <p>Concerning JVs, a risk may result, <i>inter alia</i>, from possible (i) inadequate monitoring and control of partners, (ii) deadlock situations and (iii) inadequate growth of the relevant local markets. Furthermore, different partners have a high degree of autonomy and their behavior can negatively affect EssilorLuxottica. For instance, JVs and partners may not be able to satisfy CSR requirements. As a result, the credibility of the Group with its counterparties could be affected.</p> <p>As a result of the combination of Essilor and Luxottica and its potential impact on the JV management structure, there is a risk that EssilorLuxottica JV partners may sell their financial interest in the Joint Ventures. This could determine change management issues in the JVs, adversely affecting their operational performance and financial results, ultimately having a negative impact on the cash flow of the combined Group.</p> <p>EssilorLuxottica has achieved a significant size after the combination. Its visibility in the market has increased, leading to a potential amplification of compliance and reputational risks with a higher scrutiny from different stakeholders, including regulators and competitors, which may negatively affect the possibility to successfully complete a new acquisitions' strategy.</p> | <p>EssilorLuxottica has established a strict M&amp;A process to evaluate possible targets based on internal guidelines and the execution of due diligences. The process ensures an adequate assessment of the targets and therefore minimizes the risk of a sub-optimal acquisitions. This risk can be minimized by the implementation of specific contractual conditions (such as warranties, indemnifications...).</p> <p>The evaluation of potential acquisition is usually supported by external advisors through due diligence process.</p> <p>In order to reinforce worldwide business relationships between EssilorLuxottica and its partners, the Group has:</p> <ul style="list-style-type: none"> <li>• designated representatives in the boards of its partners;</li> <li>• implemented corporate internal controls;</li> <li>• performed internal audit activities.</li> </ul> |

(1) "GAFA" stands for Google, Amazon, Facebook, and Apple, the acronym for the four biggest tech firms in the US.

(2) "BATX" stands for Baidu, Alibaba, Tencent, Xiaomi, the acronym for the four biggest tech firms in China.



| Risk factors   | Risk details   | Mitigation measures  |
|--|--|--|
| <p><b>Licensing</b></p> <p>Severity: ▲<br/>Impact: ●<br/>Likelihood: ■</p> | <p>EssilorLuxottica through its subsidiaries has entered into trademarks license agreements (29 license agreements) related to manufacturing and distribution of prescription frames, lenses and sunglasses under designer brands, including Chanel, Prada, Armani, Versace, Valentino, etc. These license agreements typically have terms of between four and ten years and may contain options for renewal for additional periods and require them to make guaranteed and contingent royalty payments to the licensor.</p> <p>When these licenses expire, it is essential for the Company to maintain and negotiate favorable new agreements with leading designers in the fashion and luxury goods industries. The loss of licensing contracts or our inability to negotiate new agreements at favorable terms may have a major material impact on growth prospects and financial results due to consequences such as reduction in sales or an increase in advertising costs and royalty payments to licensors. EssilorLuxottica is also facing an increasing trend related to the internalization of manufacturing and distribution of prescription frames and sunglasses by some large luxury groups. EssilorLuxottica license partners regularly carry out sustainability audits to ensure that the Group meets their CSR requirements.</p> <p>For more information, see Sections 4.1.3 and 4.3.3.2 of this Universal Registration Document.</p> | <p>EssilorLuxottica manages licensed brands with several clients, avoiding concentration on few licenses. The Company attractiveness may allow it to expand its clients' portfolio to pursue continuous growth and to compensate possible loss of clients/license agreements. The impacts of the risk deriving from the internalization trend is limited by virtue of the differentiation in the licensed brands portfolio: as of December 2019, no single license agreement represented greater than 5% of total sales. EssilorLuxottica has a strict policy of managing CSR topics (for more information, see Sections 4.1.3 and 4.3.3.2 of this Universal Registration Document) and has various means to enforce these rules: Code of Ethics, internal code of conducts, internal audits, specific programs for the responsible management of the supply chain, etc.</p> |

## Financial risks

| Risk factors   | Risk details  | Mitigation measures   |
|--|---|---|
| <p><b>Currency risk</b></p> <p>Severity: ▲<br/>Impact: ●<br/>Likelihood: ■■</p>    | <p>As EssilorLuxottica operates all over the world, conducting business in several currencies, the Group results may be materially affected by foreign exchange fluctuations.</p> <p>The primary exchange rate to which the Group is exposed is the EUR/USD parity, as 50% of sales are in USD and 70% of the EBITDA is USD dependent. Around 80% of EssilorLuxottica sales are performed in foreign currencies (mostly USD, AUD, BRL, GBP, CNY, etc.), impacting significantly the volatility of sales of the Group.</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p>  | <p>EssilorLuxottica seeks to limit currency risk exposure with natural hedges and will only use financial derivatives to offset its residual transactional exposure. These financial derivatives are entered into solely to hedge currency risks arising on business and financing operations.</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p>   |
| <p><b>Financial markets</b></p> <p>Severity: ▲<br/>Impact: ●<br/>Likelihood: ■</p> | <p>Fluctuations in market interest rates, inflation rates and long-term overall economy growth rates in countries where the Company operates, may negatively impact EssilorLuxottica operational capabilities and market value.</p> <p>The Group is exposed to the risk of fluctuation in interest rates (main exposure is in EUR and USD and amounts to €4,361 million) which may impact its net financial expenses.</p> <p>The future execution of external growth strategy through M&amp;A operations, including ongoing acquisitions, may require borrowings which would increase EssilorLuxottica exposure to interest rate fluctuation.</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p>  | <p>The impact of interest rate fluctuations is limited due to the high percentage of indebtedness at a fixed rate (87%).</p> <p>To hedge interest rate risk on gross debt or optimize its cost of funding, EssilorLuxottica may use interest rate swaps from time to time. In this case, financial income and expenses relating to interest rate derivatives are recognized in the income statement in the same period as the hedged item.</p> <p>The short term investment maintained by the Group to ensure its liquidity are floating rate denominated .</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p>  |
| <p><b>Credit</b></p> <p>Severity: ▲<br/>Impact: ●<br/>Likelihood: ■</p>            | <p><b>Financial counterparties:</b></p> <p>The Group is exposed to financial counterpart risk, <i>i.e.</i>, the risk that a bank defaults on its contractual obligations (short term investment, hedge or credit facility), which would result in a financial loss for the Group.</p> <p>Default by a counterpart may result in loss in value (the case of non-payment of a financial asset) or liquidity (the case of inability to draw on an unused line of credit).</p> <p><b>Commercial counterparties:</b></p> <p>The Group is exposed to late payments or even default from some of its clients. Exposure to credit risk is greater in some regions where the Company operates, such as India, META (Middle-East, Turkey &amp; Africa) or LATAM.</p> <p>The Group does not have a significant concentration of credit risk. As of December 31, 2019, non-provisioned outstanding trade receivables due amount to €293 million (€310 million at the end of 2018).</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p> | <p><b>Financial counterparties:</b></p> <p>In order to limit the risk, the Group mainly deals with top-tier banks, while pursuing diversification. Available cash is mainly invested with the purpose of meeting the criteria of Cash and Cash Equivalent classification as per the strategy of the Group.</p> <p>The Group enters into derivatives transactions under various master agreements, which contain clauses for the offsetting of amounts payable and receivable only on the occurrence of future events such as a default or other credit event by one of the contracting parties. Since the Group does not have any currently legally enforceable right to offset recognized amounts, the mentioned agreements do not meet the criteria of offsetting in the statements of financial position.</p> <p>To further mitigate this risk, EssilorLuxottica applies a strict policy of diversification of its banking counterparties, in order to avoid significant individual exposure. As such its largest financial counterparty holds 15% of the liquidity total (with a BBB rating).</p> <p><b>Commercial counterparties:</b></p> <p>The credit risk is managed locally and monitored centrally by the Group. There are proper procedures in place to ensure that the sales of products and services are made to reliable customers based on their financial position as well as past experience. Credit limits are defined according to thresholds that take into</p> |

| Risk factors   | Risk details  | Mitigation measures   |
|--|---|---|
|  |   | <p>consideration internal and external evaluation of the customer's reliability. The utilization of credit limits is regularly monitored through automated controls.</p> <p>The Group's exposure to non-provisioned trade receivables is naturally limited by the high number of countries in which it operates (hence mitigating the consequences of a national economy collapsing) and the number of customers served (hence avoiding any significant stand-alone exposures to individual customers).</p> <p>Concerning loans allocated to private customers, these operations are carried out in adocumented framework. In addition, EssilorLuxottica never intervenes alone in this type of arrangement and systematically requires the presence of the client in the financial arrangement.</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p> |
| <p><b>Liquidity</b></p> <p>Severity: ▲</p> <p>Impact: ●</p> <p>Likelihood: ■</p> | <p>The Group may be exposed to the risk that its liquidity sources may be insufficient to cover its financing needs to support its growth target (e.g. external growth related to acquisition). However, the risk is limited given the high cash flow generation level and the solid credit ratings of the Group. As of December 2019, the Group has €5,201 million of committed credit facilities with leading banks.</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p> | <p>EssilorLuxottica operates to have continuous high liquidity to ensure its independence and growth. The funding 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.</p> <p>To ensure consistent management and success in obtaining optimal conditions on the market from the most robust financial institutions, the funding for the whole Group is ensured by the central Treasury department, which subsequently takes on the responsibility of the various entities refinancing.</p> <p>In specific situations, due to local regulations, some entities may be required to realize their own refinancing.</p> <p>For more information, see Note 29 to the Consolidated Financial Statements, in Section 3.4 of this Universal Registration Document.</p>                           |

## Operational risks

| Risk factors  | Risk details  | Mitigation measures   |
|---|---|---|
| <p><b>Business interruption</b></p> <p>Severity: ▲▲▲<br/>Impact: ●●●<br/>Likelihood: ■■</p> | <p>EssilorLuxottica relies on a complex production and logistics network (spread across Northern America, Latin America, Europe, Africa, and Asia) designed to manufacture and handle flows between mass production plants (c. 40), suppliers (c. 40,000), laboratories (c. 450), transporters, distribution centers (c. 20), retail stores (c. 10,000) and an extremely large number of possible product combinations.</p> <p>EssilorLuxottica’s business model is progressively changing to enhance vertical integration and interconnection.</p> <p>While insourcing and increasing interconnectivity makes material flow management more efficient, it also implies a wider scope to be taken in consideration within the Business Continuity Plans (BCPs). As the level of the production has been relatively stable for a long time, any fluctuation may require reviewing and adapting current BCPs.</p> <p>Delays or interruptions could occur due to both internal and external factors, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Political/geopolitical risks in some exposed areas. EssilorLuxottica operates in countries where political, governmental or social instabilities may affect its business. As mentioned in the “political &amp; social environment” risk: instabilities in countries such as Hong Kong or Chile may disrupt the normal business flow; pandemic might also expose the company to difficulties.</li> <li>• Climate change. EssilorLuxottica has to face and quickly adapt to physical risks or radical systemic changes linked to climate change (for more information, see Section 4.3.2.2 of this Universal Registration Document). EssilorLuxottica operates in countries that are exposed to adverse natural events (e.g. factories in the Philippines are in an area affected by typhoons every year, which can force the factories to stop operating for a few days).</li> <li>• Limited access to resources. EssilorLuxottica might not have enough access to good quality &amp; quantity of resources (water, energy, raw materials) and thus could be vulnerable to production decrease, interruptions and price increase.</li> <li>• Facility incidents/issues. EssilorLuxottica may be affected by events (e.g. such as fire, explosions, pandemic outbreaks...) affecting, among others, its facilities.</li> <li>• Single-sourced suppliers. EssilorLuxottica relies, for few specific products and material, on single-sourced suppliers. Possible issues experienced by such counterparties may lead to business interruption.</li> <li>• IT systems failure. EssilorLuxottica is exposed to the risk of IT system failure due to relevant complexity of the Group’s IT framework. Refer to “IT system and data management”</li> </ul> | <p>EssilorLuxottica flexible supply chain is crucial to mitigate business continuity risks. The Company is progressively improving its Business Continuity Plans, by implementing:</p> <ul style="list-style-type: none"> <li>• an assessment of risks and resilience to possible natural disaster the most relevant production sites are exposed to;</li> <li>• projections and continuous monitoring earthquake-resistance of facilities located in regions at risk of earthquake (e.g. Japan, Thailand, Philippines and New Zealand);</li> <li>• local loss prevention plans at its facilities (including monitoring of fire extinguishing systems and back-up power generators);</li> <li>• external audits performed by insurance companies;</li> <li>• periodic simulations of IT systems failure to test efficiency and effectiveness of Disaster Recovery Plan;</li> <li>• increased availability of back up warehouses;</li> <li>• shifts of production from one site to another through the standardization of production processes.</li> <li>• specific pandemic related measures (Deployment of safety measures, adaptation of cost base and working capital requirements, definition of alternative supply roads and leveraging the network of production sites; strengthening of its e-commerce activities and networks).</li> </ul> <p>EssilorLuxottica is continuously working to reduce dependency on critical single sources and strengthening business partnerships and control over critical suppliers.</p> |



| Risk factors  | Risk details  | Mitigation measures  |
|---|---|--|
|   | <p>risk for further details.</p> <p>The failure to maintain an efficient distribution and production network or a significant interruption in company business may adversely affect Company business, operating results and financial condition.</p>  |  |
| <p><b>IT system and data management</b></p> <p>Severity: ▲▲<br/>Impact: ●●<br/>Likelihood: ■■</p> | <p>EssilorLuxottica’s IT framework organization is composed of multiple systems as a result of the complexity of the governance and the organization.</p> <p>The vulnerability and obsolescence of IT systems (hardware and software) could have significant consequences for the Group in terms of business continuity and efforts to ensure compliance with constantly evolving security and privacy law requirements, especially in times when cyber security threats are high.</p> <p>The multiplicity and partial integration of IT systems within the combined Group could increase the complexity of business processes (e.g. possible difficulties in accessing, collecting and managing available data) and related internal controls in the subsidiaries (e.g. thereby increasing the Company’s exposure to various risks, including internal and external fraud).</p> <p>The transition phase towards a more united and centralized IT system will require the implementation of a structured and complex process, which could lead to additional risks in terms of data security, availability and integrity.</p> <p>The complexity of the Group’s IT system results in greater exposure to the risks associated with cyberattacks. These can have significant and multiple effects: leak, loss, theft of personal or strategic data, systems failures; incapacity to perform daily operations.</p> <p>Although the Group is investing significant amounts in the maintenance and protection of its information systems, particularly in the face of growing threats in the field of cybercrime, the cyber risk cannot be completely avoided. Recently, the Group was negatively affected by a large-scale attack linked to a virus, unknown from the network supervision tools used.</p> | <p>EssilorLuxottica is developing a multiyear IT system rationalization and integration plan aimed at integrating all IT systems across the Group. A pilot project for migration on a single IT platform is in progress in certain geographies.</p> <p>IT Disaster Recovery Plans are in place.</p> <p>The Company has defined and is progressively implementing a minimum-security baseline for all IT systems.</p> <p>To ensure a homogeneous IT security management system, EssilorLuxottica has established a Security Operations Centre aimed at analyzing IT flows across the Company to monitor and anticipate potential issues or anomalies.</p> <p>EssilorLuxottica strives to enhance the security of its infrastructure, websites and networks. Infrastructure monitoring and management is carried out constantly. In order to assess whether the security level is sufficient, IT and security audits are performed, which gives the Group a good view of the reliability of its IT system. Devices are in place to protect against cyber-attacks by known viruses.</p> |

## Compliance & litigation risks

| Risk factors  | Risk details  | Mitigation measures   |
|---|---|---|
| <p><b>Antitrust</b></p> <p>Severity: ▲▲</p> <p>Impact: ●●</p> <p>Likelihood: ■■</p> | <p>Given its size after the combination and its international presence, EssilorLuxottica can be exposed to potential antitrust issues.</p> <p>The Group is currently exposed to ongoing assessment regarding compliance with the remedies imposed by China and Turkey in connection with the approval of the combination between Essilor and Luxottica.</p> <p>Furthermore, EssilorLuxottica's market position also exposes the Group to greater scrutiny by relevant stakeholders and antitrust authorities, limiting possible commercial initiatives and M&amp;A transactions. For instance, the Group announced in July 2019 the acquisition of the Dutch company GrandVision: this transaction is facing an antitrust review in eight jurisdictions, including the European Union. The deadline for obtaining these regulatory green lights has been set for July 30, 2021. If EssilorLuxottica does not succeed, it will have to repay €400 million to HAL Investments as compensation.</p> <p>Any sanctions, fines or restrictions for violations of antitrust regulations or noncompliance with applicable remedies, whether actual or alleged, may materially adversely affect Group business, reputation, operating results, financial conditions and cash flow.</p> | <p>In accordance with antitrust or competition laws and regulations, EssilorLuxottica promotes integrity and fair competition among all parties in achieving challenging objectives and new goals, being committed to respecting all other parties, including competitors.</p> <p>EssilorLuxottica has defined (and is progressively updating in different regions, including EU and US) a global Antitrust defining principles for conducting business in compliance with antitrust regulations.</p> <p>In order to ensure that M&amp;A operations are compliant with antitrust laws and regulations, EssilorLuxottica performs preventive antitrust-related investigations with the support of multiple specialized international advisors.</p> |



**Risk factors**

**Risk details**

**Mitigation measures**

**Data privacy**

Severity: ▲▲  
 Impact: ●●  
 Likelihood: ■■

Relying on a complex information technology systems framework, EssilorLuxottica operates in countries with various and continuously evolving regulations on data protection. The risk of exposure is enhanced by the complexity of the personal data managed in EssilorLuxottica and the data sharing process within the Group. Unintentional disclosure or unauthorized use of customer personal data may be caused by:

- IT system failures and cyber security breaches;
- inadequate storage and management of personal data and related authorization of use (e.g. as a consequence of extra system collection of authorizations for personal data treatment provided by customers in some regions such as Latin America and South-East Asia);
- network disruptions.

Despite the Group’s GDPR compliance efforts, it is not precluded that the Group may be subject to inspections by the competent authorities, possibly leading to penalties and interruption of activities violating GDPR requirements. In addition, new regulations or changes in data protection laws are planned in a significant number of countries where the Company operates. Here is a list of the major ones:

- in the United States, the California Consumer Privacy Act (CCPA) became effective in January 2020 and requires data collectors to ensure that California citizens can object to their data being sold or distributed, and provides citizens the right to request data deletion (as permissible by applicable state and federal law);
- on February 2019, China's National Information Security Standardization Technical Committee proposed to revise the current national standard, that was implemented in 2017;
- the General Data Privacy Law (LGPD) in Brazil which includes broad extraterritorial application and vast fines (up to 2% of the company's previous year global revenue);
- the Law 19.628 in Chile which requires full disclosure of the data's purpose and disclosure prior to the collection.

Moreover, following Brexit, UK will rely only on its own data protection regulation.

The Group regularly devotes resources to the protection of its clients and employee’s data privacy. EssilorLuxottica has a Data Protection organization at each operating company level and centrally monitors the evolving data protection regulations. The Company has implemented a global privacy and security data program, including:

- definition of policies and procedures;
- definition of intercompany data sharing agreements;
- data mapping and data anonymization;
- third parties’ management (through definition of data protection contractual clauses, appointment of data processors and definition of agreements between the Group and foreign affiliates);
- security and response measures;
- training programs.

| Risk factors  | Risk details   | Mitigation measures   |
|---|--|---|
| <p><b>Corporate compliance &amp; reporting (including sustainability)</b></p> <p>Severity: ▲<br/>Impact: ●●<br/>Likelihood: ■</p> | <p>EssilorLuxottica is subject to a significant number of local, national and international laws and regulations, at a time when the global regulatory environment is becoming increasingly complex.</p> <p>These laws and regulations, including but not limited to labor laws, anti-corruption laws, sourcing restrictions on materials, and health, safety and environmental regulations may vary from country to country and are continuously evolving.</p> <p>Due to the Group's, complex governance system and international footprint, EssilorLuxottica may encounter difficulties in the day-to-day monitoring of local laws and regulations.</p> <p>The changing regulatory scenarios that may have impact on the Company business include: trade compliance, anti-corruption (Sapin 2 Act of 2016 on transparency, fight against corruption and modernization of economic life), duty of vigilance, human rights regulations (e.g. Duty of Care, UK Modern Slavery Act), environmental regulations (e.g. hazardous waste management regulation in China), and healthcare regulations (US Patient Protection and Affordable Care Act). Failure to comply with such laws and regulations could result in criminal and/or civil liabilities being imposed on responsible individuals and, in certain cases, on the Company. The scope of applicable laws and regulations is also evolving, implying an increasing responsibility of EssilorLuxottica over its value chain and third parties including joint venture partners, suppliers and distributors. Additionally, violations of such laws and regulations by some of the Group's suppliers or distributors may expose EssilorLuxottica to relevant reputational damages.</p> <p>The international footprint of the combined Group, its complex governance system and evolving regulations may render it increasingly difficult to manage, update and monitor a strong and effective internal control system, thereby increasing the Company's exposure to various risks, including e.g. internal and external fraud, process inefficiencies, IT security risks and data breaches.</p> <p>For more information on corruption, human rights, health and safety and environmental subjects, see Section 4.3.3.3 of this Universal Registration Document.</p> | <p>EssilorLuxottica has implemented a framework designed to facilitate compliance with applicable laws and regulations. The framework includes, among other features:</p> <ul style="list-style-type: none"> <li>• regulatory monitoring central and local level;</li> <li>• compliance awareness and training programs;</li> <li>• policies and procedures;</li> <li>• regular controls and audits.</li> </ul> <p>EssilorLuxottica is committed to continuously develop and strengthen its internal control system worldwide (including without limitation by continuously improve its anti-corruption internal controls, review its operational and approval workflows and identify high-risk processes to prioritize action plans).</p> <p>Additionally, EssilorLuxottica has moreover established an Ethics Committee at Board of Directors level and implemented a whistleblowing system.</p> <p>In order to comply with international standards and local employment laws, EssilorLuxottica requires its suppliers to operate in compliance with the principles defined in its Code of Ethics. Besides, the Group relies on the standards that each Essilor and Luxottica has defined and requests suppliers to adhere in the areas of ethics, labor, health, safety and the environment. In each Company, supplier's compliance with these ethical principles and environmental and social responsibilities is audited by a qualified third party. There are training initiatives at different levels to ensure there is alignment among suppliers on the standards.</p> <p>EssilorLuxottica has implemented several actions to ensure the compliance with evolving regulations such as Anti-Corruption, Human rights and Environmental regulations.</p> <p>For more information, see Section 4.3.3.3 of this Universal Registration Document.</p> |

| Risk factors   | Risk details  | Mitigation measures   |
|--|---|---|
| <p><b>Material claims and litigation, proceedings, arbitration</b></p> <p>Severity: ▲<br/>Impact: ●●<br/>Likelihood: ■</p> | <p>In the ordinary course of its business, the Group is regularly a party to legal proceedings, claims, lawsuits, arbitrations, investigations and governmental and administrative proceedings and litigation, some of which are or may be material. Any current or future material litigation may have significantly negative consequences on the financial situation and reputation of the Group.</p> <p><b>Fraud Essilor Manufacturing Thailand Co.</b><br/>During the second half of 2019, very significant fraudulent financial activities occurred at Essilor Manufacturing Thailand Co. (EMTC). The maximal financial exposure amounts €185 million, before insurance, pending litigation and anticipated recovery. Many civil and criminal actions have been, and many more will be, taken in Thailand and many other jurisdictions in order to maximize the recovery of misappropriated funds.</p> <p><b>Alleged anti-competitive practices</b><br/>In July 2014, the French competition authority's investigation department made unannounced visits to selected Essilor entities in France and other actors in the ophthalmic lens industry involved in the online sale of ophthalmic lenses. The enquiry is ongoing.<br/>In 2015, the French competition authority's investigation department issued a statement of objections ("First SoO") against Luxottica, its subsidiary Alain Mikli and other competitors alleging certain anti-competitive practices. In 2017, the French competition authority determined that preliminary investigation was insufficient and sent the case back to the investigative department.<br/>On April 19, 2019, Luxottica and certain subsidiaries received a new statement of objection ("Second SoO") as a supplement to the First SoO. On March 2, 2020, a <i>Rapport</i> has been served taking position on the observations submitted by Luxottica in response to the SoOs. Luxottica challenges the conclusions of the First SoO and the Second SoO as well as the <i>Rapport</i> and, as of today, its management determined the risk of a negative outcome as not probable, with no basis to develop an estimate of the potential exposure.<br/>The evaluation of the risk profile for the Group may be updated, as necessary, based on the analysis of the contents and merits of further actions that the French competition authority may take in the next few months, including in connection with the issuance of a final report on the above statements of objections.</p> <p><b>Investigations</b><br/>In 2016, the US Department of Justice and the Insurance Commission of the State of California questioned Essilor of America regarding certain promotional activities. Essilor of America continues to work with the authorities in connection with this ongoing investigation.</p> <p><b>Class actions</b><br/>Certain US subsidiaries of EssilorLuxottica are defendants in class actions and putative class actions brought before US Federal and State</p> | <p>EssilorLuxottica addresses all claims, arbitrations and litigation proceedings through specialized resources (internal and external).<br/>EssilorLuxottica evaluates risks related to actual lawsuits, arbitrations, investigations and governmental and administrative proceedings and litigation and books provisions in accordance with applicable accounting standards.<br/>Such provisions amounted for EssilorLuxottica to €172 million as of December 31, 2019, compared to €174 million as of December 31, 2018.</p> |

courts alleging suppression of competition, false and misleading advertising, misleading representations, warranty claims and unlawful control of optometrists. The relevant subsidiaries dispute the merits of all these actions.

**Taxation**

Severity: ▲  
Impact: ●●  
Likelihood: ■

Due to its international footprint, EssilorLuxottica is exposed to various local tax regulations. Its future effective tax rate could be affected by changes in the mix of earnings in countries with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. Any of these changes and/or failure to observe applicable regulations may result in need for tax adjustments, fines and penalties, with possible material adverse effect on the Group profitability. Relevant tax authorities in countries where EssilorLuxottica operates are regularly reviewing its income tax returns (with Europe and United States being the most relevant jurisdictions in terms of revenues). Currently, some of the Group companies are under examination by various tax authorities. There can be no assurance that the outcomes of the current ongoing examinations and possible future examinations will not materially adversely affect the Group business, results of operations, financial condition and prospects.

The EssilorLuxottica Group Tax Teams oversees ensuring compliance with applicable tax laws and regulations.

- Group Tax Department is also in charge of:
- advising subsidiaries on tax matters;
  - providing guidance on the transfer pricing approach;
  - maintaining Group tax policies.

EssilorLuxottica is continuously improving its internal control system, including financial controls on tax management processes.

Routine assessment of the likelihood of adverse outcomes are also performed to determine the adequacy of EssilorLuxottica's provision for tax risks.

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

## 1.9 Main characteristics of the risk management and internal control systems implemented by the Company for the preparation and processing of accounting and financial information

1

EssilorLuxottica relies on the combination of the existing internal control systems of Essilor and Luxottica which are consistent with international best practices such as the COSO (Committee Of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework and in line with the requirements imposed on

companies listed on the French Stock exchange. The integration of the internal control systems is currently ongoing, considering the specific nature of risks of the combined Group (see information on the risk factors in Section 1.8).

### 1.9.1 The Company risk management process

EssilorLuxottica has developed and adopted a new Risk Model. The Model, which clusters risks into five categories (external, strategic, operational, financial and compliance), defines an assessment methodology based on the impact and the likelihood of each risk and includes the assessment of risks related to sustainability performance (so called “CSR risks”) discussed in Section 4 of this Universal Registration Document.

In 2019, EssilorLuxottica has performed a risk assessment, based on the new Risk Model:

- identification and analysis of risks through interviews and questionnaires;

- assessment of impact and likelihood, on a residual basis, considering all mitigating measures adopted by EssilorLuxottica;
- prioritization aimed at identifying risks and implementing action plans to minimize those risks.

The risk assessment has been performed globally, incorporating all geographical areas, legal entities and activities of the Group. EssilorLuxottica identified 21 relevant risk factors to which the Company may be exposed. For each risk factor, the overall severity has been calculated considering both the likelihood of occurrence and potential impact. Risks presented are clustered by risk categories.

### 1.9.2 The Company’s internal control objectives

The risk management of EssilorLuxottica and the internal control frameworks implemented in Essilor and Luxottica are designed to:

- ensure that management actions, execution of transactions, and staff behavior fall within the scope defined by the guidelines applicable to activities undertaken by the relevant corporate bodies. This includes compliance with applicable laws and regulations, as well as values, standards and internal rules of the Group;
- verify the quality and accuracy of all accounting, financial, legal and management information reported

to the relevant corporate bodies, regulatory or supervisory authorities, shareholders or the public;

- cover all the policies and procedures implemented by the Group that provide reasonable assurance that business is managed efficiently and effectively;
- 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.

### 1.9.3 Organization of internal controls

The internal control system of EssilorLuxottica, leveraging the ones implemented at Essilor and Luxottica levels, is based on:

- clear definitions of responsibilities, backed by the necessary resources and skills, appropriate information systems, procedures and processes, tools and practices;
- internal communication of all the information needed for each individual to fulfill his or her responsibilities;
- systems that aim to identify and analyze the main identifiable risks 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 them from fulfilling their respective objectives;
- supervision of the internal control and risk management systems and regular reviews of their operations.

Since the fraudulent financial activity discovered in December 2019 at one of its plants in Thailand, Essilor International has implemented a wide range of corrective measures under the supervision of the EssilorLuxottica Board of Directors (refer to Section 3.2.2 of this Universal Registration Document, *Subsequent events*).

## Presentation of EssilorLuxottica

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

Additional measures have been initiated and are in the process of being implemented to enhance the Group's control environment. This has been defined as a priority and will be monitored as such.

### 1.9.3.1 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.

The risk management and control framework in place at EssilorLuxottica can be described as follows:

- the operational people responsible for transactions at the entity level
- the functional departments in charge of specific areas of activities (such as Treasury, Accounting and Consolidation, Forecasting, Tax...); and
- the Internal Audit department, which independently checks the effectiveness of controls and reports on them to the relevant functions and bodies.

Essilor and Luxottica periodically conduct self-assessment campaigns of the risk management and internal control system, also aimed at the continuous improvement of the systems themselves.

Specifically:

- Essilor's internal control department, has the responsibility over the self-assessment process of Essilor internal control (iCare).
  - The self-assessment performed by Essilor entities relies on the "Minimum Control Standards" guide which documents the 79 main controls that all Essilor entities must have in place. In addition, as part of the Year End closing process, the Internal Control Department is responsible for the Internal Representation Letter process, which discloses the compliance of all the Essilor consolidated entities with the accounting principles of Essilor group in the context of preparation and production of financial statements.
- Luxottica has defined the objectives of its internal control system over financial reporting consistently with the obligations set forth in Italian laws and regulations applicable to listed companies, to which Luxottica has been subject till March 2019.
  - With respect to Luxottica and its main subsidiaries, controls were designed and their effectiveness was assessed through both a self-assessment questionnaire and specific "risk and control matrices". In addition, all Luxottica subsidiaries must compile a Director's Attestation over the preparation of the reporting package in accordance with the International Financial Reporting Standards and the Luxottica Group Accounting policies.

A set of corporate policies and procedures have been implemented at EssilorLuxottica level. Other policies and procedures are also implemented at Essilor and Luxottica levels for various business areas and processes, including purchasing, communication, finance, tax reporting, legal affairs, operations, R&D and human resources.

### Group Accounting and Consolidation

Under the responsibility of the Co-Chief Financial Officers of EssilorLuxottica, a consolidation team has been put in place for the preparation of the consolidated financial statements of EssilorLuxottica (the "Group consolidation team"). Additionally, both Essilor and Luxottica Finance Departments have their own consolidation teams responsible for the consolidation of the results of the entities pertaining to their respective perimeters (the "Sub consolidation teams") and to support regional Finance Departments. The Group consolidation team issues instructions to the Sub consolidation teams in order to ensure a consistent and reliable consolidation process; in addition there is an open communication line among the consolidation teams and the local Finance Departments which allows the understanding and analysis of the financial data and enables consistency in the accounting approaches with respect to complex transactions and/or implementation of new accounting standards.

Subsidiaries adopt the accounting and management policies communicated by the Group consolidation team and submit their financial information through a consolidation software that, in turn, enables the consolidation process at the sub – consolidation level and at the Group level.

EssilorLuxottica consolidated financial statements are prepared in accordance with IFRS as adopted by the European Union, based on reporting packages of each subsidiary in the two sub groups (Essilor and Luxottica). The statutory financial statements of EssilorLuxottica are prepared by a dedicated team in accordance with the French accounting standards.

The yearly consolidated and statutory financial statements are audited by the Statutory Auditors who apply the standards of the profession.

### Group Treasury

Under the coordination of the Group Co-CFOs, Treasury Departments resources oversee the funding, risk hedging and asset management of the Group, also providing general advice and assistance services to Group subsidiaries for these duties and cash management.

Short, medium and long-term financing are managed in a centralized manner by the parent company, using bonds, private placements, bank loans, medium-term credit facilities and commercial paper. The financing needs of subsidiaries are mainly funded intercompany.

Cash Surpluses are invested in short-term instruments (bank deposits and money market funds mainly). EssilorLuxottica Investments are approved by EssilorLuxottica Co-CFOs and processed by Essilor International treasury team.

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. The companies that are exposed to currency risk are hedged with the support of the Treasury Departments resources.

The interest rate management policy is to balance the cost of financing and the protection of the Group against adverse changes in interest rates. Since Group financing is centralized at the parent company, interest rate risk management is also centralized there.

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

### Group Forecasting

Under the responsibilities of the existing EssilorLuxottica finance organization (Co-CFOs), the Group Forecasting function (i) defines and monitors the indicators for checking that the Group is operating in accordance with its targets, (ii) measures the contribution of the Group's various operating divisions, (iii) performs consistency tests on management reporting data to check the overall reliability of the applicable information, working in cooperation with the business analysis units embedded in each operating division. The Group Forecasting function identifies differences compared with targets set, risks and opportunities, provides decision-making guidance, coordinates projection phases (forecasts and budget). The Group Forecasting function is supported by business analysis departments at both Essilor and Luxottica levels.

### Group Tax

The EssilorLuxottica Group Tax Department is in charge of ensuring compliance with applicable tax laws and regulations. It also advises subsidiaries on tax matters, gives guidance on the transfer pricing approach, defines Group tax policies and suggests adequate tax solutions to the Group's operational requirements.

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

The production of the accounting and financial information is ensured at the EssilorLuxottica Group level by the following processes:

- (i) quarterly accounting closing processes performed at Group level, based on the closing processes implemented at each sub group level in accordance with the instructions and timelines communicated by the Group consolidation team;
- (ii) the implementation of general Group procedures to guarantee compliance with the applicable rules (e.g. IFRS and AMF guidelines);
- (iii) the existence of specific guidelines and procedures followed at Group level;
- (iv) the presentation of financial information, at each period-end preceding the publication, to the Audit and Risk Committee.

Data related to the income statement, the balance sheet and the cash-flow statement are prepared quarterly. The Group consolidation team quarterly checks the figures entered by the Sub consolidation teams and ensures that they comply with applicable policies.

Even though they are not an integral part of the internal control procedures, the Statutory Auditors take into consideration 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.

## 1.9.4 Internal Audit department

The role of the Internal Audit department in EssilorLuxottica is to evaluate the functioning of the risk management and internal control mechanisms, with a geographical organization counting a total combined staff of 58 people at December 31, 2019.

The Head of Internal Audit in EssilorLuxottica regularly report to the Audit and Risk Committee on the status of the audits, the most significant issues and the implementation of the related action plans. Additionally, the Audit and Risk Committee approved the 2020 audit plan for EssilorLuxottica activities.

The Internal Audit department is not responsible for any operational area and has full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement. If the Head of Internal Audit determines that independence or objectivity of the Internal Audit department may be impaired, the details of impairment will be disclosed to appropriate parties.

The Internal Audit department has a specific budget, assigned in accordance with the activities it is required to perform in order to achieve the objectives defined in the approved Audit Plan.

internal audit activities are carried out according to the approved audit plan and applying a common methodology in all geographies. For each audit, a report is prepared and distributed to the relevant stakeholders. During 2019 a specific project has been carried out to harmonize the internal audit methodologies implemented by Essilor and Luxottica Internal Audit departments.

The results of the internal audit activities are periodically reported to the EssilorLuxottica Audit and Risk Committee and to senior management, allowing the companies to identify areas for improvement of the Internal Control System for which specific action plans are agreed to further strengthen the foundation of the system itself. The implementation of the recommendations formulated by the internal audit activities is the responsibility of the entity being audited and it is periodically monitored to ensure that the action plans agreed upon are carried out within the specified time frame.

MBB



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eyewear

Millie's Rules To Vogue

Keep it Real.\*

[vogue-eyewear.com](http://vogue-eyewear.com)

\* LES RÈGLES DE MILLIE POUR ÊTRE EN VOGUE - RESTE TOI-MÊME - PHOTOGRAPHIE RETOUCHÉE

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## CHAPTER 2

# REPORT ON CORPORATE GOVERNANCE

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|            |   |           |            |  |            |
|------------|---|-----------|------------|--|------------|
| <b>2.1</b> | <b>INFORMATION ON CORPORATE GOVERNANCE</b>  | <b>73</b> | <b>2.3</b> | <b>COMPENSATION OF CORPORATE OFFICERS</b>  | <b>103</b> |
| 2.1.1      | Composition of the Board of Directors   | 73        | 2.3.1      | Compensation policy for corporate officers   | 103        |
| 2.1.2      | Preparation and organization of the work of the Board of Directors  | 85        | 2.3.2      | 2019 compensation of corporate officers  | 113        |
| 2.1.3      | Organization of the powers of management and control of the Company and powers of the Chief Executive Officer | 97        | 2.3.3      | AFEP-MEDEF compensation and benefits tables  | 121        |
| <b>2.2</b> | <b>SPECIAL PROCEDURES FOR SHAREHOLDER PARTICIPATION IN SHAREHOLDERS' MEETINGS</b>                             | <b>98</b> | 2.3.4      | Compensation paid in 2019 or awarded in respect of 2019 to Corporate Officers ("Say on Pay" or "Ex post" vote) | 128        |
| 2.2.1      | Ordinary Shareholders' Meetings (Article 24)  | 98        | 2.3.5      | 2020 Compensation policy for the Corporate Officers ("Say on Pay" or "Ex-ante" vote)                           | 134        |
| 2.2.2      | Extraordinary Shareholders' Meetings (Article 25)   | 98        | 2.3.6      | Summary statement of transactions in Company securities carried out by corporate officers in 2019              | 136        |
| 2.2.3      | Delegations and authorizations granted by the Shareholders' Meeting to the Board of Directors                 | 99        | <b>2.4</b> | <b>APPENDIX: SUMMARY TABLE OF RECOMMENDATIONS OF THE AFEP-MEDEF CODE THAT HAVE NOT BEEN APPLIED</b>            | <b>138</b> |
| 2.2.4      | Factors that may have an impact in the event of a public offering   | 100       | <b>2.5</b> | <b>APPENDIX: LIST OF OFFICES AND RESPONSIBILITIES</b>  | <b>141</b> |
|            |   |           | <b>2.6</b> | <b>STATUTORY AUDITORS' REPORT ON RELATED-PARTY AGREEMENTS</b>  | <b>158</b> |

## IN BRIEF

### Composition of the Board of Directors January 1, 2019 to March 30, 2020 <sup>(1)</sup>

**Leonardo DEL VECCHIO**, Executive Chairman  
**Hubert SAGNIÈRES**, Executive Vice-Chairman  
**Romolo BARDIN**, Non-Independent Director  
**Juliette FAVRE**, Director representing employee shareholders  
**Giovanni GIALLOMBARDO**, Non-Independent Director  
**Bernard HOURS\***, Independent Director (until May 12, 2019)  
**Annette MESSEMER\***, Independent Director  
**Lucia MORSELLI\***, Independent Director  
**Francesco MILLERI**, Non-Independent Director  
**Gianni MION\***, Independent Director  
**Léonel PEREIRA ASCENCAO**, Director representing employees  
**Olivier PÉCOUX**, Non-Independent Director (within the meaning of the Combination Agreement – see table on Section 2.4)  
**Sabrina PUCCI\***, Independent Director  
**Paul du SAILLANT**, Non-independent Director (from March 30, 2020)  
**Cristina SCOCCHIA\***, Independent Director  
**Laurent VACHEROT**, Non-Independent Director (from May 12, 2019 and until March 30, 2020)  
**Jeanette WONG\***, Independent Director  
**Delphine ZABLOCKI**, Director representing employees

(1) Date of the last change in the composition of the Board of Directors (see Section 3.2.2 of this Universal Registration Document).

\* For a summary table detailing each Director's compliance or non-compliance with the independence criteria of the AFEP- MEDEF Code for the fiscal year 2019; please refer to Section 2.1.1.3.

Pursuant to the Combination Agreement, EssilorLuxottica's governance structure was established once the Contribution was completed, namely October 1, 2018, based on the principles described in Section 2.1.1. This governance structure will apply until the date of the annual Shareholders' Meeting called in 2021 to approve the EssilorLuxottica's financial statements for the 2020 fiscal year (the "Initial term").

The EssilorLuxottica bylaws approved by the Shareholders' Meeting of May 11, 2017 entered into force on October 1, 2018, along with the Board of Directors' Internal Rules, a full version of which is available on the Company's website under Governance.

The parties to the Combination Agreement have confirmed that the employee shareholding culture will remain a core feature of EssilorLuxottica group. It is pointed out that, in April 2019, Essilor was awarded the 2019 "GEO Award for Best Use of Technology" organized by the Global Equity Organization (GEO). This award recognizes the digital solutions developed by the Group to promote employee shareholding.

### Special Committees

|  |   |
|--|---|
| <b>Audit and Risk Committee</b>                        | Chairman: Lucia Morselli<br>Members: Romolo Bardin, Annette Messemer, Olivier Pécoux  |
| <b>Nominations and Compensation Committee</b>          | Chairman: Olivier Pécoux<br>Members: Romolo Bardin, Bernard Hours (until May 12, 2019),<br>Annette Messemer (from May 12, 2019), Gianni Mion  |
| <b>Corporate Social Responsibility (CSR) Committee</b> | Chairman: Jeanette Wong<br>Members: Giovanni Giallombardo, Hubert Sagnières, Cristina Scocchia  |
| <b>Strategy Committee</b>                              | Chairman: Francesco Milleri<br>Members: Juliette Favre (from May 15, 2019),<br>Gianni Mion, Bernard Hours (until May 12, 2019),<br>Hubert Sagnières, Cristina Scocchia (from May 15, 2019),<br>Laurent Vacherot (from May 12, 2019 and until March 30, 2020),<br>Paul du Saillant (from March 30, 2020) |

The Report on Corporate Governance reported in the following sections has been reviewed by the Board of Directors of EssilorLuxottica on March 5, 2020. Nonetheless the reference to the date of the 2020 Annual Shareholder's Meeting has been updated to reflect its postponement from May 15, 2020 to June 25, 2020, as decided on March 30, 2020 by the Board of Directors (see Section 3.2.2 of this Universal Registration Document).

## 2.1 Information on Corporate Governance

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

- 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, 2019;
- the AFEP-MEDEF Code <sup>(1)</sup> recommendations 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 2.2.3);
- the information that may have an impact in the event of a public offering (Section 2.2.4);
- compensation for Corporate Officers and specifically the compensation policy applicable to the Executive Corporate Officers and the corresponding resolution submitted for approval by the Shareholders' Meeting of June 25, 2020 (Section 2.3).

This report was presented to the Nominations and Compensation Committee at its meeting of February 27, 2020 before being submitted to the Board of Directors for approval on March 5, 2020.

This report reflects the governance principles as described in the Combination Agreement. These principles will apply up to the date of the annual Shareholders' Meeting called in 2021 to approve EssilorLuxottica's financial statements for the 2020 fiscal year (the "Initial Term").

### 2.1.1 Composition of the Board of Directors

#### Principles relating to the composition of the Board of Directors of EssilorLuxottica

The Board of Directors of EssilorLuxottica is composed as follows:

- (i) Luxottica's current Executive Chairman, Leonardo Del Vecchio, was appointed Executive Chairman (*Président-Directeur Général*) of EssilorLuxottica (the "EssilorLuxottica Executive Chairman");
- (ii) Chairman and Chief Executive Officer of Essilor International (Compagnie Générale d'Optique) before October 1, 2018, Hubert Sagnières, was appointed Executive Vice-Chairman (*Vice-Président-Directeur Général Délégué*) of EssilorLuxottica (the "EssilorLuxottica Executive Vice-Chairman");
- (iii) the EssilorLuxottica Board of Directors is composed of sixteen members;
- (iv) eight members nominated by Essilor, comprising the EssilorLuxottica Executive Vice-Chairman, two employee representatives, one representative of Valoptec Association, three independent members from Essilor International (Compagnie Générale d'Optique)'s Board of Directors before October 1, 2018 and one non-independent member from Essilor International (SAS) Board of Directors (for more information on the independent qualification for the purpose of the Combination Agreement, please refer to the table included in the section "Compliance with AFEP-MEDEF Code"); and
- (v) eight members nominated by Delfin, comprising the EssilorLuxottica Executive Chairman, three representatives of Delfin and four independent members designated by Delfin after consultation with Essilor (unless these Directors are chosen from among the current members of Luxottica Board of Directors, in which case no consultation is required).

#### Two Executive Corporate Officers with the same powers

The EssilorLuxottica Executive Chairman has the same powers as the EssilorLuxottica Executive Vice-Chairman.

#### Impediments of executives or Directors during the Initial Term

If the EssilorLuxottica Executive Chairman and/or the EssilorLuxottica Executive Vice-Chairman is impeded or incapacitated, the Vice-Chairman of Luxottica shall act as the replacement of the Executive Chairman and the CEO of Essilor International (SAS) shall act as the replacement of the Executive Vice-Chairman of EssilorLuxottica.

If any Director of EssilorLuxottica is impeded or incapacitated, a meeting of the EssilorLuxottica Board of Directors shall be held as promptly as possible in order to appoint a successor (decided by the majority of the Directors appointed by Delfin or by Essilor, as the case may be, depending on the party to the Combination Agreement that had originally appointed the incapacitated Director). If the replacement is not possible without an EssilorLuxottica Shareholders' Meeting, the EssilorLuxottica Board of Directors so convened will decide on the rules to apply in order to appoint the replacement as swiftly as possible in accordance with the provisions set forth in the Combination Agreement, in order to comply with the balanced governance framework specified in the Combination Agreement.

The composition of the EssilorLuxottica Board of Directors and Committees shall comply with applicable laws and regulations and the AFEP-MEDEF Code (subject to limited exceptions). As at the date of this document, the deviations from the AFEP-MEDEF Code are described in Section 2.4

(1) This Code can be viewed online at <http://www.medef.com>.

#### 2.1.1.1 Composition at December 31, 2019

Article 11 of EssilorLuxottica's bylaws stipulates that "the Company shall be governed by a Board of Directors, the minimum and maximum number of members of which is defined by the legal provisions in force, currently a minimum of three (3) members and no more than eighteen (18) members", it being specified that the Directors representing employees shall not be taken into account when determining the minimum and maximum number of members stipulated in paragraph 1 of this article.

As at December 31, 2019, EssilorLuxottica's Board of Directors had 16 members, including one member representing employee shareholders and two members representing employees.<sup>(1)</sup>

As required by law, the complete list of the positions of Directors in office is provided in Section 2.5.

The principles relating to the composition of the EssilorLuxottica Board of Directors reflect the governance

principles set forth in the aforementioned Combination Agreement. This governance structure of EssilorLuxottica, implemented as from October 1, 2018, *i.e.* the Contribution Completion Date, will apply during the Initial Term, which is until the 2021 Shareholders' Meeting convened to approve the financial statements for the fiscal year ending December 31, 2020.

At the end of the Initial Term, (i) EssilorLuxottica Board of Directors' members will have a three-year term of office; and (ii) any new member of the EssilorLuxottica Board of Directors will be nominated for election at EssilorLuxottica's Shareholders' Meeting by the EssilorLuxottica Board of Directors based on the recommendation of the EssilorLuxottica Nominations and Compensation Committee or any EssilorLuxottica shareholder in accordance with applicable law, without any regard to the provenance of the nominees from Luxottica or Essilor.

(1) Effective composition since the Closing Date of the Contribution, *i.e.* October 1, 2018.

Composition of the Board of Directors at December 31, 2019

| 16<br>Directors   | 6<br>Independent<br>Directors<br>★  | 2<br>Directors<br>representing<br>employees<br>◆                                    | 1<br>Director<br>representing<br>employee<br>shareholders<br>○                       | 7<br>Female Directors   | 7<br>Nationalities  |
|---|---|---|--|---|---|
|    |    |    |    |    |   |
| <b>Leonardo Del Vecchio</b>   | <b>Hubert Sagnières</b>   | <b>Romolo Bardin</b>  | <b>Juliette Favre</b>  | <b>Giovanni Giallombardo</b>  |   |
| <i>Executive Chairman of EssilorLuxottica</i>                                       | <i>Executive Vice-Chairman of EssilorLuxottica</i>                                  | <i>Non-Independent Director</i>   | <i>○ Director representing employee shareholders</i>                                 | <i>Non-Independent Director</i>   |   |
| IT  | FR CA   | IT  | FR   | IT LU   |   |
|  |  |  |  |  |  |
| <b>Annette Messemer</b>   | <b>Francesco Milleri</b>  | <b>Gianni Mion</b>  | <b>Lucia Morselli</b>  | <b>Olivier Pécoux</b>   | <b>Léonel Pereira Ascencao</b>  |
| <i>★ Independent Director</i>   | <i>Non-Independent Director</i>   | <i>★ Independent Director</i>   | <i>★ Independent Director</i>  | <i>Non-Independent Director<sup>(1)</sup></i>   | <i>◆ Director representing employees</i>  |
| DE  | IT  | IT  | IT   | FR  | FR PT   |
|  |  |  |  |  |   |
| <b>Sabrina Pucci</b>  | <b>Cristina Scocchia</b>  | <b>Laurent Vacherot</b>   | <b>Jeanette Wong</b>   | <b>Delphine Zablocki</b>  |   |
| <i>★ Independent Director</i>   | <i>★ Independent Director</i>   | <i>Non-Independent Director</i>   | <i>★ Independent Director</i>  | <i>◆ Director representing employees</i>  |   |
| IT  | IT  | FR  | SG   | FR  |   |

(1) Qualified as Independent Director by the parties to the Combination Agreement notwithstanding the criteria defined by the AFEP MEDEF Code, see Section 2.4.

### 2.1.1.2 Changes in the composition of the Company's Board of Directors from the Contribution Completion Date until December 31, 2019

Further to the resignation of Bernard Hours, on May 12, 2019, the EssilorLuxottica 's Board of Directors appointed Laurent Vacherot to replace Bernard Hours, subject to ratification by EssilorLuxottica Shareholders' Meeting of June 25, 2020. In line with the governance principles set forth in the Combination Agreement referred to in Section 2.1.1 above, the composition of the EssilorLuxottica Board of Directors is as follows:

1. Leonardo Del Vecchio, EssilorLuxottica Executive Chairman;
2. Hubert Sagnières, EssilorLuxottica Executive Vice-Chairman;
3. Romolo Bardin, qualified as non-independent Director;
4. Juliette Favre, representative of Valoptec Association, qualified as non-independent Director;
5. Giovanni Giallombardo, qualified as non-independent Director;
6. Annette Messemer, qualified as independent Director;
7. Francesco Milleri, qualified as non-independent Director;
8. Gianni Mion, qualified as independent Director;
9. Lucia Morselli, qualified as independent Director;
10. Olivier Pécoux, qualified as independent Director by the parties to the Combination Agreement, notwithstanding the criteria defined by the AFEP-MEDEF Code (see table regarding the deviations from the AFEP-MEDEF Code in Section 2.4);
11. Léonel Pereira Ascencao, employee representative<sup>(1)</sup>, qualified as non-independent Director;
12. Sabrina Pucci, qualified as independent Director;
13. Cristina Scocchia, qualified as independent Director;
14. Laurent Vacherot, qualified as non-independent Director;

15. Jeanette Wong, qualified as independent Director;

16. Delphine Zablocki, employee representative<sup>(1)</sup>, qualified as non-independent Director.

The composition of the EssilorLuxottica Board of Directors is six Directors qualified as independent (46% of the members of the EssilorLuxottica Board of Directors<sup>(2)</sup>) and seven women (six women not taking into account the Directors representing employees, which is more than 40% of the members of the EssilorLuxottica Board of Directors) in compliance with applicable laws and regulations and the recommendations of the AFEP-MEDEF Code.

For a summary table detailing each EssilorLuxottica Director's compliance or non-compliance with the independence criteria of the AFEP-MEDEF Code, please refer to Section 2.1.1.3.

### 2.1.1.3 Diversity policy

#### a) Applied to the members of the EssilorLuxottica Board of Directors

Under the Combination Agreement, Essilor and Delfin agreed on the composition of the EssilorLuxottica Board of Directors in compliance with prevailing laws and regulations and the recommendations of the AFEP-MEDEF Code. As such, the Board of Directors comprises:

- six independent Directors within the meaning of the AFEP-MEDEF Code;
- seven women; more than 40% of the EssilorLuxottica Board of Directors, as required under Article L. 225-18-1 of the French Commercial Code are women (the female Director representing employees was not taken into account when calculating the aforementioned 40% minimum requirement);
- seven nationalities (French, Italian, Canadian, Luxembourgish, German, Singaporean and Portuguese).

In accordance with Article L. 225-37-4 of the French Commercial Code, the two summary tables below detailing the main criteria (gender, age, nationality, qualifications and professional experience) illustrate the Company's efforts to promote diversity.

### Composition of the Board of Directors at December 31, 2019

| Director  | Gender | Age | Nationality            | Major positions  | Term of office |                         |
|---|--------|-----|------------------------|--|----------------|-------------------------|
|   |        |     |                        |  | Start date     | End date <sup>(a)</sup> |
| <b>Leonardo DEL VECCHIO</b> ,<br>Executive Chairman<br>of EssilorLuxottica  | M      | 84  | Italian                | Executive Chairman of<br>EssilorLuxottica Executive<br>Chairman of Luxottica                           | 10/01/2018     | 2021                    |
| <b>Hubert SAGNIÈRES</b> ,<br>Executive Vice-Chairman<br>of EssilorLuxottica | M      | 64  | French and<br>Canadian | Executive Vice-Chairman of<br>EssilorLuxottica<br>Executive Chairman of Essilor<br>International (SAS) | 10/01/2018     | 2021                    |
| <b>Romolo BARDIN</b> ,<br>Non-independent Director                          | M      | 41  | Italian                | CEO of Delfin SARL (Luxembourg)  | 10/01/2018     | 2021                    |

(1) Appointed prior to the Closing Date of the Contribution for a four-year term.

(2) In accordance with the AFEP-MEDEF Code, Directors representing employee shareholders and Directors representing employees are not taken into account for the calculation of this percentage.

| Director   | Gender | Age | Nationality                  | Major positions   | Term of office |                         |
|--|--------|-----|------------------------------|---|----------------|-------------------------|
|  |        |     |                              |   | Start date     | End date <sup>(a)</sup> |
| <b>Juliette FAVRE</b> ,<br>Director representing<br>employee shareholders  | F      | 47  | French                       | Strategic Projects Executive,<br>Global Operations Support,<br>Essilor International (SAS)<br>Representative of Valoptec<br>Association   | 10/01/2018     | 2021                    |
| <b>Giovanni GIALLOMBARDO</b> ,<br>Non-independent Director                 | M      | 64  | Italian and<br>Luxembourgish | Vice-President-Managing Director<br>of the Luxembourg branch of<br>Unicredit Bank AG  | 10/01/2018     | 2021                    |
| <b>Annette MESSEMER*</b> ,<br>Independent Director                         | F      | 55  | German                       | Former Divisional Director,<br>Corporate Clients, Commerzbank<br>AG   | 10/01/2018     | 2021                    |
| <b>Lucia MORSELLI*</b> ,<br>Independent Director                           | F      | 63  | Italian                      | Board member, Telecom Italia  | 10/01/2018     | 2021                    |
| <b>Francesco MILLERI</b> ,<br>Non-independent Director                     | M      | 60  | Italian                      | Vice-Chairman and CEO<br>of Luxottica Group S.p.A. (Italy)  | 10/01/2018     | 2021                    |
| <b>Gianni MION*</b> ,<br>Independent Director                              | M      | 76  | Italian                      | F.I.L.A. Fabbrica Italiana Lapis ed<br>Affina S.p.A. (Italy)  | 10/01/2018     | 2021                    |
| <b>Léonel PEREIRA<br/>ASCENCAO</b> ,<br>Director representing<br>employees | M      | 47  | French and<br>Portuguese     | Workshop Manager, Surfacing<br>and Lenses, Essilor International<br>(SAS)   | 10/01/2018     | 2021 <sup>(b)</sup>     |
| <b>Olivier PÉCOUX</b> ,<br>Non-independent Director <sup>(c)</sup>         | M      | 60  | French                       | Chief Executive Officer –<br>Managing Partner at Rothschild &<br>Co and Rothschild et Cie Banque  | 10/01/2018     | 2021                    |
| <b>Sabrina PUCCI*</b> ,<br>Independent Director                            | F      | 52  | Italian                      | Professor of accounting and<br>financial reporting at Roma Tre<br>University and member of the<br>EFFRAG (European Financial<br>Reporting Advisory Group)<br>Insurance Accounting Working<br>Group. | 10/01/2018     | 2021                    |
| <b>Cristina SCOCCHIA*</b> ,<br>Independent Director                        | F      | 46  | Italian                      | Chief Executive Officer, Kiko<br>S.p.A. (Italy)   | 10/01/2018     | 2021                    |
| <b>Laurent VACHEROT</b> ,<br>Non-independent Director                      | M      | 63  | French                       | Chief Executive Officer, Essilor<br>International (SAS)   | 12/05/2019     | 2021 <sup>(d)</sup>     |
| <b>Jeanette WONG*</b> ,<br>Independent Director                            | F      | 58  | Singaporean                  | Executive Director, DBS Group<br>(Singapore)  | 10/01/2018     | 2021                    |
| <b>Delphine ZABLOCKI</b> ,<br>Director representing<br>employees           | F      | 43  | French                       | Qualified manufacturing agent,<br>Essilor International (SAS)   | 10/01/2018     | 2021 <sup>(b)</sup>     |

\* Independent Director.

(a) Date of Shareholders' annual Meeting.

(b) Appointed by the Central Works Council on September 20, 2017, for a four-year term.

(c) Qualified as Independent by the parties to the Combinaison Agreement for the purpose of this agreement which is a deviation to the AFEP-MEDEF Code.

(d) On March 30, 2020, the Board of Directors of EssilorLuxottica co-opted Paul Du Saillant as new Director of the Company in place of Laurent Vacherot, former CEO of Essilor International, who retired.

### Gender balance

EssilorLuxottica ensures that it complies with the principle of balanced gender representation on its Board of Directors. Seven of the Board of Directors' 16 members are women, six excluding Directors representing employees, which is over 40% of its membership.

Two of its four special Committees are chaired by women, the Audit and Risk Committee, chaired by Lucia Morselli, and the Corporate Social Responsibility Committee, chaired by Jeanette Wong.

### Average age of Directors

As at December 31, 2019, the Board of Directors had 16 Directors with an average age of 58.

#### Expertise and skills

| Director  | Contribution to the Board of Directors' work  |
|---|---|
| <b>Leonardo DEL VECCHIO</b> ,<br>Executive Chairman<br>of EssilorLuxottica  | A visionary business approach and experience as a lifelong entrepreneur and innovator.  |
| <b>Hubert SAGNIÈRES</b> ,<br>Executive Vice-Chairman<br>of EssilorLuxottica | Experience as head of a leading global group and ophthalmic industry expertise acquired over the past 30 years.   |
| <b>Romolo BARDIN</b> ,<br>Non-independent Director                          | High level of expertise in strategy, management and finance.  |
| <b>Juliette FAVRE</b> ,<br>Director representing employee<br>shareholders   | In-depth knowledge of Essilor through its manufacturing and sales operations. Nominated by Valoptec Association. Her membership is a strong indication of the importance EssilorLuxottica attaches to employee share ownership. |
| <b>Giovanni GIALLOMBARDO</b> ,<br>Non-independent Director                  | High level of expertise in finance gained through his positions in international financial institutions.  |
| <b>Annette MESSEMER*</b> ,<br>Independent Director                          | Extensive experience in strategy, finance, accounting and risk management having worked for over 20 years with leading multinational corporations and financial institutions, including regulators.                             |
| <b>Francesco MILLERI</b> ,<br>Non-independent Director                      | Solid experience in strategic consulting for global corporations and knowledge of digital technology and infrastructure.  |
| <b>Gianni MION*</b> ,<br>Independent Director                               | Business leadership experience and involvement in the development of successful international organizations.  |
| <b>Lucia MORSELLI*</b> ,<br>Independent Director                            | Solid experience in business management and turnaround.   |
| <b>Olivier PÉCOUX</b> ,<br>Non-independent Director <sup>(a)</sup>          | Experience in finance and banking, in-depth knowledge of the optics sector and familiarity with Essilor, having worked with the group since 2001.   |
| <b>Léonel PEREIRA ASCENCAO</b> ,<br>Director representing employees         | Knowledge of the optics industry and Essilor.   |
| <b>Sabrina PUCCI*</b> ,<br>Independent Director                             | Accounting and financial expertise.   |
| <b>Cristina SCOCCHIA*</b> ,<br>Independent Director                         | Extensive experience in strategy and management.  |
| <b>Laurent VACHEROT</b> ,<br>Non-independent Director                       | Extensive experience in finance and management acquired through 30 years of work within the Essilor group.  |
| <b>Jeanette WONG*</b> ,<br>Independent Director                             | Financial expertise and in-depth knowledge of corporate social responsibility, global markets, and especially the Asian markets.  |
| <b>Delphine ZABLOCKI</b> ,<br>Director representing employees               | Knowledge of the optics industry and Essilor.   |

\* Independent Director.

(a) Qualified as independent by the Parties to the Combination Agreement for the purpose of this agreement which is a deviation to the AFEP-MEDEF Code.

#### Directors' terms of office

Pursuant to Article 11 of the bylaws, "directors shall serve for a three-year term. On an exceptional basis, the term of office of the Directors representing employees appointed between May 11, 2017 and June 30, 2018 shall be four years. The role of a Director representing employees shall automatically end on the anniversary of the appointment date, without any need to issue specific information. The Company shall take all necessary action to arrange a new appointment no later than one (1) month after the term of office has expired."

Consequently:

- the terms of office of the current Directors appointed by the various Shareholders' Meetings shall expire at the end of the Initial Term, namely the date of the Shareholders' Meeting convened in 2021 to approve the financial statements for the fiscal year ending December 31, 2020;

- pursuant to Article 11 of the bylaws, the term of office of the two Directors representing employees appointed on September 20, 2017 shall be four (4) years so that their terms of office cover the terms of office of the other EssilorLuxottica Directors.

Notwithstanding Recommendation 13.2 of the AFEP-MEDEF Code, the terms of office of EssilorLuxottica Directors shall not be staggered during the Initial Term. This is in order to ensure a smooth transition and seamless integration of the two companies in the context of the Combination (see Section 2.4 Summary table of recommendations of the AFEP-MEDEF Code that have not been applied).

### Obligation of Directors appointed by Shareholders' Meeting to hold shares

In accordance with Article 12 of the prevailing bylaws, each Director appointed by a Shareholders' Meeting must own at least 1,000 shares of the Company. Notwithstanding the foregoing, 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 state the number of shares held by each of them (see Section 2.5).

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

The criteria for determining Board of Directors' members' independence are set out in the Company's Internal Rules as adopted by the Board of Directors on October 1, 2018 as updated on May 12, 2019. These criteria, which comply with the AFEP-MEDEF Corporate Governance Code, are as follows:

"A Board of Directors' 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. The criteria for a member to qualify as independent are as follows:

1. not to be and not to have been during the course of the previous five years:
  - an employee or Executive Officer<sup>(1)</sup> of the Company,
  - an employee, Executive Officer or Director of a company belonging to the Group (other than a Director of the Company, Essilor International (SAS) or Luxottica Group S.p.A.);
2. not to be an Executive Officer of a company in which the Company holds a directorship, directly or indirectly, or in which an employee or an Executive Officer of the Company (currently in office or having held such office during the last five years) is a Director;
3. not to be a customer, supplier, commercial banker or investment banker (or be linked directly or indirectly to these persons):
  - that is material to the Company or its Group,
  - or for a significant part of whose business the Company or its Group accounts;
4. not to be related by close family ties to a Company's officer;
5. not to have been an auditor of the Company within the previous five years;
6. not to have been a Director of the Company for more than 12 years. Loss of the status of independent Director occurs on the date at which this period of 12 years is reached.

Given the EssilorLuxottica group's structure, the fact that a Company Director has a seat on the Board of Directors of one of its two operating subsidiaries, Essilor International (SAS) or Luxottica Group S.p.A., does not affect his or her independence.

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

However, if a Board of Directors' member represents a shareholder holding more than 10% of the share capital or voting rights, the Board of Directors determines whether that Board of Directors' member is an "independent Director," based on the written opinion of the Nominations and Compensation Committee. This opinion takes into account:

- the composition of the Company's share capital;
- 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 at March 5, 2020, six Directors could be considered independent under the independence criteria of the AFEP-MEDEF Code, namely Annette Messemer, Lucia Morselli, Gianni Mion, Sabrina Pucci, Cristina Scocchia and Jeanette Wong.

On that date, the Board of Directors' independence ratio was 46%, pursuant to the recommendations of the AFEP-MEDEF Code (i.e., not including the Director representing employee shareholders and the two Directors representing employees).

The Board of Directors 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, there are no financial flows between EssilorLuxottica and the DBS bank, where Jeanette Wong is Executive Director within DBS Group responsible for Institutional Banking, which encompasses corporate banking and the "Global Transaction Services" division.

Of note, Olivier Pécoux, non-independent directors as per the AFEP-MEDEF Code, was qualified as independent by the parties to the Combination Agreement, Essilor and Delfin, notwithstanding the recommendations of the AFEP-MEDEF Code (see Section 2.4 Summary table of recommendations of the AFEP-MEDEF Code that have not been applied).

However, the following Directors did not qualify as independent according to the AFEP-MEDEF Code:

- Leonardo Del Vecchio, Executive Chairman of EssilorLuxottica;
- Hubert Sagnières, Executive Vice-Chairman of EssilorLuxottica;
- Directors nominated by Delfin: Romolo Bardin, Giovanni Giallombardo, Francesco Milleri;
- Directors nominated by Essilor: Laurent Vacherot (Essilor International's Chief Executive Officer (CEO), until March 30, 2020, date of his replacement by Paul du Saillant), Olivier Pécoux (qualified as independent by the Parties to the Combination Agreement notwithstanding the AFEP-MEDEF Code criteria), Juliette Favre (Director representing employee shareholders, representative of Valoptec Association), Delphine Zablocki and Léonel Pereira Ascencao (the two Directors representing employees appointed for a four-year term by the Central Works Council following deliberation on September 20, 2017).

(1) In these Internal Rules, "Executive Officer" refers to the Executive Chairman, the Executive Vice-Chairman and any Deputy CEO of the Company; "Non-Executive Officer" designates any Non-Executive Chairman of the Board of Directors (if any); "corporate officers" includes both the Executive Officers and Non-Executive Officers (if any).

## Report on Corporate Governance

### Information on Corporate Governance

Summary table detailing the compliance or non-compliance of each Director in office at December 31, 2019 with the independence criteria of the AFEP-MEDEF Code

In the table below, ✓ indicates an independence criterion has been satisfied, X indicates that it has not.

| Director                         | AFEP-MEDEF independence criteria                          |  |                     |   |   |   |  |                              |
|----------------------------------|---|--|---------------------|---|---|---|--|------------------------------|
|                                  | Employee or Executive Director within the past five years | Employee, Executive Director or Director of the Company or a Group company | Cross-directorships | Is a client, supplier, investment banker or financing banker (significant business relationships) | Has a close family tie with a corporate officer | Has been a statutory auditor within the past five years | Has been a Director for more than 12 years | Has been a major shareholder |
|                                  | Of the Company  | Of the Company or a Group company  |                     |   |   |   |  |                              |
| Leonardo DEL VECCHIO             | X   | X  | ✓                   | X   | ✓   | ✓   | ✓  | X                            |
| Hubert SAGNIÈRES                 | X   | X  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Romolo BARDIN                    | ✓   | ✓  | X                   | ✓   | ✓   | ✓   | ✓  | X <sup>(2)</sup>             |
| Juliette FAVRE                   | X   | X  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Giovanni GIALLOMBARDO            | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | ✓  | X <sup>(2)</sup>             |
| Annette MESSEMER <sup>(1)</sup>  | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Francesco MILLERI                | ✓   | X  | ✓                   | X   | ✓   | ✓   | ✓  | X <sup>(2)</sup>             |
| Gianni MION <sup>(1)</sup>       | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Lucia MORSELLI <sup>(1)</sup>    | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Olivier PÉCOUX                   | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | X  | ✓                            |
| Léonel PEREIRA ASCENCAO          | ✓   | X  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Sabrina PUCCI <sup>(1)</sup>     | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Cristina SCOCCHIA <sup>(1)</sup> | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Laurent VACHEROT                 | X   | X  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Jeanette WONG <sup>(1)</sup>     | ✓   | ✓  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |
| Delphine ZABLOCKI                | ✓   | X  | ✓                   | ✓   | ✓   | ✓   | ✓  | ✓                            |

(1) Independent Director within the meaning of the AFEP-MEDEF Code. (Given the EssilorLuxottica group's structure, the fact that a Company Director has a seat on the Board of Directors of one of its two operating subsidiaries, Essilor International or Luxottica, does not affect his or her independence).

(2) Director representing Delfin within the meaning of the Combination Agreement.

- b) Applied to the members of any given committee set up, as appropriate, by senior management to assist it on a regular basis in the performance of its general duties and in connection with the results in terms of gender balance in the 10% of positions with the most responsibility. If the Company does not apply such a policy, the report must include an explanation of the reasons for this

Out of the 50 top executives of the EssilorLuxottica group 14% are women (7/50). As at the date of this Universal Registration Document, EssilorLuxottica had not set up any Executive Committee or collective body to assist Leonardo Del Vecchio and Hubert Sagnières within the meaning of the regulation.

The organisation of EssilorLuxottica is the following:

- Corporate officers having the same powers:  
Executive Chairman: Leonardo Del Vecchio  
Executive Vice-Chairman: Hubert Sagnières
- Integration Committee: Co-chaired by the Executive Chairman and the Executive Vice-Chairman
- In charge of the integration: Éric Léonard et Pierluigi Longo

- c) Applied to the members of the Board of Directors of the operating companies, Essilor International (SAS) and Luxottica Group S.p.A.

#### Management of Luxottica and Essilor International (SAS)

The EssilorLuxottica Executive Chairman will act as Executive Chairman of Luxottica for as long as he is EssilorLuxottica Executive Chairman (it being specified that the EssilorLuxottica Executive Chairman may designate any other person to act as Executive Chairman of Luxottica) and the EssilorLuxottica Executive Vice-

Chairman will act as Chairman of Essilor International for as long as he is the EssilorLuxottica Executive Vice-Chairman (it being specified that the EssilorLuxottica Executive Vice-Chairman may designate any other person to act as Chairman of Essilor International (SAS)).

#### Composition of the Essilor International (SAS) and Luxottica Group S.p.A. Boards of Directors as at December 31, 2019:

##### Essilor International (SAS) (unlisted operating company)

Hubert SAGNIÈRES, Chairman and President  
Philippe ALFROID, non-independent Director  
Antoine BERNARD DE SAINT-AFFRIQUE, independent Director  
Maureen CAVANAGH, Director representing employees shareholders (W)  
Paul du SAILLANT, non-independent Director  
Juliette FAVRE, Director representing employees shareholders (W)  
Louise FRÉCHETTE, independent Director (W)  
Yi HE, Director representing employees shareholders  
Bernard HOURS, independent Director  
Ludovic MATHIEU, Director representing employee shareholders  
Annette MESSEMER, independent Director (W)  
Marc ONETTO, independent Director  
Olivier PÉCOUX, independent Director  
Laurent VACHEROT, non-independent Director  
Jeanette WONG, independent Director (W)  
Delphine ZABLOCKI, Director representing employees (W)

Out of 16 Directors, five are women, i.e. 31,25% (not counting the Director representing employees).

Directors serving on the EssilorLuxottica Board of Directors (for more information, please visit the Essilor International website at <https://www.essilor.com/en/the-group/governance/board-of-directors/>).

W = women

##### Luxottica Group S.p.A.

Leonardo DEL VECCHIO, Executive Chairman of the Board of Directors  
Luigi FRANCAVILLA, Vice-Chairman  
Francesco MILLERI, Vice-Chairman and CEO  
Leonardo Maria DEL VECCHIO, non-independent Director  
Stefano GRASSI, Chief Financial Officer  
Elisabetta MAGISTRETTI\*, independent Director (W)  
Maria PIERDICCHI\*, independent Director (W)  
Karl Heinz SALZBURGER\*, independent Director  
Luciano SANTEL\*, independent Director  
Andrea ZAPPIA\*, independent Director

Out of 10 Directors, two are women, i.e. 20%.

\* Director satisfying the requirement of independence set forth in the Italian Consolidated Financial Act and in the Code of Conduct for Listed Companies.

Directors serving on the EssilorLuxottica Board of Directors (for more information, please visit the Luxottica website at <https://www.luxottica.com/en/governance/board-directors/>).



This governance structure means that the Company has the full benefit of the expertise and experience of the Directors of Essilor International (SAS) and Luxottica Group S.p.A., particularly:

- their knowledge and practical experience of both operating companies;
- their expertise in specific business segments of Essilor International (SAS) and Luxottica Group S.p.A.;
- several years' experience in managing international companies, so providing management expertise and/or experience to the Company;
- expertise in finance, logistics, marketing, and e-commerce, among others.

#### 2.1.1.4 Directors' ethical awareness and conflicts of interest management

##### No potential conflicts of interest

In accordance with the Board of Directors' Internal Rules and with the Directors' Charter (see Section 1.3 of this Universal Registration Document), Directors have an obligation to inform the Board of Directors of any conflict of interest, even potential, as provided for in the rules defined by the Board of Directors' Internal Rules, an extract from which is provided in the box below and pursuant to the criteria of the AFEP MEDEF Code to which the Company refers (throughout the different versions and henceforth in the latest version as of January 2020).

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 he or she holds in other companies and must request the opinion of the Nominations and Compensation Committee prior to accepting any new Directorship.

The Director must, more specifically, make an annual declaration of any conflicts of interest, even potential, he or she has detected. On the basis of these declarations, the Board of Directors has not identified any conflict of interest. The information referred to in Appendix 1 of European Commission Regulation (EU) 2019/980 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, except as disclosed below. To this end, the Directors' Charter stipulates that Directors have an obligation to inform the Board of Directors of any conflict of interest, even potential, and must refrain from participating in the deliberations related thereto;
- none of the Executive or non-Executive Directors has a service contract with EssilorLuxottica or any of its subsidiaries providing for the award of benefits at the end of such contract, except for:
  - Mr. Milleri, member of the Board of Directors of EssilorLuxottica and Vice-Chairman and Chief Executive Officer of Luxottica, is indirectly linked to a services supply agreement with Luxottica signed with a company controlled by Mr. Milleri for services related to the Luxottica group IT platform (Please see below "Agreements between a subsidiary of EssilorLuxottica group and a company in which an Executive Corporate Officer has a direct or indirect interest"),
  - Mr. Pécoux, Chief Executive Officer-Managing partner at Rothschild & Co, was indirectly linked to a service agreement between the Company and Rothschild & Co, which was signed in January 15, 2017, to negotiate the terms and conditions of the Combination (see section 2.6); this agreement ended on October 1st 2018 which is the completion date of the Combination;
- none of the Executive or non-Executive Directors has been convicted of a fraudulent offense in the past five years;
- none of the Executive or non-Executive Directors has been associated with bankruptcy, receivership or liquidation as a member of an administrative, management or supervisory body or as Chief Executive Officer within the past five years, with the exception of Gianni Mion, who has been Independent Chairman of the Italian bank Banca Popolare di Vicenza since July 13, 2016, when it was the subject of a special liquidation procedure under Italian law pronounced by a statutory order of June 25, 2017;
- none of the Executive or non-Executive 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 Board of Directors' Internal Rules on the management of conflicts of interest

##### "1.3 Conflicts of interest

Any Director (whether he/she is an individual Director or a permanent representative of a legal entity holding directorship) of the Company shall consider himself or herself as being bound by the provisions of Article 19 of the AFEP-MEDEF Code, the Director's Charter included as Appendix 1 to these Board of Directors' Internal Rules together with the rules set forth in the following paragraphs.

### 1.3.1 Situations giving rise to a conflict of interest

Any Director who is directly or indirectly exposed to an actual or potential conflict between his/her interests (or those of the legal entity holding directorship he/she represents) and those of the Company (or any company of the Group) because of the positions that he/she holds, and/or any interests that he/she has elsewhere (a "Conflict of Interest"), shall inform the Executive Chairman and the Executive Vice-Chairman, as well as the Chairperson of the relevant Committees as the case may be. When a Director takes office and by January 31 of each year, he/she shall prepare (and update when needed) and submit to the Executive Chairman, the Executive Vice-Chairman and the Nominations and Compensation Committee, a statement indicating any actual or potential Conflict of Interest he/she may have with any Group's companies.

A Director may be requested by the Executive Chairman and/or the Executive Vice-Chairman, at any time, to confirm in writing that he or she is not in a Conflict of Interest situation. Pursuant to Section 4.4 of the Board of Directors' Internal Rules, Directors and any other persons who attend Board of Directors' Meetings shall be required to treat all information provided during these meetings as strictly confidential.

### 1.3.2 Policy in the event of a conflict of interest

#### *Procedure to prevent situations of Conflict of Interest*

In the event of a Conflict of Interests, the concerned Director shall (i) prior to the concerned meeting, inform in due time the Executive Chairman and the Executive Vice-Chairman, with a copy to the secretariat of the Board of Directors, and (ii) shall not attend the Board of Directors' (or Committee) Meeting during the discussions and debates on the concerned items of the agenda and shall not vote on the concerned deliberations.

It is specified that if the concerned Director is the Chairperson of a Committee and the concerned meeting is one of such Committee, then, such Director shall notify his/her Conflict of Interest situation to the other Committee's members and shall not attend the meeting during the discussions and debates on the concerned items of the agenda and shall not vote on the concerned deliberations.

#### *Organization of the meeting*

At the beginning of any Board of Directors' (or Committee) Meeting, the Executive Chairman or the Executive Vice-Chairman (or the Chairperson of the relevant Committee, in the case of Committee meetings) will disclose all the Conflicts of Interest notifications he or she has received prior to such meeting.

If necessary due to the agenda of a given Board of Directors' (or Committee) Meeting, the Executive Chairman or the Executive Vice-Chairman (or the Chairperson of the relevant Committee) may decide to organize the meeting in two parts, with the first part attended by the concerned Director (s) and dealing with the agenda items not giving rise to any Conflict of Interest, and the second held without the concerned Director (s) being present.

If the concerned Director is the Chairperson of the Board of Directors or of the relevant Committee, the other members shall appoint a temporary Chairperson for the time of his/her absence (it being understood that if the concerned Director is the Executive Chairman, the chair of the Board of Directors shall be conferred to the Executive Vice-Chairman solely, and vice-versa).

Decisions by the Board of Directors concerning a Conflict of Interest shall be recorded in the minutes of the relevant Board of Directors' Meeting.

#### *Issues*

Any issues concerning the implementation of this section entitled *Conflicts of interest* shall be submitted to the Executive Chairman and the Executive Vice-Chairman, and, for a Committee Meeting, the Chairperson of the relevant Committee. If an issue relating to any concerned Director cannot be resolved following discussions between them, then, the Board of Directors (or the Committee) shall make a decision.

### 1.3.3 Sensitive information as defined in competition law

In the event of a Conflict of Interest relating to a position or interest in an entity whose interests compete with those of the Group, no sensitive information, as defined in competition law, may be disclosed or discussed in the presence of the concerned Director.

The definition of sensitive information in competition law covers all information not in the public domain that could enable the Director concerned to understand or influence the Company's commercial and other strategies in markets served by the entity whose interests compete with those of the Company and with which the concerned Director has ties, including, without limitations, recent, current or future pricing strategies and prices (including discounts or rebates), detailed information concerning technology and R&D projects, recent current or future profit margins on, or profitability targets for, specific products or services, and current or future strategic plans, business development projects, particularly planned potential mergers and acquisitions, market shares, market analyses, covering *inter alia* forecast changes in offer and/or demand and prices.

The risk of an exchange of sensitive information as defined in competition law is equivalent in all respects to a conflict of interest within the meaning of this section entitled *Conflicts of interest*."

**Agreements between one of the Executive Corporate Officers or shareholders with more than 10% of voting rights with a subsidiary of EssilorLuxottica group (with the exception of agreements concerning day-to-day operations entered into under normal conditions)**

#### **Agreement between M. Hubert Sagnières and Essilor International (SAS)**

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

The mechanism set up for the termination of his employment contract prior to the date of the combination with Luxottica was maintained. An addendum was signed in 2018 to bring the basis for calculating the package into line with the compensation policy applicable to Executive Corporate Officers. That policy was approved by the Company's Shareholders' Meeting on November 29, 2018 and tailored to fit the context of the new EssilorLuxottica group. The addendum was authorized by the Essilor International (SAS) Board of Directors in 2018. The employment contract, currently suspended and as amended by the addendum dated July 26, 2018, provides that the package is capped at two years' monetary compensation (corresponding to the average fixed and variable annual compensation paid in the last three years preceding departure) (see Section 2.3). 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, reiterated on March 3, 2010 and ratified at the Shareholders' Meeting of May 5, 2011 (4<sup>th</sup> resolution) and was submitted to the vote at the Shareholders' Meeting of May 16, 2019 (10<sup>th</sup> resolution) due to his appointment as the Company's Executive Vice-Chairman by the Board of Directors on October 1, 2018.

**Agreements between a subsidiary of EssilorLuxottica group and a company in which an Executive Corporate Officer has a direct or indirect interest (with the exception of agreements concerning day-to-day operations entered into under normal conditions)**

#### **Agreement between the entities controlled by M. Francesco Milleri and Luxottica**

On January 30, 2019, Luxottica Group S.p.A.'s Board of Directors authorized the entering into a two-year master service agreement with MEA S.r.l., now Abstract S.r.l. ("MEA") for IT services for an aggregate cost estimated to be €46 million (the "**Agreement**"). The Agreement has been executed on February 26, 2019 and expires on December 31, 2020. The Agreement contains the same termination clauses included in the previous agreement between Luxottica Group S.p.A. and MEA, e.g.: (i) force majeure events; (ii) lack of performance and quality standards in the supply of services; (iii) violation of the exclusivity clause in favor of Luxottica; (iv) supplier's change of control.

#### **Agreement between Luxottica and Brooks Brothers, in which Delfin S.a.r.l. holds a minority interest**

Messrs. Del Vecchio and Bardin are respectively controlling shareholder and CEO of Delfin S.a.r.l.

Brooks Brothers, a renowned clothing retailer in the U.S., had for years an agreement with Luxottica to produce and distribute sunglasses and optical frames.

On November 28, 2019, the Board of Directors of EssilorLuxottica approved the renewal of this 10-year agreement with Luxottica, pursuant to Section 4.2(o) of the Company's Internal Rules, whereby the acquisition or the granting by any entity of the EssilorLuxottica group of any license with respect to the right to use a trademark or patent for a value exceeding €3 million requires the approval of the Board of Directors.

The new agreement will also have a term of 10 years, starting from January 1, 2020.

Pursuant to the new agreement, Luxottica will pay royalties equal to a percentage of net sales, with a minimum royalty per year, an advertising contribution and a trade marketing investment equal to a percentage of net sales.

#### **Procedure set up to regularly evaluate if the agreements relating to ordinary transactions concluded under normal terms still fulfil those conditions**

Pursuant to article L.225-39 of the Commercial Code, the Charter regarding related-party agreements includes a procedure set up to regularly evaluate if the agreements relating to ordinary transactions concluded under normal terms still fulfil those conditions. The person directly or indirectly involved in the agreement does not take part to the evaluation.

#### **Insider dealing**

On October 1, 2018, the Board of Directors approved the EssilorLuxottica Directors' Charter, which includes the stipulation that any holder of inside information shall refrain from engaging in any transaction involving the Company's securities or from causing or allowing others to engage in such transactions based on such information for as long as such information has not yet been made public (Articles 8, 10 and 14 of European Regulation No. 596/2014 of April 16, 2014 on market abuse – the Market Abuse Regulation [MAR]). The Charter states that Directors must, in addition to the period preceding the publication of any inside information of which they are aware, refrain from engaging in any transaction in the Company's securities during the blackout periods set in accordance with Article 19.11 of the MAR and the AMF guide to ongoing disclosure and management of inside information of October 26, 2016.

Lastly, Directors must inform the AMF, on an annual basis, of any transactions involving EssilorLuxottica securities performed by themselves or by individuals with whom they are closely associated. These individual reporting obligations regarding securities transactions are covered in the Directors' Charter, the full version of which is available on the Company's website.

The summary statement of transactions involving EssilorLuxottica securities carried out in 2019 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 operating procedures of the Board of Directors and special Committees are governed by Board of Directors' Internal Rules adopted by the Board of Directors at its meeting of October 1, 2018, and as updated on May 12, 2019, and by a Directors' Charter. These documents are periodically reviewed by the Board of Directors. The documents reflect the main principles regarding the decision-making process in the EssilorLuxottica group. The key points of both documents are reproduced or summarized below. The full version of these documents, along with the bylaws, is available on the Company's website.

### 2.1.2.1 Board of Directors' Internal Rules and the Directors' Charter

The Board of Directors' Internal Rules and the Directors' Charter, both of which were approved by the Board of Directors of May 12, 2019, reflect the basic principles regarding the decision-making process in the EssilorLuxottica group. These principles are outlined below.

#### Powers of the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman

Both the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman are vested with full and equal powers to act in all circumstances in the name of EssilorLuxottica. They shall exercise those powers within the limits of the corporate purpose and subject to the powers expressly granted to the EssilorLuxottica Shareholders' Meeting and to the EssilorLuxottica Board of Directors by law as well as to the limitations set forth by the bylaws of EssilorLuxottica and by the Board of Directors' Internal Rules.

Decisions relating to the management of EssilorLuxottica shall be made jointly by, or with the approval of, the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman, failing which, by the EssilorLuxottica Board of Directors, except for certain decisions or specific matters: (a) which are listed in Annex 2 of the Directors' Charter – except as otherwise jointly decided by the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman – can be made either by the EssilorLuxottica Executive Chairman or the EssilorLuxottica Executive Vice-Chairman, acting individually, or by the person to whom such power or authority is delegated; (b) for which the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman subsequently (i) agree in writing that they can act individually or (ii) jointly delegate powers or authority to a manager of EssilorLuxottica or to another person; or (c) which fall within the scope of the powers, or require the approval, of the EssilorLuxottica Board of Directors pursuant to the Board of Directors' Internal Rules.

#### Powers of the Board of Directors of EssilorLuxottica

The Board of Directors of EssilorLuxottica directs EssilorLuxottica's business and oversees its implementation. Subject to the powers expressly granted to the Shareholders' Meeting, the limitations set forth by the bylaws of EssilorLuxottica and within the limits of the corporate purpose, the Board of Directors deals with all matters concerning the proper running of EssilorLuxottica and the EssilorLuxottica group, in accordance with the Board of Directors' Internal Rules.

A set of material decisions relating to EssilorLuxottica and/or the EssilorLuxottica group are subject to prior approval by the EssilorLuxottica Board of Directors (see Section 2.1.2.2).

The Board of Directors' Internal Rules are supplemented by a Directors' Charter which stipulates a certain number of rights and obligations, including the commitment to regularly attend 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 Committees. Board of Directors' members must also keep the Board of Directors informed of directorships held in other French and foreign companies and, in the case of Executive Board Directors, seek the approval of the Board of Directors before accepting a new corporate office in a company (other than a consolidated company by the Company). 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.

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

The EssilorLuxottica group's internal governance rules stipulate that the Board of Directors must grant its prior approval, under the conditions of quorum and majority set forth in Section 4.5.2 below, for any issue, event, act or decision concerning the Company and any entity of its Group, related to:

- a) review and approval of the statutory financial statements and consolidated financial statements of the Company as well as the statutory financial statements and consolidated financial statements of Luxottica Group S.p.A. or Essilor International (SAS), as the case may be;
- b) approval and modification of the Group's annual budget (including the annual investments budget) upon the presentation of the forecast of the financing needs of the Group for the year made by the CFOs;
- c) approval and modification of the Group's three-year strategic plan;

- d) any transaction outside the scope of the Group's stated strategy or above €150 million individually, upon recommendation of the Strategy Committee;
- e) distribution of dividends, interim dividends, premium, reserves and/or any other distributions by the Company, Luxottica Group S.p.A. or Essilor International (SAS), which will be set consistently with the Company's financial prospects and business strategies, it being specified that unless the Board of Directors decides otherwise the pay-out ratio on consolidated net income adjusted by the relevant purchase price allocation (PPA) items and, if any, other items to be decided by the Board of Directors shall not exceed 50%;
- f) any amendment, or any decision that will entail such amendment, to the articles of association of the Company, Luxottica Group S.p.A. or Essilor International (SAS) (including for the avoidance of doubt any increase in the share capital (except if it results from the exercise of securities or rights giving access to the share capital or issuance of other securities or rights giving immediate or future access to the share capital or voting rights));
- g) any decision relating to the admission to trading on any regulated stock exchange of securities in any Group company;
- h) any change in accounting methods or principles, or of the tax practices applied within the Group (save for mandatory changes resulting from regulatory changes);
- i) appointment and renewal of the statutory auditors of any Group's company, based on the recommendation of the Audit and Risk Committee;
- j) on the recommendation of the Strategy Committee, decisions on material capital expenditures, acquisitions, purchases, leases or divestments with a value exceeding €150 million pursuant to the relevant provisions in Sections 2.3.1 and 2.3.2 of the Board of Directors' Internal Rules, as applicable;
- k) any transaction resulting in the expansion of the geographical footprint of the Group to a new country where the Group has no operations, including through any distribution network, whether wholesale or retail, directly or indirectly (through any acquisition, lease, commercial relationships or any agreement of any nature whatsoever) for which the value is above of €10 million or for which such expansion could present a significant risk in terms of compliance with applicable regulations (e.g., sanctions, fraud, anti-corruption or money laundering regulations) or in terms of security, on the recommendation of the Strategy Committee;
- l) without prejudice to the financing policy as set forth in Section 2.3.2 of the Board of Directors' Internal Rules or unless decided otherwise by the Board of Directors, (x) any decision (and any delegations of powers or authority thereto) pertaining to the entering into of any bank loan or financing facility for a par value or a notional amount exceeding €1 billion, (y) any other decision (and any delegations of powers or authority thereto) pertaining to the financing of the Company (including, for example, the issuance of bonds, notes, debt instruments and/or hedging instruments) for a par value or a notional amount exceeding €300 million individually and €1 billion in the aggregate on a calendar year within the annual authorization for any banking financing and (z) any decision (and any delegations of powers or authority thereto) for any capital market transaction (either in equity or debt) whatever the amount of such transaction;
- m) any liquidation, merger, spin-off, contribution or other similar corporate restructuring (save for intra-Group transactions that trigger no change in the direct or indirect holding by the Company in the share capital of the concerned company or companies) involving any Group company;
- n) authorization, determination of the terms and conditions and modification of any mandatory or voluntary profit-sharing plan, stock option plan, free share plan or other similar collective incentive schemes in favor of the management and/or employees of the Group (on the recommendation of the Nominations and Compensation Committee when it concerns corporate officers);
- o) except for intra-Group transactions, the purchase, transfer or disposal of trademarks or patents and/or the acquisition or the granting of any license with respect to the right to use a trademark or patent or any other transaction entailing, directly or indirectly or as an ancillary consequence thereof (including, for example, the acquisition of a business), the purchase, transfer, disposal or granting of any such trademarks, patents or licenses, for a value exceeding €3 million and, in the case of franchise, any franchise agreement with fees in excess of €10 million.

#### 2.1.2.3 Self-assessment of the Board of Directors' operating procedures

A self-assessment of the Board of Directors was launched in 2019, based on a quantitative and qualitative approach.

Two independent directors conducted the self-assessment exercise based on questionnaires and interviews of all the Directors. The issues covered included 1) composition of the Board of Directors and Committees, 2) Board of Directors process, 3) Board of Directors information and accountability, 4) Board of Directors and strategy, 5) Communication with shareholders and the markets and 6) the standards of conduct.

The initial results of this exercise were presented to the Board of Directors on November 28, 2019 and a follow-up was presented to the Board of Directors on 5 March 2020.

In the context of the Combination with Luxottica, effective as from October 1, 2018, and given the complete overhaul of the governance structure and composition of the Board of Directors, it was not considered opportune for the Company's Board of Directors to conduct a self-assessment of its operating procedures in 2018. However, a formal assessment of the operation of the Board of Directors was performed on an annual basis from 2004 to 2017.

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

##### Information

Any documentation required to ensure that the Directors are informed about the agenda and any items to be discussed by the Board of Directors will either be enclosed with the notice of meeting or sent or delivered at the latest five days before the meeting.

Any such documentation shall be drafted in English, and a French and Italian courtesy translations can also be provided at the request of any Director. In case of discrepancy between the English version and one of its translations, the English version shall prevail, except for those documents whose official language is French pursuant to applicable law.

To be prepared for decisions to be made, Directors must check that the information they deem necessary for the proper flow of the Board of Directors' or special Committee's work has been made available to them. If any information has not been made available, or has not properly been made available in a Director's opinion, that Director must request it. Such requests should be addressed to the Executive Chairman and the Executive Vice-Chairman who must satisfy themselves that the Directors are in a position to fulfil their duties.

In addition, Directors will receive between meetings any useful or critical information on significant events or operations relating to the Company or the Group, in particular, press communications released or financial reports made by the Company.

##### Training

Any Director may avail himself or herself of supplementary training on the specific concerns of the Company, its industry or business sectors, if he or she deems it necessary. From the time of their appointment, members of the Audit and Risk Committee receive information on the Company's accounting, financial and operational affairs. The Chair of the EssilorLuxottica Audit and Risk Committee and the Chair of the Essilor International (SAS) Audit and Risk Committee attended information sessions arranged by legal teams as well as exchange forums on best governance practices.

Directors representing employees or Director(s) representing employee shareholders should be provided with suitable training enabling them to perform their duties, in accordance with regulations. In 2019, the two Directors representing employees attended an external course provided by the Institut Français des Administrateurs (IFA) entitled "The Board and the statement of account" (*Le Conseil et l'arrêté des comptes*).

Delphine Zablocki, Director representing the employees, also attended another external course provided by the same institute entitled "The Board on preventing and managing crisis" (*Le Conseil en prévention et gestion de crise*).

#### 2.1.2.5 Meetings of the Board of Directors in 2019

The Board of Directors is convened by its Chairman and/or Vice-Chairman, in accordance with the terms and conditions set forth in Sections 4.1 and 4.3 of the Board of Directors' Internal Rules. The author of the convening

notice sets the agenda of the meeting. The Chairman or the Vice-Chairman, as applicable, have the opportunity to review the convening notice and add new items on the agenda before the convening notice is sent to the Directors.

The Board of Directors shall meet as often as necessary in the interests of the Company, but at least five times per year.

The Board of Directors' Meeting dates and places for the following year shall be set at the latest by March 1 of each year, with the exception of extraordinary meetings.

The meetings of the Board of Directors are chaired by the Chairman, together with the Vice-Chairman, or, in the absence of the Chairman, by the Vice-Chairman solely, or in the absence of the Vice-Chairman, the Chairman solely. At any meeting of the Board of Directors, both the Chairman and the Vice-Chairman are free to make any statements, raise questions or address matters to be discussed by the Board of Directors.

Directors may choose to be represented by another Director at meetings of the Board of Directors. Each Director may represent no more than one other Director at any Board of Directors' Meeting.

The quorum for any decision taken by the Board of Directors shall be at least half of the Directors present (in person or, as the case may be, by videoconference or telecommunication means).

Decisions shall be taken by a simple majority of the members present or represented, provided, however, that whenever not all of the Directors in office are present at the meeting such majority shall include at least one of the Directors designated by Delfin and one of the Directors designated by the former Essilor pursuant to the Combination Agreement (or of their successors thereof).

In 2019, the Board of Directors of EssilorLuxottica met 15 times.

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

As allowed by the Company's bylaws, the Board of Directors' Internal Rules 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 Board of Directors' 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.

Pursuant to the Board of Directors' Internal Rules, Directors using videoconferencing or telecommunication during one of their meetings do not receive Directors' fees, unless decided otherwise by a joint decision of the Executive Chairman and the Executive Vice Chairman.

All Directors attended the Ordinary Shareholders' Meeting of EssilorLuxottica of May 16, 2019

The table below shows the number of Board of Directors and Committee meetings held during fiscal year 2019, as well as their members as at December 31, 2019 and the individual attendance at each of those meetings. The average attendance of the Directors at Board of Directors' Meetings was close to 92.54% for all meetings of the Board of Directors and the Committees.

## Report on Corporate Governance

### Information on Corporate Governance

|  | Board of Directors | Audit and Risk Committee Meeting | Nominations and Compensation Committee | Strategy Committee  | CSR Committee |
|--|--------------------|----------------------------------|--|---------------------|---------------|
| <b>NUMBER OF MEETINGS IN 2019</b>        | <b>15</b>          | <b>12</b>                        | <b>9</b>                               | <b>2</b>            | <b>3</b>      |
| <b>PARTICIPATION (%)</b>                 |                    |                                  |  |                     |               |
| Leonardo DEL VECCHIO <sup>(a) (b)</sup>  | 93%                |                                  |  |                     |               |
| Hubert SAGNIÈRES                         | 100%               |                                  |  | 100%                | 100%          |
| Romolo BARDIN <sup>(a) (b)</sup>         | 93%                | 92%                              | 89%                                    |                     |               |
| Giovanni GIALLOMBARDO <sup>(a) (b)</sup> | 93%                |                                  |  |                     | 100%          |
| Juliette FAVRE                           | 100%               |                                  |  | 100% <sup>(d)</sup> |               |
| Bernard HOURS<br>(until May 12, 2019)    | 78%                |                                  | 100%                                   | 100%                |               |
| Annette MESSEMER                         | 93%                | 100%                             | 100% <sup>(c)</sup>                    |                     |               |
| Lucia MORSELLI <sup>(a)</sup>            | 100%               | 100%                             |  |                     |               |
| Francesco MILLERI <sup>(a) (b)</sup>     | 93%                |                                  |  | 100%                |               |
| Gianni MION <sup>(a)</sup>               | 67%                |                                  | 100%                                   | 50%                 |               |
| Olivier PÉCOUX                           | 93%                | 83%                              | 100%                                   |                     |               |
| Léonel PEREIRA ASCENCAO <sup>(a)</sup>   | 100%               |                                  |  |                     |               |
| Sabrina PUCCI <sup>(a)</sup>             | 93%                |                                  |  |                     |               |
| Cristina SCOCCHIA <sup>(a)</sup>         | 80%                |                                  |  | 100% <sup>(d)</sup> | 100%          |
| Laurent VACHEROT <sup>(c)</sup>          | 100%               |                                  |  | 100%                |               |
| Jeanette WONG                            | 93%                |                                  |  |                     | 100%          |
| Delphine ZABLOCKI                        | 93%                |                                  |  |                     |               |

(a) Directors whose the term of office started at the Closing Date of the Contribution (i.e. October 1, 2018).

(b) Directors Leonardo Del Vecchio, Romolo Bardin, Giovanni Giallombardo and Francesco Milleri did not attend the meeting of the Board of Directors of April 12, 2019 pursuant to the Combination Agreement between Former Essilor and Delfin because such meeting related to the implementation of such Combination Agreement.

(c) From May 12, 2019.

(d) From May 15, 2019.

### Major accomplishments of the Board of Directors in 2019

For the period from January 1, 2019 through December 31, 2019, the EssilorLuxottica Board of Directors was informed about, reviewed, or discussed matters that included the following:

#### • Corporate Governance:

- finalization of a letter of agreement signed on May 12, 2019 between the Company and Delfin, which settles all disputes between the parties, and lays the foundation for closer collaboration between Essilor and Luxottica. The Company's governance, based on equal powers between the Executive Chairman and the Executive Vice-Chairman, is changing with regard to its operational management with the establishment of a delegation of powers to two co-beneficiaries, Mr. Francesco Milleri (Vice-Chairman and Chief Executive Officer of Luxottica group and Director of the Company) and Laurent Vacherot (Chief Executive Officer of Essilor International and Director of the Company until March 30, 2020, date of his replacement by Paul du Saillant). Their mission is to accelerate the simplification of the Group and to improve its efficiency by integrating both operating companies within 12 to 24 months,

- co-option of Mr. Laurent Vacherot as Director following the resignation of Mr. Bernard Hours;
- amendment of the Board of Directors' Internal Rules pursuant to and in accordance with the letter of agreement dated May 12, 2019,
- appointment of key executives of EssilorLuxottica, including co-secretaries of the Board of Directors,
- increase in the number of members of the Strategy Committee to six,
- discussion of the self-assessment of the Board of Directors' operating procedures during the Board of Directors' Meetings held on November 28, 2019 and March 5, 2020;
- **2019 budget:** the 2019 budget was reviewed during the Board of Directors' Meeting at the beginning of the fiscal year;
- **Financial statements:** review and/or approval of the annual and consolidated financial statements for fiscal year 2018, of the interim financial statements, and of the provisional financial statements after hearing the reports and summaries relating to the work of the Audit and Risk Committee and of the Statutory Auditors; determination of the dividend amount to be proposed to the Shareholders' Meeting of May 16, 2019. The financial position and cash flow situation of the Company were also reviewed by the Board of Directors;

- **Combined Shareholders' Meeting of May 16, 2019:** convening of the Company's Combined Shareholders' Meeting, setting of the agenda, and adoption of resolutions; review of draft resolutions submitted by shareholders that the Board of Directors decided not to approve; review of and answers provided for written questions received prior to the Shareholders' Meeting;
- **Business performance:** at each meeting that is scheduled as part of the annual calendar (excluding exceptional meetings called to deliberate on the governance of the Company or a strategic transaction), the Executive Corporate Officers present the general position of the Company during the preceding period, changes in key financial indicators, "key events" in the commercial and technical fields, the competitive environment, etc.;
- **Major commercial agreements:** renewal and/or signing of license agreements, co-branding, sponsorship and franchise agreements;
- **Acquisition of GrandVision:**
  - agreement reached with Hal Optical Investments B.V. pursuant to which the Company will acquire 76.72% of the share capital of GrandVision N.V., a world leader in optical retail, a transaction that the Board of Directors considered to be in the Company's best interests and in line with the Company's fundamental interests. As part of this transaction, and given that Hal Optical Investments B.V. has undertaken to sell its stake in GrandVision to the Company, the Board of Directors also approved: (i) the purchase price, i.e. €28.00 per share, which price will be increased by 1.5% if the acquisition is not completed within 12 months from the announcement; (ii) the launch by the Company of a mandatory public exchange offer for the remaining share capital of GrandVision after acquiring 76.72% of its share capital; (iii) the launch of a mandatory purchase procedure if the Company holds a sufficient stake in GrandVision following the mandatory public exchange offer; (iv) the support agreement under the terms of which GrandVision supports the transaction and is committed to cooperating with the Company to ensure it is successfully completed; the Board of Directors made note of the conditions precedent to which the acquisition of GrandVision is subject, including obtaining the approval of various competition authorities,
  - financing of the acquisition of GrandVision and, in particular, approval of the signing of a loan agreement known as the "Bridge Agreement" in the amount of €8 billion (or its foreign currency equivalent) and of the issuing of securities within the framework of and/or outside of EMTN (Euro Medium Term Notes), USCP (US Commercial Paper), and NEU CP (Negotiable European Commercial Paper) programs (see paragraph below);
- **Financial authorizations:**
  - delegations of powers granted to Executive Corporate Officers for the purpose of granting security interests, endorsements, guarantees, and/or letters of intent in the name of and on behalf of the Company within the limits defined by the Board of Directors,
  - in order to ensure the operational financing of the Company and of its Group and, in particular, the financing of the acquisition of GrandVision and related transactions:
    - increase of the ceiling for the EMTN (Euro Medium Term Notes) program from €5 billion to €12 billion; renewal for one year of the authorization to issue all forms of bonds, in particular under the EMTN program; renewal for one year of the authorization to renew and update the EMTN program,
    - increase of the maximum issuance ceiling for the USCP (US Commercial Paper) program from USD2 billion to USD4 billion; authorization to amend, renew, and/or update the USCP program,
    - increase of the maximum issuance ceiling for the NEU CP (Negotiable European Commercial Paper) program from €1.5 billion to €3 billion; authorization to amend, renew, and/or update the NEU CP program,
    - specific authorization for the establishment of credit facilities and/or bank loans up to €14.1 billion,
    - delegation of powers to Executive Corporate Officers acting jointly for the above purposes,
  - delegation of powers, with the power of sub-delegation, to the Executive Corporate Officers, acting separately or jointly, for the purpose of determining capital increases following the exercise of stock subscription options and the delivery of performance shares to employees and making the corresponding modifications to the Company's bylaws,
  - delegation of powers, with the power of sub-delegation, to Executive Corporate Officers, acting jointly, for the purpose of implementing transactions relating to the share buyback program authorized by the Shareholders' Meeting of November 29, 2018;
- **Issuance of bonds:** success of the bond issue launched in November 2019 in the amount of €5 billion;
- **Employee shareholding:** confirmation of the employee shareholding policy:
  - awarding of 801,400 existing free presence shares ("the Presence Shares") of the Company to certain employees of the Luxottica group, a conversion of the cash retention plan set up by Luxottica pursuant to the ninth resolution of the Shareholders' Meeting of November 29, 2018,
  - renewal of the Company Savings Plan for employees of the Company and of the French subsidiaries of Essilor and the opening of the Company Savings Plan to employees of the French subsidiaries of Luxottica, up to a maximum of 350,000 new shares to be created in 2019 as part of the Company's capital increase pursuant to the sixth resolution of the Shareholders' Meeting of November 29, 2018,
  - renewal of the International Employee Stock Ownership Plan (ESOP) for almost all of the Essilor group countries and opening of the plan to the Italian subsidiaries of the Luxottica group, up to a maximum of 600,000 treasury shares of the Company,

- awarding of 2,228,446 existing free performance shares (the "Performance Shares"), including 40,000 to the Chairman and Chief Executive Officer and 40,000 to the Vice-Chairman and Chief Executive Officer pursuant to the seventh resolution of the Shareholders' Meeting of November 29, 2018,
- awarding of 127,117 options to purchase existing performance shares (the "Performance Share Purchase Options") to employees of the Company and of its affiliates pursuant to the eighth resolution of the Shareholders' Meeting of November 29, 2018,
- awarding of 94,520 free performance shares (the "Performance Shares") to 4,726 grantees (i.e., employees of the French subsidiaries of Essilor and of the Company, as well as the Chairman and Chief Executive Officer and the Vice-Chairman and Chief Executive Officer of the Company) pursuant to the seventh resolution of the Shareholders' Meeting of November 29, 2018.

The Board of Directors made note of the success of the international employee stock ownership plan, with a record subscription rate of 67% in 73 countries for Essilor employees and 68% for Luxottica's Italian employees;

- **Compensation of Corporate Officers:**
  - review of the performance of the Executive Corporate Officers (i.e., Mr. Hubert Sagnières, Chairman and Chief Executive Officer of the Company up until October 1, 2018, then Executive Vice-Chairman as of that date; Mr. Leonardo Del Vecchio, Chairman and Chief Executive Officer of the Company as of October 1, 2018; and Mr. Laurent Vacherot, Chief Operating Officer up until October 1, 2018) with regard to fiscal year 2018; determination of the variable portion of the compensation due to them for fiscal year 2018, the payment of which was submitted to the Shareholders' Meeting of May 16, 2019 for approval,
  - on the recommendation of the Nominations and Compensation Committee, determination of (i) the compensation for 2019 of Mr. Leonardo Del Vecchio in his capacity as Chairman and Chief Executive Officer and that of Mr. Hubert Sagnières in his capacity as Executive Vice-Chairman and (ii) the compensation policy that applies to them in 2019, which was submitted to the shareholders for a vote at the Shareholders' Meeting of May 16, 2019; with respect to the variable portion for fiscal year 2019, the Board of Directors decided to adopt a structure for each Executive Corporate Officer consisting of 80% financial objectives and 20% specific objectives,
  - awarding to the Chairman and Chief Executive Officer and to the Executive Vice-Chairman of 40,000 performance shares each, subject to the ceilings defined in the compensation policy;
- **Committee Reports:** in preparation for its discussions, the Board of Directors heard reports from the Audit and Risk, Nominations and Compensation, and Strategy and Corporate Social Responsibility Committees on their respective areas;
- **Financial fraud in Thailand:** the Board of Directors reviewed the situation arising from the financial fraud that occurred at a Group entity in Thailand, the measures taken to attempt to recover the misappropriated funds and to strengthen existing security measures, as well as how information regarding this situation should be communicated.

### Minutes

During the 2019 fiscal year, the draft minutes of each Board of Directors' 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 of Directors may create special Committees and set the rules governing their duties and composition. The Company has four permanent Directors Committees:

- Audit and Risk Committee;
- Nominations and Compensation Committee;
- Strategy Committee; and
- Corporate Social Responsibility (CSR) Committee.

These Committees act on the authority delegated to them by the Board of Directors and make recommendations and proposals to the Board of Directors. The Committees do not act in the place of the Board of Directors, but rather as an extension of the Board of Directors, facilitating its work.

In accordance with the specific governance rules that have been set up, each Committee shall comprise an equal number of Directors between those designated by Delfin and Board of Directors' members of the former Essilor (prior to the implementation of the combination between Essilor and Luxottica (hereafter the "Former Essilor")). Committee members may choose to be represented by another member at meetings of the Committee. Each member may represent no more than one other member at any Committee meeting. The deliberations of the Committees shall be valid only if at least half of their members attend the meeting in person (provided further that at least one Director designated by Delfin and one Director designated by the by the Former Essilor, or his or her successor Directors, shall be present or represented).

Decisions shall be made based upon a majority vote of the members attending. If vote is tied then the Chairperson of the meeting shall not have any casting vote.

### Audit and Risk Committee

#### Composition

The Board of Directors' Internal Rules stipulate that the Audit and Risk Committee shall consist of four members appointed by the Board of Directors from among its members. At least two third of its members must be independent directors.

The Committee shall not include any executive Directors.

The members of the Audit and Risk Committee must have special competency in financial, risk management or accounting matters.

The Chair of the Audit and Risk Committee will be held by an independent Director among the Directors designated by Delfin.

The Audit and Risk Committee is chaired by Lucia Morselli. The other members are Romolo Bardin, Annette Messemer and Olivier Pécoux.

## 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 audit of the financial statements and financial information.

For any issues relating to the compliance and the efficiency of the internal audit and major risk management systems, the Audit and Risk Committee must work closely with the Corporate Social Responsibility Committee to establish a comprehensive picture of any financial or non-financial issues.

Without prejudice to the powers of the Board of Directors, this Committee monitors the specific procedures to ensure:

- the integrity of the financial statements, in particular, the corporate and consolidated accounts, the scope of the consolidated accounts and the off-balance sheet commitments;
- when preparing the financial information, that the accounting methods employed are relevant and applied consistently, in particular when dealing with major transactions;
- when reviewing the accounts, a focus on major transactions which could have given rise to conflicts of interest;
- the efficiency of the internal control and risk management systems;
- when monitoring the effectiveness of the internal control and risk management systems and, where applicable, the internal audit of the procedures relating to the preparation and processing of the accounting and financial information, that it hears the persons responsible for the internal audit and risk control and that it is informed of the internal audit schedule and internal audit reports or a periodical summary of these reports;
- compliance with legal requirements and regulations;
- the review of major risks and off-balance-sheet commitments, assessing the significance of any deficiencies or weaknesses of which it has been informed, and it informs the Board of Directors, as the case may be;
- the performance, qualification, independence and control of incompatibilities of the auditors;
- the performance of internal audit.

It issues a recommendation to the Board of Directors on the auditors of the Company which have been proposed to be appointed by the Shareholders' General Meeting.

The responsibilities incumbent on the Audit and Risk Committee are set out in Article 5.1.3 of the Board of Directors' Internal Rules, available on the Company's website.

The Chairperson of the Audit and Risk Committee organizes the Committees' work every year based on his or her assessment of the importance of certain types of risk, in consultation with the management and the Board of Directors, as well as the Chairperson of the CSR Committee.

The Chairperson of the Audit and Risk Committee must regularly coordinate with the Chairperson of the other Committees, and in particular with the Chairperson of the CSR Committee which is in charge to identify and monitor the non-financial risks.

The Chairperson of the Committee or the Board of Directors may convene a meeting at any time, whenever it deems it necessary.

The Executive Chairman and the Executive Vice-Chairman may jointly request to the Chairperson of the Committee to arrange a meeting whenever it deems it useful.

The Committee shall meet at least three times per year.

The meeting agenda is determined by the Chairperson of the Committee or agreed with the Board of Directors, the Executive Chairman or the Executive Vice-Chairman, if the Board of Directors, the Executive Chairman or the Executive Vice-Chairman has initiated the meeting. The agenda is sent to the Committee members before the meeting together with any information that is useful for the discussions.

Sufficient time must be available for the Accounts to be provided and for their review. In order to perform its duties properly, the Audit and Risk Committee must be given a delay of at least five days for considering in advance the documents on which discussions will be based and, in particular, for examining the accounts before their publication.

During the meetings, the Committee hears the statutory auditors and may receive presentations from the Company's corporate officers and EssilorLuxottica's Key Executives (and such other persons as it deems appropriate) who are responsible for the accounts, the risk management system (including compliance) and internal auditing. Management (assisted by a person of its choice) will make a presentation to the Committee on the Group's exposure to risks and significant off-balance sheet commitments.

The Committee may also gather information directly from persons who are able to assist it with fulfilling its duties, in particular certain business and financial managers and those responsible for handling data, whilst keeping management informed. In addition, the Committee may consult external experts, if it deems this necessary, at the Company's expenses, within the limits of the budget approved by the Board of Directors for the Audit and Risk Committee.

## Major accomplishments in 2019

The work of this Committee is based on the recommendations made in the AMF working group report on audit committees of June 14, 2010.

The Audit and Risk Committee met twelve times (including a joint meeting with the CSR Committee) with an attendance rate of 94% for the year, and heard mainly the Co-Chief Financial Officers, the Chief Compliance Officer, the Chief of Internal Audit, the Legal Director, the Co-Secretaries of the Board of Directors and the Statutory Auditors.

Between January 1 and December 31, 2019, the Audit and Risk Committee reviewed the following:

- **Financial statements:** review of the consolidated and statutory 2018 financial statements: the Committee recommended the approval by the Board of Directors of the 2018 financial statements; review of part of the management report in respect mainly of the risks factors and the internal control procedure; review of the 2019 first-half financial statements, of the forecast management documents and the 2019 forecast; dividend proposals to the Board of Directors;
- **Statutory auditors' term of office:** update on the statutory' auditor fees on a yearly basis and recommendation to the Board of Directors to propose the renewal of the Statutory Auditors to the general meeting convened on May 16, 2019;
- **Statutory Auditors:** presentation of the reports of the Statutory Auditors for the 2018 financial year; review of the Statutory Auditors' 2019 external audit plan and of the key audit matters to be disclosed in the auditors' report; review of the 2019 first half draft report of the Statutory Auditors; approval of the non-audit services procedure performed by the Statutory Auditors;
- **Extra-financial performance declaration** (joint meeting with the with the CSR Committee): answers to the questions raised by AMF in respect of Chapter 4 of the 2018 Registration Document; presentation of the new regulations applicable to the non-financial reporting and action plan in view of the preparation of the 2019 extra-financial performance declaration;
- **Internal audit:** presentation of the 2019 internal audit plan with information as to the geographical distribution and results of the audit projects; update on the overall plan for convergence across the Group of internal audit methodology, such plan consisting of several work streams including risk assessment, audit processes and manual, IT system; the Committee approved the proposed methodology supporting risk assessment for the preparation of the 2020 internal audit plan; presentation of the Italian legal requirements in terms of internal control functions and possibility to implement at the Italian subsidiary level audit guidelines to be issued by the Company; review of the proposed Group internal audit organisation;
- **Internal Audit Charter:** presentation of the Company's Internal Audit Charter, which determines the purpose, authority and responsibility of the internal audit activity and includes in particular the following aspects: independence and objectivity of the internal auditors, organizational independence of the internal audit function, direct interaction between the Chief Audit Executive and the Board of Directors;
- **Finance:** review of the financing structure of the Company and of liquidity levels; review of the goodwill; review and approval of the invoices' payment procedure; review of the proposal to transfer to the Company the bonds issued by Luxottica in 2014 and listed in Luxembourg; update on the "sell-out" procedure which enables the Company to reach 97.54% of the share capital of Luxottica (including treasury shares); timeframe for the budget;
- **Governance:** review of the key executive positions to be filled; follow up of the delegations of authority/signature put in place after October 1, 2018 with dual signature principles; follow-up of the MEA Contract entered into between the Company and MEA S.r.l. and, based on the report issued by the law firm Gide Loyrette Nouel, the Committee decided to advise the Board of Directors that the MEA Contract has been approved in accordance with Italian and French law and with the Board of Directors' Internal Rules of the Company;
- **Acquisition of GrandVision:** presentation of the acquisition of GrandVision; review of the financing of this operation and follow-up of the acquisition process;
- **Compliance and risk management** (including a joint meeting with the CSR Committee): review of the draft Code of Ethics and recommendation to the Board of Directors to approve the Code of Ethics; review of the Anti-Bribery and Corruption principles and guidelines; review of the market abuse regulations and related procedures; review of the competition compliance policy; update on the Directors and Officers' insurance policy renewal, on the IT contracts; presentation of the risk management roadmap; update on General Data Protection Regulation project and review of the relevant policies and procedures; update on the proposed compliance organization; Risk assessment work plan; GDPR compliance; IT contracts;
- **Fraud at the manufacturing Thailand Group company:** investigation about the fraud, its discovery, recovery measures and responsibilities; instructions and review of reports from internal and external resources allocated to this task.
- **Synergies resulting from the Combination; transfer of some functions at holding level;**

A non-executive session attended by all members of the Audit and Risk Committee and the Statutory Auditors (but not the management teams) took place in February 2019 to check the status of engagement contracts of the two Co-Financial Officers.

## Nominations and Compensation Committee

### Composition

The Board of Directors' Internal Rules as amended by the Board of Directors on May 12, 2019 stipulate that the Nominations and Compensation Committee shall comprise four members, the majority of whom shall be appointed from among the Board of Directors' independent Directors (as defined by the AFEP-MEDEF Code or, if applicable, the governance principles agreed by Essilor and Delfin in the Combination Agreement).

The Committee shall be chaired by an independent Director (as defined by the AFEP-MEDEF Code or, if applicable, the governance principles agreed by Essilor and Delfin in the Combination Agreement) appointed among the Directors designated by the Former Essilor or their successors.

As from March 18, 2019 the Nominations and Compensation Committee was chaired by Olivier Pécoux, qualified in the Combination Agreement as an independent Director (please note that he is not an independent Director pursuant to the criteria of the AFEP MEDEF Code, see Section 2.4). The other Committee members were Romolo Bardin, Gianni Mion, Bernard Hours (until his resignation as member of the Board of Directors on May 12, 2019) and Annette Messemer (appointed by the Board of Directors as member of the Nominations and Compensation Committee in replacement of Mr Bernard Hours as from May 12, 2019).

### Role

As described in the Board of Directors' Internal Rules, the main duties of the Nominations and Compensation Committee within the work of the Board of Directors are as follows:

#### Nominations:

- it recommends the appointment of Directors and of the Committees' members, as well as the Chairperson of each special Committee, in accordance with the provisions of the Combination Agreement and of the Agreement entered into on May 12, 2019 by and between Former Essilor and Delfin (hereinafter the "May 12, 2019 Agreement") and the governance principles agreed upon between Former Essilor and Delfin in the Combination Agreement and in the May 12, 2019 Agreement. The Nomination and Compensation Committee shall strive to ensure that at least (i) one-half of the Directors, (ii) two-thirds of the members of the Audit and Risk Committee and (iii) a majority of the members of the Nomination and Compensation Committee are independent Directors, determined as specified in the AFEP/MEDEF Code (and/or, in the case of the Nomination and Compensation Committee, pursuant to the governance principles agreed upon between Essilor and Delfin in the Combination Agreement);
- it expresses its own prior recommendation to the Board of Directors in respect of any joint proposal regarding the designation of EssilorLuxottica's Key Executives, which the Executive Chairman and the Executive Vice-Chairman intend to present to the Board of Directors;
- it issues recommendations to the Board of Directors (or in the first place to the Executive Chairman and the Executive Vice-Chairman as regards the appointment of the Deputy CEO (if applicable) on the selection of the Company's executive corporate officers in line with the governance principles agreed by Former Essilor and Delfin in the Combination Agreement and in the May 12, 2019 Agreement. The Company's executive corporate officers comprise the Executive Chairman, the Executive Vice-Chairman, the Deputy CEO (if appointed) and, from May 12, 2019, Messrs. Milleri and Vacherot (until March 30, 2020, date of his replacement by Paul du Saillant) pursuant to the delegation of authority granted to them by the Executive Chairman and the Executive Vice-Chairman as of such date, for the management of the EssilorLuxottica group and to develop and implement the strategy and integration process of the EssilorLuxottica group;
- it is responsible to develop a succession plan for the corporate officers in line with the governance principles agreed upon between Essilor and Delfin in the Combination Agreement;
- it is responsible to study any major developments in the organization.

#### Assessment:

- it assists the Board of Directors in its periodic assessments;
- it prepares the Board of Directors' annual assessment of its membership, organization and operation (which involves a corresponding review of the Board of Directors' Committees), and leads the self-assessment of the Board of Directors in compliance with the provisions of the AFEP/MEDEF Code and Section 7 of the Board of Directors' Internal Rules;
- it is responsible for the assessment of the possible candidates to fill any vacancy within the Board of Directors of the Company, in particular for unforeseen vacancies or in the case of appointment of additional Board of Directors' members;
- it puts forward proposals to improve the functioning of the Board of Directors (*i.e.*, organization of meetings, evaluation of the performance of each Director and managing the evolution process of the Board of Directors); in particular, it proposes to the Board of Directors improvements to these Board of Directors' Internal Rules, if the procedures for disclosing, dealing with, and monitoring of, conflicts of interest situations turn out to be inappropriate or insufficient;
- it puts forward proposals for creation of Committees and assignment for each of them;
- it monitors changes in the Company's shareholdings structure and Company's awareness of such changes with a view to monitor the representation of shareholders (including employee shareholders) in the governance;
- it gives its prior approval before any corporate officer or Director accepts a new directorship or a management position in another Third Party Company, before any corporate officer or Director accepts a consulting agreement with a Competitor or with a company operating in a sector with reputation issues, and before any corporate officer or any EssilorLuxottica Key Executive or any Director takes a direct or indirect significant interest giving them control or a significant influence over a Competitor of the Group (it being specified that such prior approval cannot be refused, conditioned or delayed without reasonable legitimate reason relating to a potential conflict of interest, an overboarding situation, or reputation issues); if no prior approval can be given as a result of a confidential process undertaken by a Director, such Director shall immediately upon his/her appointment inform the Nominations and Compensation Committee so that it may determine whether the new directorship, management position in, or consulting engagement with, the other company is compatible with the role of such independent Director with the Company. "Third Party Company" shall be defined as any company other than companies consolidated by the Company and "Competitor" shall refer to any Third Party Company having an activity in the ophthalmic optics business or the design, manufacture and distribution of eyewear, which represents a significant part of its business or which is significant on the market;
- it conducts yearly a case-by-case assessment of each Director with regard to the independence criteria set forth in the AFEP/MEDEF Code and these Board of Directors' Internal Rules;

- it is informed by the Executive Chairman and/or the Executive Vice-Chairman or the Chairperson of the concerned Committee, each time a Director cannot attend nor vote as the result of a Conflict of Interest situation; it also reviews the Directors' periodic statements relating to their respective Conflict of Interest situations (if any), it prepares a list of the issues likely to give rise to Conflicts of Interest, and it reports to the Board of Directors accordingly;
- it provides every year the Board of Directors with a report assessing the roles of the Executive Chairman, the Executive Vice-Chairman and of the Directors, as well as the actions of Deputy CEO (if applicable) and EssilorLuxottica's Key Executives, notably with a view to determine their compensation;
- Each year, EssilorLuxottica's Key Executives shall meet with the Committee.

#### Compensation:

- putting forward proposals on the compensation policy and the compensation of the corporate officers of the Company and Deputy CEO (if applicable) (including all components of the compensation and its structure and, if applicable, EssilorLuxottica's Key Executives);
- ensuring compliance of the compensation policy, its structure and components with legal requirements and the AFEP/MEDEF Code;
- considering termination provisions and financial conditions of departure for any corporate officers of the Company and EssilorLuxottica's Key Executives;
- putting forward proposals to the Board of Directors on the general policy and terms and conditions for granting stock-options and/or free performance shares, the allocation of free shares and the setting-up of employee share ownership plans, profit-sharing measures as well as any other incentive schemes for the Company's or Group's employees;
- putting forward proposals on the allocation of stock options and/or free performance shares for corporate officers of the Company, EssilorLuxottica's Key Executives (and such other persons as it deems appropriate, including the main managers of Luxottica and Essilor International, after considering the recommendations of the Boards of Directors of those two companies) as well as the number of shares resulting from the exercise of stock options or performance shares that they will be required to retain until the termination of their office;
- putting forward proposal on Directors' fees amount and their allocation taking into account Directors' attendance rate;
- reviewing the terms and conditions of any service agreement to be entered into with any member of the Board of Directors or any corporate officers of the Company or EssilorLuxottica's Key Executives prior to their entering into;
- informing itself on general compensation policies in the Company or the Group;
- submit annually to the Board of Directors the draft report on compensation policy and on awarded compensation and give an opinion on the related draft resolutions on which the Shareholders' General Meeting is called upon to decide in accordance with French regulations.

#### Governance:

- putting forward recommendation on best corporate governance practices;
- assessing whether corporate governance practices within the Group comply with the AFEP/MEDEF Code and recommendations of the AMF and proxy agencies and monitoring of their compliance thereto;
- pointing out deviations from the AFEP-MEDEF Code and preparing explanations for reasons for doing so.

The Nomination and Compensation Committee shall be associated in the preparation of any report (including the annual report) for the sections pertaining to its areas of expertise and duties.

It may consult external advisors, consultants, counsels or experts at the Company's expenses if necessary for the completion of its duties (including to identify directorship's candidates or to assess the membership and functioning of the Board of Directors), within the limits of the budget approved by the Board of Directors for the Nomination and Compensation Committee.

#### Major accomplishments in 2019 achieved by the Nomination and Compensation Committee

Between January 1 and December 31, 2019, the Committee met nine times (with an attendance rate of 97% for the year).

It reviewed the following matters:

- **Nomination:**
  - update on CEO search;
- **Compensation:**
  - determination of the achievement rate and of the variable compensation component of Mr. Leonardo del Vecchio, Mr. Hubert Sagnières and Mr. Laurent Vacherot for the 2018 fiscal year;
  - for each of the executive corporate officers: determination of their respective fixed compensation and of the structure and targets for their variable compensation components for the 2019 fiscal year;
  - review of the executive corporate officers' draft compensation policy for 2019;
  - review of the resolutions regarding executive corporate officers compensation submitted to the Shareholders' Meeting for approval at the general meeting held on May 16, 2019;
  - review of a benchmark study regarding the compensation of Essilor and Luxottica's top executives;
  - discussion on the 2020 compensation policy;
- **Employee share ownership:** the Committee approved the main following measures to be submitted to the Board of Directors: conversion of the Luxottica's cash retention plan into a free share award plan; renewal of the Company Savings Plan for the employees of the Company and of Essilor's French subsidiaries and opening of said Plan to the employees of Luxottica's French subsidiaries; extension of the international Employee Shareholding Plan to almost all Group countries including the Italian subsidiaries of Luxottica; granting performance shares and stock options;
- **Key executives compensation :** review of the key executives variable compensation;
- **Organization of the Committee:** appointment of the Committee' secretaries and setting of a schedule for the next Committee's Meetings.

## Strategy Committee

### Composition

The Board of Directors' Internal Rules, as amended on May 12, 2019, stipulate that the Strategy Committee shall be composed of six members appointed by the Board of Directors from among its members. Unless otherwise determined by a joint decision of the Executive Chairman and the Executive Vice-Chairman, the Chairman of the Strategy Committee must invite all members of the Board of Directors to attend (but not to vote at) the meetings of the Strategy Committee, except for meetings convened to discuss sensitive and significant acquisition projects.

The Strategy Committee meets four times per year, unless otherwise jointly decided by the Executive Chairman and the Executive Vice-Chairman.

The chair of the Committee will be held by a Director chosen among the Directors designated by Delfin.

Francesco Milleri (Non Independent Director) chaired the Strategy Committee. The other Committee members were Hubert Sagnières, Gianni Mion, Bernard Hours (until May 12, 2019), Laurent Vacherot (from May 12, 2019 and until March 30, 2020), Juliette Favre (from May 15, 2019) and Cristina Scocchia (from May 15, 2019).

### Role

As described in the Board of Directors' Internal Rules, the main duty of the Strategy Committee within the work of the Board of Directors consists of regularly reviewing the Group's overall strategy, including, but not limited to, acquisition, divestment and M&A matters, products and technology, growth and financial strategy as well as geographical and marketing strategies, including the decisions set forth in paragraphs d) and j) to n) of Article 4.2 of these Board of Directors' Internal Rules, and making recommendations to the Board of Directors in this respect.

The Executive Chairman, the Executive Vice Chairman and, where applicable, the Deputy Chief Executive Officer, assisted as needed by members of their choice, are responsible for making presentations on these matters on a regular basis. The Executive Chairman, the Executive Vice Chairman and the Deputy CEO (if any) personally give a presentation on the Group's strategy to the Strategy Committee annually.

This Committee submits proposals to the Board of Directors, which approves any major strategic decisions.

This Committee should be coordinated with the Corporate Social Responsibility Committee which is in charge of monitoring the sustainable development and corporate social responsibility, fully integrated in the strategy.

### Major accomplishments in 2019

**Between January 1 and December 31, 2019**, the Strategy Committee met two times (with an attendance rate of 92%).

The Committee mainly focused on examining the acquisition of GrandVision, including the analysis of the deal rationale and the financing structure, and discussed the impact of the transaction on the governance and on the Company's finance.

## Corporate Social Responsibility (CSR) Committee

### Composition

The Board of Directors' Internal Rules stipulate that the CSR Committee shall comprise four members, two of whom must be Independent Directors.

The CSR Committee is chaired by an Independent Director, appointed from among the Directors of the Former Essilor or their successors directors.

Jeanette Wong (Independent Director) chaired the CSR Committee. The other Committee members were Giovanni Giallombardo, Hubert Sagnières and Cristina Scocchia.

### Role

The main role of the CSR Committee, within the duties of the Board of Directors, is to ensure that the Group effectively addresses the deployment of the Group mission "to help people see more, be more and live life to its fullest", which is fully integrated in the Company strategy. Accordingly, the Company operates to give vision a voice and respond to the world's growing vision needs by meeting the changing lifestyles of existing consumers and finding new ways to reach the 2.5 billion people who suffer from uncorrected poor vision and the 6 billion people who do not protect their eyes from harmful rays.

The role of the CSR Committee goes beyond philanthropy, inclusive business and compliance, and also focuses on how the Company manages its economic, social and environmental impacts and its relations with all stakeholders (workplace, community, public policy, etc.). Its missions encompass all areas of the corporate social responsibility relating to the 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.

Such corporate social responsibility policy encompasses all of the Group's stakeholders: customers, shareholders, suppliers, employees, community associations, government authorities and institutions, multi-lateral agencies, financial analysts and ratings agencies, consumers and the media. This policy is anchored in the common principles and values of the Group<sup>(1)</sup> that form the basis of the corporate culture and are shared across the Group. For example, they are reflected in the way the Group works as a community of entrepreneurs, in the importance given by the Group to employee shareholding as well as in the emphasis put on the health and social significant roles of vision correction and vision protection that allow people to learn and work to the best of their ability and to fully interact with the world around them.

(1) Working Together, Innovation, Respect and Trust, Entrepreneurial Spirit and Diversity.

The Committee shall notably be responsible under the authority of the Board of Directors for:

- The sustainable development matters:

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 of Directors about the Group's long-term development, including economic development through its CSR initiatives in the areas of vision and its improvement.

In fulfilling its role, the Committee is responsible for the following:

- review the Group's environmental policies and management systems,
- review the policies with respect to relationships with stakeholders (customers, suppliers, local communities),
- review the rollout of inclusive business,
- review of the 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 reorganizational projects,
- review the Group's human rights policy,
- receive, on an annual basis, the presentation of the Group's risk map concerning social responsibility and sustainable development; the Committee reviews the risks and the opportunities thus identified and is kept informed of their evolution and of the characteristics of their 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 on the Group 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).
- The Ethics and Compliance matters:

The Committee reviews and monitors the Company's policies on compliance and ethics matters as well as the procedures and systems in place to implement these policies and provides the Board of Directors with its views on these subjects.

In fulfilling its role, the Committee is responsible for the following:

- review the definition of the Group's core values, ethics and compliance policy,
- review and make recommendations in order to promote corporate culture and employee shareholdings,

- promote ethics and ensure the harmonization of ethics rules within the Group entities, and monitor their compliance thereto,
- review the organization of the compliance function and make recommendations if required,
- review the Group's Code of ethics, its rules and procedures,
- receive, on an annual basis, the presentation of the Group's risk map concerning ethics and compliance; it reviews the risks thus identified and is kept informed of their evolution and of the characteristics of their management systems.

The CSR Committee shall coordinate its work with:

- the Audit and Risk Committee for all matters related to CSR Committee's areas of intervention, in particular concerning internal control, compliance, management and review of risks of non-financial information and major litigation. The CSR Committee may also be consulted, jointly with the Audit and Risk Committee, on the management procedures with regard to any unusual risks, whenever the Board of Directors or management deems this useful;
- the Strategy Committee for all matters related to the CSR Committee's areas of intervention, in particular CSR policy and sustainable development matters.

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

It may consult external advisors, consultants, counsels or experts at the Company's expenses if necessary for the performance of its duties, within the limits of the budget approved by the Board of Directors for the CSR Committee.

#### Major accomplishments in 2019

**Between January 1 and December 31, 2019**, the Committee met three times (including a joint meeting with the Audit and Risk Committee) with an attendance rate of 100%, and reviewed the following:

- analysis of the extra-financial performance declaration for the 2018 financial year relating to (i) the Company, (ii) Essilor and (iii) Luxottica; identification of five priorities: human rights, business ethics, business interruption, suppliers sustainability and talent management; recommendation to the Board of Directors to approve the 2018 extra-financial performance declaration;
- advice to create a sustainability Committee at the Company level;
- update on the project "Development Impact Bond" which aims to gather alternative funds to contribute to the eradication of poor vision;
- introduction of EyeMed business
- EssilorLuxottica purpose/mission: Update on various actions and plans
- One Sight: overview and plans on building sustainable access
- 2019 Non-financial Reporting: update on the reporting, protocol, human rights, CSR risks and plans for 2020.

The Committee also met with the Italian and French Statutory Auditors.

### 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 October 1, 2018, the Board of Directors decided to appoint:

- Leonardo Del Vecchio as EssilorLuxottica Executive Chairman; and
- Hubert Sagnières as EssilorLuxottica Executive Vice-Chairman.

Pursuant to the Combination Agreement entered into by Delfin and Essilor, the Executive Chairman and the Executive Vice-Chairman of EssilorLuxottica have equal powers and neither has the casting vote. Consequently, both the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman are vested with full and equal powers to act in all circumstances in the name of EssilorLuxottica. They shall exercise these powers within the limits of the corporate purpose and subject to the powers expressly granted to the EssilorLuxottica Shareholders' Meeting and to the EssilorLuxottica Board of Directors by law, as well as to the limitations set forth by the bylaws of EssilorLuxottica and by the proposed Internal Rules of the EssilorLuxottica Board of Directors.

Decisions relating to the management of EssilorLuxottica shall be made jointly by, or with the approval of, the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman, failing which, by the EssilorLuxottica Board of Directors, except for certain decisions or specific matters: a) which – except as

otherwise jointly decided by the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman – may be made either by the EssilorLuxottica Executive Chairman or the EssilorLuxottica Executive Vice-Chairman, acting individually, or by the person to whom such power or authority is delegated; (b) for which the EssilorLuxottica Executive Chairman and the EssilorLuxottica Executive Vice-Chairman subsequently (i) agree in writing that they can act individually, or (ii) jointly delegate powers or authority to a manager of EssilorLuxottica or to another person; or (c) which fall within the scope of the powers, or require the approval, of the EssilorLuxottica Board of Directors pursuant to the Board of Directors' Internal Rules.

However, in application of Article 4.2 of the Board of Directors' Internal Rules, a certain number of decisions require prior approval from the Board of Directors, after review by the competent Committee if required (see Section 2.1.2.2).

On May 12, 2019, a mission letter with delegation of authority was granted by the Executive Chairman and the Executive Vice-Chairman of EssilorLuxottica to Francesco Milleri and Laurent Vacherot (until March 30, 2020, date of his replacement by Paul du Saillant) for the management of the EssilorLuxottica group and to develop and implement the strategy and integration process of the EssilorLuxottica group.

## 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.

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

As an exemption to the provisions of the last paragraph of Article L. 225-123 of the French Commercial Code, no double voting rights are conferred on the shares of the Company.

### 2.2.1 Ordinary Shareholders' Meetings (Article 24)

The Ordinary Shareholders' Meeting has the powers defined by law and the bylaws of the Company.

The Ordinary Shareholders' Meeting votes under the rules of quorum and majority required by law. It is reminded

that provision 23 of the bylaws, which provides for a limit on voting rights of 31% for any shareholder, based on a formula disclosed in the bylaws.

### 2.2.2 Extraordinary Shareholders' Meetings (Article 25)

The Extraordinary Shareholders' Meeting has the powers defined by law and these bylaws. Under no circumstances may it increase the commitments of the shareholders or undermine the equality of their rights unless the shareholders unanimously approve such a decision, subject to the obligation imposed on shareholders to buy or sell fractional shares, in the event of a consolidation of shares, capital increase or reduction, merger or demerger.

The Extraordinary Shareholders' Meeting votes under the rules of quorum and majority required by law. Notwithstanding the foregoing, an Extraordinary Shareholders' Meeting that decides to carry out a capital increase through the capitalization of reserves, profits or issue premiums, votes under the rules of quorum and majority required for Ordinary Shareholders' Meetings. It is reminded that provision 23 of the bylaws, which

provides for a limit on voting rights of 31% for any shareholder, based on a formula disclosed in the bylaws.

The Extraordinary Shareholders' Meeting may also, if applicable, 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 Shareholders' Meeting 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 said Special Meeting, that Special Meeting elects its own Chairman.

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

Share capital issued and non-issued authorized share capital <sup>(1)</sup>: the table below summarizes the current delegations granted by the Shareholders' Meetings of May 11, 2017, November 29, 2018 and May 16, 2019 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 12/31/2019   |
|---|--|--|---|--|
| <b>INCREASE IN SHARE CAPITAL FOR THE BENEFIT OF EMPLOYEES AND EXECUTIVE CORPORATE OFFICERS</b>  |  |  |   |  |
| Increase in share capital reserved to employees (members of a Company savings plan) <sup>(1)</sup>  | November 29, 2018 (6 <sup>th</sup> )           | 26 months (January 28, 2021)<br>This delegation was terminated early on May 16, 2019 | 0.5% of the share capital (at the date of issue)  | 0.07%  |
| Increase in share capital reserved to employees (members of a Company savings plan) <sup>(1)</sup>  | May 16, 2019 (15 <sup>th</sup> )               | 26 months (July 15, 2021)  | 0.5% of the share capital (at the date of issue)  | 0.06%  |
| <b>AUTHORIZATIONS RELATED TO THE EMPLOYEE SHARE OWNERSHIP POLICY TO ALLOT EXISTING SHARES (USE OF VESTED SHARES UNDER THE SHARE BUYBACK PROGRAM – NO INCREASE IN SHARE CAPITAL)</b> |  |  |   |  |
| Bonus share award (performance shares) for the benefit of employees and executive corporate officers  | November 29, 2018 (7 <sup>th</sup> )           | 38 months (January 28, 2022)   | 2.5% of the share capital (at the award date)   | 0.91% (1.09% including shares granted as a replacement of Luxottica cash retention plan) |
| Award of stock options for the benefit of employees   | November 29, 2018 (8 <sup>th</sup> )           | 38 months (January 28, 2022)   | 0.5% of the share capital (at the award date)   | 0.06%  |
| Authorization to award existing bonus shares to certain Luxottica employees as a replacement for the cash retention plan granted by Luxottica                                       | November 29, 2018 (9 <sup>th</sup> )           | 38 months (January 28, 2022)   | Within the authorized limit on bonus shares that may be awarded (2.5% in the aggregate) | 0.18%  |
| <b>INCREASE IN THE SHARE CAPITAL</b>  |  |  |   |  |
| Delegation of authority to issue shares and securities entailing a share capital increase with preferential subscription rights   | May 16, 2019 (16 <sup>th</sup> )               | 26 months (July 15, 2021)  | 5% of the share capital at the date of the General Meeting, i.e. May 16, 2019           | None   |
| Delegation of authority to increase the share capital by capitalization of premiums, reserves, profits or other rights  | May 16, 2019 (17 <sup>th</sup> )               | 26 months (July 15, 2021)  | €500 million  | None   |

(1) Article L. 225-37-4 of the French Commercial Code.

## Report on Corporate Governance

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

| Type of delegation  | Date of Shareholders' Meeting (resolution no.) | Duration (Date of expiration) | Maximum authorized amount   | Use as of 12/31/2019 |
|---|--|-------------------------------|---|----------------------|
| <b>INCREASE IN THE SHARE CAPITAL ASSOCIATED WITH THE COMBINATION WITH LUXOTTICA</b>   |  |                               |   |                      |
| Increase in the share capital by way of issuing shares granted to Luxottica shareholders in consideration for Luxottica securities sold to the Company as part of the "sell-out" procedure ( <i>Offre Publique de Retrait</i> ) initiated by the Company  | May 11, 2017 (23 <sup>rd</sup> )               | 26 months (July 10, 2019)     | Maximum amount: a total maximum par value amount of €20 million<br>Used on January 22, 2019: share capital increase of an aggregate par value amount of €1,188,482.76 by issuing 6,602,682 new ordinary shares with a par value of €0.18 to remunerate Luxottica shareholders in the framework of the "sell-out" procedure initiated by the Company     |                      |
| Increase in the share capital by way of issuing shares granted to Luxottica shareholders in consideration for Luxottica securities sold to the Company as part of the "squeeze-out" procedure ( <i>Procédure conjointe</i> ) initiated by the Company following the "sell-out" procedure ( <i>Offre publique de Retrait</i> ) | May 11, 2017 (23 <sup>rd</sup> )               | 26 months (July 10, 2019)     | Maximum amount: a total maximum par value amount of €20 million<br>Used on February 28, 2019: a share capital increase of an aggregate par value amount of €478,177.56 by issuing 2,656,542 new ordinary shares with a par value of €0.18 to remunerate Luxottica shareholders in the framework of the "squeeze-out" procedure initiated by the Company |                      |
| <b>BUYBACK BY THE COMPANY OF ITS OWN SHARES</b>   |  |                               |   |                      |
| Purchase by the Company of its own shares   | November 29, 2018 (4 <sup>th</sup> )           | 18 months (May 28, 2020)      | 10% of the share capital at the date of purchase  | None                 |
| <b>REDUCTION IN THE SHARE CAPITAL BY CANCELLATION OF SHARES</b>   |  |                               |   |                      |
| Cancellation of shares acquired by the Company under Article L.225-209 of the French Commercial Code  | November 29, 2018 (5 <sup>th</sup> )           | 26 months (January 28, 2021)  | 10% of the share capital at the date of cancellation by 24-month periods  | None                 |

(1) For the record, under the employee share ownership policy, employees based abroad are also entitled to an international "Boost" offer; this program, launched in 2018, did not result in an increase in share capital as existing treasury shares were used to deliver shares to employees.

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

In accordance with Article L. 225-37-5 of the French Commercial Code, the factors that may have an impact in the event of a public offering are presented below:

### 2.2.4.1 Structure of the Company's share capital

The structure of the Company's share capital is detailed in Section 5.2.1.

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 signature date of 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 (the "**Standstill Undertaking**").

### 2.2.4.2 Statutory restrictions in the exercise of voting rights

- **Obligation to disclose threshold crossings**

The Company's bylaws stipulate a disclosure requirement for any person who acquires directly or indirectly a fraction equal to 1% of the voting rights. The crossing of any additional threshold of 2% must be brought to the attention of the Company under the same conditions. This information must also be provided to the Company under the same conditions if the percentage of voting rights held falls below the above-mentioned thresholds.

If this disclosure requirement 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 Section 5.1 of this Universal Registration Document.

- **Article 23 of the Company's bylaws sets forth a 31% cap on voting rights, applicable to any shareholder based on a formula described therein.**

Consequently, no shareholder may exercise, either personally or through a proxy holder, voting rights of shares that they hold, directly or indirectly, representing more than 31% of the total number of voting rights of the Company, calculated as indicated above.

Given the share capital structure as of December 31, 2018, this cap is applicable to Delfin (see Section 5.2.1 of this Universal Registration Document).

2

#### Reminder of the statutory calculation formula (Article 23 of the bylaws)

"When no more than one natural person or legal entity, acting alone or in concert with one or more natural persons or legal entities, directly or indirectly holds more than ten percent (10%) of the capital or voting rights of the Company on the Shareholder Record Date for the Shareholders' Meeting in question or exercises more than ten percent (10%) of the voting rights of the Company for themselves or as a proxy holder, the number of voting rights that any shareholder may exercise, either personally or through a proxy holder, in respect of the voting rights attached to the shares or to the divisions of share ownership (for the rights they are authorized to exercise depending on the case) that they hold, directly or indirectly, alone or in concert, cannot exceed the number resulting from the formula below:

$$31 * (N - P - D) / 100$$

where

- (N) the total number of voting rights of the Company existing on the Shareholder Record Date for the Shareholders' Meeting in question and reported to the shareholders on the date of the Shareholders' Meeting;
- (P) the total number of voting rights attached to the treasury shares within the limits of a maximum amount of treasury shares corresponding to 1% of the Company's share capital;
- (D) the total number of voting rights of the concerned shareholder neutralized by this statutory clause limiting voting rights for the fraction of voting rights attached to the shares that they hold and exceeding 34% of the Company's share capital.

When at least two natural persons or legal entities, each acting alone or in concert with one or more natural persons or legal entities, each hold more than ten percent (10%) of the share capital or voting rights of the Company on the Shareholder Record Date for the Shareholders' Meeting in question or each exercise more than ten percent (10%) of the voting rights of the Company for themselves or as proxy holders on the Shareholder Record Date for the Shareholders' Meeting in question, the above voting right limitation will apply with the exception of elements (P) and (D), which will not be deducted."

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

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

The Company's shareholder structure is presented in detail in Section 5.2.1 of this Universal Registration Document.

The crossing of legal thresholds occurred in 2019, which are listed in Section 5.3 of this Universal Registration Document, are also reproduced below:

#### Crossing of legal and statutory thresholds in 2019

See Section 5.3 of this Universal Registration Document

#### 2.2.4.4 Rules applicable to the appointment and replacement of members of the Board of Directors or Management Board and to amendments to the Company's bylaws

Pursuant to the Combination Agreement, the members of EssilorLuxottica's Board of Directors during the Initial Term (i.e. from October 1, 2018 until the Shareholders' Meeting that will meet in 2021 to approve the financial statements for the year ended December 31, 2020) are as follows:

- (i) Luxottica's current Executive Chairman, Leonardo Del Vecchio, is appointed as Executive Chairman (*Président-Directeur Général*) of EssilorLuxottica (the "**EssilorLuxottica Executive Chairman**");
- (ii) The Chairman and Chief Executive Officer of Essilor International (Compagnie Générale d'Optique) before October 1, 2018, Hubert Sagnières, is appointed as Executive Vice-Chairman (*Vice-Président-Directeur Général Délégué*) of EssilorLuxottica (the "**EssilorLuxottica Executive Vice-Chairman**");
- (iii) The Board of Directors of EssilorLuxottica is composed of **16 members**;
- (iv) **eight members nominated by Essilor**, comprising the EssilorLuxottica Executive Vice-Chairman, two employee representatives, one representative of Valoptec Association, three independent members from Essilor International (Compagnie Générale d'Optique)'s Board of Directors before October 1, 2018 and one non independent member from Essilor International SAS Board of Directors (for more information on the independent qualification for the purpose of the Combination Agreement, please refer to the summary on deviations from the recommendations of the AFEP-MEDEF Code); and
- (v) **eight members nominated by Delfin**, comprising the EssilorLuxottica Executive Chairman, three representatives of Delfin and four independent members appointed by Delfin after consultation with Essilor.

Following the Initial Term, (i) the members of the Board of Directors of EssilorLuxottica will be appointed for a term of office of three years; and (ii) any new member of the Board of Directors of EssilorLuxottica will be proposed for election at EssilorLuxottica's Shareholders' Meeting by the Board of Directors of EssilorLuxottica on the recommendation of the EssilorLuxottica Nominations and Compensation Committee or any EssilorLuxottica shareholder in accordance with applicable law, without any regard to the provenance of the nominees from Luxottica or Essilor.

Please refer to Section 2.1.1.2 for a description of the expected composition of the EssilorLuxottica Board of Directors effective as from the Contribution Completion Date.

#### 2.2.4.5 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 2.2.3, granted to the Board of Directors, stipulate that they may not be used during public offerings.

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

Internal shareholders and partners own 4.4% of the share capital and 4.5% 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 the Shareholders' Meeting of the Company.

#### 2.2.4.7 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.
- Certain licensing agreements for the production and distribution of eyewear products include clauses allowing the relevant licensor, under certain conditions, to terminate the respective agreement in the event of a direct or indirect change of Luxottica's control.
- Financing agreements entered into by the Company (or some of its subsidiaries) include acceleration clauses 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 of corporate officers

### 2.3.1 Compensation policy for corporate officers

In accordance with Articles L. 225-37-2 and R. 225-29-1 of the French Commercial Code, this section describes the compensation policy applicable to EssilorLuxottica's corporate officers. The compensation policy described below will be submitted for approval at the Shareholders' Meeting on June 25, 2020 under the tenth resolution.

#### 2.3.1.1 General principles

##### 2.3.1.1.1 Main aims of the policy

EssilorLuxottica, an integrated, world-leading provider of optical services, intends to transform and accelerate its industry in order to meet the growing vision needs of the global population and the aspirations of each consumer.

Inventing solutions that correct, protect and enhance the sight of each consumer requires operational excellence and the relentless commitment of the Group's 150,000 employees.

Compensation policy is a key driver of employee engagement. It is aligned with the Company's corporate purpose, it contributes to its long-term viability and forms part of its business strategy by:

- promoting the recruitment and long-term retention of the talent required for the Group's growth;
- encouraging and rewarding long-term value creation for all stakeholders;
- developing a culture of sustainable performance, excellence and innovation by setting ambitious long-term objectives;
- sharing the shareholder value generated with the widest number of employees through a proactive employee share ownership policy;
- supporting employee well-being thanks to a groundbreaking social well-being policy.

#### a) For members of the Board of Directors

The aim of the compensation policy for members of the Board of Directors is to set competitive compensation from an international perspective, in order to promote diversity of Board of Directors' members and the presence of members with a wide range of complementary skills.

Directors' compensation includes a fixed component and a predominant variable component, which take into account (i) the type of offices held on the Board of Directors and its Committees and (ii) the actual attendance of the members at Board of Directors' and Committee's Meetings.

In accordance with the Board of Directors' Internal Rules of procedure, Directors who attend meetings by videoconferencing or other telecommunication means shall not receive any compensation for the meetings concerned, unless otherwise decided by the Executive Chairman and Executive Vice-Chairman. This policy encourages Directors to be physically present at meetings, thus ensuring that they have fully grasped the issues facing the Company and that discussions are effective, in the interests of the Company.

It is specified that the Executive Corporate Officers and Directors performing duties within the Group receive compensation for their office as Director or Committee member.

#### b) Compensation of the Executive Corporate Officers (Executive Chairman and Executive Vice-Chairman)

The compensation policy for Executive Corporate Officers is determined with regard to the specific situation of EssilorLuxottica, which is led by an Executive Chairman and an Executive Vice-Chairman with equal powers (and therefore equal compensation) in accordance with the principles laid down by the Combination Agreement entered into in January 2017, and applicable for the entire initial period, which will come to an end at the Shareholders' Meeting called to approve the financial statements for fiscal year 2020.

The compensation policy for Executive Corporate Officers is determined on the basis of the following objectives:

- compensation must be strictly aligned with the performance of EssilorLuxottica, in connection with the Company's business strategy;
- compensation must be considered as a whole: all components (cash compensation, long-term incentive, employee benefits and supplementary pension) and the balance between those components must be taken into account;
- compensation must be competitive with regard to the practices of comparable European and international companies;
- compensation must take account of employees' compensation and employment conditions: it must be consistent with that of the other senior executives and employees of EssilorLuxottica in terms of structure and progression;
- compensation must be governed by simple, clear, transparent rules.

#### 2.3.1.1.2 Process used to determine, revise and implement the compensation policy

The compensation policy for corporate officers is set by the Board of Directors on the recommendation of the Nominations and Compensation Committee.

#### a) For members of the Board of Directors

In accordance with Article 14 of the bylaws, the Shareholders' Meeting determines the total amount allocated to members of the Board of Directors each year as compensation for their duties as Director. The total annual amount voted by the Combined Shareholders' Meeting of November 29, 2018 was €2,000,000.

On November 29, 2018, the Board of Directors approved the rules for allocating this total annual amount between the Directors, pursuant to the aforementioned principles. These rules will apply until a further decision is made by the Board of Directors.

#### b) Compensation of the Executive Corporate Officers (Executive Chairman and Executive Vice-Chairman)

##### **Role of the Nominations and Compensation Committee**

When drafting the compensation policy for the Executive Corporate Officers, the Nominations and Compensation Committee considers any changes to be made to the policy in the spirit of continuous improvement.

In order to prepare the compensation policy for Executive Corporate Officers, the Nominations and Compensation Committee:

- relies in particular on the AFEP-MEDEF Code, the report of the High Committee for Corporate Governance (*Haut Comité de Gouvernement d'Entreprise*), and the AMF report on corporate governance and executive compensation at listed companies;
- analyzes the applicable governance rules and reviews any changes that have occurred or that are planned;
- takes note of the expectations expressed by all stakeholders (investors and proxy advisors, notably through reports drawn up in conjunction with governance roadshows);
- analyzes the approval rates for resolutions on compensation for the Company's Executive Corporate Officers.

The Committee also carefully considers the compensation and employment conditions for the Group's employees with a view to ensuring consistency and fairness between employees and Executive Corporate Officers. At the Committee's request, the Human Resources Departments of Essilor International (SAS) and Luxottica conducted a comparative study between the top 150 positions with the most responsibility within each entity. The Committee has been provided with the main conclusions of this study, which have been used to underpin the guiding principles of the compensation policies at Essilor and Luxottica, and helped to form the basis of the 2020 action plan.

The Committee also monitored the salary review process for EssilorLuxottica Key Executives. It was also kept informed about the "Boost" operation, which was deployed for the third consecutive year within Essilor International (SAS), and for the first time in Italy for Luxottica. The Committee welcomed the subscription rates at Essilor and Luxottica, which increased the number of employee shareholders to 64,000.

In light of this information, which is gathered and reviewed throughout the year, at the start of the year the Nominations and Compensation Committee examines the Executive Corporate Officers' compensation structure, the balance between the various compensation components, the competitiveness, and the practices of comparable companies, and suggests any changes it feels are appropriate.

In particular, the Nominations and Compensation Committee determines the various components of the compensation policy with regard to the following principles:

##### • **Fixed compensation**

Fixed compensation must help attract talented individuals from within EssilorLuxottica, or from outside the Group if necessary, to the most senior management positions. Fixed compensation is reviewed annually. Any changes to fixed compensation must be substantiated, mainly in terms of the change in responsibilities and positioning relative to the market.

##### • **Annual variable compensation**

Annual variable compensation must be linked to the achievement of strategic financial and non-financial targets for the year to come. The structure of the variable component and the nature of the targets are established at the start of each fiscal year.

The targets must be demanding but remain achievable and be selected from those that allow the best possible implementation of EssilorLuxottica's strategy.

The annual variable component must be based predominantly on quantifiable indicators (financial and non-financial). The weighting of each indicator is reviewed annually according to the fiscal year's priorities.

As sustainable development is at the heart of EssilorLuxottica's operations, the annual variable compensation must include a target in this respect. Sustainable development includes environmentally responsible practices, charitable initiatives and employee share ownership.

The Nominations and Compensation Committee assesses whether said targets have been achieved at the start of the following fiscal year (February/March). The assessment of the financial targets is carried out on the basis of information provided by the Audit and Risk Committee.

The variable component for year Y is payable during year Y+1 once it has been approved by a vote taken at the Shareholders' Meeting.

##### • **Long-term incentive**

Long-term incentive 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.

Long-term incentive plans take 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.

On the basis of ambitious targets, the Nominations and Compensation Committee suggests the performance criteria that will determine the number of performance shares awarded within the Group and any additional performance criteria specific to Executive Corporate Officers.

The Nominations and Compensation Committee suggests the number of performance shares to award to Executive Corporate Officers. Share awards are made during the same calendar periods (September/October). In exceptional circumstances, the Board of Directors may, on the recommendation of the Nominations and Compensation Committee, revise the award schedule. In this case, these changes are made public after the Board of Directors' Meeting that approved them and are disclosed in the summary table of the AFEP-MEDEF recommendations not applied (see Section 2.4).

**Role of the Board of Directors**

On the basis of the work and the recommendations of the Nominations and Compensation Committee, the Board of Directors:

- defines the compensation policy for corporate officers for the year in progress;
- approves the Executive Corporate Officers' annual variable compensation for the previous year after assessing their performance;
- defines the employee shareholding policy for the year in progress;
- approves the terms and conditions of the long-term incentive plans, records the performance levels achieved with respect to plans that have expired and awards performance shares with respect to the year in progress.

All decisions taken by the Board of Directors concerning the compensation of Executive Corporate Officers must be published on the Company's website.

The decision-making process used to determine the compensation policy is also applicable in the event of any revisions.

**2.3.1.1.3 Conflict of interest management**

In order to prevent conflicts of interest, the Executive Chairman and the Executive Vice-Chairman do not attend Nominations and Compensation Committee meetings that pertain to them personally and do not vote in deliberations of the Board of Directors concerning their compensation and benefits in kind.

Francesco Milleri and Paul du Saillant do not take part in the Board of Directors' decision-making process when the Board of Directors is called to rule on compensation items relating to them (in particular with regard to performance share awards).

Pursuant to the Board of Directors' Internal Rules of procedure and the Directors' Charter (see Section 2.1.2.1), the directors are required to notify the Board of Directors of any conflicts of interest or potential conflicts of interest in accordance with the rules set out in the Board of Directors' Internal Rules of procedure, an excerpt of which is presented in Section 2.1.1.4.

**2.3.1.2 Criteria for determining, allocating and awarding the components of the corporate officers' compensation for 2020**

Pursuant to the aforementioned principles, the criteria for determining, allocating and awarding the components of EssilorLuxottica's corporate officers' compensation for 2020 are described below.

**2.3.1.2.1 Members of the Board of Directors of EssilorLuxottica**

For 2020, the annual fixed amount of €2 million approved by the Combined Shareholders' Meeting of November 29, 2018 will be awarded and allocated by the Board of Directors among the various members, giving priority to the variable component in accordance with the AFEP-MEDEF Code recommendations:

| <b>Compensation*</b>                                   | <b>Annual fixed component</b> | <b>Annual variable component based on attendance</b> |
|--|-------------------------------|--|
| All Board of Directors' members                        | €40,000                       | €60,000  |
| Chairman of the Audit and Risk Committee               | €20,000                       | €15,000  |
| Member of the Audit and Risk Committee                 | €10,000                       | €15,000  |
| Chairman of the Nominations and Compensation Committee | €15,000                       | €15,000  |
| Member of the Nominations and Compensation Committee   | €5,000                        | €15,000  |
| Chairman of the CSR Committee                          | €15,000                       | €10,000  |
| Member of the CSR Committee                            | €5,000                        | €10,000  |
| Chairman of the Strategy Committee                     | €15,000                       | €10,000  |
| Member of the Strategy Committee                       | €5,000                        | €10,000  |
| Guest of the Strategy Committee                        | No fees                       | €5,000   |

\* Only compensation granted for the role of member of the Board of Directors of EssilorLuxottica is described above.

It should be noted that, in connection with their respective executive duties within Luxottica Group S.p.A. and Essilor International (SAS), Francesco Milleri and Paul du Saillant hold respectively a corporate office and an employment contract (for Francesco Milleri), a corporate office as well as a suspended employment contract (for Paul du Saillant), and are entitled to compensation and benefits in kind in connection with said executive duties.

They are also eligible for performance shares under the same conditions as all employees entitled to performance share awards. They are entitled to termination benefits in line with market practices in their original respective countries.

Paul du Saillant is eligible for Essilor defined benefit and defined contribution pension plans.

Pursuant to Article 6 of the Board of Directors' Internal Rules of procedure, the directors may seek reimbursement of the reasonable costs required to exercise their corporate office, on presentation of supporting documents and under the Group's standard travel conditions set out in the director expenses policy.

#### Directors' terms of office

In accordance with Article 13 of the bylaws, "the duration of their terms of office is three (3) years. As an exception, the term of office of directors representing employees appointed between May 11, 2017 and June 30, 2018 will be four (4) years. The terms of office of directors representing employees shall terminate automatically on the relevant anniversary date of their appointment and shall not require any specific notice. The Company shall take all measures to organize a new appointment no later than one (1) month before the expiry date of their terms of office."

Accordingly:

- the terms of office of serving directors appointed by the different Shareholders' Meetings will expire on the date of the Shareholders' Meeting to be held in 2021 to approve the financial statements for the year ending December 31, 2020;
- the terms of office of the two directors representing employees appointed on September 20, 2017 are, in accordance with Article 13 of the bylaws, four (4) years, so that the duration of their terms of office covers that of the other directors of EssilorLuxottica.

This applies solely to the duration of the terms of office of Board of Directors' members in their capacity as directors of EssilorLuxottica. Any offices, employment contracts or service agreements signed between the directors and the different Group subsidiaries are described in Section 2.1.1.4.

#### 2.3.1.2.2 Executive Corporate Officers

The structure of the compensation policy for Executive Corporate Officers builds on the policy approved by the Shareholders' Meeting of May 16, 2019 as regards Executive Corporate Officers (i.e., the Executive Chairman and the Executive Vice-Chairman).

However, the low approval rates for (i) the compensation policy for Executive Corporate Officers, and (ii) resolutions concerning compensation awarded to Executive Corporate Officers in 2018 have been considered by the Nominations and Compensation Committee to be a priority matter for their work in 2020.

Based on the recommendation of the Nominations and Compensation Committee, the Board of Directors decided to amend the 2020 compensation policy for Executive Corporate Officers as follows:

| Compensation component                                | Type of changes   |
|---|---|
| Fixed compensation                                    | <ul style="list-style-type: none"> <li>• Formalization of the lowering of the Executive Chairman's and Executive Vice-Chairman's fixed compensation from €1,150,000 to €1,000,000 with effect from June 1, 2019*</li> </ul>   |
| Variable compensation                                 | <ul style="list-style-type: none"> <li>• Introduction of a clawback clause</li> <li>• Introduction of a performance condition in connection with the Group's sustainable development targets</li> </ul>   |
| Exceptional compensation                              | <ul style="list-style-type: none"> <li>• Removal of the possibility of paying Executive Corporate Officers exceptional bonuses</li> </ul>   |
| Long-term incentive compensation (performance shares) | <ul style="list-style-type: none"> <li>• Elimination of retesting</li> <li>• More demanding performance share vesting scale</li> <li>• Introduction of a relative performance condition (comparison with EuroStoxx 50 index)</li> <li>• Formalization of the decrease in the number of performance shares awarded to the Executive Chairman and Executive Vice-Chairman (from 50,000 to 20,000)*</li> <li>• Review of the limits on awards:</li> <li>• A maximum 60% of target total compensation as a % of total compensation, compared with 75% in 2019, as announced at the Shareholders' Meeting of May 16, 2019</li> </ul> |
| Shareholding policy                                   | <ul style="list-style-type: none"> <li>• Obligation to hold 400% of fixed compensation in the form of shares</li> </ul>   |
| Termination/retirement benefits                       | <ul style="list-style-type: none"> <li>• Termination of the supplementary defined benefit and pension plan and freezing of rights as of December 31, 2019</li> </ul>  |

\* These decisions are a result of the agreement signed by EssilorLuxottica and Delfin on May 12, 2019 whereby Leonardo Del Vecchio and Hubert Sagnières delegated responsibility for developing and implementing the strategy and integration process at EssilorLuxottica to Francesco Milleri (Vice Chairman and CEO of Luxottica Group S.p.A.) and Laurent Vacherot (Chief Executive Officer of Essilor International (SAS) until March 30, 2020 replaced then by Paul du Saillant).

**Summary of the compensation policy for Executive Corporate Officers**

The Executive Chairman’s and Executive Vice-Chairman’s compensation, as proposed by the Board of Directors on March 5, 2020 for fiscal year 2020, is as follows:

| <b>Executive Chairman and Executive Vice-Chairman</b> |                   |
|---|-------------------|
| Fixed component                                       | €1,000,000        |
| Target variable annual compensation                   | €1,000,000        |
| <b>Target annual compensation</b>                     | <b>€2,000,000</b> |
| Award of performance shares ( <i>number</i> )         | 20,000*           |

\* May be adjusted to respect the two award limits set out in paragraph “Long-term incentive” displayed below, and depending on the share price evolution.

The compensation of the Executive Chairman and the Executive Vice-Chairman, as presented below, represents the full amount of compensation that they receive from EssilorLuxottica and its subsidiaries.

**Compensation structure**

Around two thirds of the compensation of Executive Corporate Officers are performance-related, with one third related to long-term performance.



\* If the targets are met at 100%.

\*\* Performance shares valued in accordance with IFRS.



**Benchmarking**

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

Their surveys provide the Nominations and Compensation Committee with external 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 their compensation.

The panels used in 2019 followed on from those used in previous years and comprise multinational companies comparable to EssilorLuxottica in terms of:

- size (revenue, workforce, market capitalization),
- business sector (consumer goods, luxury goods and healthcare)

Each panel comprises 20 companies, of which 80% are European and 20% American. Eight companies feature on both panels.

## Report on Corporate Governance

### Compensation of corporate officers

The composition, characteristics and compensation levels of the 2019 panels are summarized below:

|   | WTW | Mercer | Market Cap.(B€) | Industry                    |
|---|-----|--------|-----------------|-----------------------------|
| <b>EUROPE</b>  |     |        |                 |                             |
| LVMH  |     | √      | 189             | Luxury                      |
| UNILEVER  |     | √      | 138             | FMCG                        |
| L'ORÉAL   |     | √      | 130             | Luxury                      |
| NOVO NORDISK  | √   |        | 113             | Health                      |
| ASTRAZENECA   | √   |        | 103             | Health                      |
| GSK   |     | √      | 94              | Health                      |
| INDITEX   | √   |        | 89              | FMCG - Clothing/accessories |
| DIAGEO  | √   |        | 85              | FMCG                        |
| HERMES  |     | √      | 66              | Luxury                      |
| KERING  | √   | √      | 60              | Luxury                      |
| ADIDAS  | √   |        | 56              | FMCG - Clothing/accessories |
| HEINEKEN  | √   |        | 56              | FMCG                        |
| DANONE  | √   | √      | 47              | FMCG                        |
| MERCK   | √   |        | 46              | Health                      |
| RECKITT BENCKISER   | √   | √      | 46              | FMCG                        |
| PERNOD RICARD   | √   |        | 43              | FMCG                        |
| HENKEL  | √   | √      | 39              | FMCG                        |
| RICHEMONT   | √   | √      | 38              | Luxury                      |
| PHILIPS   | √   | √      | 36              | Health                      |
| H&M   | √   |        | 32              | FMCG - Clothing/accessories |
| FRESENIUS MEDICAL CARE  | √   |        | 19              | Health                      |
| SWATCH GROUP  |     | √      | 12              | FMCG - Clothing/accessories |
| MONCLER   |     | √      | 9               | Luxury                      |
| PRADA   |     | √      | 8               | Luxury                      |
| AMPLIFON  |     | √      | 5               | Health                      |
| SALVATORE FERRAGAMO   |     | √      | 3               | Luxury                      |
| <b>US</b>    |     |        |                 |                             |
| NIKE  |     | √      | 135             | FMCG - Clothing/accessories |
| STARBUCKS   | √   |        | 92              | FMCG                        |
| MONDELEZ INTERNATIONAL  | √   |        | 70              | FMCG                        |
| ESTÉE LAUDER  | √   | √      | 60              | Luxury                      |
| COLGATE PALMOLIVE   | √   | √      | 52              | FMCG                        |
| KIMBERLY CLARK  |     | √      | 43              | FMCG                        |

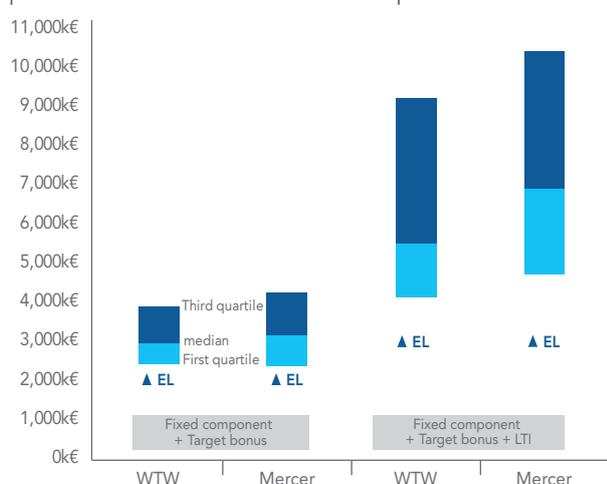
Companies newly introduced in 2019 panels in blue.

| Median              | WTW Panel   | Mercer Panel | EssilorLuxottica |
|---------------------|-------------|--------------|------------------|
| Revenue (a)         | €17 billion | €15 billion  | €17 billion      |
| Market cap. (b)     | €54 billion | €47 billion  | €59 billion      |
| Ratio (b)/(a)       | 3.5         | 3.4          | 3.4              |
| Number of employees | 55,000      | 39,000       | 153,000*         |

\* As of December 31, 2019

### Benchmarking of Executive Corporate Officer compensation

The Executive Chairman's and the Executive Vice-Chairman's compensation packages are in the lower quartile of the two Mercer and WTW panels.



Note: The 20,000 performance shares were valued according to the IFRS value of the award in 2019, as the IFRS value of the award in 2020 is not yet known.

### Compensation components

#### Annual fixed component

Fixed compensation reflects the incumbent's level of responsibility, performance and development in the position. It must be consistent with market practices.

The Executive Chairman's and Executive Vice-Chairman's fixed compensation for 2020 is €1,000,000.

#### Annual variable compensation

Payment of the annual variable compensation is subject to the achievement of specific targets, in line with Group strategy.

Target: The annual variable component is equal to 100% of the fixed compensation if targets are achieved in full.

Ceiling: The annual variable component payable may not exceed 200% of the fixed compensation.

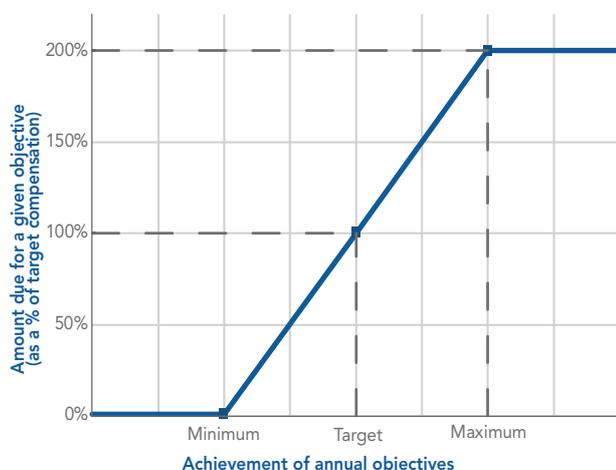
Annual variable compensation for 2020 is based on five criteria:

| Targets  | Rationale/Link with strategy  | Weighting | Nature of target                           |
|--|---|-----------|--|
| Growth in adjusted/restated net EPS (earnings per share)                         | This indicator reflects the Company's overall performance and the value created for the shareholders.   | 50%       | Quantifiable financial target              |
| Growth in revenue (at constant exchange rates, excluding strategic acquisitions) | EssilorLuxottica has devised a growth strategy to meet the needs of billions of consumers seeking to both improve their vision and express their style. This strategy aims to contribute to the transformation and accelerated development of the eyecare industry. | 25%       | Quantifiable financial target              |
| Unlocking of synergies   | In 2019, EssilorLuxottica deployed a structured process to complete its integration project and unlock synergies over the 2019–2023 period.   | 10%       | Quantifiable financial target              |
| Strategic alignment  | Keep on building and implementing an organisation that brings out the best of the two companies.  | 10%       | Quantifiable and qualitative non-financial |
| Corporate social responsibility  | The Mission of EssilorLuxottica is to help people see more, be more and live life to its fullest. It is at the heart of the Group's operations.   | 5%        | Quantifiable non-financial                 |

## Report on Corporate Governance

### Compensation of corporate officers

For each quantifiable target, an assessment scale has been devised, as follows:



The level of performance required to achieve these targets has been established in a precise, demanding and rigorous manner but cannot be disclosed for

confidentiality reasons. The assessment scale is consistent with the guidance provided to the markets.

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

#### Clawback clause

The Board of Directors has introduced a clawback clause providing for the return of all or part of the annual variable compensation paid to the Executive Corporate Officers in exceptional and serious circumstances. Consequently, if during the five years following the payment of the variable annual compensation it turns out that:

- the financial, accounting or quantitative data used to measure performance has been clearly and intentionally misstated
- or
- the Executive Corporate Officer has been guilty of gross negligence or willful misconduct,

the Board of Directors may ask the Executive Corporate Officer to return all or part of the variable compensation paid.

#### Long-term incentive

##### Performance conditions

The vesting of performance shares is wholly subject to the achievement of two performance conditions, each measured over a period of three years.

| Targets  | Rationale  |
|--|--|
| <b>Main criterion: Annualized growth in share price</b>                                | EssilorLuxottica's growth strategy must create shareholder value in the medium to long term.<br>Performance shares must therefore vest in direct proportion to the growth in the share price and the gain that this represents for shareholders. |
| <b>Penalty in the event of under-performance in relation to the EuroStoxx 50 index</b> | If the EssilorLuxottica share under performs the EuroStoxx 50 index, a penalty is applied with respect to the number of shares that actually vest.   |

The assessment scales are set out in the following tables:

| Annualized growth in EssilorLuxottica share price | Number of shares actually vested (as a % of initial grant)       |   |
|---|--|---|
|   | If the EssilorLuxottica share outperforms the EuroStoxx 50 index | If the EssilorLuxottica share under performs the EuroStoxx 50 index |
| < 2%  | 0%   | 0%  |
| between 2% and 3%                                 | 50%  | 50%   |
| between 3% and 4%                                 | 60%  |   |
| between 4% and 5%                                 | 70%  |   |
| between 5% and 6%                                 | 80%  |   |
| between 6% and 7%                                 | 90%  |   |
| >= 7%   | 100%   |   |

Both performance conditions contribute directly to the compensation policy objectives described in section 2.3.1.1.1, as they are both linked to the creation of shareholder value:

- the annualized growth in the EssilorLuxottica share price reflects the gains realized by shareholders and investors during the performance measurement period;

- the penalty in the event of under-performance in relation to the EuroStoxx 50 index reflects, if applicable, the insufficient returns obtained by shareholders and investors who chose to invest in EssilorLuxottica at the start of the performance measurement period, compared to the returns they would have obtained by investing in a basket of EuroStoxx 50 shares.

*Employment condition*

In order to vest, the shares will be subject to a three-year employment condition as from the award date.

In cases of retirement, disability or death during the vesting period, this employment condition is lifted.

*Award limits*

For Executive Corporate Officers, the following award limits apply:

- performance share awards may not represent an amount greater than 60% 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), compared to 75% in 2019;
- an Executive Corporate Officer may not receive an award exceeding 3.5% (stock options + performance shares) granted each year.

**Mandatory shareholding policy and rules applicable to Executive Corporate Officers**

Employee share ownership is central to EssilorLuxottica's corporate culture. It also strengthens employee commitment, aligning their long-term interests with those of the Group and other shareholders and enabling employees to be fully involved in EssilorLuxottica's value creation and success.

The Executive Corporate Officers must hold the equivalent of at least 400% of their annual fixed compensation in EssilorLuxottica shares. Once they are appointed, they must acquire these shares within five years.

Executive Corporate Officers are also required to keep one-third of their vested performance shares throughout their term of office. This requirement to hold shares no longer applies when Executive Corporate Officers hold a number of EssilorLuxottica shares representing an amount equivalent to 400% of their annual fixed compensation. The fixed compensation used is that for 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, until the expiration of their term of office, not to use any hedging strategies to manage the risk related to the shares awarded under long-term incentive plans.

Pursuant to the Directors' Charter, the Executive Corporate Officers are required, *inter alia*, to refrain from trading in EssilorLuxottica securities during:

- the period prior to the publication of any inside information of which they are aware;
- the 30 calendar days preceding the publication of the annual consolidated financial statements, half-yearly consolidated financial statements and, where applicable, quarterly consolidated financial statements, and the 15 calendar days preceding the publication of quarterly financial information. The Executive Corporate Officers are permitted to trade in EssilorLuxottica securities only from the day after the publication of the information concerned, provided they do not use any inside information. The Executive Corporate Officers are given the dates of blackout periods at the start of each year.

**Supplementary pension, termination and non-compete payment and Group plans****Supplementary pension**

Pursuant to the PACTE law (Action Plan for Business Growth and Transformation) and the Government Order of July 3, 2019 implementing certain provisions of this law, the supplementary defined benefit pension plan was closed on that date. For beneficiaries of the plan prior to that date, the amount of pension benefit will be calculated based on length of service as of December 31, 2019 instead of on length of service upon retirement. The other provisions remain unchanged.

The supplementary defined benefit pension plan was designed to reward the loyalty of executives who have spent a significant portion of their careers with the EssilorLuxottica group by entitling them to a retirement pension in line with market practices.

The supplementary pension plan was built around the following principles:

- a minimum length of service condition of ten years with the EssilorLuxottica group must be met in order to benefit from the plan;
- potential beneficiaries must end their careers working with the EssilorLuxottica group;
- the pension benefit is proportional to the length of service with the EssilorLuxottica 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;
- the potential annual entitlement is below the statutory maximum of 3% and is subject to performance conditions;
- the final pension benefit is capped.

The Executive Chairman is not a potential beneficiary of this plan.

The Executive Vice-Chairman is a potential beneficiary of this plan, under the same conditions as those that apply for beneficiaries that are not Executive Corporate Officers. He had 20 years of service on January 1, 2009. He has not accrued any additional rights since that date.

**Termination benefit****Case of an Executive Corporate Officer without a suspended employment contract***Situation of Leonardo Del Vecchio, Executive Chairman*

EssilorLuxottica's policy is to adhere strictly to the law and the recommendations of the AFEP-MEDEF Code. Thus, in the case of an Executive Corporate Officer eligible for a termination benefit:

- this benefit is capped at two years' cash compensation (corresponding to the average annual fixed and variable compensation received in the last three years prior to departure);
- this may only be paid in the event of a forced departure and is fully subject to the achievement of the performance conditions set out below.

Performance is measured using the average rate of target achievement for the annual variable component of Executive Corporate Officers over the three years prior to their departure. These annual targets are set by the Board of Directors for Executive Corporate Officers in respect of their role as corporate officers, and are used to calculate their annual variable remuneration. For an average performance rate of at least 50%, the termination benefit is calculated on a strictly proportionate basis up to a maximum of 100% (for example, if the 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 termination benefit will be paid.

In the event of repeated under-performance (average annual variable compensation fulfillment rate below the target amount), the termination benefit will be reduced proportionately to penalize the Executive Corporate Officer's failure to guarantee a sustainable performance.

In accordance with the procedure relating to related-party agreements and commitments referred to in Article L. 225-42-1 of the French Commercial Code, the terms and conditions for granting and calculating the severance pay for Leonardo Del Vecchio were submitted to the vote of the Shareholders' Meeting of May 16, 2019 (9<sup>th</sup> resolution) due to his appointment as the Company's Executive Chairman by the Board of Directors on October 1, 2018.

#### **Case of an Executive Corporate Officer with a suspended employment contract**

*Situation of Hubert Sagnières, Executive Vice-Chairman*

When an employee with at least 10 years' service at the EssilorLuxottica group is promoted to an Executive Corporate Officer position, the EssilorLuxottica group policy is to suspend the employee's employment contract. This makes it possible to avoid the resignation or the initiation of a mutually agreed termination procedure for an employee who has been successful in the EssilorLuxottica group.

In the specific case of an Executive Corporate Officer with a suspended employment contract that includes a termination benefit, the termination benefit will comprise:

- a severance payment required under law or related to the collective bargaining agreement (not subject to performance conditions); and
- a supra-legal severance payment that is wholly subject to performance conditions, under the same conditions as described above for the Executive Chairman.

In any event, the total amount of the two benefits may not exceed two years' cash compensation (corresponding to the average annual fixed and variable compensation received in the last three years prior to departure).

This termination benefit may only be paid within one year of the termination of the corporate office, at EssilorLuxottica's initiative. In the event of gross negligence or serious misconduct, no payment shall be due.

In the event of the termination of the employment contract, the notice period is set in accordance with the applicable legal provisions and the collective bargaining agreement and must be complied with by both Parties.

In accordance with the procedure relating to related-party agreements and commitments referred to in Article L. 225-42-1 of the French Commercial Code, the terms and conditions for granting and calculating the severance pay for Hubert Sagnières were submitted to the vote of the Shareholders' Meeting of May 16, 2019 (10<sup>th</sup> resolution) due to his appointment as the Company's Executive Vice-Chairman by the Board of Directors on October 1, 2018.

#### **Non-compete payment**

To protect the interests of EssilorLuxottica, the Board of Directors reserves the right to implement a non-compete clause provided that it complies with the recommendations of the AFEP-MEDEF Code as set out below:

- the non-compete clause must stipulate that the Board of Directors may waive the application of this clause when the Executive Corporate Officer leaves;
- payment of the non-compete benefit is expressly excluded in the event that the Executive Corporate Officer retires. In any event, no payment may be made once the Executive Corporate Officer concerned is over 65 years of age;
- the possibility of concluding a non-compete agreement at the time of an Executive Corporate Officer's departure where no such clause existed previously is excluded;
- the aggregate amount of the non-compete payment and the termination benefit, if applicable, may not exceed the two-year cash compensation cap.

At present, no EssilorLuxottica Executive Corporate Officer benefits from a non-compete clause. If the Board of Directors were to exercise its right to insert a non-compete clause, the related decision would be disclosed.

#### **Group plans and benefits in kind**

The Executive Corporate Officers are eligible for the same death/disability, health insurance and defined contribution pension plans in force within EssilorLuxottica group as managers and executives.

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

Executive Corporate Officers are eligible for:

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

### Compensation policy for Executive Corporate Officers appointed during the year

Developing an effective long-term strategy means not only having a thorough knowledge of the market, customers, competitors and technologies, but also of EssilorLuxottica's culture. For that reason, EssilorLuxottica prioritizes internal talent development as much as possible. However, the ability to attract talented individuals from all over the world is also a key driver of EssilorLuxottica's future success.

Without predicting how EssilorLuxottica's governance will evolve, these principles and criteria of the compensation policy will apply, where appropriate, to any successor to the Executive Chairman and Executive Vice-Chairman, 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 fiscal year 2020, until the next Shareholders' Meeting called to approve the compensation policy for Executive Corporate Officers.

In the event that EssilorLuxottica has to separate the roles of Chairman of the Board of Directors and Chief Executive Officer, the Chairman of the Board of Directors' compensation will be comprised solely of a fixed component, in accordance with the recommendations of the AFEF-MEDEF Code.

In each of these situations, the total compensation offered to hire an Executive Corporate Officer away from a company outside the Group should correspond to the "fair market price" in consideration of the position and the

candidate's profile. This compensation would be in accordance with the general principles set out above (Section 2.3.1.1) and would be calculated taking into account, where applicable, any difference in the level of responsibility and in line with previous practices within the Company. The various components of the corporate officer's compensation may not exceed the framework set out by the compensation policy.

For the purpose of recruiting the Executive Corporate Officer, the Board of Directors, on the recommendation of the Nominations and Compensation Committee, reserves the right to compensate them for items of compensation or benefits which they enjoyed in their previous position. This compensation may take the form of a sign-on premium and/or a one-off performance share award.

In any case:

- the effective payment of a sign-on premium may only take place following approval by the Shareholders' Meeting;
- the aggregate amount of the sign-on premium and, if applicable, the one-off performance share award would be equivalent to no more than the amount of compensation lost by the candidate, and would be duly communicated by the Company along with an explanation of the amount.

For Executive Corporate Officers appointed during the year, annual variable compensation targets may be set during the year given the exceptional circumstances. In such cases, the variable component of their compensation will be calculated on a pro rata basis.

## 2.3.2 2019 compensation of corporate officers

### 2.3.2.1 2019 compensation of members of the Board of Directors

The components of compensation for members of the Board of Directors presented below were set by the Board of Directors on the recommendation of the Nominations and Compensation Committee.

In accordance with the allocation rules for directors' fees described in Section 2.3.1.2.1, the total amount of directors' fees due to the Board of Directors' members in 2019 amounted to €1,875,875.

The compensation paid to members of the Board of Directors is summarized in the table below:

|                 | Gross amount paid in 2019<br>in respect of 2018 |  |                               | TOTAL<br>COMPEN-<br>SATION<br>IN 2019 | Gross amount awarded in respect of 2019 |   |                            |                               |   |  |                                      |  |
|-----------------|---|--|-------------------------------|---------------------------------------|---|---|----------------------------|-------------------------------|---|--|--------------------------------------|--|
|                 | EL<br>Director<br>fees <sup>(a)</sup>           | Essilor<br>Intern. /<br>Luxottica<br>Director<br>fees <sup>(a)</sup> | Variable<br>compen-<br>sation |                                       | EL<br>Director<br>fees                  | Essilor<br>Intern. /<br>Luxottica<br>Director<br>fees | Fixed<br>compen-<br>sation | Variable<br>compen-<br>sation | Number<br>of<br>Perfor-<br>mance<br>Shares<br>granted | Perf.<br>Shares<br>granted<br>(IFRS<br>value=<br>€48.63) | Perf.<br>shares<br>vested<br>in 2019 |  |
| R. Bardin       | €36,000   |  |                               | €142,000                              | €142,000                                |   |                            |                               |   |  |                                      |  |
| L. Del Vecchio  | €25,000   |  | €215,625 <sup>(b)</sup>       | €1,159,500                            | €97,000                                 | €0  | €1,062,500                 | €0                            | 40,000  | €1,945,200   | €0                                   |  |
| G. Giallombardo | €29,000   |  |                               | €112,000                              | €112,000                                |   |                            |                               |   |  |                                      |  |
| J. Favre        | €65,650   | €7,950   |                               | €156,200                              | €110,000                                | €46,200   |                            |                               |   |  |                                      |  |
| B. Hours        | €96,461   | €6,500   |                               | €100,872                              | €57,000                                 | €43,872   |                            |                               |   |  |                                      |  |
| A. Messemer     | €108,150  | €18,450  |                               | €246,845                              | €136,000                                | €110,845  |                            |                               |   |  |                                      |  |
| F. Milleri      | €31,000   |  | €375,425 <sup>(b)</sup>       | €2,417,000                            | €117,000                                | €1,100,000  | €1,200,000                 | €0 <sup>(c)</sup>             | 35,000  | €1,702,050   | €0                                   |  |
| G. Mion         | €34,000   |  |                               | €96,500                               | €96,500                                 |   |                            |                               |   |  |                                      |  |
| L. Morselli     | €34,000   |  |                               | €133,125                              | €133,125                                |   |                            |                               |   |  |                                      |  |
| O. Pécoux       | €109,912  | €11,000  |                               | €214,433                              | €150,750                                | €63,683   |                            |                               |   |  |                                      |  |
| L. Pereira      | €25,000   |  |                               | €100,000                              | €100,000                                |   |                            |                               |   |  |                                      |  |
| S. Pucci        | €25,000   |  |                               | €134,500                              | €97,000                                 | €37,500   |                            |                               |   |  |                                      |  |
| H. Sagnières    | €33,000   |  | €1,184,625 <sup>(d)</sup>     | €4,991,500                            | €124,500                                |   | €1,062,500                 | €0                            | 40,000  | €1,945,200   | €3,804,500 <sup>(e)</sup>            |  |
| C. Scocchia     | €26,000   |  |                               | €143,375                              | €101,000                                | €42,375   |                            |                               |   |  |                                      |  |
| L. Vacherot     | N/A   |  | €988,000 <sup>(d)</sup>       | €4,453,611                            | €83,000                                 |   | €891,667                   | €0 <sup>(c)</sup>             | 35,000  | €1,702,050   | €3,478,944 <sup>(f)</sup>            |  |
| J. Wong         | €94,800   | €18,067  |                               | €217,600                              | €122,000                                | €95,600   |                            |                               |   |  |                                      |  |
| D. Zablocki     | €73,650   | €9,950   |                               | €143,200                              | €97,000                                 | €46,200   |                            |                               |   |  |                                      |  |

\* Including Directors fees, fixed compensation and performance shares vested.

(a) Directors fees in respect of second half of 2018 (last quarter for Directors appointed on October 1, 2018) paid in 2019.

(b) Variable compensation due for the period from October 1, 2018 to December 31, 2018.

(c) Francesco Milleri declared his intention to waive his variable component for 2019 in full out of solidarity with the shareholders impacted by the fraud that took place in Thailand. Therefore, the Board of Directors of Luxottica Group S.p.A. unanimously decided not to pay any variable compensation in 2019 to Francesco Milleri.

In view of the fraud that took place at an Essilor plant in Thailand, the Nomination and Compensation Committee of Essilor International (SAS) recommended that the Board of Directors of Essilor International (SAS) should not pay any variable compensation to Laurent Vacherot in his capacity as Chief Executive Officer of Essilor International (SAS) in 2019. Therefore, the Board of Directors of Essilor International (SAS) unanimously decided not to pay any variable compensation for 2019 to Laurent Vacherot.

(d) Variable compensation due for the period from January 1, 2018 to December 31, 2018.

(e) Performance shares plan granted in 2015 and vested in 2019: 35,000 shares (average closing share price in March 2020 = €108.70).

(f) Performance shares plan granted in 2016 and vested in 2019: 32,005 shares (average closing share price in March 2020 = €108.70).

### 2.3.2.2 2019 compensation of the Executive Corporate Officers (Executive Chairman and Executive Vice-Chairman)

#### 2.3.2.2.1 Structure of the 2019 compensation of the Executive Corporate Officers

**NB:** On October 1, 2018, Delfin S.à.r.l., majority shareholder of Luxottica Group S.p.A., and Essilor announced the combination of Essilor and Luxottica to create EssilorLuxottica.

On the same day, in light of the governance of EssilorLuxottica with an Executive Chairman, Leonardo Del Vecchio, and an Executive Vice-Chairman, Hubert Sagnières, with equal powers, the Board of Directors approved the principle of strictly identical compensation

for the Executive Chairman and the Executive Vice-Chairman, on the recommendation of the Nominations and Compensation Committee:

- fixed annual gross compensation of €1,150,000;
- target annual variable compensation equal to 100% of fixed compensation;
- maximum annual variable compensation equal to 200% of fixed compensation;
- award of 50,000 performance shares in November 2018.

Following the signing of the agreement by EssilorLuxottica and Delfin, whereby Leonardo Del Vecchio and Hubert Sagnières delegated responsibility for developing and implementing the integration and strategy process at EssilorLuxottica to Francesco Milleri and Laurent Vacherot (replaced by Paul du Saillant on March 30, 2020), on May 16, 2019, the Board of Directors of EssilorLuxottica decided on the following changes to the compensation of Leonardo Del Vecchio and Hubert Sagnières, with effect from June 1, 2019:

- fixed annual gross compensation of €1,000,000 (previously €1,150,000);
- target annual variable compensation equal to 100% of fixed compensation;
- maximum annual variable compensation equal to 200% of fixed compensation;
- award of 40,000 performance shares in October 2019 (compared to 50,000 in November 2018).

The compensation shown above for the Executive Chairman and the Executive Vice-Chairman constitutes the entire compensation paid to them by the Group, *i.e.*, by EssilorLuxottica or one of its subsidiaries.

Leonardo Del Vecchio and Hubert Sagnières have also retained their respective duties as Executive Chairman of Luxottica Group S.p.A. and Chairman of Essilor International (SAS).

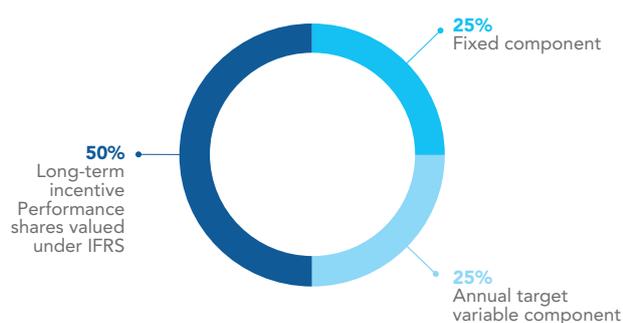
By way of illustration, the graphs below show the structure of the 2019 compensation of the Executive Chairman and the Executive Vice-Chairman.

The first graph is based on the target annual variable compensation and the second on the maximum annual variable compensation. The two graphs take into account compensation from June 1, 2019.

Nearly 75% of overall compensation is directly contingent on performance, with a preponderant portion in long-term incentive.

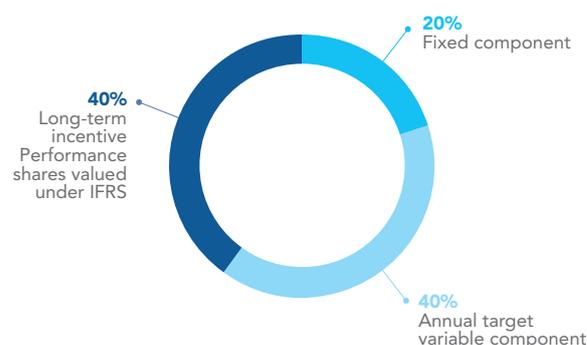
### Structure of 2019 compensation of Leonardo Del Vecchio, Executive Chairman, and Hubert Sagnières, Executive Vice-Chairman

#### Target compensation



75% performance-related

#### Maximum compensation



80% performance-related

#### 2.3.2.2.2 Summary of 2019 compensation of the Executive Corporate Officers

|                                 | Leonardo Del Vecchio<br>Executive Chairman |                     | Hubert Sagnières<br>Executive Vice-Chairman |                           |                     | Change<br>2018/<br>2017 | Change<br>2019/<br>2018 |
|---------------------------------|--|---------------------|---|---------------------------|---------------------|-------------------------|-------------------------|
|                                 | 2018 (from<br>October 1) <sup>(a)</sup>    | 2019 <sup>(b)</sup> | 2017  | 2018 <sup>(c)</sup>       | 2019 <sup>(b)</sup> |                         |                         |
| <b>ANNUAL CASH COMPENSATION</b> |  |                     |   |                           |                     |                         |                         |
| Fixed                           | €287,500                                   | €1,062,500          | €800,000                                    | €887,500                  | €1,062,500          | +10.9%                  | +19.7%                  |
| Target variable component       | €287,500                                   | €1,062,500          | €800,000                                    | €887,500                  | €1,062,500          |                         |                         |
| <b>Target cash compensation</b> | <b>€575,000</b>                            | <b>€2,125,000</b>   | <b>€1,600,000</b>                           | <b>€1,775,000</b>         | <b>€2,125,000</b>   | <b>+10.9%</b>           | <b>+19.7%</b>           |
| Variable component due          | €215,625                                   | €0                  | €1,214,400                                  | €1,184,625 <sup>(c)</sup> | €0                  |                         |                         |
| % achievement against target    | 75%  | n/a                 | 152%  | 133%                      | n/a                 |                         |                         |
| Maximum % (for reference)       | 200%                                       | 200%                | 200%  | 200%                      | 200%                |                         |                         |
| <b>Cash compensation due</b>    | <b>€503,125</b>                            | <b>€1,062,500</b>   | <b>€2,014,400</b>                           | <b>€2,072,125</b>         | <b>€1,062,500</b>   | <b>+2.9%</b>            | <b>-48.7%</b>           |

|   | Leonardo Del Vecchio<br>Executive Chairman |   | Hubert Sagnières<br>Executive Vice-Chairman          |  |  | Change<br>2018/<br>2017 | Change<br>2019/<br>2018 |
|---|--|---|--|--|--|-------------------------|-------------------------|
|   | 2018 (from<br>October 1) <sup>(a)</sup>    | 2019 <sup>(b)</sup>                     | 2017   | 2018 <sup>(c)</sup>                                  | 2019 <sup>(b)</sup>                                  |                         |                         |
| <b>LONG-TERM INCENTIVE PLAN</b>   |  |   |  |  |  |                         |                         |
| Performance shares awarded (number)   | 50,000                                     | 40,000                                  | 50,000   | 50,000   | 40,000   |                         |                         |
| As a % of total number of shares awarded <sup>(d)</sup>   | 2.8%                                       | 1.2%                                    | 2.9%   | 2.8%   | 1.2%   |                         |                         |
| As a % of share capital at December 31 for the year   | 0.012%                                     | 0.009%                                  | 0.023%   | 0.012%   | 0.009%   |                         |                         |
| IFRS valuation of performance shares  | €2,282,500                                 | €1,945,200                              | €2,703,000   | €2,282,500   | €1,945,200   |                         |                         |
| <b>OTHER COMPENSATION</b>   |  |   |  |  |  |                         |                         |
| Directors' fees   | €25,000                                    | €97,000                                 | €0   | €33,000  | €124,500   |                         |                         |
| <b>EMPLOYEE BENEFITS</b>  |  |   |  |  |  |                         |                         |
| Benefits in kind  | €0   | €0                                      | €7,633   | €7,731   | €7,885   |                         |                         |
| Type  |  |   | Unemployment insurance                               | Unemployment insurance                               | Unemployment insurance                               |                         |                         |
| Employer contributions to Group plans (health insurance, death/disability insurance, defined contribution pension plan) | €2,455                                     | €10,803                                 | €15,166  | €16,958  | €18,433  |                         |                         |
| <b>DEFERRED BENEFIT OBLIGATIONS</b>   |  |   |  |  |  |                         |                         |
| Supplementary defined benefit "loyalty-based" pension plan  | No   | No                                      | Yes  | Yes  | Yes  |                         |                         |
| Severance payment   | In accordance with the corporate office    | In accordance with the corporate office | In accordance with the suspended employment contract | In accordance with the suspended employment contract | In accordance with the suspended employment contract |                         |                         |

(a) Leonardo Del Vecchio was appointed as Executive Chairman of EssilorLuxottica on October 1, 2018 with fixed annual gross compensation of €1,150,000 and target variable annual gross compensation of €1,150,000. The amounts shown in the table above for fiscal year 2018 correspond to compensation due pro rata for the period of executive corporate office, i.e., from October 1 to December 31, 2018.

(b) Leonardo Del Vecchio and Hubert Sagnières' gross fixed compensation was €1,150,000 (full year basis) from January 1, 2019 to May 31, 2019 and €1,000,000 (full year basis) with effect from June 1, 2019. The amounts shown in the table above for fiscal year 2019 correspond to compensation due pro rata for 2019.

The target variable gross compensation of Leonardo Del Vecchio and Hubert Sagnières was €1,150,000 (full year basis) from January 1, 2019 to May 31, 2019 and €1,000,000 (full year basis) with effect from June 1, 2019. The amounts shown in the table above for fiscal year 2019 correspond to compensation due pro rata for 2019.

(c) Hubert Sagnières was Chairman and Chief Executive Officer of Essilor from January 1 until October 1, 2018, with fixed annual gross compensation of €800,000 and target variable annual gross compensation of €800,000. He was appointed as Executive Vice-Chairman of EssilorLuxottica on October 1, 2018 with fixed annual gross compensation of €1,150,000 and target variable annual gross compensation of €1,150,000.

The amounts shown for fiscal year 2018 in the table above correspond to the pro rata compensation due in respect of the two executive corporate offices held (Chairman and CEO of Essilor until October 1, 2018 and Executive Vice-Chairman of EssilorLuxottica with effect from October 1, 2018). The variable component due for the period as Chairman and CEO of Essilor amounted to €900,000, i.e., 150% achievement against target and the variable component due for the period as Executive Vice-Chairman of EssilorLuxottica amounted to €284,625, i.e., 99% achievement against target.

(d) As a % of the total number of shares awarded, including the collective award of performance shares and the conversion into free shares of the Luxottica cash retention plan.

### 2.3.2.2.3 2019 compensation appendices

Four explanatory appendices are provided in addition to this summary table on 2019 compensation. They pertain to:

1. the 2019 variable component;
2. the 2019 performance share plan;
3. the supplementary defined benefit pension plan;
4. corporate office or suspended employment contract-related severance payment.

## Appendix 1: 2019 variable component

### Leonardo Del Vecchio and Hubert Sagnières

Respectively as Executive Chairman of EssilorLuxottica and Executive Vice-Chairman of EssilorLuxottica from January 1 to December 31, 2019.

The 2019 variable component of Leonardo Del Vecchio and Hubert Sagnières was based on the following objectives:

| Weighting   | Description                                  |
|-------------|--|
| 90%         | <b>EssilorLuxottica financial objectives</b> |
| 50%         | Restated net EPS*                            |
| 30%         | Growth                                       |
| 10%         | Synergies                                    |
| 10%         | <b>EssilorLuxottica specific objectives</b>  |
| <b>100%</b> |  |

\*Restated for the exchange rate impact.

Specific quantitative and qualitative objectives, which accounted for 10% of the annual objectives of Leonardo Del Vecchio and Hubert Sagnières, consisted in helping to build a new EssilorLuxottica model by rolling out initiatives including the Mission, CSR and employee shareholding policies and building an organization that brings out the best of the two companies by gradually aligning their teams around the new model.

At the Board of Directors' Meeting of March 5, 2020, Leonardo Del Vecchio declared his intention to waive his variable component for 2019 in full out of solidarity with the shareholders impacted by the fraud that took place in Thailand. Therefore, the Board of Directors unanimously decided not to pay any variable compensation for 2019 to Leonardo Del Vecchio.

In view of the fraud that took place at an Essilor plant in Thailand, the Nomination and Compensation Committee recommended that the Board of Directors should not pay any variable compensation to Hubert Sagnières in his capacity as Chairman of Essilor International (SAS) in 2019. Therefore, the Board of Directors unanimously decided not to pay any variable compensation for 2019 to Hubert Sagnières.

### Appendix 2: Performance share plan

The approval of Resolutions 6, 7, 8 and 9 at the Shareholders' Meeting on November 29, 2018 authorizes the Board of Directors of EssilorLuxottica to instigate a culture of employee shareholding throughout the EssilorLuxottica group until 2021. Performance share awards are a key aspect of the Company's culture and enable employees to be fully involved in the Company's value creation and success. The significant level of employee shareholding contributes to the Company's competitiveness and is a source of pride among all EssilorLuxottica employees.

In 2019, performance shares were awarded to some 15,000 EssilorLuxottica group employees. The 2019 award is the first long-term incentive plan common to employees of Essilor, Luxottica and the holding company EssilorLuxottica. The plan will enable EssilorLuxottica group employees to share a common objective of creating lasting value for the first time.

### General performance condition

In year N, grantees will be awarded a maximum number of performance shares.

As of N + 3, the number of shares vested is determined on the basis of the annualized growth <sup>(1)</sup> in the EssilorLuxottica share price, measured as follows:

- on the award date, the Initial Reference Share 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 in the Average Share Price over the Initial Reference Share Price is:
  - 22.5% or more (i.e., annualized growth of 7%), all shares initially awarded will vest provided that the employment condition is met,
  - 6.1% or more, but less than 22.5% (corresponding to annualized growth of 2% or more but less than 7%), some of the shares initially awarded will vest provided that the employment condition is also met. The vesting rates based on annualized growth in the EssilorLuxottica 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 of 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 grantees receive no EssilorLuxottica shares;

(1) Calculation formula:  $(\text{Average share price}/\text{Initial Reference Share Price})^{(1/N)-1}$  where N is the number of years between the award date and the performance measurement date. N = 3 then, if the performance condition is not achieved, 3.25 and so on up to a maximum of 6.

- 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, so the Average Share Price required to receive the minimum number of shares increases: +6.1% in N+3, +8.2% in N+4 and +12.6% in N+6.

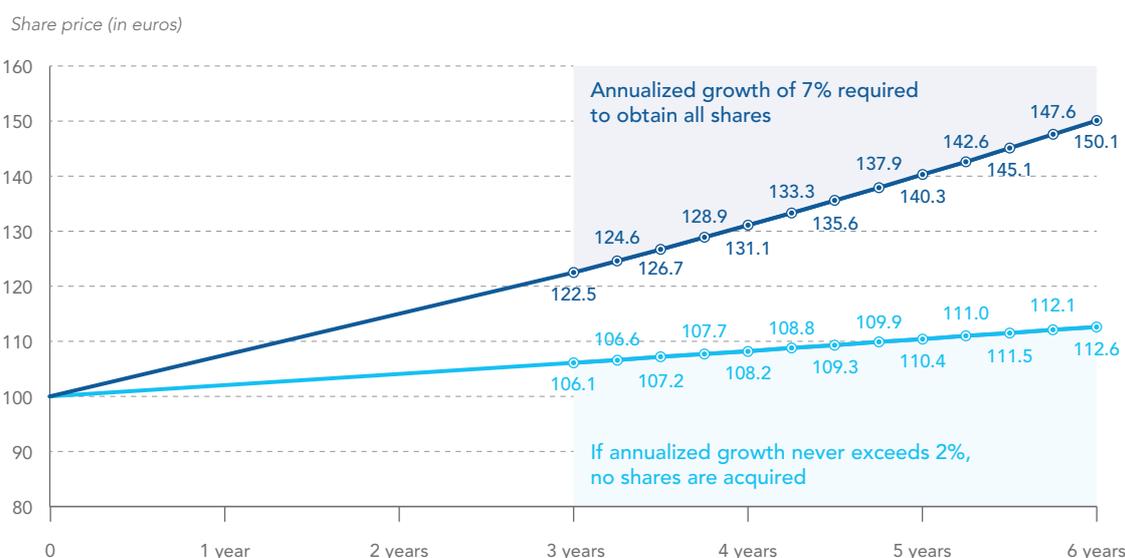
As the general performance condition is based on the performance of the EssilorLuxottica share price, this system helps to partially mitigate the impact of the volatility inherent in the financial markets by extending the period over which performance is measured. This volatility can, in fact, cause 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 of 7% or more, the percentage of shares vested is capped at 100%.

#### Annualized growth:

#### Vesting rate:

|                             |      |
|-----------------------------|------|
| Less than 2%                | 0%   |
| 2% or more and less than 3% | 60%  |
| 3% or more and less than 4% | 68%  |
| 4% or more and less than 5% | 76%  |
| 5% or more and less than 6% | 84%  |
| 6% or more and less than 7% | 92%  |
| 7% or more                  | 100% |

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 performance measurement period (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.

#### Employment condition

The vesting of shares is subject to the grantee still being employed in the Group on the date that the performance condition is achieved, which may occur between the third and the sixth anniversary of the award (see the detailed description of performance conditions above).

This employment condition is waived in the event of the grantee's death, disability or retirement.

### Appendix 3: Supplementary defined benefit “loyalty-based” pension plan

Pursuant to the PACTE law (Action Plan for Business Growth and Transformation) and the Government Order of July 3, 2019 implementing certain provisions of this law, the supplementary defined benefit pension plan was closed on that date.

The supplementary defined benefit pension plan (Article 39 of the French Tax Code) was open to Group senior executives in categories IIC and HC within the meaning of the Metalworking Industry collective bargaining agreement.

At least 10 years’ service (*versus* the two years recommended by the AFEP-MEDEF Code) with the EssilorLuxottica group is required in order to receive supplementary defined pension plan benefits. Grantees also have to be employees of EssilorLuxottica (or a member company) at the time they ceased 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 IIC and HC executives with at least 20 years’ service with the Group are 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:

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.

#### **Leonardo Del Vecchio, Executive Chairman**

At its meeting on November 29, 2018, the Board of Directors of EssilorLuxottica decided, on the recommendation of the Nominations and Compensation Committee and in accordance with Articles L. 225-38 and L. 225-42-1 of the French Commercial Code, to make Leonardo Del Vecchio eligible for the supplementary defined benefit pension plan established by the Company for the benefit of senior executives.

Since January 1, 2019, Leonardo Del Vecchio has been eligible for the Company’s defined benefit pension plan. His pension rights for 2019 were strictly proportional to the achievement rate of his variable annual compensation targets for that year. As Leonardo Del Vecchio has waived his variable component for 2019 in full, the Board of Directors decided that he would not accrue any supplementary pension rights for that year. Pursuant to the PACTE law (Action Plan for Business Growth and Transformation) and the Government Order of July 3, 2019, the defined benefit pension plan was closed on December 31, 2019. Consequently, Leonardo Del Vecchio will not receive any pension benefits under this plan.

#### **Hubert Sagnières, Executive Vice-Chairman**

Hubert Sagnières recorded 20 years of service in the Group on January 1, 2009, prior to his appointment as an Executive Corporate Officer of the Company. Consequently, he has acquired no additional rights since that date. The pension benefit obligations that are applicable to him are therefore not subject to the procedure stipulated by Article L. 225-42-1 of the French Commercial Code, in compliance with the provisions of the Macron law dated August 6, 2015.

Under this scheme, in view of his length of service in the Group (which stood at 31 years as of December 31, 2019), the theoretical calculation of the annual benefits due to Hubert Sagnières on that date would be 25% of the average compensation actually received in fiscal years 2017, 2018 and 2019 (around €511,000).

### Appendix 4: Termination benefits

#### **Leonardo Del Vecchio, Executive Chairman**

At its meeting on November 29, 2018, the Board of Directors of EssilorLuxottica decided, on the recommendation of the Nominations and Compensation Committee and in accordance with Articles L. 225-38 and L. 225-42-1 of the French Commercial Code, to make Leonardo Del Vecchio eligible for a severance payment in the event of his forced departure.

#### *Performance conditions*

The potential payment of this benefit is subject to the following performance condition:

Performance will be measured using Leonardo Del Vecchio’s average achievement rate of his target annual variable component over the three years prior to his departure. These annual targets are set by the Board of Directors in respect of Leonardo Del Vecchio’s 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 severance payment will be determined on a strictly proportionate basis up to a maximum of 100% (for example, if the average performance rate reaches 90% of the target, 90% of the severance payment will be paid).

If the average performance rate is less than 50%, no benefit will be paid.

In the event of Leonardo Del Vecchio’s departure before the end of the period envisaged for the assessment of the performance criteria, the severance payment will be at the reasonable discretion of the Board of Directors and will be substantiated.

This benefit is capped at two years' cash compensation (corresponding to the average annual fixed and variable compensation received in the last three years prior to departure).

In accordance with the procedure relating to related-party agreements and commitments referred to in Article L. 225-42-1 of the French Commercial Code, the terms and conditions for granting and calculating the severance pay for Leonardo Del Vecchio were submitted to the vote of the Shareholders' Meeting of May 16, 2019 (9<sup>th</sup> resolution) due to his appointment as the Company's Executive Chairman by the Board of Directors on October 1, 2018.

The conditions for granting the severance pay, its maximum amount as well as the calculation methods were defined in accordance with the recommendations contained in the AFEP-MEDEF Code.

#### **Hubert Sagnières, Executive Vice-Chairman**

Hubert Sagnières' employment contract was suspended on January 1, 2010, when he became Chief Executive Officer of Essilor. The hive-down of Essilor's businesses prior to the combination with Luxottica led to the automatic transfer of Hubert Sagnières' suspended employment contract to its subsidiary, Essilor International (SAS), with effect from November 1, 2017.

A termination benefit may be paid to Hubert Sagnières if, following the termination of his corporate office, his employment contract is terminated within a year of its reactivation at the initiative of the employer, except for serious or gross misconduct, subject to the following conditions:

- his termination benefit is in any event capped at two years' cash compensation (annual fixed + variable) effectively received during the three years preceding the date of notification of departure; and
- the portion of the termination benefit that exceeds the legal or collective bargaining agreement limits is subject to performance conditions described below.

#### *Performance conditions*

The potential payment of this supplementary benefit is subject to the following performance condition:

Performance will be measured using Hubert Sagnières' average achievement rate of his target annual variable component 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 severance payment will be determined on a strictly proportionate basis up to a maximum of 100% (for example, if the average performance rate reaches 90% of the target, 90% of the severance payment will be paid).

If the average performance rate is less than 50%, no supplementary benefit will be paid.

In accordance with the procedure relating to related-party agreements and commitments referred to in Article L. 225-42-1 of the French Commercial Code, the terms and conditions for granting and calculating the severance pay for Hubert Sagnières were submitted to the vote of the Shareholders' Meeting of May 16, 2019 (10<sup>th</sup> resolution) due to his appointment as the Company's Executive Vice-Chairman by the Board of Directors on October 1, 2018.

The conditions for granting the severance pay, its maximum amount as well as the calculation methods were defined in accordance with the recommendations contained in the AFEP-MEDEF Code.

#### **2.3.2.2.4 Maturity of the performance share award plan of December 2, 2015**

On December 2, 2015, the Board of Directors granted 35,000 performance shares to Hubert Sagnières, Chairman and Chief Executive Officer of Essilor International (SAS) until September 30, 2018 and Executive Vice-Chairman of EssilorLuxottica since October 1, 2018, under the following terms and conditions:

The vesting of these shares was initially linked to an employment condition and the achievement of a double performance condition:

1. the first performance condition related to annualized growth in the share price, which had to be equal to or greater than 7% for all the shares to vest;
2. the second performance condition, applicable only to Executive Corporate Officers, was based on the average rate of achievement of the targets for annual variable compensation during the performance measurement period (the Average Ratio).

When the Average Ratio is greater than 100%, it 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.

Considering the importance that the planned combination between Essilor and Luxottica represented for the Company's future, the Board of Directors' Meeting of January 15, 2017 decided to amend this double performance condition on the recommendation of Executive Officers and Compensation Committee. The performance condition became 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%).

On October 1, 2018, Delfin contributed its 62.42% interest in Luxottica to Essilor, which became the parent company of Luxottica and was renamed EssilorLuxottica.

As a result, the performance condition was deemed to be met. As the employment condition was also met, on December 2, 2019 Hubert Sagnières received 35,000 EssilorLuxottica shares<sup>(1)</sup>, registered in his name.

(1) The corporate name "Essilor International" was changed to "EssilorLuxottica" following the completion of the combination with Luxottica on October 1, 2018.

#### Additional lock-up period for Executive Corporate Officers

One-third of Hubert Sagnières' shares that vested on December 2, 2019 (11,667 shares) will continue to be subject to a lock-up period for as long as he remains in

office, or until such time as he holds on a permanent basis a number of shares (acquired over time through the vesting of performance shares or the exercise of stock options) equivalent to two years' total cash at target (fixed compensation + target annual variable compensation).

### 2.3.3 AFEP-MEDEF compensation and benefits tables

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

| <i>In euros (gross amount)</i>                                     | <b>2019</b>                    | <b>2018</b>  |
|--|--------------------------------|--|
| <b>Leonardo DEL VECCHIO</b>  | <b>Executive Chairman</b>      | <b>Executive Chairman (since October 1, 2018)</b>  |
| Compensation due for the year (detailed in Table 3) <sup>(a)</sup> | €1,159,500                     | €528,125   |
| Value of options granted during the year                           |                                |  |
| Value of performance shares awarded during the year <sup>(b)</sup> | €1,945,200                     | €2,282,500   |
| <b>Hubert SAGNIÈRES</b>  | <b>Executive Vice-Chairman</b> | <b>Chairman and Chief Executive Officer (until October 1, 2018) and Executive Vice-Chairman (from October 1, 2018)</b> |
| Compensation due for the year (detailed in Table 3) <sup>(a)</sup> | €1,194,885                     | €2,112,856   |
| Value of options granted during the year                           |                                |  |
| Value of performance shares awarded during the year <sup>(b)</sup> | €1,945,200                     | €2,282,500   |

(a) Amount of compensation due in respect of fiscal year 2019, subject to approval by the Shareholders' Meeting.

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



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

| Leonardo DEL VECCHIO <sup>(a)</sup><br><i>In euros (gross amount)</i> | 2019               |                   | 2018  |                 |
|---|--------------------|-------------------|---|-----------------|
|   | Executive Chairman |                   | Executive Chairman<br>(since October 1, 2018) |                 |
|   | Amount due         | Amount paid       | Amount due                                    | Amount paid     |
| Fixed compensation <sup>(b)</sup>                                     | €1,062,500         | €1,062,500        | €287,500                                      | €287,500        |
| Variable compensation   | €0                 | €215,625          | €215,625                                      |                 |
| Exceptional compensation  |                    |                   |   |                 |
| Directors' fees <sup>(c)</sup>  | €97,000            | €97,000           | €25,000                                       | €25,000         |
| Benefits in kind:   |                    |                   |   |                 |
| • car   |                    |                   |   |                 |
| • unemployment insurance  |                    |                   |   |                 |
| • other   |                    |                   |   |                 |
| <b>TOTAL</b>  | <b>€1,159,500</b>  | <b>€1,375,125</b> | <b>€528,125</b>                               | <b>€312,500</b> |

(a) Leonardo Del Vecchio was appointed as Executive Chairman of EssilorLuxottica on October 1, 2018 with fixed annual gross compensation of €1,150,000 and target variable annual gross compensation of €1,150,000.

The amounts shown in the table above for fiscal year 2018 correspond to compensation due pro rata for the period of executive corporate office, i.e. from October 1 until December 31, 2018.

(b) Leonardo Del Vecchio's fixed compensation was €1,150,000 (full year basis) from January 1, 2019 to May 31, 2019 and €1,000,000 (full year basis) with effect from June 1, 2019. The amounts shown in the table above for fiscal year 2019 correspond to compensation due pro rata for 2019.

(c) The actual payment of Director's fees can occur in January N+1.

| Hubert SAGNIÈRES <sup>(a)</sup><br><i>In euros (gross amount)</i> | 2019                    |                   | 2018  |                   |
|---|-------------------------|-------------------|---|-------------------|
|   | Executive Vice-Chairman |                   | Chairman and Chief Executive Officer<br>(until October 1, 2018) and Executive<br>Vice-Chairman (from October 1, 2018) |                   |
|   | Amount due              | Amount paid       | Amount due  | Amount paid       |
| Fixed compensation <sup>(b)</sup>                                 | €1,062,500              | €1,062,500        | €887,500  | €887,500          |
| Variable compensation   | €0                      | €1,184,625        | €1,184,625  | €1,214,400        |
| Exceptional compensation  |                         |                   |   |                   |
| Directors' fees <sup>(c)</sup>                                    | €124,500                | €124,500          | €33,000   | €33,000           |
| Benefits in kind:   |                         |                   |   |                   |
| • car   |                         |                   |   |                   |
| • unemployment insurance  | €7,885                  | €7,885            | €7,731  | €7,731            |
| • other   |                         |                   |   |                   |
| <b>TOTAL</b>  | <b>€1,194,885</b>       | <b>€2,379,510</b> | <b>€2,112,856</b>   | <b>€2,142,631</b> |

(a) Hubert Sagnières was Chairman and Chief Executive Officer of Essilor from January 1 to September 30, 2018, with fixed annual gross compensation of €800,000 and target variable annual gross compensation of €800,000. He was appointed as Executive Vice-Chairman of EssilorLuxottica on October 1, 2018 with fixed annual gross compensation of €1,150,000 and target variable annual gross compensation of €1,150,000.

The amounts shown for fiscal year 2018 in the table above correspond to the pro rata compensation due in respect of the two executive corporate offices held (Chairman and CEO of Essilor and Executive Vice-Chairman of EssilorLuxottica).

(b) Hubert Sagnières' gross fixed compensation was €1,150,000 (full year basis) from January 1, 2019 to May 31, 2019 and €1,000,000 (full year basis) with effect from June 1, 2019. The amounts shown in the table above for fiscal year 2019 correspond to compensation due pro rata for 2019.

(c) The actual payment of Director's fees can occur in January N+1.

Table 4 – Performance shares awarded to each corporate officer during the fiscal year

| Rights to performance shares granted | Total number | Valuation (method applied in the consolidated financial statements) (in euros) | Vesting date                    | End of lock-up period           | Plan       | Performance conditions  |
|--------------------------------------|--------------|--|---------------------------------|---------------------------------|------------|---|
| Leonardo DEL VECCHIO                 | 40,000       | 48.63  | Between 10/03/2022 & 10/03/2025 | Between 10/03/2022 & 10/03/2025 | 10/03/2019 | Share price + special performance condition for Executive Corporate Officers <sup>(a)</sup> |
| Hubert SAGNIÈRES                     | 40,000       | 48.63  | Between 10/03/2022 & 10/03/2025 | Between 10/03/2022 & 10/03/2025 | 10/03/2019 | Share price + special performance condition for Executive Corporate Officers <sup>(a)</sup> |
| Francesco MILLERI                    | 35,000       | 48.63  | Between 10/03/2022 & 10/03/2025 | Between 10/03/2022 & 10/03/2025 | 10/03/2019 | Share price   |
| Laurent VACHEROT                     | 35,000       | 48.63  | Between 10/03/2022 & 10/03/2025 | Between 10/03/2022 & 10/03/2025 | 10/03/2019 | Share price   |

(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 EssilorLuxottica share price. A second performance condition applies specifically to Executive Corporate Officers: the number of shares that vest may be reduced if the average rate of target achievement for the annual variable component of compensation is less than 100% during the performance measurement period.

Table 5 – Performance shares that became available during the year for each corporate officer

| Performance shares awarded that became available | Total number          | Plan        | Performance conditions  |
|--|-----------------------|-------------|---|
| Hubert SAGNIÈRES                                 | 22,500 <sup>(a)</sup> | 11/25/ 2013 | Share price + special performance condition for Executive Corporate Officers <sup>(b)</sup> |
| Hubert SAGNIÈRES                                 | 35,000 <sup>(c)</sup> | 12/02/ 2015 | Share price + special performance condition for Executive Corporate Officers <sup>(b)</sup> |
| Laurent VACHEROT                                 | 35,000 <sup>(d)</sup> | 11/25/ 2013 | Share price   |

(a) 22,500 performance shares out of the 45,000 vested under the November 25, 2013 plan became available on November 25, 2019, subject to the specific lock-up condition applicable to Executive Corporate Officers. The 22,500 performance shares vested under the November 25, 2013 plan became available on November 25, 2017.

(b) In addition to the employment condition, the vesting of shares and their number are subject to a performance condition based on the annualized growth in the share price of EssilorLuxottica. 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 performance measurement period.

(c) 35,000 performance shares under the December 2, 2015 plan became available on December 2, 2019, subject to the specific lock-up condition applicable to Executive Corporate Officers.

(d) 35,000 performance shares under the November 25, 2013 plan became available on November 25, 2019.

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 2019.

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

Leonardo Del Vecchio, Executive Chairman

Leonardo Del Vecchio has no stock subscription options to exercise. Consequently, no options were exercised in fiscal year 2019.

Hubert Sagnières, Executive Vice-Chairman

Hubert Sagnières has not had any stock subscription options to exercise since 2014. Consequently, no options were exercised in fiscal year 2019.

**Table 8 – History of capped performance stock subscription option awards**

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

| Plan   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  |
|--|---|---|---|---|---|---|---|---|
| Date of Shareholders' Meeting  | 05/11/2012  | 05/11/2012  | 05/11/2012  | 05/05/2015                                    | 05/05/2015                                    | 05/05/2015                                    | 11/29/2018                                    | 11/29/2018                                    |
| Date of Board of Directors' Meeting  | 11/27/2012  | 11/25/2013  | 11/25/2014  | 12/02/2015                                    | 09/22/2016                                    | 10/03/2017                                    | 11/29/2018                                    | 10/03/2019                                    |
| Total number of shares that can be subscribed  | 81,760  | 87,880  | 121,505   | 100,023                                       | 119,392                                       | 132,016                                       | 133,203                                       | 127,117                                       |
| Number of shares that can be subscribed by the corporate officers                              |   |   |   |   |   |   |   |   |
| Starting point for the exercise of options   | 11/27/2014  | 11/25/2015  | 11/25/2016  | 12/02/2018                                    | 11/22/2019                                    | Not yet known, depends on performance         | Not yet known, depends on performance         | Not yet known, depends on performance         |
| Date of expiration   | 11/27/2019  | 11/25/2020  | 11/25/2021  | 12/02/2022                                    | 09/22/2023                                    | 10/03/2024                                    | 11/29/2025                                    | 10/03/2026                                    |
| Subscription price (average of the 20 opening prices prior to the Board of Directors' Meeting) | €71.35  | €77.29  | €87.16  | €121.32                                       | €114.88                                       | €105.80                                       | €116.74                                       | €131.52                                       |
| Exercise procedures <sup>(a)</sup>   | Subject to conditions: 50% after two years, 100% one year later | Subject to conditions: 50% after two years, 100% one year later | Subject to conditions: 50% after two years, 100% one year later | Subject to conditions: 100% after three years |
| Number of shares subscribed at 12/31/2019  | 74,275  | 69,069  | 76,807  | 7,485   | 13,385  | 0   | 0   | 0   |
| Cumulative number of options canceled or expired   | 7,485   | 5,443   | 16,028  | 28,183  | 46,404  | 35,932  | 12,411  | 0   |
| Options remaining at 12/31/2019  | 0   | 13,368  | 28,670  | 64,355  | 59,603  | 96,084  | 120,792                                       | 127,117                                       |

(a) The vesting of subscription options is subject to an employment condition and to a performance condition based on the annualized growth of the EssilorLuxottica share price. 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 grantees of the 2015 and 2016 plans in advance.

**Table 9 – History of performance share awards**

Information on performance shares (excluding collective awards)

| Plan   | 2013   | 2014   | 2015   | 2016   | 2017  | 2018                             | 2019                             |
|--|--|--|--|--|---|----------------------------------|----------------------------------|
| Date of Shareholders' Meeting                        | 05/11/2012   | 05/11/2012   | 05/05/2015   | 05/05/2015   | 05/05/2015                                  | 11/29/2018                       | 11/29/2018                       |
| Date of Board of Directors' Meeting                  | 11/25/2013   | 11/25/2014   | 12/02/2015   | 09/22/2016   | 10/03/2017                                  | 11/29/2018                       | 10/03/2019                       |
| Total number of shares awarded                       | 1,279,460  | 1,448,464  | 1,251,533  | 1,372,233  | 1,481,219                                   | 1,565,862                        | 2,228,446 <sup>(c)</sup>         |
| Number of shares awarded to the corporate officers:  |  |  |  |  |   |                                  |                                  |
| • Leonardo Del Vecchio                               |  |  |  |  |   | 50,000                           | 40,000                           |
| • Hubert Sagnières                                   | 45,000   | 40,000   | 35,000   | 35,000   | 50,000                                      | 50,000                           | 40,000                           |
| • Francesco Milleri                                  |  |  |  |  |   | 35,000                           | 35,000                           |
| • Laurent Vacherot                                   | 35,000   | 35,000   | 30,000   | 32,005   | 32,045                                      | 35,000                           | 35,000                           |
| Date of vesting of shares                            | Resident on 11/25/2015<br>Non-resident on 11/25/2017                           | Resident on 11/25/2016<br>Non-resident on 11/25/2018                           | Resident on 12/02/2018<br>Non-resident on 12/02/2019 | Resident on 09/22/2019<br>Non-resident on 09/22/2020 | Not yet vested                              | Not yet vested                   | Not yet vested                   |
| Date of end of lock-up period                        | Resident on 11/25/2019<br>Non-resident 50% on 11/25/2017 and 50% on 11/25/2019 | Resident on 11/25/2020<br>Non-resident 50% on 11/25/2018 and 50% on 11/25/2020 | Resident on 12/02/2020<br>Not applicable             | Resident on 09/22/2021<br>Not applicable             | According to vesting date<br>Not applicable | Not applicable<br>Not applicable | Not applicable<br>Not applicable |
| Number of shares vested <sup>(a)</sup> at 12/31/2019 | 1,178,535  | 1,337,985  | 1,110,580  | 426,958  | 2,486 <sup>(b)</sup>                        | 0                                | 0                                |
| Cumulative number of shares cancelled or expired     | 100,925  | 110,479  | 140,953  | 225,158  | 166,331                                     | 111,936                          | 63                               |
| Shares remaining at 12/31/2019                       | -  | -  | -  | 720,117  | 1,312,402                                   | 1,453,926                        | 2,228,383                        |

(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 EssilorLuxottica share price. Within the framework of the proposed combination between Essilor and Luxottica, the Board of Directors at its meeting of January 15, 2017 had decided to waive the performance conditions for the employee grantees of the 2015 and 2016 plans in advance. With regard to Executive Corporate Officers, the Board of Directors at its meeting of January 15, 2017 had decided to modify the performance conditions of the 2015 and 2016 plans. The performance condition in respect of the 2015 and 2016 plans became 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%).

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 disability.

(c) This total does not include the 801,400 free shares granted to 122 beneficiaries on March 7, 2019 to convert the Luxottica cash retention plan.



**Table 10 – Executive Corporate Officers – Detailed table**

**Leonardo DEL VECCHIO**

**Executive Chairman from October 1, 2018**

|  |                    |
|--|--------------------|
| Start of term  | 2018               |
| End of term  | 2021               |
| Employment contract  | No                 |
| Compensation relating to a non-compete clause  | No                 |
| Supplementary pension plan   | No <sup>(a)</sup>  |
| Compensation or benefits that are or may be owed due to termination or change of functions | Yes <sup>(b)</sup> |

(a) Since January 1, 2019, Leonardo Del Vecchio has been eligible for the Company's defined benefit pension plan. His pension rights for 2019 were strictly proportional to the achievement rate of his variable annual compensation targets for that year. As Leonardo Del Vecchio has waived his variable component for 2019 in full, the Board of Directors decided that he would not accrue any supplementary pension rights for that year.

Pursuant to the PACTE law (Action Plan for Business Growth and Transformation) and the Government Order of July 3, 2019, the defined benefit pension plan was closed on December 31, 2019. Consequently, Leonardo Del Vecchio will not receive any pension benefits under this plan.

(b) Details of the severance payment provided for in respect of the corporate office are given in Appendix 4 to Section 2.3.2.2.3.

**Hubert SAGNIÈRES**

**President and Chief Operating Officer until December 31, 2009, Chief Executive Officer from January 1, 2010, Chairman and Chief Executive Officer from January 2, 2012, and Executive Vice-Chairman from October 1, 2018**

|  |                                       |
|--|---------------------------------------|
| Start of term  | 2018                                  |
| End of term  | 2021                                  |
| 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 <sup>(a)</sup>                     |

(a) There is no provision for any severance payment in respect of the corporate office. Details of the severance payment provided under the suspended employment contract are given in Appendix 4 to Section 2.3.2.2.3.

**Ratio between the compensation of Executive Corporate Officers and the average and median compensation of the Company's employees**

The following information is presented in accordance with the provisions of the PACTE Law (no. 2019-486 of May 22, 2019) and Government Order no. 2019-1234 of November 27, 2019 to ensure transparency in terms of executive compensation. It shows the ratios between the compensation of each Executive Corporate Officer and the average and median compensation of the Company's employees.

**Methodology**

- EssilorLuxottica referred to the AFEP-MEDEF guidelines for the comparative analysis of the total compensation of the Executive Chairman and the Executive Vice-Chairman and that of Group's employees.
- The listed holding company EssilorLuxottica SA has a very small number of employees compared to the total number of Group's employees in France. Therefore, the ratios have been calculated on a broader scope, namely Essilor International (SAS) and BBGR, the two

largest French entities in terms of headcount with 3,400 employees (i.e. approximately 70% of the employees of the Group's French entities). Luxottica France (425 employees) has been included in 2019, which made it possible to calculate the 2019 ratios on approximately 80% of the employees of the Group's French entities.

- Compensation considered to calculate the ratios includes:
  - For Executive Corporate Officers: base salary, annual variable compensation paid in the year in respect of the previous year, long-term incentive award in the year valued in accordance with IFRS (accounting norms), pursuant to the AFEP-MEDEF guidelines, benefits in kind, directors' fees due in respect of the year.
  - For the employees (full-time equivalent): fixed compensation, annual variable compensation paid in the year in respect of the previous year, profit-sharing and collective incentives plans paid in the year, long-term incentive award in the year valued in accordance with IFRS (accounting norms), pursuant to the AFEP-MEDEF guidelines, individual premiums paid in the year (car allowance, housing allowance, impatriation premium, ...).

## Executive Chairman <sup>(1)</sup>

|  | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|
| <b>RATIO INCLUDING PERFORMANCE SHARES</b>        |      |      |      |      |      |
| Ratio in relation to <u>average</u> compensation | 59   | 60   | 61   | 60   | 45   |
| Ratio in relation to <u>median</u> compensation  | 79   | 82   | 79   | 77   | 57   |

## Executive Vice-Chairman <sup>(2)</sup>

|  | 2015           | 2016 | 2017 | 2018 | 2019 |
|--|----------------|------|------|------|------|
| <b>RATIO INCLUDING PERFORMANCE SHARES</b>        |                |      |      |      |      |
| Ratio in relation to <u>average</u> compensation | Not applicable | 45   | 40   | 55   | 58   |
| Ratio in relation to <u>median</u> compensation  | Not applicable | 61   | 51   | 72   | 75   |

For comparison purposes, the following table presents the annual change in the Executive Corporate Officers' and employees' compensation compared to the Group's performance.

|  | 2015           | 2016       | 2017       | 2018                    | 2019       |
|--|----------------|------------|------------|-------------------------|------------|
| Total compensation granted/paid to the Executive Chairman during the year      | €3,961,201     | €4,360,814 | €4,470,633 | €4,415,198              | €3,320,325 |
| Change in compensation versus the previous year                                | -              | +10%       | +3%        | -1%                     | -25%       |
| Total compensation granted/paid to the Executive Vice-Chairman during the year | Not applicable | €3,257,635 | €2,885,091 | €4,087,018              | €4,324,710 |
| Change in compensation versus the previous year                                | Not applicable | --         | -11%       | +42%                    | +6%        |
| Average compensation of employees during the year                              | €67,566        | €72,402    | €72,995    | €73,905                 | €74,564    |
| Change in compensation versus the previous year                                | -              | +7%        | +1%        | +1%                     | +1%        |
| Final share price for the year   | €115.05        | €107.35    | €114.95    | €110.45                 | €135.80    |
| Attributable net profit for the year   | €757 m         | €813 m     | €833 m     | €1,774 m <sup>(a)</sup> | €1,938 m   |
| Change in net profit versus the previous year                                  | -              | +7%        | +2%        | +113% <sup>(b)</sup>    | +9%        |
| Ratio in relation to <u>average</u> compensation (Executive Chairman)          | 59             | 60         | 61         | 60                      | 45         |
| Ratio in relation to <u>average</u> compensation (Executive Vice-Chairman)     | Not applicable | 45         | 40         | 55                      | 58         |

(a) Adjusted *pro forma* net profit for 2018 and adjusted net profit for 2019 (see Section 3.1 of this Universal Registration Document).

(b) Impact of the combination with Luxottica.

(1) Hubert Sagnières has been Chairman and Chief Executive Officer of Essilor International until October 1, 2018. Leonardo Del Vecchio has been Executive Chairman of EssilorLuxottica since October 1, 2018. The 2018 ratios are calculated adding the compensation of Hubert Sagnières until October 1, 2018 and the compensation of Leonardo Del Vecchio since October 1, 2018.

(2) Laurent Vacherot has been appointed President and Chief Operating Officer of Essilor International on December 6, 2016. He held his corporate office until October 1, 2018. Hubert Sagnières has been appointed Executive Vice-Chairman of EssilorLuxottica on October 1, 2018. The 2018 ratios are calculated adding the compensation of Laurent Vacherot until October 1, 2018 and the compensation of Hubert Sagnières since October 1, 2018. Although these are two different corporate offices, the table presents a continuation between these corporate offices to show the evolution of the ratio over the years.

#### 2.3.4 Compensation paid in 2019 or awarded in respect of 2019 to Corporate Officers ("Say on Pay" or "Ex post" vote)

The purpose of the **seventh resolution** is to submit for shareholder approval the information referred to in Article L. 225-37-3 I of the French Commercial Code, which includes total compensation and benefits in kind paid in 2019 or awarded in respect of 2019 to corporate officers, including those whose term of office ended during 2019 and those newly appointed during 2019.

The purpose of the **eighth resolution** is to submit for shareholder approval the compensation components paid in 2019 or awarded in respect of 2019 to Leonardo Del Vecchio, Executive Chairman of the Company.

The purpose of the **ninth resolution** is to submit for shareholder approval the compensation components paid in 2019 or awarded in respect of 2019 to Hubert Sagnières, Executive Vice-Chairman of the Company.

These votes are required in accordance with Article L. 225-100 II of the French Commercial Code as amended by Law no. 2016-1691 of December 9, 2016 (the "Sapin II Law"), Law no. 2019-486 of May 22, 2019 (the "PACTE Law"), and Government Order no. 2019-1234 of November 27, 2019.

These components are presented in the form of a table prepared in accordance with the recommendations contained in the AFEP-MEDEF Code Application Guide issued by the High Committee for Corporate Governance (*Haut Comité de Gouvernement d'Entreprise*).

##### Seventh resolution

###### Approval of the report on the compensation and benefits of all kinds paid in 2019 or awarded in respect of 2019 to corporate officers

The Shareholders' Meeting, voting with the quorum and majority conditions required for Ordinary Shareholders' Meetings, and having reviewed the Report on Corporate Governance referred to in Article L. 225-37 of the French Commercial Code, approves, pursuant to Article L. 225-100 II of the French Commercial Code, the information referred to in Article L. 225-37-3 I of the French Commercial Code mentioned in this report, as shown in section 2.3, paragraph *Compensation of corporate officers*.

##### Eighth resolution

###### Approval of the fixed, variable and exceptional components comprising the total compensation and benefits of all kinds paid in 2019 or awarded in respect of 2019 to Leonardo del Vecchio, Executive Chairman

The Shareholders' Meeting, voting with the quorum and majority conditions required for Ordinary Shareholders' Meetings, pursuant to Article L. 225-100 III of the French Commercial Code, approves the fixed, variable and exceptional components comprising the total compensation and benefits of all kinds paid in 2019 or awarded in respect of 2019 to Leonardo Del Vecchio, owing to the nature of his office of Executive Chairman, as shown in section 2.3, paragraph *Compensation of corporate officers*, and reproduced below.

| Compensation components paid in 2019 or awarded in respect of 2019 | Amount or accounting valuation submitted to the vote | Comments  |
|--|--|---|
| Fixed compensation   | €1,062,500   | <p>Gross fixed annual compensation of €1,150,000 from January 1, 2019 to May 31, 2019, approved by the Board of Directors on March 18, 2019 on the recommendation of the Nominations and Compensation Committee.</p> <p>Gross fixed annual compensation of €1,000,000 from June 1, 2019 to December 31, 2019, approved by the Board of Directors on May 15, 2019 on the recommendation of the Nominations and Compensation Committee.</p> <p>The amount indicated corresponds to the gross fixed annual compensation prorated for the period from January 1 to May 31, 2019 and from June 1 to December 31, 2019.</p>   |
| Variable compensation  | €0   | <p><b>Annual variable compensation awarded in respect of 2019</b></p> <p>At the Board of Directors' Meeting of March 5, 2020, Leonardo Del Vecchio declared his intention to waive his variable component for 2019 in full out of solidarity with the shareholders impacted by the fraud that took place in Thailand.</p> <p>Therefore, the Board of Directors unanimously decided not to pay any variable compensation for 2019 to Leonardo Del Vecchio.</p> <p><b>Reminder: Annual variable compensation paid in 2019 (in respect of 2018)</b></p> <p>At its meeting of March 18, 2019, the Board of Directors, on the recommendation of the Nominations and Compensation Committee and after approval of the financial items by the Audit and Risk Committee, assessed the variable compensation payable to Leonardo Del Vecchio in respect of fiscal year 2018.</p> <p>In light of the financial and specific objectives approved by the Board at its meeting of November 29, 2018 and the achievements recorded as at December 31, 2018, the amount of the variable component was assessed as follows:</p> <ul style="list-style-type: none"> <li>in respect of financial objectives: <ul style="list-style-type: none"> <li>Luxottica growth, 50% of target achieved,</li> <li>Luxottica restated net EPS, 100% of target achieved;</li> </ul> </li> <li>in respect of specific objectives: the Board of Directors deemed that Leonardo Del Vecchio had met the objectives set by the Board of Directors at 70%, i.e., the EssilorLuxottica holding company's organization, the preparation of the synergy plan to be implemented from 2019, the successful implementation of EssilorLuxottica's new governance structure, the implementation of the principle of equal powers between the two Executive Corporate Officers and ability to solve problems effectively and the roll-out of EssilorLuxottica's Mission and employee shareholding within the future EssilorLuxottica group.</li> </ul> <p>Consequently, the amount of Leonardo Del Vecchio's variable compensation for 2018 was approved at €215,625, i.e., 75% of his 2018 annual fixed compensation.</p> <p>Details of these criteria, their respective weighting and their assessment scales are provided in the 2018 Registration Document, Section 2.3.3.</p> <p>Its payment was approved at the Annual Shareholders' Meeting held on May 16, 2019.</p> |
| Deferred variable compensation                                     | N/A  | Leonardo Del Vecchio does not benefit from any deferred variable compensation.  |
| Multi-year variable compensation                                   | N/A  | Leonardo Del Vecchio does not benefit from any multi-year variable compensation.  |
| Directors' fees  | €97,000  | Leonardo Del Vecchio received €97,000 in respect of his directorship of EssilorLuxottica.   |
| Exceptional compensation   | N/A  | Leonardo Del Vecchio did not benefit from any exceptional compensation.   |

## Report on Corporate Governance

### Compensation of corporate officers

| Compensation components paid in 2019 or awarded in respect of 2019 | Amount or accounting valuation submitted to the vote | Comments  |
|--|--|---|
| Award of stock subscription and purchase options                   | N/A  | Leonardo Del Vecchio does not benefit from stock options.   |
| Award of performance shares  | Number: 40,000 and accounting valuation: €1,945,200  | <p>At its October 3, 2019 meeting, the Board of Directors, in accordance with the authorization granted by the 7<sup>th</sup> resolution of the Shareholders' Meeting of November 29, 2018, and acting on the recommendation of the Nominations and Compensation Committee, awarded 40,000 performance shares to Leonardo Del Vecchio, valued at €1,945,200 according to the method used for the consolidated financial statements, <i>i.e.</i>, 1.2% of the total number of shares awarded (the sum of the performance shares and the performance options awarded) and 0.009% of share capital at December 31, 2019.</p> <p>The rules governing awards to Executive Corporate Officers and the vesting conditions for such shares are set out in Section 2.3.2, paragraph 2019 compensation of corporate officers.</p>   |
| Sign-on premium  | N/A  | Leonardo Del Vecchio did not benefit from any sign-on premium.  |
| Termination benefits   | No payment   | <p>At its meeting of November 29, 2018, and acting on the recommendation of the Nominations and Compensation Committee, EssilorLuxottica's Board of Directors approved the commitments made by the Company to Leonardo Del Vecchio regarding severance pay.</p> <p>In accordance with the procedure regarding related-party agreements and commitments, this commitment was submitted to the vote at the Shareholders' Meeting held on May 16, 2019 (9<sup>th</sup> resolution) due to his appointment as the Company's Executive Chairman by the Board of Directors on October 1, 2018.</p> <p>Leonardo Del Vecchio is entitled to severance pay in respect of his executive corporate office, in the event of forced departure, in an amount of two years' cash compensation (corresponding to the average annual fixed and variable compensation received in the last three years prior to departure). Severance pay is wholly subject to performance conditions.</p> <p>Details of the award criteria for this benefit are provided in Section 2.3.2, paragraph 2019 compensation of corporate officers.</p>  |
| Non-compete payment  | N/A  | Leonardo Del Vecchio does not benefit from any non-compete payment.   |
| Supplementary pension plan   | No payment   | <p>At its meeting of November 29, 2018, and acting on the recommendation of the Nominations and Compensation Committee, EssilorLuxottica's Board of Directors approved the commitments made by the Company to Leonardo Del Vecchio regarding the supplementary defined benefit pension plan.</p> <p>In accordance with the procedure regarding related-party agreements and commitments, this commitment was submitted to the vote at the Shareholders' Meeting (9<sup>th</sup> resolution) dated May 16, 2019 due to his appointment as the Company's Executive Chairman by the Board of Directors on October 1, 2018.</p> <p>Since January 1, 2019, Leonardo Del Vecchio has been eligible for the Company's defined benefit pension plan. His pension rights for 2019 were strictly proportional to the achievement rate of his variable annual compensation targets for that year. As Leonardo Del Vecchio has waived his variable component for 2019 in full, the Board of Directors decided that he would not accrue any supplementary pension rights for that year. Pursuant to the PACTE law (Action Plan for Business Growth and Transformation) and the Government Order of July 3, 2019, the defined benefit pension plan was closed on December 31, 2019. Consequently, Leonardo Del Vecchio will not receive any pension benefits under this plan.</p> |

| Compensation components paid in 2019 or awarded in respect of 2019                         | Amount or accounting valuation submitted to the vote | Comments  |
|--|--|---|
| Employee death/disability and health insurance plans and defined contribution pension plan |  | Leonardo Del Vecchio is eligible for the Group death/disability and health insurance plans and the defined contribution pension plan set up by the Company under the same terms and conditions as those applicable to the category of employees to which he belongs for the purpose of determining employee benefits and other ancillary items of his compensation. |
| Benefits in kind   | No payment   | Leonardo Del Vecchio did not benefit from any benefits in kind in 2019.   |

## Ninth resolution

### Approval of the fixed, variable and exceptional components comprising the total compensation and benefits of all kinds paid in 2019 or awarded in respect of 2019 to Hubert Sagnières, Executive Vice-Chairman

The Shareholders' Meeting, voting with the quorum and majority conditions required for Ordinary Shareholders' Meetings, pursuant to Article L. 225-100 III of the French Commercial Code, approves the fixed, variable and exceptional components comprising the total compensation and benefits of all kinds paid in 2019 or awarded in respect of 2019 to Hubert Sagnières, owing to the nature of his office of Executive Vice Chairman, as shown in Section 2.3, paragraph *Compensation of corporate officers*, and reproduced below.

| Compensation components paid in 2019 or awarded in respect of 2019 | Amount or accounting valuation submitted to the vote | Comments   |
|--|--|--|
| Fixed compensation   | €1,062,500   | <p>Gross fixed annual compensation of €1,150,000 from January 1, 2019 to May 31, 2019, approved by the Board of Directors on March 18, 2019 on the recommendation of the Nominations and Compensation Committee.</p> <p>Gross fixed annual compensation of €1,000,000 from June 1, 2019 to December 31, 2019, approved by the Board of Directors on May 15, 2019 on the recommendation of the Nominations and Compensation Committee.</p> <p>The amount indicated corresponds to the gross fixed annual compensation prorated for the period from January 1 to May 31, 2019 and from June 1 to December 31, 2019.</p>  |
| Variable compensation  | €0   | <p><b>Annual variable compensation awarded in respect of 2019</b></p> <p>In view of the fraud that took place at an Essilor plant in Thailand, the Nomination and Compensation Committee recommended that the Board of Directors should not pay any variable compensation to Hubert Sagnières in his capacity as Chairman of Essilor International (SAS) in 2019.</p> <p>Therefore, the Board of Directors unanimously decided not to pay any variable compensation for 2019 to Hubert Sagnières.</p> <p><b>Reminder: Annual variable compensation paid in 2019 (in respect of 2018)</b></p> <p>At its meeting of March 18, 2019, the Board of Directors, acting on the recommendation of the Nominations 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 fiscal year 2018.</p> <p>In light of the financial and specific objectives approved by the Essilor Board of Directors at its meeting of February 28, 2018 and by the EssilorLuxottica Board of Directors at its meeting of November 29, 2018, and the achievements recorded as at December 31, 2018, the amount of the variable component was assessed as follows:</p> <p>For the period from January 1 to October 1, 2018,</p> <ul style="list-style-type: none"> <li>• in respect of financial objectives: <ul style="list-style-type: none"> <li>• Essilor organic growth, 200% of target achieved,</li> <li>• Essilor restated net EPS, 80% of target achieved;</li> </ul> </li> <li>• in respect of specific objectives: the Board of Directors deemed that Hubert Sagnières had met the objectives set by the Board of Directors at 160%, i.e., the successful completion of the proposed combination with</li> </ul> |

| Compensation components paid in 2019 or awarded in respect of 2019 | Amount or accounting valuation submitted to the vote | Comments   |
|--|--|--|
|  |  | <p>Luxottica, the sustainability of Essilor's culture (Mission, Principles &amp; Values, employee shareholding), the ongoing development of Essilor's long-term growth drivers (online sales, China, Bolon, MJS), and the strengthening of compliance and internal control to support growth.</p> <p>Consequently, the amount of Hubert Sagnières' variable compensation for the period from January 1 to October 1, 2018 was approved at €900,000, <i>i.e.</i>, 150% of his 2018 annual fixed compensation over the period from January 1 to September 30, 2018.</p> <p>For the period from October 1 to December 31, 2018,</p> <ul style="list-style-type: none"> <li>• in respect of financial objectives: <ul style="list-style-type: none"> <li>• Essilor organic growth, 200% of target achieved,</li> <li>• Essilor restated net EPS, 80% of target achieved;</li> </ul> </li> <li>• in respect of specific objectives: the Board of Directors deemed that Hubert Sagnières had met the objectives set by the Board of Directors at 70%, <i>i.e.</i>, the EssilorLuxottica holding company's organization, the preparation of the synergy plan to be implemented from 2019, the successful implementation of EssilorLuxottica's new governance structure, the implementation of the principle of equal powers between the two Executive Corporate Officers and ability to solve problems effectively and the roll-out of EssilorLuxottica's Mission and employee shareholding within the future EssilorLuxottica group.</li> </ul> <p>Consequently, the amount of Hubert Sagnières' variable compensation for the period from October 1 to December 31, 2018 was approved at €284,625, <i>i.e.</i>, 99% of his 2018 annual fixed compensation over the period from October 1, to December 31, 2018.</p> <p>Consequently, the total amount of Hubert Sagnières' variable compensation for 2018 was approved at €1,184,625.</p> <p>Details of these criteria, their respective weighting and their assessment scales are provided in the 2018 Registration Document, Section 2.3.3.</p> <p>Its payment was approved at the Annual Shareholders' Meeting held on May 16, 2019.</p> |
| Deferred variable compensation                                     | N/A  | Hubert Sagnières does not benefit from any deferred variable compensation.   |
| Multi-year variable compensation                                   | N/A  | Hubert Sagnières does not benefit from any multi-year variable compensation.   |
| Directors' fees  | €124,500   | Hubert Sagnières received €124,500 in respect of his directorship with the Company, and as a member of the Corporate Social Responsibility Committee and Strategy Committee.   |
| Exceptional compensation   | N/A  | Hubert Sagnières did not benefit from any exceptional compensation.  |
| Award of stock subscription and purchase options                   | N/A  | Hubert Sagnières does not benefit from stock options.  |
| Award of performance shares  | Number: 40,000 and accounting valuation: €1,945,200  | <p>At its October 3, 2019 meeting, the Board of Directors, in accordance with the authorization granted by the 7<sup>th</sup> resolution of the Shareholders' Meeting of November 29, 2018, and acting on the recommendation of the Nominations and Compensation Committee, awarded 40,000 performance shares to Hubert Sagnières, valued at €1,945,200 according to the method used for the consolidated financial statements, <i>i.e.</i>, 1.2% of the total number of shares awarded (the sum of the performance shares and the performance options awarded) and 0.009% of share capital at December 31, 2019.</p> <p>The rules governing awards to Executive Corporate Officers and the vesting conditions for such shares are set out in Section 2.3.2, <i>2019 Compensation of corporate officers</i>.</p>   |

| Compensation components paid in 2019 or awarded in respect of 2019                         | Amount or accounting valuation submitted to the vote | Comments   |
|--|--|--|
| Sign-on premium  | N/A  | Hubert Sagnières did not benefit from any sign-on premium.   |
| Termination benefits   | No payment   | <p>At its meeting of November 29, 2018, and acting on the recommendation of the Nominations and Compensation Committee, EssilorLuxottica's Board of Directors approved the commitments made by the Company to Hubert Sagnières regarding severance pay.</p> <p>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, reiterated on March 3, 2010 and ratified at the Shareholders' Meeting of May 5, 2011 (4<sup>th</sup> resolution) and was submitted to the vote at the Shareholders' Meeting of May 16, 2019 (10<sup>th</sup> resolution) due to his appointment as the Company's Executive Vice-Chairman by the Board of Directors on October 1, 2018.</p> <p>Details of the award criteria for this benefit are provided in Section 2.3.2, 2019 Compensation of corporate officers.</p>  |
| Non-compete payment  | N/A  | Hubert Sagnières does not benefit from any non-compete payment.  |
| Supplementary pension plan   | No payment   | <p>At its meeting of November 29, 2018, and acting on the recommendation of the Nominations and Compensation Committee, EssilorLuxottica's Board of Directors approved the commitments made by the Company to Hubert Sagnières regarding the supplementary defined benefit pension plan.</p> <p>Hubert Sagnières is eligible for the supplementary defined benefit 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 for the purpose of determining employee benefits and other ancillary items of his compensation.</p> <p>In accordance with the procedure regarding related-party agreements and commitments, this benefit obligation was authorized by the Board of Directors on November 26, 2009 and ratified at the Shareholders' Meetings of May 11, 2010 (5<sup>th</sup> resolution) and May 11, 2017 (4<sup>th</sup> resolution), and was submitted to vote at the Shareholders' Meeting of May 16, 2019 (10<sup>th</sup> resolution) due to his appointment as the Company's Executive Vice-Chairman by the Board of Directors on October 1, 2018.</p> <p>As an example, if the calculation were made on December 31, 2019, the annual pension provided by this plan would amount to 25% of the average total compensation (fixed + variable) actually paid to Hubert Sagnières during fiscal years 2017, 2018 and 2019 (see Section 2.3.2, 2019 compensation of corporate officers).</p> |
| 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 for the purpose of determining employee benefits and other ancillary items of his compensation.   |
| Benefits in kind   | €7,885   | Hubert Sagnières is covered by an unemployment insurance plan for which the Company paid a premium of €7,885 in 2019.  |

### 2.3.5 2020 Compensation policy for the Corporate Officers ("Say on Pay" or "Ex-ante" vote)

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 all kinds attributable to the Corporate Officers for the performance of their duties for the 2020 fiscal year, representing the compensation policy applicable to them.

These principles and criteria approved by the Board of Directors on the recommendation of the Nomination and Compensation Committee are set out in the report under the above article and appear in Section 2.3.

It is hereby specified that the compensation policy for Executive Corporate Officers, which is subject to an annual vote, is set by the Board of Directors, acting on the recommendation of the Nominations and Compensation Committee, based on the following key principles:

- compensation must be strictly aligned with the performance of EssilorLuxottica, in connection with the Company's business strategy;
- compensation must be considered as a whole: all components (cash compensation, long-term incentive, employee benefits and supplementary pension) and the balance between those components must be taken into account;
- compensation must be competitive with regard to the practices of comparable European and international companies;
- compensation must take account of employees' compensation and employment conditions: it must be consistent with that of the other senior executives and employees of EssilorLuxottica in terms of structure and progression;
- compensation must be governed by simple, clear, transparent rules.

#### 1. Compensation policy for members of the Board of Directors

The compensation for members of the Board of Directors includes only cash compensation, whose maximum amount is voted by the Shareholders' Meeting and rules of allocation set by the Board of Directors.

Directors' compensation includes a fixed component and a predominant variable component, which take into account (i) the type of offices held on the Board of Directors and its Committees and (ii) the actual presence of the members at Board of Directors' and Committee's Meetings.

In accordance with Article 14 of the bylaws, the Shareholders' Meeting determines the total amount allocated to members of the Board of Directors each year as compensation for their duties as Director. The total annual amount voted by the Combined Shareholders' Meeting of November 29, 2018 was €2,000,000. Details of the compensation policy for members of the Board of Directors are provided in Section 2.3.

#### 2. Compensation policy of the Executive Corporate Officers (Executive Chairman and Executive Vice-Chairman)

The compensation of the Executive Corporate Officers includes three main components:

- a fixed component, which should attract and retain top talents;
- a short-term variable component, linked to the achievement of strategic financial and non-financial targets established at the start of each fiscal year;
- a long-term incentive component, which is designed to encourage the creation of lasting value for shareholders and to align the interests of the Executive Corporate Officers with those of shareholders.

Around two thirds of the compensation of Executive Corporate Officers is performance-related, with one third related to long-term performance.

To take into account the expectations expressed by shareholders at the Combined Shareholders' Meeting of May 16, 2019, the compensation policy for Executive Corporate Officers, as described in the Report on Corporate Governance, includes the following changes:

- Variable compensation
  - Introduction of a clawback clause
  - Introduction of a performance condition in connection with the Group's sustainable development targets
- Long-term incentive compensation (performance shares)
  - Elimination of retesting
  - More demanding performance share vesting scale
  - Introduction of a relative performance condition (comparison with EuroStoxx 50 index)
- Shareholding policy
  - Obligation to hold 400% of fixed compensation in the form of shares
- Exceptional compensation
  - Removal of the possibility to pay executive corporate officers exceptional bonuses
- Termination/retirement benefits
  - Termination of the supplementary defined benefit pension plan and freezing of rights as of December 31, 2019

| Fixed compensation | Short-term compensation<br>(Can represent 100% of fixed compensation if targets are achieved in full without exceeding 200%)  | Long-term compensation<br>(performance conditions measured over a period of three years) |
|--------------------|---|--|
|                    | 85% of financial criteria: <ul style="list-style-type: none"> <li>• Growth in adjusted net EPS,</li> <li>• Revenue growth,</li> <li>• Unlocking of synergies</li> </ul> | Main criterion: Annualized growth in share price   |
|                    | 15% of qualitative or non-financial criteria linked to specific objectives  | Penalty in the event of under-performance in relation to the EuroStoxx 50 index          |

The purpose of the **tenth resolution** is to submit for the approval of the Shareholders' Meeting the compensation policy that applies to all corporate officers, *i.e.*, Leonardo Del Vecchio (Executive Chairman of the Company), Hubert Sagnières (Executive Vice-Chairman of the Company) and the members of the Board of Directors. Details of all compensation can be found in the Report on Corporate Governance in Section 2.3.

**Tenth resolution**

**Approval of the compensation policy applicable to Corporate Officers**

The Shareholders' Meeting, voting with the quorum and majority conditions for Ordinary Shareholders' Meetings, and having reviewed the report of the Board of Directors on corporate governance, pursuant to Article L. 225-37-2 II of the French Commercial Code, approves the compensation policy of the corporate officers presented in Section 2.3.

### 2.3.6 Summary statement of transactions in Company securities carried out by corporate officers in 2019

(Article 223-26 of the AMF General Regulations)

| First name | Last name                  | Title                                      | Description of the financial instrument | Transaction type                      | Transaction date | Transaction amount | Shares |
|------------|----------------------------|--|---|---------------------------------------|------------------|--------------------|--------|
| Leonardo   | DEL VECCHIO <sup>(a)</sup> | Executive Chairman                         | Shares                                  | Purchase                              | 01/08/2019       | €111,081           | 1,000  |
|            |                            |  |   | Purchase                              | 08/29/2019       | €4,293,590         | 32,000 |
|            |                            |  |   | Purchase                              | 08/30/2019       | €4,701,841         | 35,000 |
|            |                            |  |   | Purchase                              | 09/02/2019       | €3,485,058         | 26,000 |
|            |                            |  |   | Purchase                              | 09/03/2019       | €4,658,255         | 35,000 |
|            |                            |  |   | Purchase                              | 09/04/2019       | €5,424,684         | 40,000 |
|            |                            |  |   | Purchase                              | 09/05/2019       | €8,999,581         | 67,000 |
|            |                            |  |   | Purchase                              | 09/06/2019       | €6,294,047         | 46,390 |
|            |                            |  |   | Purchase                              | 09/09/2019       | €5,472,118         | 41,000 |
|            |                            |  |   | Purchase                              | 09/10/2019       | €6,865,316         | 52,610 |
| Hubert     | SAGNIÈRES                  | Executive Vice-Chairman                    | Shares                                  | Vesting of 2015 plan award            | 12/02/2019       | -                  | 35,000 |
|            |                            |  |   | Disposal                              | 11/29/2019       | €1,580,318         | 11,250 |
| Romolo     | BARDIN                     | Director representing Delfin               | Shares                                  | Purchase                              | 01/08/2019       | €111,085           | 1,000  |
|            |                            |  |   | Purchase                              | 10/11/2019       | €66,975            | 500    |
| Juliette   | FAVRE                      | Director representing Valoptec Association | Shares                                  | Subscription                          | 12/20/2019       | €7,048             | 64     |
|            |                            |  |   | Vesting of 2016 plan awards           | 09/22/2019       | -                  | 770    |
|            |                            |  |   | Vesting of 2016 collective plan award | 12/19/2019       | -                  | 15     |
| Giovanni   | GIALLOMBARDO               | Director representing Delfin               | Shares                                  | Purchase                              | 01/11/2019       | €112,260           | 1,000  |
| Francesco  | MILLERI                    | Director representing Delfin               | Shares                                  | Purchase                              | 01/25/2019       | €111,929           | 1,000  |
| Leonel     | PEREIRA                    | Director representing employees            | Shares                                  | Subscription                          | 12/20/2019       | €7,957             | 72     |
|            |                            |  |   | Vesting of 2016 plan awards           | 09/22/2019       | -                  | 42     |
|            |                            |  |   | Vesting of 2016 collective plan award | 12/19/2019       | -                  | 15     |
| Sabrina    | PUCCI                      | Independent director                       | Shares                                  | Purchase                              | 03/20/2019       | €63,140            | 600    |
|            |                            |  |   | Purchase                              | 03/25/2019       | €39,126            | 400    |

| First name | Last name | Title  | Description of the financial instrument | Transaction type                      | Transaction date | Transaction amount | Shares |
|------------|-----------|--|---|---------------------------------------|------------------|--------------------|--------|
| Cristina   | SCOCCHIA  | Independent director   | Shares                                  | Purchase                              | 03/19/2019       | €106,050           | 1,000  |
| Laurent    | VACHEROT  | Director (until March 30, 2020, date of his replacement by Paul du Saillant) | Shares                                  | Vesting of 2016 plan awards           | 09/22/2019       | -                  | 32,005 |
| Delphine   | ZABLOCKI  | Director representing employees  | Shares                                  | Subscription                          | 12/20/2019       | €3,100             | 28     |
|            |           |  |   | Vesting of 2016 plan awards           | 09/22/2019       | -                  | 28     |
|            |           |  |   | Vesting of 2016 collective plan award | 12/19/2019       | -                  | 15     |

(a) In 2019, Delfin S.à.r.l., a company related to Mr. Del Vecchio, purchased 1,097,920 EssilorLuxottica shares.



## 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 Board of Directors of the Group declared that, as of March 4, 2009, the AFEP and MEDEF Corporate Governance Code for listed companies of December 2008, (hereinafter the "AFEP-MEDEF Code") available on the AFEP and MEDEF websites, will be the Code to which EssilorLuxottica refers, especially for the preparation of the report provided for in article L. 225-37 of the French Commercial Code.

In 2019, the company referred to the AFEP-MEDEF Code as revised in June 2018.

In 2020, the company refers to the AFEP-MEDEF Code as revised in January 2020.

Pursuant to the Combination Agreement, the parties confirmed that the composition of the Board of Directors and Committees of EssilorLuxottica shall comply with applicable laws and regulations and with the AFEP-MEDEF Code (subject to limited exceptions).

### 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:

#### References

#### AFEP-MEDEF Code

| Recommendations   | Indicative deviations within EssilorLuxottica's governance  |
|---|---|
| <p><b>9.3</b> Annual self-assessment of the Board of Directors' operating procedures</p>  | <p>A self-assessment of the Board of Directors was launched in 2019, based on a quantitative and qualitative approach (see Section 2.1.2.3 regarding the self-assessment of the Board of Directors' operating procedures).</p> <p>A first presentation of the results of this exercise was presented to the Board of Directors on November 28, 2019 and a follow-up was presented to the Board of Directors on March 5, 2020.</p> <p>In the context of the Combination with Luxottica, effective as from October 1, 2018, and given the complete overhaul of the governance structure and composition of the Board of Directors, it was not considered opportune for the Company's Board of Directors to conduct a self-assessment of its operating procedures in 2018. A formal assessment of the operation of the Board of Directors was performed on an annual basis from 2004 to 2017</p> |
| <p><b>13.2</b> Directors' terms of office<br/><i>"Terms of office are staggered to avoid all reappointments happening at once and to make the reappointment process smoother."</i></p>  | <ul style="list-style-type: none"> <li>• During the Initial Term, the terms of office of the Directors of EssilorLuxottica will not be staggered, to ensure a smooth transition and seamless integration of the two companies in the context of the Combination.</li> </ul>   |
| <p><b>15.1</b> Composition of Audit and Risk Committee<br/><i>"The proportion of independent Directors on the Audit Committee must be at least equal to two-thirds, and the Committee should not include any Executive Corporate Officers."</i></p> | <ul style="list-style-type: none"> <li>• The combination of Luxottica and Essilor, two major international groups, constitutes a transaction on an exceptional scale and entails the implementation of a particular governance structure requiring certain committees to comprise a majority of non-independent members with extensive, precise and in-depth knowledge of the combination, of the new governance structure of the Company, and of Luxottica, Essilor International and their respective groups. For these reasons, the Combination Agreement provides that the Audit and Risk Committee will not comprise at least two-thirds of independent Directors.</li> </ul>  |

**References  
AFEP-  
MEDEF  
Code**

|      | <b>Recommendations</b>  | <b>Indicative deviations within EssilorLuxottica's governance</b>  |
|------|---|--|
| 17.1 | <p><b>Composition of the Nominations and Compensation Committee</b><br/> <i>"It is recommended that the Chairman of the Nominations and Compensation Committee be independent and that one of its members be an employee Director."</i></p> | <ul style="list-style-type: none"> <li>• Pursuant to the Combination Agreement, Mr. Olivier Pécoux, Chairman of the Nomination and Compensation Committee, was appointed as a Board of Directors' member of EssilorLuxottica nominated by Essilor; the latter was considered by the parties as independent for the purpose of the Combination Agreement, this constitute a deviation with regard to this recommendation of the AFEP-MEDEF Code because he has been a Director for more than 12 years and he is linked to Rothschild. The Directors considered that despite these facts, he has always displayed great independence in his judgements.</li> <li>• The Combination Agreement provides for an equal number of members from Delfin and Essilor in each Committee. AFEP-MEDEF recommends that at least one employee Director be a member of the Compensation Committee. Since the Nominations Committee and the Compensation Committee have been combined into one committee and both of the two employee Directors are included in the number of Directors appointed by Essilor, EssilorLuxottica deviates from this recommendation in order to respect the intention underlying the rule of a balanced number of Committee's members, namely the freedom of Delfin and Essilor to choose their respective Committee's members.</li> <li>• Continuing the policy of Essilor, EssilorLuxottica gives considerable voice to employee Directors (Directors representing employees and Directors representing employee shareholders), particularly regarding decisions taken by the EssilorLuxottica Board of Directors, which includes two Directors representing employees and one Director representing employee shareholders.</li> <li>• The EssilorLuxottica group submitted a three-year employee share ownership plan (consistent with Essilor's prior practice) to the first EssilorLuxottica Shareholders' Meeting held on November 29, 2018</li> <li>• The presence of a strong internal share ownership structure, which is independently represented and managed worldwide by the French non-profit association "Valoptec Association," is a major factor in the Group's long-term performance, strategic alignment and excellence. The 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 and decisions such as the appointment and reappointment of Executive Corporate Officers.</li> </ul> |
| 18.1 | <p><b>Composition of the Nominations and Compensation Committee</b><br/> The Compensation Committee must mostly consist of independent directors</p>  | <ul style="list-style-type: none"> <li>• Despite the fact that Olivier Pecoux has been a Director for more than 12 years and is linked to Rothschild, the Directors considered that he has always displayed great independence in his judgements and qualified him as "independent". Pursuant to the AFEP-MEDEF criteria, he would not qualify as "independent" and thus the Nomination and Compensation Committee would consist of half independent directors as opposed to mostly independent directors.</li> </ul>  |

References

AFEP-  
MEDEF  
Code

Recommendations

Indicative deviations within EssilorLuxottica's governance

|               |  |   |
|---------------|--|---|
| <p>21</p>     | <p><b>Suspension of the employment contract of the Executive Corporate Officer</b><br/>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.</p> | <p>On the recommendation of the Executive Officers Committee, the Board of Directors' 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.</p> <p>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 the Company, the key to building strong and stable groups. Consequently, the Board of Directors 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.</p> |
| <p>24.3.3</p> | <p><b>Frequency of awards of stock options and performance shares</b><br/>The Board of Directors must ensure that such awards are made in the same calendar periods, for instance after the publication of the preceding year's financial statements and ideally on an annual basis.</p>   | <p>In 2019, EssilorLuxottica is back in compliance with this recommendation: the stock option and performance share award plans were approved by the EssilorLuxottica Board of Directors at its meeting held on October 3, 2019, which is in line with the Company's prior practice, to make such awards at the end of September/early October each year.</p> <p>In 2018 only, given the Closing Date of the Contribution effective as from October 1, 2018, the stock option and performance share award plans were approved by the EssilorLuxottica Board of Directors at its meeting held on November 29, 2018, immediately following the first Shareholders' Meeting which authorized the award of stock options and performance shares.</p>  |

## 2.5 Appendix: List of offices and responsibilities

### Leonardo Del Vecchio

#### Chairman and Chief Executive Officer ("Executive Chairman")

84 years old (Country of citizenship: Italy)

**Number of shares:**  
376,000

#### Main position held within the Company:

Executive Chairman  
(since October 1, 2018)

#### Business address:

EssilorLuxottica – 147, rue de Paris –  
94220 Charenton-Le-Pont –  
France (Registered Office)  
1-5, rue Paul Cézanne –  
75008 Paris (Headquarter)

**First appointment as Director:** October 1, 2018<sup>(1)</sup>  
**Current term ends:** Shareholders' Meeting 2021

#### Personal information – Experience and expertise

Mr. Leonardo Del Vecchio is the founder of Luxottica group and he has been appointed Chairman of Luxottica's Board of Directors since it was formed in 1961. He has been granted executive powers as Chairman of Luxottica's Board of Directors on January 29, 2016 and then on April 19, 2018.

Mr. Del Vecchio is also Chairman of Delfin, Aterno S.a.r.l. and the Fondazione Leonardo del Vecchio, Deputy Chairman of Covivio S.A.

In 1986, the President of the Republic of Italy conferred on Mr. Del Vecchio the honor of *Cavaliere dell'Ordine al "Merito del Lavoro"* (Knight of the Order for Labor Merit).

In May 1995, he received an honorary degree in Business Administration from the Venice Cà Foscari University. In 1999, he received a Master *honoris causa* in International Business from MIB – Management School in Trieste, and in 2002 he received an honorary degree in Managerial Engineering from the University of Udine. In March 2006, Mr. Del Vecchio received another honorary degree in Materials Engineering from Politecnico of Milan.

In December 2012, the Foundation CUOA awarded him an honorary master's degree in Business Administration.

Mr. Del Vecchio will bring his visionary business approach to the industry and his experience as a lifelong entrepreneur and innovator to the Board of Directors.

#### Positions and terms of office held as of December 31, 2019

##### Main position

Executive Chairman EssilorLuxottica\*

##### Other EssilorLuxottica group companies

##### Chairman of the Board of Directors

- Luxottica Group S.p.A. (Italy)

##### External companies (non EssilorLuxottica group)

##### Vice-Chairman of the Board of Directors

- Covivio (France)\*

##### President

- Delfin Sàrl (Luxembourg)
- Aterno Sàrl (Luxembourg)
- Leonardo Del Vecchio Foundation (Italy)

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

##### External companies (non EssilorLuxottica group)

##### Director

- Gianni Versace S.p.A. (Italy)
- Istituto Europeo di Oncologia srl (Italy)
- Givi Holding S.p.A. (Italy)

(1) Term of office as Director of EssilorLuxottica entered into force as of October 1, 2018, date of completion of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica.

\* Listed company.



## Hubert Sagnières

### Executive Vice-Chairman

64 years old (Countries of citizenship: Canada and France)

**Number of shares:**

379,382

**Main position held within the Company:**

Executive Vice-Chairman (since October 1, 2018)

**Business address:**

EssilorLuxottica – 147, rue de Paris – 94220 Charenton-Le-Pont – France (registered office)

1-5, rue Paul Cézanne – 75008 PARIS (Headquarter)

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Hubert Sagnières is Executive Vice-Chairman of EssilorLuxottica since October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica. He joined Essilor in 1989 as President of International Marketing. He was appointed President of Essilor Canada from 1991 to 1996 and President of Essilor Laboratories of America in 1996, then President of Essilor of America, a position he held until 2005.

From 2006 to 2009, he was President of Essilor Europe and North America before being named Chief Operating Officer in August 2008, then Chief Executive Officer from January 1, 2010 before taking office as Chairman and Chief Executive Officer of Essilor on January 2, 2012.

Hubert Sagnières brings to the Board of Directors his experience as a top Executive Officer of a world leading company as well as his expertise of the ophthalmic industry acquired for 30 years.

Hubert Sagnières is member of the Strategy Committee and the CSR Committee of EssilorLuxottica.

### Positions and terms of office held as of December 31, 2019

**Main position**

Executive Vice-Chairman of EssilorLuxottica\*

**Other EssilorLuxottica group companies**

**President**

- Essilor International (SAS)\*\*

**Chairman of the Board of Directors**

- Essilor International (SAS)\*\*

**Director**

- Essilor AMERA Pte Ltd (Singapore)

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

**Essilor group companies**

**Director**

- Transitions Optical Inc. (USA)
- Frames for America, Inc. (USA)
- Transitions Optical Holdings B.V. (Netherlands)

(1) Term of office as Director of EssilorLuxottica entered into force as of October 1, 2018, date of completion of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica. The expiration of his term of office as Director of Essilor International (Compagnie Générale d'Optique) was previously acknowledged by the Board of Directors of the Company on October 1, 2018.

\* Listed company.

\*\* Non-listed company 100% controlled by EssilorLuxottica.

## Romolo Bardin

### Director representing Delfin <sup>(1)</sup>

41 years old (Country of citizenship: Italy)

**Number of shares:**  
3,964

**Main position:**  
Chief Executive Officer of Delfin Sàrl (Luxembourg)

**Business address:**  
7, rue de la Chapelle –  
1325 Luxembourg

**First appointment as Director:** October 1, 2018 <sup>(2)</sup>

**Current term ends:** Shareholders' Meeting 2021

### Personal information – Experience and expertise

Romolo Bardin is member of the Board of Directors and Chief Executive Officer of Delfin. He began his career in Luxottica in 2002.

Romolo Bardin also holds positions in the following organizations:

- Assicurazioni Generali S.p.A. as Independent Director, member of the Risk and Control Committee and member of the Related Party Transactions Committee;
- Covivio S.A. as member of the Board of Directors, member of the Audit Committee and the Strategic and Investment Committee;
- Member of the following Boards of Directors: Aterno S.à r.l., DFR investment S.à r.l., Delfin Finance S.A., Fondazione Leonardo del Vecchio, Vast Gain Limited Ltd S.à r.l., Immochapelle S.A.

Romolo Bardin will bring to the Board of Directors his high-level expertise in terms of strategy, management and finance, acquired during these years.

Romolo Bardin is member of the Audit and Risks Committee and member of the Nomination and Compensation Committee of EssilorLuxottica.

### Positions and terms of office held as of December 31, 2019

#### Main position

Chief Executive Officer of Delfin Sarl (Luxembourg)

#### EssilorLuxottica group companies

##### Director

- EssilorLuxottica\*

#### External companies (non EssilorLuxottica group)

##### Director

- Assicurazioni Generali S.p.A. (Italy)\*
- Covivio S.A. (France)\*
- Delfin Sàrl (Luxembourg)

#### External companies (Delfin Sarl group)

##### Director

- Aterno S.à r.l. (Luxembourg)
- DFR Investment S.à r.l. (Luxembourg)
- Leonardo Del Vecchio Foundation
- Vast Gain Limited Ltd S.à r.l. (Luxembourg)
- Immochapelle S.A. (Luxembourg)

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

#### External companies (Covivio SA group)

##### Director

- Batisica S.A.
- Immeo Berlin I
- Immeo Berlin V
- Immeo Lux S.à r.l.
- Immeo Berlin Prime S.à r.l.
- Berlin Prime Commercial S.à r.l.
- Immeo Valore 4 S.à r.l.
- Immeo Valore 6 S.à r.l.
- Delfin Finance S.A.

(1) Director representing Delfin in the meaning of the Combination Agreement.

(2) Appointment effective as of October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica.

\* Listed company.

**Juliette Favre**

**Director representing Valoptec Association**

47 years old (Country of citizenship: France)

**Nombre d'actions détenues :**  
5 392

**Fonction principale :**  
Strategic projects Executive,  
Global Operation Support at  
Essilor International

**Adresse professionnelle :**  
81, boulevard Jean-Baptiste Oudry  
94000 Créteil (France)

**First appointment as Director:** October 1, 2018 <sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Juliette Favre is Strategic projects executive, Global Operation Support at Essilor, after having launched the Lab 4.0 program at Satisloh (Essilor's Equipment division) and President of Valoptec Association. She began her career at SEITA as engineer in the industrial sector. She joined Essilor in 2000 on 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 is appointed as Industrial Director and comes back to France to ensure industrial development of the Instruments Division and implement new service activities with high added value by developing the customer service and the supply chain.

Juliette Favre contributes to the Board of Directors her deep familiarity with Essilor and its manufacturing and sales operations. She has been proposed as a candidate by Valoptec Association. Her membership of the Board of Directors is a strong signal of the importance Essilor attaches to employee share ownership. She is also member of the Strategy Committee since May 15, 2019.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Strategic projects Executive, Global Operation Support at Essilor International (SAS)\*\*

**EssilorLuxottica group companies**

**Director**

EssilorLuxottica\*

Essilor International (SAS)\*\*

**President of the Board of Directors**

Valoptec Association

**President of the Supervisory Board**

Fonds Valoptec International

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

**EssilorLuxottica group companies**

**Director**

Essilor International (Compagnie Générale d'Optique) <sup>(1)</sup>

(1) Term of office as Director of EssilorLuxottica entered into force as of October 1, 2018, date of completion of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica. The expiration of her term of office as Director of Essilor International (Compagnie Générale d'Optique) was previously acknowledged by the Board of Directors of the Company on October 1, 2018.

\* Listed company.

\*\* Non listed company wholly owned by EssilorLuxottica.

## Giovanni Giallombardo

### Director representing Delfin <sup>(1)</sup>

64 years old (Country of citizenship: Italy and Luxembourg)

**Number of shares:**

1,000

**Main position:**

Chairman of Luxair S.A.  
Senior Vice-President-Managing Director of the Luxembourg branch of Unicredit bank AG

**Business address:**

8-10, rue Jean-Monnet,  
L-2180 Luxembourg

**First appointment as Director:** October 1, 2018 <sup>(2)</sup>

**Current term ends:** Shareholders' Meeting 2021

### Personal information – Experience and expertise

Giovanni Giallombardo is Chairman of Luxair S.A. and Senior Vice-President-Managing Director of the Luxembourg, branch of Unicredit bank AG. He is member of the Board of Directors of Cargolux Airlines International S.A. of Delfin, Immochapelle S.A. and member of the Management and Finance Committee of the MUDAM Foundation.

In 2011, Giovanni Giallombardo has been nominated as Insurance Broker by the Luxembourg Ministry of Finance.

Previously Giovanni Giallombardo has been member of the Management Board of Unicredit Luxembourg S.A. (until July 1, 2018) after being member of the Committee (2009-2012), Chairman of the Board of Directors and CEO of Unicredit Luxembourg Finance S.A. (2005-2009), General Manager of Unicredit International Bank S.A. (2004-2009), General Manager of the Luxembourg Branch of Unicredito Italiano S.p.A. (2001-2004), General Manager of the Luxembourg Branch of Rolo Banca 1473 S.p.A. (1991-2001), Chairman of the Board of Directors of Rolo Pioneer Luxembourg S.A. (1998-2001), Deputy – Managing Director of the Luxembourg Branch Rolo Banca 1473 S.p.A. (1988-1999) and Manager at Citicorp Investment Bank S.A. (1984-1988).

From 1998 to 2001 Giovanni Giallombardo has also been Chairman of the Commission for Financial Market at ABL and member of the Group "Security Market" at *Commission de Surveillance du Secteur Financier*.

Giovanni Giallombardo graduated in Economics at the European School of Luxembourg and he completed a PhD in Economics and Commerce at the University of Florence.

Giovanni Giallombardo will bring to the Board of Directors his high-level expertise in terms of finance gained through his functions within international financial institutions.

Giovanni Giallombardo is member of the CSR Committee of EssilorLuxottica.

### Positions and terms of office held as of December 31, 2019

#### Main position

Chairman of Luxair S.A. (Luxembourg)

Senior Vice-President-Managing Director of the Luxembourg branch of UniCredit bank AG

#### EssilorLuxottica group companies

**Director**

- EssilorLuxottica\*

#### External companies (non EssilorLuxottica group)

**Director**

- Delfin Sàrl (Luxembourg)
- Immochapelle S.A. (Luxembourg)
- Cargolux Airlines International S.A. (Luxembourg)

#### **Member of the Management and Finance Committee**

- MUDAM (Luxembourg)

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

#### External companies (non EssilorLuxottica group)

**Member of the Management Board**

- UniCredit Luxembourg S.A.

**Member of the Supervisory Board**

- Luxair S.A. (Luxembourg)

(1) Director representing Delfin as per the Combination Agreement.

(2) Appointment effective as of October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica.

\* Listed company.

**Annette Messemer**

**Independent Director**

55 years old (Country of citizenship: Germany)

**Number of shares:**  
1,000

**Business address:**  
147 rue de Paris  
94220 Charenton-le-pont

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Annette Messemer held the position of Group Executive/Divisional Board member, Corporate Clients until June 2018 at Commerzbank AG in Frankfurt am Main (Germany). During her tenure, she had various responsibilities encompassing the capital markets client franchise and the performance and steering of the division. She also served in all the relevant bank committees such as the group credit committee.

Furthermore, Annette Messemer was a member of the Supervisory Board of K+S AG until May 2018 (Kassel, Germany) and served on the Supervisory Board of Commerzreal (Wiesbaden, Germany) until 2016 and of WestLB AG until 2011 (Düsseldorf, Germany).

She started her career in investment banking at J.P. Morgan in New York in 1994 to continue her career in Frankfurt and London. During the 12 years of her career at J.P. Morgan she gained extensive experience in finance, leading strategic M&A and financing transactions as well as risk management transactions. She left J.P. Morgan as Senior Banker in 2006 to join Merrill Lynch as Managing Director and member of German Executive Committee. In 2010, she accepted the nomination to the Supervisory Board of WestLB by the German ministry of finance, to support one of the most significant bank restructurings in Germany during the financial crisis before joining Commerzbank in February 2013.

Annette Messemer brings to the Board of Directors her extensive experience in strategy, finance, accounting and risk management having worked for over 20 years with leading multinational corporations and financial institutions, including regulators.

Annette Messemer is member of the Audit and Risks Committee and member of Nomination and Compensation Committee of EssilorLuxottica.

**Positions and terms of office held as of December 31, 2019**

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*
- Essilor International (SAS)\*\*

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

**Commerzbank group companies**

**Divisional Director, "Corporate Clients"**

- Commerzbank AG (Germany)

**Member of the Supervisory Board**

- Commerzreal AG (Germany)

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

**Member of the Supervisory Board**

- K+S Aktiengesellschaft (Germany)

**Director**

- Essilor International (Compagnie Générale d'Optique)<sup>(1)</sup>

(1) Term of office as Director of EssilorLuxottica entered into force as of October 1, 2018, date of completion of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica. The expiration of her term of office as Director of Essilor International (Compagnie Générale d'Optique) was previously acknowledged by the Board of Directors of the Company on October 1, 2018.

\* Listed company.

\*\* Non listed company wholly owned by EssilorLuxottica.

**Francesco Milleri**

**Director representing Delfin <sup>(1)</sup>**

|  |  |
|--|--|
| <p>60 years old (Country of citizenship: Italy)</p> <p><b>Number of shares:</b><br/>1,000</p> <p><b>Main position:</b><br/>Deputy Chairman and CEO of Luxottica Group S.p.A.</p> <p><b>Business address:</b><br/>Luxottica Group S.p.A. – Piazzale Luigi Cadorna 3 – Milan, MI 20123 – Italy</p> | <p><b>First appointment as Director:</b> October 1, 2018 <sup>(2)</sup><br/><b>Current term ends:</b> Shareholders' Meeting 2021</p> <hr/> <p><b>Personal information – Experience and expertise</b></p> <p>Coopted on March 1, 2016, as Director with deputy functions, on April 29, 2016, Francesco Milleri was appointed Deputy Chairman of Luxottica to assist the Executive Chairman in carrying out the various functions associated with his current role. On December 15, 2017, he was appointed CEO of the Luxottica group, maintaining the position of Deputy Chairman, and he was confirmed in the same capacities on April 19, 2018 and on April 30, 2019.</p> <p>Francesco Milleri graduated with honors in Law at the University of Florence, where he worked as Assistant Professor of political economy from 1984 until 1986. He later earned in 1987 an MBA in Business Administration with high merit at the school of management at the Bocconi University in Milan, followed by two years of specialization in Corporate Finance at the Stern School of Business at New York University as the assignee of the “Donato Menichella” scholarship from Banca d’Italia.</p> <p>Francesco Milleri began his career as a business consultant for Italian groups and multinationals in 1988. He gained international experience working in a variety of industries, from mechanics to consumer goods, from financial institutions to pharmaceuticals.</p> <p>Alongside business consulting activities, he founded and has been leading since 2000 a group of companies focused on technology and digital automation platforms. He is also a Director of the Fondazione Leonardo del Vecchio and of the IEO European Institute of Oncology.</p> <p>Francesco Milleri brings to the Board of Directors his extensive expertise as a strategist for global companies and his proven ability to futurize business through digital technology and infrastructure.</p> <p>Francesco Milleri chairs the Strategy Committee of EssilorLuxottica and on May 12, 2019 has been empowered by Leonardo Del Vecchio and Hubert Sagnières with the responsibility to develop and implement, together with Laurent Vacherot (CEO of Essilor International until March 30, 2020, date of his replacement by Paul du Saillant), the EssilorLuxottica strategy and integration process.</p> |
|--|--|

**Positions and terms of office held as of December 31, 2019**

**Main position**

Deputy Chairman and CEO of Luxottica Group S.p.A.\*

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*
- Luxottica of America Inc. (USA)

**External companies (non EssilorLuxottica group)**

**Director**

- Istituto Europeo di Oncologia S.r.l. (Italy)
- Fondazione Leonardo Del Vecchio (formerly Delfin H S.r.l.) (Italy)

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

**EssilorLuxottica group companies**

**President**

- Salmoiraghi & Viganò S.p.A. (Italy)

**External companies (non EssilorLuxottica group)**

**Sole Director**

- Fast Immobiliare di Milleri Stefano e Francesco s.n.c. (Italy)

**Director**

- SO.GE.DI S.r.l. (Italy)

(1) Director representing Delfin within the meaning of the Combination Agreement.  
(2) Appointment effective as of October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d’Optique) and Luxottica.  
\* Listed company.

**Gianni Mion**

**Independent Director**

76 years old (Country of citizenship: Italy)

**Number of shares:**  
1,000

**Main position:**  
Chairman of Edizione S.r. l. (Italy)

**Business address:**  
Via XXV Aprile 5, 20016 Pero – Milan (Italy)

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Mr. Mion is Chairman of Edizione S.r. l. He started his career in Peat Marwick Mitchell (now KPMG), where he worked from 1966 to 1973 as auditor in the offices of Rome and Chicago. In 1973 he entered in McQuay Europa S.p.A. with a role of controller and after one year he moved in Gepi S.p.A., where he held various managerial positions until 1983 when he joined the Board of Directors of Fintermica S.p.A. In 1985, he started to work for the Marzotto S.p.A. as Chief Financial Officer. From 1986 to December 2016 was CEO and Executive Deputy Chairman of Edizione Holding (Holding of the Benetton family). Gianni Mion has been in the Board of Directors of several companies: Edizione, Atlantia, Autogrill, Telecom Italia, Benetton Group, among them. Gianni Mion will bring to the Board of Directors his business leadership experiences as well his commitment to the development of successful international organizations. Gianni Mion is member of the Strategy Committee and of the Nomination and Compensation Committee of EssilorLuxottica.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Chairman of Edizione S.r. l.

**Other EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*

**External companies (non EssilorLuxottica group companies)**

**Chairman of the Board of Directors**

- Venezia Terminal Passeggeri S.p.A.

**Director**

- Prelios S.p.A.

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

**External companies (non EssilorLuxottica group companies)**

**Director**

- Edizione Holding
- Autogrill S.p.A.\*
- Benetton Group

**President**

- Banca Popolare Vicenza S.p.A.

(1) Appointment effective as of October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica.

\* Listed company.

**Lucia Morselli**

**Independent Director**

63 years old (Country of citizenship: Italy)

**Number of shares:**  
1,000

**Main position:**  
Telecom Italia Board Director

**Business address:**  
Via Gaetano Negri 1 Milan,  
MI 20123

**First appointment as Director:** October 1, 2018<sup>(1)</sup>  
**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Lucia Morselli is Chairman and CEO of AMInvestco S.p.A. and AMItalia S.p.A. Lucia Morselli is member of the Board of Directors of Fondazione Snam, Sisal S.p.A., Sisal Group S.p.A., Telecom Italia S.p.A., STMicroelectronics SA, and she is member of the Advisory Board of «Veneranda Fabbrica del Duomo di Milano». Lucia Morselli is member of the World Economic Forum for Climate Change. Lucia Morselli is also Chief of Economic Degree Studies of University Link Campus in Rome.

After graduating with the highest grades in Mathematics at the University of Pisa, Lucia Morselli completed a PhD in Mathematical Physics at the University of Rome and she earned two master degrees, the first one in Business Administration at the University of Torino and the second one in European Public Administration at the University of Milan.

She started her career at Olivetti S.p.A. as collaborator of the CFO in 1982; from 1985 to 1990 she has been Senior Manager of the Strategic and Manufacturing Service at Accenture; from 1990 to 1995 she has been CFO of the Aircraft Division Department at Finmeccanica S.p.A.

Subsequently she has been Chief Executive Officer of Telepiù Group (1995-1998), of News Corporate Europe and Stream (Sky) S.p.A. (1998-2003), of Tecnosistemi S.p.A. (2004), of Mikado S.p.A. and Compagnia Finanziaria S.p.A. (2009), of Bioera S.p.A. (2010-2011), of Berco Group (2013-2014), of Acciai Speciali Terni S.p.A. (2014-2016) and of Acciaitalia S.p.A. (2016-2018).

She also served as Chairman of the Board of Directors and Chief Executive Officer of Magiste International S.A. and Scorpio Shipping Group Ltd.

Lucia Morselli has been also a member of the Board of Directors of NDS and IPI S.p.A.

In 2003 she founded the consulting firm Franco Tatò & Partner.

Lucia Morselli will bring to the Board of Directors her extensive expertise in terms of management and business turnaround acquired during these years.

Lucia Morselli chairs the Audit and Risks Committee of EssilorLuxottica.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Chairman and CEO of AMInvestco and AMItalia

Director, Chairwoman of the "Related Parties" Committee, member of the Audit Committee of Telecom Italia

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*

**External companies (non EssilorLuxottica group)**

**Director**

- Telecom Italia,
- STMicroelectronics
- Fondazione Snam
- Sisal S.p.A. (Italy) and Sisal Group S.p.A.

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

**External companies (non EssilorLuxottica group companies)**

**Managing Director**

- Acciaitalia S.p.A. (Italia)
- Berco S.p.A. (Italia)
- Acciai Speciali Terni S.p.A. (Italia)

**Chairwoman and Managing Director**

- Scorpio Shipping Group Ltd. (United Kingdom)

**Director**

- Dharamthar Harbour - Mumbai (India)
- Italtalkers S.p.A. (Italia)

(1) Appointment effective as of October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica.

\* Listed company.

**Olivier Pécoux**

**Non-Independent Director (Independent pursuant to the Combination agreement)**

61 years old (Country of citizenship: France)

**Number of shares:**

1,000

**Main position:**

Group Vice Chairman Rothschild & Co

**Business address:**

ROTHSCHILD & Co – 23 bis, avenue de Messine – 75008 Paris – France

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Olivier Pécoux is Vice Chairman of the Rothschild & Co group after holding positions as Chief Executive Officer – Managing Partner of the Rothschild group, which he joined in 1991.

Since June 2012, he has been Executive Director of Rothschild & Co Gestion and General Partner of Rothschild & Co SCA. He began his career at Peat Marwick then at Schlumberger as a financial advisor in Paris and New York. In 1986, he joined Lazard Frères in Paris and was named Vice-President of the investment bank's New York office in 1988.

Olivier Pécoux will bring to the Board of Directors his experience as a senior leader and manager of a global service company as well as his extensive knowledge of the optical industry and of Essilor that he has accompanied since 2001.

Olivier Pécoux chairs the Nomination & Compensation Committee and is member of the Audit and Risks Committee of EssilorLuxottica.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Group Vice Chairman Rothschild & Co\*

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*
- Essilor International (SAS)\*\*

**Rothschild Group companies**

**Director**

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

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

**Director**

- Extend Capital

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

**Rothschild Group companies**

Chief Executive Officer – Managing Partner Rothschild & Co

**Member of the Executive Board**

- Paris-Orléans

**Member of the Supervisory Board**

- Financière Rabelais

(1) Term of office as Director of EssilorLuxottica entered into force as of October 1, 2018, date of completion of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica. The expiration of his term of office as Director of Essilor International (Compagnie Générale d'Optique) was previously acknowledged by the Board of Directors of the Company on October 1, 2018.

\* Listed company.

\*\* Non listed company wholly owned by EssilorLuxottica.

## Léonel Pereira Ascencao

### Director representing employees

47 years old (Country of citizenship: France and Portugal)

**Number of shares:**  
830

**Main position:**  
Workshop Manager for surfacing and lenses at Essilor International

**Business address:**  
Usine Les Battants –  
55500 Ligny-en-Barrois

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

### Personal information – Experience and expertise

Léonel Pereira Ascencao is head of surfacing and glasses workshop at Essilor “Les Battants” plant in Ligny-en-Barrois (France), he began working at Essilor on May 22, 1996.

With 24 years of seniority at Essilor, Mr. Léonel Pereira Ascencao started as an operator at the Essilor laboratory based in Lyon (France), where he had the opportunity to work on the production at many different positions, both surfacing and coating. He kept progressing and was appointed as Team Leader. In 2007, he applied to an offer for a surfacing workshop manager position in Ligny-en-Barrois (France) and was selected. Léonel Pereira Ascencao has been in this position since then. In 2010, his scope was extended to Special Lenses, an activity that has experienced a strong growth over the past four years at Essilor.

### Positions and terms of office held as of December 31, 2019

#### Main position

Skilled operator at Essilor International\*\*

#### EssilorLuxottica group companies

#### Director representing employees

EssilorLuxottica\*

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

None.

(1) Appointment by the Central Work Council of Essilor International on September 20, 2017 effective from the of the Contribution between Essilor International (Compagnie Générale d’Optique) and Luxottica on October 1, 2018.

\* Listed company.

\*\* Non listed company wholly owned by EssilorLuxottica.

**Sabrina Pucci**

**Independent Director**

52 years old (Country of citizenship: Italy)

**Number of shares:**  
1,000

**Main position:**  
Professor of Accounting and Financial Reporting at Roma Tre University (Italy)

**Business address:**  
Roma Tre University, Via Silvio d'Amico 77, 00154 Rome (Italy)

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Sabrina Pucci is an independent Board of Directors' member of Assicurazioni Generali S.p.A.

Sabrina Pucci embarked on an academic career after graduating in Economics and Business from La Sapienza University in Rome. Her fields of research include international accounting standards, risk, insurance, banks, financial instruments, intangible assets and pension funds. She has published extensively in these fields of expertise.

From 1990 to 1998, she was employed with ISVAP (today IVASS), first as accountant in the life office and then as manager of the actuarial non-life office.

Consultant for courts as accounting expert, she is a Full Professor of Accounting and Financial Reporting in the Department of Business Studies (Roma Tre University). Since 2006, she is member, and later Chairman, of the Insurance Commission constituted by the OIC (the Italian Accounting Standard Setter) in Rome.

Since November 2008, she has been a member of the Insurance Accounting Working Group of EFRAG (European Financial Reporting Advisory Group).

From May 2013, she has been an independent non-executive Board of Directors' member of Assicurazioni Generali S.p.A., member of the Audit and Risk Committee (from 2013) and member of the Appointing Committee (from 2016).

Sabrina Pucci will bring to the Board of Directors her accounting and financial expertise acquired during these years.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Professor of Accounting and Financial Reporting at Roma Tre University

Member of the Insurance Accounting Working Group of EFRAG (European Financial Reporting Advisory Group)

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*

**Member of the Human Resources Committee**

- Luxottica Group S.p.A. (Italy)\*

**External companies (non EssilorLuxottica group)**

**Director**

**Member of the Risk and Control Committee**

**Member of the Nomination Committee**

- Assicurazioni Generali S.p.A. (Italy)\*

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

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*

**Director**

- Luxottica Group S.p.A. (Italy) - (until April 2019)

**Member of the Human Resources Committee**

- Luxottica Group S.p.A. (Italy) - (until April 2019)

**External companies (non EssilorLuxottica group)**

**Member of the Related Party Transactions Committee**

**Member of Risk and Control Committee**

**Member of Nomination Committee**

- Assicurazioni Generali S.p.A. (Italy)\*

(1) Appointment effective as of October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica.

\* Listed company.

**Paul du Saillant, starting from March 30, 2020**

**Non-Independent Director**

61 years old  
(Country of citizenship: France)

**Number of shares:**  
285,736

**Main position:**  
Chief Executive Officer of  
Essilor International

**Business address:**  
147 rue de Paris  
94220 Charenton-le-Pont (France)

**First appointment as Director:** March 30, 2020  
**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Paul du Saillant is the Chief Executive Officer of Essilor International since March 30, 2020.

Paul du Saillant joined Essilor in 2008, after 20 years spent at Air Liquide, where he held operational and strategic leadership roles in the United States and Europe, across a wide range of fields including R&D and engineering. Prior to that, Paul du Saillant served for 5 years as Managing Director of the Belgian Group Lhoist.

Over close to 12 years at Essilor, Paul has been responsible for managing key corporate functions of the Group. In July 2010, when Hubert Sagnières became CEO, he was appointed Chief Operating Officer alongside Laurent Vacherot. He was responsible for both large geographic zones (Europe, Asia and Latin America) and cross-functional global functions (Human Resources, R&D, industrial activities, transformation program, IT, etc.), then of Essilor's Lenses business.

While maintaining his responsibilities at Essilor, Paul du Saillant has been actively involved in the business combination between Essilor and Luxottica since January 2017. In close collaboration with Francesco Milleri and his teams, he works on advancing the integration and synergy plans of the two companies.

He is also a member of the Strategy Committee since March 30, 2020.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Deputy Chief Executive Officer and member of the Board of Directors of Essilor International <sup>(a)</sup>

**EssilorLuxottica group companies**

**Director**

- Nikon Essilor Corporation (Japan) <sup>(a)</sup>

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

**Essilor International**

Deputy Chief Executive Officer

Chief Operating Officer

Chief Strategy Officer

(a) Non-listed company

\* Listed company.

**Cristina Scocchia**

**Independent Director**

46 years old (Country of citizenship: Italy)

**Number of shares:**

1,000

**Main position:**

Chief Executive Officer of Kiko S.p.A. (Italy)

**Business address:**

Via Paleocapa 20 – 24122 Bergamo (Italia)

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Cristina Scocchia is member of the Board of Directors of EssilorLuxottica S.A., Pirelli S.p.A. and Illycaffè S.p.A.

After graduating with the highest grades in Management of International Firms at Luigi Bocconi University, she completed a PhD in Business Administration at the University of Torino.

She started her career at Procter&Gamble, where since 1997 she held positions of increasing responsibility working on mature and emerging markets until she was appointed in September 2012 as Cosmetics International Operations Division leader, with the responsibility of supervising the brands in her portfolio in over 70 countries throughout the world. From 2014 to 2017, she served as Chief Executive Officer of L'Oréal Italia S.p.A. and she lead the return to growth of the company in a challenging economic environment. From 2016 to 2017, she also acted as Chairman of the same company. Since July 2017 she has acted as Chief Executive Officer of Kiko S.p.A. In June 2019 she was awarded the *Légion d'honneur*.

Cristina Scocchia will bring to the Board of Directors her extensive expertise in terms of strategy and management acquired during these years.

Cristina Scocchia is member of the CSR Committee of EssilorLuxottica and, since May 15, 2019, of the Strategy Committee.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Chief Executive Officer of Kiko S.p.A. (Italy)

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*

**External companies (non EssilorLuxottica group)**

**Director**

- Pirelli S.p.A. (Italy)\*
- Illycaffè (Not listed Company)

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

**Chief Executive Officer**

- L'Oréal Italia S.p.A. (Italy)\*

**Director**

- Valtur S.p.A. (Italy) - resignation January 2018
- Elica S.p.A. (Italy)L'Oréal Italia S.p.A. (Italy)\* - expiry March 2018
- Luxottica Group S.p.A. (Italy) – expiry April 2019

(1) Appointment effective as of October 1, 2018, date of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica.

\* Listed company.

**Laurent Vacherot, until March 30, 2020**

**Non - Independent Director**

64 years old  
(Countries of citizenship: Canada and France)

**Number of shares:**  
261,869

**Main position held within the Company:**

Non independent Director

**Business address:**

147 rue de Paris 94220 Charenton-le-Pont (France)

**First appointment as Director:** May 12, 2019

**Term ended:** March 30, 2020

**Personal information – Experience and expertise**

Laurent Vacherot was Essilor International’s Chief Executive Officer (CEO). He was also a member of the Board of Directors of Essilor International and a Non-Independent Director of EssilorLuxottica.

Laurent Vacherot joined Essilor in 1991 and was appointed VP of Finance and Control/Deputy Chief Financial Officer (CFO) in 1992.

He then served as President of Essilor Canada (1998-2005) and Essilor of America (2005-2007) before taking on the role of CFO of Essilor International in 2007.

In 2010, he was appointed as Chief Operating Officer (COO) of Essilor International before becoming President and COO in 2016. In 2019, he took over as CEO of Essilor International.

Laurent Vacherot is a graduate of French Engineering School (*École Nationale Supérieure des Télécommunications de Paris*).

He brought to the Board of Directors extensive knowledge and a great deal of experience acquired through 30 years of work within Essilor International.

Laurent Vacherot was also a member of the Strategy Committee of EssilorLuxottica.

**Positions and terms of office held as of December 31, 2019**

**Main position:**

**Chief Executive Officer and member of the Board of Directors**

- Essilor International

**Director**

- EssilorLuxottica\*

**EssilorLuxottica group companies:**

**President and Director**

- EOA Holding Co.Inc. (USA)

**Director**

- Essilor of America, Inc. (USA)

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

**Essilor International:**

**President and COO**

\* Listed Company.

**Jeanette Wong**

**Independent Director**

59 years old (Country of citizenship: Singapore)

**Number of shares:**  
1,000

**Main position:**  
Group Executive, DBS Group (until March 2019)

**Business address:**  
DBS BANK – 12 Marina Boulevard – Level 45 – DBS Asia Central @ Marina Bay Financial Centre Tower 3 – 018982 – Singapore

**First appointment as Director:** October 1, 2018<sup>(1)</sup>

**Current term ends:** Shareholders' Meeting 2021

**Personal information – Experience and expertise**

Jeanette Wong is DBS Group Executive (until March 2019) responsible for Institutional Banking, which encompasses Corporate Banking, Global Transaction Services, Strategic Advisory and Mergers & Acquisitions.

Previously, she was Chief Financial Officer of DBS Group from 2003 to 2008. Prior to joining DBS Bank, Jeanette Wong was at JP Morgan for 16 years (1986-2002). During her tenure at JP Morgan, she had regional responsibilities for the Global Markets and Emerging Markets Sales and Trading business in Asia and was also JP Morgan's head for Singapore from 1997 to 2002. Beforehand Jeanette Wong worked at Citibank from 1984 to 1986 and began her career in 1982 at Banque Paribas.

Jeanette Wong will bring to the Board of Directors her extensive expertise in terms of finance as well as her knowledge on corporate social responsibility, on global markets and primarily on Asian markets.

Jeanette Wong chairs the CSR Committee of EssilorLuxottica.

**Positions and terms of office held as of December 31, 2019**

**Main position**

Group Executive, DBS Group (retired)

**EssilorLuxottica group companies**

**Director**

- EssilorLuxottica\*
- Essilor International (SAS)\*\*

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

**Director**

- UBS Group AG
- Jurong Town Corporation (Singapore)
- Fullerton Fund Management Company Ltd. (Singapore)
- FFMC Holdings Pte. Ltd. (Singapore)
- PSA International Pte. Ltd. (Singapore)

**Member of the Advisory Board**

- National University of Singapore Business School Management
- Asia Cabinet, University of Chicago Booth School of Business

**Member**

- Securities Industry Council of the Monetary Authority of Singapore

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

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

**Director**

- Singapore International Arbitration Centre (Singapore)
- Neptune Orient Lines Limited
- Essilor International (Compagnie Générale d'Optique)

**Advisory Council member**

- Singapore's Alternate APEC Business Advisory Council (ABAC) (Singapore)

(1) Term of office as Director of EssilorLuxottica entered into force as of October 1, 2018, date of completion of the Combination between Essilor International (Compagnie Générale d'Optique) and Luxottica; it is specified that the Essilor's general shareholders' meeting of April 24, 2018 appointed Ms. Jeanette Wong as Director of EssilorLuxottica in replacement of Ms. Henrietta Fore. The expiration of her term of office as Director of Essilor International (Compagnie Générale d'Optique) was previously acknowledged by the Board of Directors of the Company on October 1, 2018.

\* Listed company.

\*\* Non listed company wholly owned by EssilorLuxottica.

**Delphine Zablocki**

**Director representing employees**

|  |   |
|--|---|
| <p>44 years old (Country of citizenship: France)</p> <p><b>Number of shares:</b><br/>338</p> <p><b>Main position:</b><br/>Skilled operator at Essilor International</p> <p><b>Business address:</b><br/>1, rue Fernand-Holweck – 21000 Dijon</p> | <p><b>First appointment as Director:</b> October 28, 2017 <sup>(1)</sup></p> <p><b>Current term ends:</b> Shareholders' Meeting 2021</p> <hr/> <p><b>Personal information – Experience and expertise</b></p> <p>Delphine Zablocki is a skilled operator at the Dijon factory (France) of Essilor, she began working at Essilor on June 1, 2004.</p> <p>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 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, Delphine 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.</p> |
|--|---|

**Positions and terms of office held as of December 31, 2019**

**Main position**

Skilled operator at Essilor International (SAS)\*\*

**EssilorLuxottica group companies**

**Director representing employees**

- EssilorLuxottica\*
- Essilor International (SAS)\*\*

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

None.

(1) Delphine Zablocki has been appointed by the Central Work Council of Essilor International on September 20, 2017, i.e. prior to the Closing date of the Contribution between Essilor International (Compagnie Générale d’Optique) and Luxottica on October 1, 2018, for a four-year term as of October 28, 2017.

\* Listed company.

\*\* Non listed company wholly owned by EssilorLuxottica.

## 2.6 Statutory Auditors' report on related-party agreements

*This is a free translation into English of the Statutory Auditors' report on related-party agreements 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.

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 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. 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 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 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 submitted to the approval of the Shareholders' Meeting

#### Agreements authorized during the year

In accordance with article L.225-40 of the French commercial code, we have been informed of the following agreements previously authorized by the Board of Directors.

#### Letters of adherence by which certain directors adhere to the governance agreement of EssilorLuxottica during the initial period

*Corporate officer involved:*

- Mr. Hubert Sagnières, member of the Board of Directors
- Mr. Olivier Pécoux, member of the Board of Directors
- Mr. Leonel Pereira Ascencao, member of the Board of Directors
- Ms. Juliette Favre, member of the Board of Directors
- Ms. Annette Messemer, member of the Board of Directors
- Ms. Jeanette Wong, member of the Board of Directors
- Ms. Delphine Zablocki, member of the Board of Directors

*Nature and purpose:*

On May 12, 2019, your Board of Directors authorized the conclusion of letters of adherence between certain directors and the company EssilorLuxottica by which these directors adhere to the agreement ending the dispute relating to the governance of the company EssilorLuxottica. This authorization was decided subject to the condition precedent of the authorization of the final version of the said agreement, which took place at the Board of Directors' Meeting on May 15, 2019.

*Reasons justifying the interest for the company:*

Your Board of Directors has motivated the interest for the Company to enter into these adherence letters to end the Group governance issues and to set the basis of a closed collaboration between Essilor and Luxottica.

#### Agreements previously approved by the Shareholders' Meeting

##### Agreements which have been pursued during the last years

In accordance with article R. 225-30 of the French commercial code, we have been informed of the following agreement approved in prior years and which remained current during the last year.

##### Agreement concluded between your company and the bank Rothschild & Co

Corporate officer involved: Mr. Olivier Pécoux, Executive Officer of the group Rothschild & Co and member of the Board of Directors of EssilorLuxottica

Nature and purpose:

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.

Following the completion of the combination with Luxottica on October 1, 2018 and pursuant to the terms and conditions set by agreement with Rothschild & Co, the remuneration due under this agreement amounts to €24,108,735 including taxes and has been paid in January 2019.

### Agreements approved during the past year

We have also been informed of the execution, during the past financial year, of the following agreements, already approved by the Shareholder's General Meeting of May 16, 2019, on the Statutory Auditors' report on related-party agreements and commitments as of March 29, 2019.

#### Agreements concluded between your company and Mr. Leonardo Del Vecchio, Chairman and Chief Executive Officer

As part of the appointment of Mr. Leonardo Del Vecchio as Chairman and Chief Executive Officer of the company from October 1, 2018, your Board of Directors on November 29, 2018 authorized the implementation of the benefits detailed below, for the benefit of Mr. Leonardo Del Vecchio, namely:

- defined contribution retirement plan;
- insurance scheme;
- reimbursement plan for health expenses.

*Nature and purpose:*

##### 1. Defined contribution retirement plan

As the entire college of executives, it is proposed to Mr. Leonardo Del Vecchio to benefit from the defined contribution pension plan applied within the Company.

The defined contribution pension is based on a single employer contribution rate currently set at 1% of the gross remuneration received.

##### 2. Insurance scheme

As the entire college of executives, it is proposed to Mr. Leonardo Del Vecchio to benefit from the insurance scheme applied within the Company. This plan offers guarantees of full or partial salary maintenance in the event of a work stoppage or disability. For example, the guarantee in case of temporary incapacity for work is equal to 30% of salary Tranche A and 80% of salary Tranches B and C.

In addition, it provides for the payment of increased death capital or, at the option of the beneficiary, lower death benefits and spouse's or education annuities. For example, the guarantee in the event of death without annuities is equal to 350% of the salary for a married employee without dependent children.

The contributions are equal to 1.50% of Tranche A and 1.56% of Tranche B of salary limited to 8 ceilings of the Social Security and financed at 100% by the employer.

##### 3. Reimbursement plan for health expenses

As the entire college of executives, Mr. Leonardo Del Vecchio benefits from the reimbursement system for health expenses applied within the Company.

This scheme offers a reimbursement of health expenses complementary to those of the Social Security, in particular for hospitalization, optics or dental expenses.

The contributions are equal to 2.62% of Tranches A and B, Tranche B being limited to 1 annual Social security ceiling. Employer financing is equal to 78% on Tranche A and 60% on Tranche B.

#### Agreements concluded between your company and Mr. Hubert Sagnières, Vice-Chairman and Chief Executive Officer

As part of his change of function effective on October 1, 2018, date at which Mr. Hubert Sagnières was appointed Vice-Chairman and Chief Executive Officer of the Company, the Board of Directors decided, on November 29, 2018, to continue to allow Mr. Hubert Sagnières to benefit from the following benefits which he already benefited from as Chairman and Chief Executive Officer of Essilor:

- defined contribution retirement plan
- insurance scheme
- reimbursement plan for health expenses
- social guarantee for executives

*Nature and purpose:*

##### 1. Defined contribution retirement plan

As the entire college of executives, Mr. Hubert Sagnières benefits from the defined contribution pension plan applied within the Company.

The defined contribution pension is based on a single employer contribution rate currently set at 1% of the gross remuneration received.

##### 2. Insurance scheme

As the entire college of executives, Mr. Hubert Sagnières benefits from the insurance scheme applied within the Company.

This plan offers guarantees of full or partial salary maintenance in the event of a work stoppage or disability. For example, the guarantee in case of temporary incapacity for work is equal to 30% of salary Tranche A and 80% of salary Tranches B and C.

In addition, it provides for the payment of increased death capital or, at the option of the beneficiary, lower death benefits and spouse's or education annuities. For example, the guarantee in the event of death without annuities is equal to 350% of the salary for a married employee without dependent children.

The contributions are equal to 1.50% of Tranche A and 1.56% of Tranche B of salary limited to 8 ceilings of the Social Security and financed at 100% by the employer.

## Report on Corporate Governance

### Statutory Auditors' report on related-party agreements

#### 3. Reimbursement plan for health expenses

As the entire college of executives, Mr. Hubert Sagnières benefits from the reimbursement system for health expenses applied within the Company.

This scheme offers a reimbursement of health expenses complementary to those of the Social Security, in particular for hospitalization, optics or dental expenses.

The contributions are equal to 2.62% of Tranches A and B, Tranche B being limited to 1 annual Social security ceiling. Employer financing is equal to 78% on Tranche A and 60% on Tranche B.

#### 4. Social guarantee for executives

Mr. Hubert Sagnières continues to benefit from the social guarantee for executives ('Garantie Sociale des Chefs et des dirigeants d'entreprise' (GSC)).

Neuilly-Sur-Seine and Paris-La Défense, March 30, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit

Olivier Lotz

Cédric Le Gal

MAZARS

Guillaume Devaux

Jean-Luc Barlet



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\*Euromonitor, Eyewear 2020 edition; Essilor International; Retail value sales at RSP

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## CHAPTER 3

# FINANCIAL STATEMENTS

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|            |  |            |             |   |            |
|------------|--|------------|-------------|---|------------|
| <b>3.1</b> | <b>COMMENTS ON THE GROUP'S EARNINGS AND FINANCIAL POSITION</b>             | <b>165</b> | <b>3.7</b>  | <b>STATUTORY AUDITORS' REPORT ON THE PRO FORMA FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2018</b> | <b>264</b> |
| 3.1.1      | Statement of profit or loss and Alternative Performance Measures           | 165        |             |   |            |
| 3.1.2      | Statement of financial position, net debt and cash flow                    | 171        | <b>3.8</b>  | <b>FEES PAID TO THE AUDITORS AND THE MEMBERS OF THEIR NETWORK</b>   | <b>265</b> |
| <b>3.2</b> | <b>TREND INFORMATION</b>   | <b>173</b> | <b>3.9</b>  | <b>FINANCIAL STATEMENTS OF ESSILORLUXOTTICA</b>   | <b>266</b> |
| 3.2.1      | Recent trends  | 173        | 3.9.1       | Key figures at December 31, 2019  | 266        |
| 3.2.2      | Subsequent events  | 173        | 3.9.2       | Income Statement at December 31, 2019   | 267        |
| 3.2.3      | Outlook  | 174        | 3.9.3       | Balance Sheet at December 31, 2019  | 267        |
| <b>3.3</b> | <b>CONSOLIDATED GROUP FINANCIAL STATEMENTS</b>                             | <b>176</b> | 3.9.4       | Cash Flow Statement at December 31, 2019  | 268        |
| 3.3.1      | Consolidated statement of profit or loss                                   | 176        | <b>3.10</b> | <b>NOTES TO THE 2019 FINANCIAL STATEMENTS OF ESSILORLUXOTTICA</b>   | <b>269</b> |
| 3.3.2      | Consolidated statement of comprehensive income                             | 177        | <b>3.11</b> | <b>OTHER INFORMATION RELATED TO THE FINANCIAL STATEMENT OF ESSILORLUXOTTICA</b>                               | <b>286</b> |
| 3.3.3      | Consolidated statement of financial position                               | 178        | 3.11.1      | Sumptuary expenses  | 286        |
| 3.3.4      | Consolidated statement of changes in equity                                | 180        | 3.11.2      | Accounts payable payment term   | 286        |
| 3.3.5      | Consolidated statement of cash flows                                       | 182        | 3.11.3      | Profit (and other characteristic items) of the last five fiscal years   | 286        |
| <b>3.4</b> | <b>NOTES TO THE CONSOLIDATED GROUP FINANCIAL STATEMENTS</b>                | <b>183</b> | <b>3.12</b> | <b>STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS</b>   | <b>288</b> |
| <b>3.5</b> | <b>STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS</b> | <b>251</b> |             |   |            |
| <b>3.6</b> | <b>RESTATEd UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION</b>     | <b>256</b> |             |   |            |

## IN BRIEF

### 2019 Results

2019 is the first year in which EssilorLuxottica's consolidated statement of profit or loss shows the full year performance of both Essilor's and Luxottica's businesses. However, since the 2018 information presented in the consolidated statement of profit or loss is affected by the accounting of the combination between Essilor and Luxottica ("EL Combination"), the financial information deemed relevant to compare 2019 performance is based on the restated <sup>(2)</sup> *pro forma* <sup>(1)</sup> information for the year ended December 31, 2018.

| € millions                                      | 2019          | 2018 Restated <sup>(2)</sup><br><i>Pro forma</i> <sup>(1)</sup> | Change       | Change at constant<br>exchange rate <sup>(3)</sup> |
|---|---------------|---|--------------|--|
| Revenue   | 17,390        | 16,194  | 7.4%         | 4.4%   |
| Gross profit                                    | 10,817        | 10,063  | 7.5%         | 4.3%   |
| <b>Adjusted <sup>(4)</sup> gross profit</b>     | <b>10,887</b> | <b>10,209</b>   | <b>6.6%</b>  | <b>3.5%</b>  |
| <b>% of revenue</b>                             | <b>62.6%</b>  | <b>63.0%</b>  | -            | -  |
| Operating profit                                | 1,678         | 1,511   | 11.1%        | 6.2%   |
| <b>Adjusted <sup>(4)</sup> operating profit</b> | <b>2,812</b>  | <b>2,618</b>  | <b>7.4%</b>  | <b>3.3%</b>  |
| <b>% of revenue</b>                             | <b>16.2%</b>  | <b>16.2%</b>  | -            | -  |
| Net profit                                      | 1,185         | 1,131   | 4.7%         | 0.1%   |
| <b>Adjusted <sup>(4)</sup> net profit</b>       | <b>2,054</b>  | <b>1,866</b>  | <b>10.1%</b> | <b>5.7%</b>  |
| <b>% of revenue</b>                             | <b>11.8%</b>  | <b>11.5%</b>  | -            | -  |

(1) The Restated Unaudited *Pro Forma* Consolidated Financial Information has been produced for illustrative purposes only, with the aim of providing comparative information for the year ended December 31, 2018 as if the combination between Essilor and Luxottica had occurred on January 1, 2018. For further details, please refer to Section 3.6.

(2) 2018 information has been restated following the application of IFRS 16 – Leases, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination.

(3) Figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.

(4) Adjusted from income and expenses related to the combination between Essilor and Luxottica and other transactions that are unusual, infrequent or unrelated to the normal course of business as the impact of these events might affect the understanding of the Group's performance. A description of the adjusting items is reported in Section 3.1.1, paragraph *Adjusted measures*.

### Date of the latest financial information

The latest audited financial information corresponds to fiscal years 2018 and 2019 (periods from January 1 to December 31).

### Selected financial information for interim periods

The Company has elected not to disclose financial information for interim periods in this Universal Registration Document.

### Documents incorporated by reference

Pursuant to Article 19 of Regulation (EU) 2017/1129 of the European Parliament and of the Council, the following information is incorporated by reference in this Universal Registration Document:

- the consolidated financial statements for the year ended December 31, 2017 and the Statutory Auditors' Report on the consolidated financial statements for the year, which appear respectively on pages 136-186 and 187-190 of the 2017 Registration Document filed with the AMF on Tuesday, March 27, 2018 under number D.18-0193;
- the consolidated financial statements for the year ended December 31, 2018 and the Statutory Auditors' Report on the consolidated financial statements for the year, which appear respectively on pages 169-246 and 247-251 of the 2018 Registration Document filed with the AMF on Tuesday, April 9, 2019 under number D.19-0297.

## 3.1 Comments on the Group's earnings and financial position

### 3.1.1 Statement of profit or loss and Alternative Performance Measures

#### EssilorLuxottica consolidated statement of profit or loss

| € millions   | 2019           | 2018 Restated* | Change       |
|--|----------------|----------------|--------------|
| Revenue  | 17,390         | 10,833         | 60.5%        |
| Cost of sales  | (6,573)        | (3,961)        | 65.9%        |
| <b>GROSS PROFIT</b>                                    | <b>10,817</b>  | <b>6,872</b>   | <b>57.4%</b> |
| % of revenue   | 62.2%          | 63.4%          |              |
| <b>Total operating expenses</b>                        | <b>(9,138)</b> | <b>(5,473)</b> | <b>67.0%</b> |
| <b>OPERATING PROFIT</b>                                | <b>1,678</b>   | <b>1,399</b>   | <b>20.0%</b> |
| % of revenue   | 9.7%           | 12.9%          |              |
| <b>PROFIT BEFORE TAXES</b>                             | <b>1,534</b>   | <b>1,289</b>   | <b>19.0%</b> |
| % of revenue   | 8.8%           | 11.9%          |              |
| Income taxes   | (350)          | (139)          | 150.9%       |
| Effective tax rate                                     | 22.8%          | 10.8%          |              |
| <b>NET PROFIT</b>                                      | <b>1,185</b>   | <b>1,150</b>   | <b>3.0%</b>  |
| <b>NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>1,077</b>   | <b>1,083</b>   | <b>-0.6%</b> |

\* 2018 information has been restated following the application of IFRS 16 – Leases, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination.

The comparability in 2019 consolidated financial statements is still affected by the combination between Essilor and Luxottica (the "EL Combination") which occurred on October 1, 2018. Since this transaction has been considered a reverse acquisition according to the requirements of IFRS 3 – Business Combinations, the consolidated financial statements reflect the following structure:

| Statements         | Year ended December 31, 2019                   | Year ended December 31, 2018             |                                       |
|--------------------|--|--|---------------------------------------|
| Profit or loss     | EssilorLuxottica's<br>12 months<br>(Jan.-Dec.) | Luxottica's<br>12 months<br>(Jan.-Dec.)* | Essilor's<br>3 months<br>(Oct.-Dec.)* |
| Financial position | EssilorLuxottica's<br>historical cost          | EssilorLuxottica's<br>historical cost*   |                                       |

\* 2018 information has been restated following the application of IFRS 16 – Leases, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination.

- Revenue showed a 60.5% growth mainly due to the contribution of Essilor revenue amounting to €5,885 million for the first nine months of 2019.
- Operating profit grew by 20.0% primarily because of the contribution of Essilor which, however, is affected by the depreciation and amortization resulting from the recognition of tangible and intangible assets following the purchase price allocation related to the EL Combination (€747 million). Moreover, 2019 performance is also affected by the impact of the fraudulent financial activities discovered at an Essilor plant in Thailand recorded for an amount of €185 million including foreign exchanges effects.
- Net profit grew by 3.0% essentially due to the contribution of Essilor, as described above. 2019 Net profit has also been affected by the recognition of deferred tax assets (approx. €30 million), following the merger of the Group's Canadian entities as part of the integration activities, and by a tax reimbursement resulting from a positive pronouncement of the Italian tax authority (€29 million).

## Financial statements

Comments on the Group's earnings and financial position

### EssilorLuxottica consolidated statement of profit or loss: reconciliation with adjusted<sup>(3)</sup> figures

Year ended December 31, 2019

| € millions   | 2019           | Adjustments related to PPA impacts | Other non-GAAP adjustments | 2019 Adjusted <sup>(3)</sup> |
|--|----------------|------------------------------------|----------------------------|------------------------------|
| Revenue  | 17,390         | -                                  | -                          | 17,390                       |
| Cost of sales  | (6,573)        | 61                                 | 8                          | (6,503)                      |
| <b>GROSS PROFIT</b>                                    | <b>10,817</b>  | <b>61</b>                          | <b>8</b>                   | <b>10,887</b>                |
| % of revenue   | 62.2%          |                                    |                            | 62.6%                        |
| <b>Total operating expenses</b>                        | <b>(9,138)</b> | <b>669</b>                         | <b>395</b>                 | <b>(8,074)</b>               |
| <b>OPERATING PROFIT</b>                                | <b>1,678</b>   | <b>730</b>                         | <b>404</b>                 | <b>2,812</b>                 |
| % of revenue   | 9.7%           |                                    |                            | 16.2%                        |
| Cost of net debt                                       | (117)          | (7)                                | 9                          | (115)                        |
| Other financial income/(expenses)*                     | (27)           | -                                  | 1                          | (26)                         |
| <b>PROFIT BEFORE TAXES</b>                             | <b>1,534</b>   | <b>723</b>                         | <b>414</b>                 | <b>2,672</b>                 |
| % of revenue   | 8.8%           |                                    |                            | 15.4%                        |
| Income taxes   | (350)          | (142)                              | (126)                      | (618)                        |
| <b>NET PROFIT</b>                                      | <b>1,185</b>   | <b>581</b>                         | <b>288</b>                 | <b>2,054</b>                 |
| <b>NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>1,077</b>   |                                    |                            | <b>1,938</b>                 |

\* Including Share of profit of associates.

Year ended December 31, 2018

| € millions   | 2018 Restated* Pro forma <sup>(1)</sup> information*** | Adjustments related to PPA impacts | Other non-GAAP adjustments | 2018 Restated* Pro forma <sup>(1)</sup> Adjusted <sup>(3)</sup> |
|--|--|------------------------------------|----------------------------|---|
| Revenue  | 16,194   | -                                  | -                          | 16,194  |
| Cost of sales  | (6,131)  | 119                                | 27                         | (5,985)   |
| <b>GROSS PROFIT</b>                                    | <b>10,063</b>  | <b>119</b>                         | <b>27</b>                  | <b>10,209</b>   |
| % of revenue   | 62.1%  |                                    |                            | 63.0%   |
| <b>Total operating expenses</b>                        | <b>(8,552)</b>   | <b>639</b>                         | <b>322</b>                 | <b>(7,591)</b>  |
| <b>OPERATING PROFIT</b>                                | <b>1,511</b>   | <b>758</b>                         | <b>349</b>                 | <b>2,618</b>  |
| % of revenue   | 9.3%   |                                    |                            | 16.2%   |
| Cost of net debt                                       | (148)  | (6)                                | 5                          | (149)   |
| Other financial income/(expenses)**                    | (11)   | -                                  | -                          | (11)  |
| <b>PROFIT BEFORE TAXES</b>                             | <b>1,352</b>   | <b>752</b>                         | <b>354</b>                 | <b>2,458</b>  |
| % of revenue   | 8.3%   |                                    |                            | 15.2%   |
| Income taxes   | (221)  | (297)                              | (74)                       | (593)   |
| <b>NET PROFIT</b>                                      | <b>1,131</b>   | <b>455</b>                         | <b>279</b>                 | <b>1,866</b>  |
| <b>NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>n.a.</b>  |                                    |                            | <b>1,774</b>  |

\* 2018 information has been restated following the application of IFRS 16 – Leases, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination.

\*\* Including Share of profit of associates.

\*\*\* A reconciliation from the restated EssilorLuxottica's consolidated statement of profit or loss for the year ended December 31, 2018 and the 2018 pro forma<sup>(1)</sup> information is reported in Section 3.6.

## Notes

**(1) Pro forma:** *pro forma* information as presented in the Restated Unaudited *Pro Forma* Consolidated Financial Information (see Section 3.6). The Restated Unaudited *Pro Forma* Consolidated Financial Information has been produced for illustrative purposes only, with the aim of providing comparative information for the year ended December 31, 2018 as if the combination between Essilor and Luxottica had occurred on January 1, 2018.

**(2) Constant exchange rates:** figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.

**(3) Adjusted measures or figures:** adjusted from the expenses or income related to the combination between Essilor and Luxottica and other transactions that are unusual, infrequent or unrelated to the normal course of business as the impact of these events might affect the understanding of the Group's performance. A description of the adjusting items is reported in the following paragraph *Adjusted measures*.

## Adjusted measures

In this document, management presented certain performance indicators that are not envisioned by the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and endorsed by the European Union. Such measures are not meant to be considered in isolation or as a substitute for items appearing in EssilorLuxottica consolidated financial statements prepared in accordance with IFRS. Rather, these non-IFRS measures should be used as a supplement to IFRS results to assist the reader in better understanding the operating performance of the Group and should be read in conjunction with EssilorLuxottica consolidated financial statements. Such measures are not defined terms under IFRS and their definitions should be carefully reviewed and understood by investors.

The combination of Essilor and Luxottica (the "EL Combination"), as well as events that are unusual, infrequent or unrelated to normal operations, have a significant impact on the consolidated results. Accordingly, in order to provide additional comparative information on the results for the period under review compared to previous periods, to reflect the EssilorLuxottica actual economic performance and enable it to be monitored and benchmarked against competitors, some measures have been adjusted ("adjusted measures"). In particular, management adjusted the following measures: *Gross profit*, *Operating expenses*, *Operating profit*, *Profit before taxes* and *Net profit*. Such adjusted measures are reconciled to their most comparable *pro forma*<sup>(1)</sup> measures in the Restated Unaudited *Pro Forma* Consolidated Financial Information for the year ended December 31, 2018, and to the most comparable reported measures in the consolidated statement of profit or loss for the year ended December 31, 2019.

In 2018 and 2019, adjusted measures exclude: (i) the incremental impacts of the purchase price allocations related to the EL Combination; and (ii) other adjustments related to transactions that are unusual, infrequent or unrelated to normal operations, as the impact of these events might affect the understanding of the Group's performance. These adjustments are described below.

## Year ended December 31, 2019

- Non-recurring *Cost of sales* for €8 million mainly associated with restructuring and reorganization expenses incurred with respect to projects aimed at the optimization of the central warehouses of the Group and the costs of Luxottica's restricted shares plan (LTI) for employees working for operations activities.
- Non-recurring *Selling* expenses for €30 million mainly associated with the closing of the US retail chain Sears Optical, announced by the Group in December 2019.
- Non-recurring *General and administrative* expenses for €199 million associated with the following impacts:
  - non-recurring costs related to restructuring and reorganization projects aiming at increasing the Group's operational and organizational efficiency for €71 million; the non-recurring costs mainly refer to severance, accelerated depreciation and write-off;
  - non-recurring expenses related to M&A projects for €21 million mainly linked to the transaction costs incurred in connection with GrandVision N.V. proposed acquisition announced on July 31, 2019, and to the acquisition of Barberini completed in August 2019;
  - one-off costs incurred by the Group for €36 million, including transaction costs linked to the finalization of the Mandatory Tender Offer (MTO) and the delisting of Luxottica shares and to other one-off integration costs;
  - expenses related to share-based payments for about €65 million linked to the removal of the performance conditions from the 2015 and 2016 Essilor's share-based plans, the international employee shareholding plan extended to Luxottica group employees in late 2019 and to Luxottica's restricted shares plan (LTI);
  - non-recurring expenses for €6 million incurred in connection with the settlement of a commercial litigation.

- Non-recurring *Other income/(expenses)* are adjusted for €166 million corresponding to the following impacts:
  - non-recurring loss related to the fraudulent financial activities in a plant in Thailand for an amount of €185 million (including foreign exchanges impacts);
  - non-recurring costs related to M&A and divestment transactions for €22 million mainly related to the loss resulting from the sale of Merve as a condition required by the Turkish antitrust authorities to approve the combination of Essilor and Luxottica for €14 million, as well as a non-recurring impact on final deferred payments paid on various past acquisitions;
  - net negative impact of €5 million related to other non-recurring transactions linked to significant claims and litigations; and
  - the elimination of a non-recurring net gain for €46 million mainly related to the profit recorded from the sale of the Group's 25% ownership in a US based entity and the sale of another investment.
- *Cost of net debt* is adjusted for €9 million mainly corresponding to non-recurring financial expenses linked to early repayment of debt at Luxottica group level in the context of the restructuring and centralization of financial debt at EssilorLuxottica level.
- *Income taxes* are adjusted for an amount of €(126) million corresponding to the tax effects of the above-mentioned adjustments for €(56) million and to the elimination of non-recurring net tax gains for €(70) million mainly due to i) the one-off recognition of deferred tax assets on tax losses carry forward in a Canadian entity following the merger of the Essilor and Luxottica entities in Canada into one tax group and to ii) the reimbursement granted from the Italian tax authorities on IRAP tax related to fiscal years 2014 to 2016.
- Non-recurring *General and administrative* expenses for €278 million associated with the following impacts:
  - total transaction costs related to the combination of Essilor and Luxottica for €158 million (of which €128 million incurred in 2017, €22 million incurred in 2018 and €8 million in 2019);
  - non-recurring costs of €77 million mainly linked to the removal of the performance conditions from the 2015 and 2016 share-based plans authorized by the Essilor Annual General Meeting of May 2017, less €5 million adjustment related to the valuation of Essilor's share-based payments;
  - restructuring and reorganization expenses for €48 million.
- Non-recurring expenses for €36 million accounted for in *Other income/(expenses)* including:
  - loss on assets disposal for €5 million following the request from the Turkish antitrust authorities to divest Merve as a condition precedent to approve the combination of Essilor and Luxottica;
  - net loss impact of the change in consolidation scope of one entity for €24 million;
  - net negative impact of €5 million related to other non-recurring transactions mainly linked to significant claims and litigations; and
  - distribution of exceptional bonuses to French employees for €2 million.
- *Cost of net debt* is adjusted for €5 million corresponding to a non-recurring financial expense linked to early repayment of debt.
- *Income taxes* are adjusted for an amount of €(74) million corresponding to the tax effect of the above-mentioned adjustments for €(27) million and to a non-recurring tax income of €(47) million.

#### Year ended December 31, 2018

- Non-recurring *Cost of sales* for €27 million associated with restructuring and reorganization projects mainly linked to initiatives aimed at transforming the Group's distributive network (i.e. centralization of the Group warehouses removing stock in store; closing down some local warehouses) as well as those related to a change in the Group business model (e.g. removal of lenses laboratories from the stores). In particular, the expenses adjusted in 2018 consist of write-off of the equipment and stock affected by those restructuring and reorganization projects, as well as the related logistic costs incurred.
- Non-recurring *Selling* expenses for a net cost of €7 million resulting from an impairment loss recorded on specific brands, as well as from some projects aimed at transforming significantly the Group's sales force organization.

#### Other non-GAAP measures

Other non-GAAP measures such as EBITDA, Free Cash Flows, Net debt and the ratio Net debt to EBITDA are also included in this document in order to:

- improve transparency for investors;
- assist investors in their assessment of the Group's operating performance and its ability to refinance its debt as it matures and incur additional indebtedness to invest in new business opportunities;
- assist investors in their assessment of the Group's cost of debt;
- ensure that these measures are fully understood in light of how the Group evaluates its operating results and leverage;
- properly define the metrics used and confirm their calculation; and
- share these measures with all investors at the same time.

Those other non-GAAP measures are not meant to be considered in isolation or as a substitute for items appearing in EssilorLuxottica's consolidated financial statements prepared in accordance with IFRS. Rather, these other non-GAAP measures should be used as a supplement to IFRS results to assist the reader in better understanding the operating performance of the Group.

Moreover, investors should be aware that the Group's method of calculating those non-GAAP measures may differ from that used by other companies.

The following table provides a reconciliation of those non-GAAP measures to the most directly comparable IFRS financial measures.

| <i>€ millions</i>  | <b>2019</b>  |
|--|--------------|
| Net cash flow provided by operating activities <sup>(a)</sup>                  | 3,299        |
| Purchase of property, plant and equipment and intangible assets <sup>(a)</sup> | (903)        |
| Cash payments for the principal portion of lease liabilities <sup>(a)</sup>    | (571)        |
| <b>FREE CASH FLOW</b>  | <b>1,825</b> |
| Operating profit <sup>(b)</sup>  | 1,678        |
| Depreciation and amortization <sup>(a)</sup>                                   | 2,121        |
| <b>EBITDA</b>  | <b>3,800</b> |
| <b>NET DEBT <sup>(c)</sup></b>   | <b>4,046</b> |
| <b>NET DEBT/EBITDA</b>   | <b>1.1</b>   |

(a) As presented in the consolidated statement of cash flows.

(b) As presented in the consolidated statement of profit or loss.

(c) Net debt is presented in Note 22 – *Financial debt, including lease liabilities* of the Notes to the consolidated financial statements in Section 3.4.

### Adjusted <sup>(3)</sup> consolidated statement of profit or loss

| <i>€ millions</i>                                      | <b>2019</b>    | <b>2018 Restated*<br/>Pro forma <sup>(1)</sup></b> | <b>Change</b> | <b>Change at<br/>constant<br/>exchange rates <sup>(2)</sup></b> |
|--|----------------|--|---------------|---|
| Revenue  | 17,390         | 16,194   | 7.4%          | 4.4%  |
| Cost of sales  | (6,503)        | (5,985)  | 8.7%          | 5.9%  |
| <b>GROSS PROFIT</b>                                    | <b>10,887</b>  | <b>10,209</b>                                      | <b>6.6%</b>   | <b>3.5%</b>   |
| <i>% of revenue</i>                                    | 62.6%          | 63.0%  |               |   |
| Research and development                               | (291)          | (275)  | 5.9%          | 3.5%  |
| Selling  | (4,595)        | (4,308)  | 6.7%          | 3.6%  |
| Royalties  | (168)          | (163)  | 2.7%          | -0.2%   |
| Advertising and marketing                              | (1,236)        | (1,115)  | 10.8%         | 7.9%  |
| General and administrative                             | (1,777)        | (1,719)  | 3.4%          | 1.1%  |
| Other income/(expenses)                                | (8)            | (11)   | -22.5%        | -33.1%  |
| <b>Total operating expenses</b>                        | <b>(8,074)</b> | <b>(7,591)</b>                                     | <b>6.4%</b>   | <b>3.5%</b>   |
| <b>OPERATING PROFIT</b>                                | <b>2,812</b>   | <b>2,618</b>                                       | <b>7.4%</b>   | <b>3.3%</b>   |
| <i>% of revenue</i>                                    | 16.2%          | 16.2%  |               |   |
| Cost of net debt                                       | (115)          | (149)  | -23.1%        | -24.0%  |
| Other financial income/(expenses)                      | (24)           | (11)   |               |   |
| Share of profits of associates                         | (2)            | -  |               |   |
| <b>PROFIT BEFORE TAXES</b>                             | <b>2,672</b>   | <b>2,458</b>                                       | <b>8.7%</b>   | <b>4.6%</b>   |
| <i>% of revenue</i>                                    | 15.4%          | 15.2%  |               |   |
| Income taxes   | (618)          | (593)  | 4.3%          | 0.8%  |
| <i>Effective tax rate</i>                              | 23.1%          | 24.1%  |               |   |
| <b>NET PROFIT</b>                                      | <b>2,054</b>   | <b>1,866</b>                                       | <b>10.1%</b>  | <b>5.7%</b>   |
| <b>NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>1,938</b>   | <b>1,774</b>                                       | <b>9.2%</b>   | <b>4.8%</b>   |

\* 2018 information has been restated following the application of IFRS 16 – Leases, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination.

## Financial statements

Comments on the Group's earnings and financial position

**Revenue** for the year totaled €17,390 million, an increase of 7.4% in current exchange rates and 4.4% in constant exchange rates<sup>(2)</sup> when compared to 2018.

**Adjusted<sup>(3)</sup> Gross profit: +6.6% at current exchange rates and 3.5% at constant exchange rates<sup>(2)</sup>**

Adjusted<sup>(3)</sup> *Gross profit* in 2019 ended at €10,887 million, representing 62.6% of revenue versus 63.0% in 2018. The gross margin at Luxottica was broadly stable, despite the slight dilution generated by the fast-growing managed vision care business. On the Essilor side, the positive effect from the Transitions Generation 8 launch was more than offset by portfolio mix effects stemming from faster growth in online contact lens sales and Sunglasses & Readers as well as a negative impact from the obsolescence of the Transitions Generation 7 product.

**Adjusted<sup>(3)</sup> Operating expenses: +6.4% at current exchange rates and +3.5% at constant exchange rates<sup>(2)</sup>**

*Operating expenses* amounted to €8,074 million in 2019, translating to 46.4% of revenue compared to 46.9% in the prior year and reflecting:

- *Research and development* costs of €291 million, as the Group continues to invest the same portion of its revenue behind innovation.
- *Selling* costs of €4,595 million to support EssilorLuxottica's top line growth, positively impacted by the winding down of legacy operations at Sears Optical Retail.
- *Royalties* of €168 million, related to the Group's licensed frame brands.
- *Advertising and marketing* costs of €1,236 million included the impact of investments to drive future growth. This included a renewed effort in marketing campaigns on lens brands, e-commerce, Sunglasses & Readers, the Transitions Generation 8 launch and activities to develop the myopia segment. The Group

also launched new campaigns and partnerships for its top brands in frames and retail banners (Sunglass Hut returning to television after three years, Oakley becoming an official sponsor to the NFL and Ray-Ban launching a successful Sun Campaign).

- *General and administrative* costs totaled €1,777 million reflecting EssilorLuxottica's strong cost control measures, particularly effective during the second half of the year.

**Adjusted<sup>(3)</sup> Operating profit: +7.4% at current exchange rates and +3.3% at constant exchange rates<sup>(2)</sup>**

The Group posted an adjusted<sup>(3)</sup> *Operating profit* of €2,812 million, representing 16.2% of revenue, in line compared to 2018.

**Adjusted<sup>(3)</sup> Cost of net debt, Other financial income/ (expenses) and Share of profits of associates**

The adjusted<sup>(3)</sup> *Cost of net debt* declined to €115 million in 2019 from €149 million due to a decrease in the Company's financing cost and despite an exceptional cash disbursement to complete EssilorLuxottica's Mandatory Tender Offer for Luxottica shares. The issuance of the €5 billion bond in November did not have a material impact in 2019. *Other financial expenses* amounted to €24 million and *Share of profits of associates* showed a loss of €2 million.

**Adjusted<sup>(3)</sup> Income taxes**

EssilorLuxottica reported adjusted<sup>(3)</sup> tax expense of €618 million, reflecting an adjusted<sup>(3)</sup> tax rate of 23.1% for 2019 compared to an adjusted<sup>(3)</sup> tax rate of 24.1% in the prior year resulting from a more favorable geographical mix of earnings and from a positive closing of certain tax audits.

**Adjusted<sup>(3)</sup> Net profit attributable to owners of the parent: +9.2% at current exchange rates and 4.8% at constant exchange rates<sup>(2)</sup>.**

### 3.1.2 Statement of financial position, net debt and cash flow

#### EssilorLuxottica condensed consolidated statement of financial position

| € millions                            | 12/31/2019    | 12/31/2018*   | Change       | € millions                                   | 12/31/2019    | 12/31/2018*   | Change         |
|---------------------------------------|---------------|---------------|--------------|--|---------------|---------------|----------------|
| Goodwill                              | 24,074        | 23,486        | 588          | Equity                                       | 35,332        | 33,403        | 1,929          |
| Intangible, Tangible and Right-of-use | 16,934        | 17,143        | (209)        | Non-current borrowings and lease liabilities | 8,484         | 4,045         | 4,439          |
| Other non-current assets              | 825           | 762           | 63           | Other non-current liabilities                | 3,150         | 3,477         | (327)          |
| <b>NON-CURRENT ASSETS</b>             | <b>41,833</b> | <b>41,391</b> | <b>442</b>   | <b>EQUITY AND NON-CURRENT LIABILITIES</b>    | <b>46,966</b> | <b>40,925</b> | <b>6,041</b>   |
| Inventories, Trade receivables        | 4,578         | 4,382         | 196          | Short-term borrowings and lease liabilities  | 932           | 1,657         | (725)          |
| Other current assets                  | 1,336         | 782           | 554          | Trade payables                               | 1,770         | 1,744         | 26             |
| Cash and cash equivalents             | 4,836         | 1,829         | 3,007        | Other current liabilities                    | 2,915         | 4,072         | (1,157)        |
| <b>CURRENT ASSETS</b>                 | <b>10,750</b> | <b>6,993</b>  | <b>3,757</b> | <b>CURRENT LIABILITIES</b>                   | <b>5,617</b>  | <b>7,473</b>  | <b>(1,856)</b> |
| Assets held for sale                  | 0             | 14            | (14)         |  |               |               |                |
| <b>ASSETS</b>                         | <b>52,583</b> | <b>48,398</b> | <b>4,185</b> | <b>EQUITY AND LIABILITIES</b>                | <b>52,583</b> | <b>48,398</b> | <b>4,185</b>   |

\* 2018 information has been restated following the application of IFRS 16 – Leases, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination.

*Goodwill* increased by €588 million, of which €206 million resulting from acquisitions made in 2019, and €382 million resulting from foreign currency fluctuations (including foreign currency fluctuations on the goodwill arising from the EL Combination, amounting to €333 million).

*Intangible, Tangible and Right-of-use* are mainly related to intangible assets recognized as part of the purchase price allocation finalized on the EL Combination for around €11 billion and to the right-of-use assets recognized following the implementation of the new accounting standard IFRS 16 – Leases.

The overall increase in *Cash and cash equivalents* and *Other current assets* are mainly linked to the proceeds from the issuance of the 5 billion bonds occurred in November 2019 (as described in paragraph *Significant events of the year* of Section 3.4).

*Equity* increased mainly for the result of the year (€1,670 million including other comprehensive income

items), the share capital increases related to the sell-out and squeeze-out procedures on Luxottica shares, as described in paragraph *Significant events of the year* of Section 3.4 (€1,019 million) and the share-based payments accounted for in 2019 (€154 million), while decreased by €959 million following dividend distribution.

*Other current liabilities* decreased by €1,157 million, of which €1,667 million are link to the short-term put option representing EssilorLuxottica's obligation to purchase against cash all Luxottica shares not already held by the Group as of December 31, 2018. During the first months of 2019, as a result of the finalization of the sell-out and squeeze-out procedures, the Group incurred a total cash-out of €641 million towards those Luxottica shareholders that tendered their shares against cash and consequently reversed the put liability accounted for as of December 31, 2018.

## Financial statements

Comments on the Group's earnings and financial position

### Net debt

Group *Net debt (excluding Lease liabilities)* amounted to €1,898 million at the end of December 2019, an increase of €11 million compared to the restated position at the end of December 2018.

| <i>€ millions</i>                           | <b>12/31/2019</b> | <b>12/31/2018*</b> |
|---|-------------------|--------------------|
| Non-current borrowings                      | 6,864             | 2,564              |
| Current borrowings                          | 403               | 1,176              |
| <b>TOTAL LIABILITIES</b>                    | <b>7,268</b>      | <b>3,740</b>       |
| Short-term investments                      | (500)             | -                  |
| Cash and cash equivalents                   | (4,836)           | (1,829)            |
| <b>TOTAL ASSET</b>                          | <b>(5,336)</b>    | <b>(1,829)</b>     |
| Interest Rate Swap measured at fair value   | (34)              | (25)               |
| <b>NET DEBT EXCLUDING LEASE LIABILITIES</b> | <b>1,898</b>      | <b>1,887</b>       |
| Lease liabilities (current and non-current) | 2,148             | 1,962              |
| <b>NET DEBT</b>                             | <b>4,046</b>      | <b>3,849</b>       |

\* 2018 information has been restated following the application of IFRS 16 – Leases.

### Cash flow

Operating cash-flow before changes in working capital amounted to €3,351 in 2019.

Changes in working capital requirement amounted to €52 million against operating cash-flow.

Capital expenditures amounted to €903 million, representing 5.2% of Group's revenue.

The Free Cash Flow normalized for IFRS 16 impacts amounted to €1,825 million.

| <i>€ millions</i>   |       |  |     |
|---|-------|--|-----|
| Net cash from operations (before change in WCR <sup>(a)</sup> ) | 3,351 | Change in WCR <sup>(a)</sup>                                       | 52  |
| Proceeds from share capital increase                            | 32    | Capital expenditure  | 903 |
| Change in Net debt (excluding Lease liabilities)                | 11    | Cash payments for the principal portion of lease liabilities       | 571 |
| Other   | 21    | Dividends  | 959 |
|   |       | Acquisition and other investments, net of disposals <sup>(b)</sup> | 289 |
|   |       | Cash portion of MTO  | 641 |

(a) Working capital requirement.

(b) Financial investments net of cash acquired, plus debt of newly-consolidated companies.

## 3.2 Trend information

### 3.2.1 Recent trends

The current COVID-19 epidemic has a negative impact on the Company's business.

In January and February, the Company delivered solid growth, in line with its full year targets. Business conditions began deteriorating in March as the virus shifted from impacting predominantly China to entire regions of Europe and North America. During the second quarter, the Company expects revenue to further decelerate with a material impact on profitability. At present, the Company has insufficient visibility to provide an assessment of the full scope of COVID-19 impact, as the situation remains volatile.

In light of current events and due to the measures imposed in several countries, Essilor has temporarily closed all its industrial sites in France. Production continuity is ensured thanks to the company's worldwide network of

interconnected plants and laboratories. This includes all production facilities in China, which are now back to full speed and have spare capacity. E-commerce activities are growing with no back orders.

Luxottica's manufacturing plants have temporarily suspended their activity in Italy and other smaller locations, while they are back to normal levels in China. Stores in Europe and North America are complying with the temporary lockdown measures that local governments are putting in place, while company's e-commerce platforms continue to operate globally.

EssilorLuxottica and the two operating companies are implementing a contingency plan including cost and cash control measures, putting on hold non-crucial investment initiatives and rightsizing global capacity to meet current demand levels.

### 3.2.2 Subsequent events

#### GrandVision

The proposed acquisition of GrandVision N.V. by EssilorLuxottica has been unconditionally cleared so far in the United States, Russia, Colombia and Brazil, and it is currently under review in Chile, Mexico and Turkey as well as in Europe.

The European Commission has initiated a Phase II review of the proposed acquisition of GrandVision N.V. by EssilorLuxottica. The Company is confident that Phase II will be completed in a timely manner and will closely cooperate with the European Commission to fully demonstrate the rationale of the proposed acquisition and the benefits that it will bring to customers, consumers and all the eyewear industry players.

The Company reaffirms the objective to close the transaction within 12 to 24 months from the announcement date, July 31, 2019, in cooperation with the relevant authorities.

#### Optical House

On January 3, 2020, EssilorLuxottica completed the purchase of a 51% stake in Optical House, the leader in the optical market in Ukraine. Optical House operates through a network of around 190 stores under the Luxoptica brand and is the country's leading wholesale platform for lenses, frames and contact lenses. In 2019, Optical House generated around €65 million of revenue.

#### Fraud

On December 30, 2019, EssilorLuxottica announced that its subsidiary Essilor International discovered fraudulent financial activities in one of its plants in Thailand. Since then, Essilor International has implemented a wide range of corrective measures under the supervision of the EssilorLuxottica Board of Directors. A dedicated team was set up, reporting to the CEO of Essilor International, to take action in three key areas:

- Recovery of misappropriated funds: the company progressed with freezing funds on different bank accounts in several jurisdictions. It will likely take several months to effectively recover them. Additional funds are currently being traced. All these measures are aimed at reducing the overall financial impact for the Company, from the €185 million currently recorded in its accounts.
- Legal action: criminal charges have been filed against the perpetrators and beneficiaries of the fraud in jurisdictions, and all legal options for holding the relevant third parties liable are considered to allow the Company to obtain damages commensurate with the injury suffered.
- Internal action: internal controls and security measures have been tightened across the global operations. Moreover, in the wake of this incident, Essilor International reorganized its Treasury and local management in Thailand.

Additional measures have been initiated and are in the process of being implemented to enhance the Group's control environment. This has been defined as a priority and will be monitored as such.

### Changes in management and in the composition of the Board of Directors

EssilorLuxottica confirms that the search for a new CEO is ongoing. It is now also considering internal candidates. The final appointment is expected to be made by the end of 2020.

David Wielemans is appointed co-CFO of EssilorLuxottica alongside Stefano Grassi, in replacement of Hilary Halper.

Ariel Bauer is appointed co-Head of Investor Relations of EssilorLuxottica alongside Giorgio Iannella, in replacement of Véronique Gillet.

Moreover, on March 30, 2020, the Board of Directors of EssilorLuxottica co-opted Paul du Saillant as a new Director of the Company in place of Laurent Vacherot, former CEO of Essilor International, who retired. Effective from March 30, 2020, Paul du Saillant took over Laurent Vacherot's responsibilities, including the role of CEO for Essilor International and the coexecutive delegate powers previously granted to Laurent Vacherot on May 13, 2019 by Leonardo Del Vecchio, Executive Chairman, and Hubert Sagnières, Executive Vice Chairman. In this capacity, he will work directly with Francesco Milleri, Deputy Chairman and CEO of Luxottica, to develop and implement the EssilorLuxottica strategy and integration process.

### Share buyback program

On March 17, 2020, with a view to implementing its share buyback program, EssilorLuxottica announced that a mandate had been granted to an investment services provider for the purchase of up to 3,000,000 EssilorLuxottica shares, depending on market conditions, over a period starting from March 17, 2020 up until May 27, 2020.

On March 27, 2020, the Company has decided to stop the implementation of the share buyback program announced on March 17, 2020. Since March 17, 2020, 1.55 million shares for an average price of €102.54 have been repurchased. All information relating to the shares repurchased from March 17, 2020 to March 26, 2020 is available on EssilorLuxottica's website.

### Decisions related to the Annual Shareholders' Meeting and dividend distribution

On March 30, 2020, in light of the current COVID-19 outbreak, the Board of Directors decided to postpone the Annual Shareholders' Meeting from May 15, 2020 to June 25, 2020 and to hold it behind closed doors.

On the same date, the Board of Directors decided to re-evaluate its March 5, 2020 decision on dividend distribution at a later date.

On April 18, 2020, the Board of Directors decided not to submit the distribution of a dividend for 2019 to the Annual Shareholders' Meeting of June 25, 2020. It will further assess the state of the business in the second half of the year and the efficacy of all the measures undertaken to face the COVID-19 outbreak. If the recovery is solid enough, the Board of Directors may propose a special dividend payment before the end of 2020.

### Further measures to respond to the COVID-19 pandemic

On April 20, 2020, EssilorLuxottica announced that the Board of Directors asked the management team to work on a series of measures aimed at reducing operating and cash expenses within the Company, including the reduction or deferral of parts of its managers' compensations. The Board of Directors voted to apply the latter measure to its own members by reducing their attendance fees by 50%.

Finally, in line with the historical values of Essilor and Luxottica, the Board of Directors approved the launch of a Euro 100 million COVID-19 fund to protect the Company's human capital. This fund will support employees and their families in need.

### 3.2.3 Outlook

On March 27, 2020, EssilorLuxottica announced that in the light of the evolving COVID-19 pandemic, the Company's outlook for 2020 published on March 6, 2020 is no longer valid.

Despite the current COVID-19 pandemic, EssilorLuxottica has the opportunity for significant value creation through revenue and cost synergies which, with the current setup, are expected to range from €420 to €600 million as a net impact on adjusted <sup>(1)</sup> operating profit per annum by 2023.

Revenue synergies are expected in the €200-300 million range, as a result of the capability of EssilorLuxottica to develop innovative and high-quality products optimizing the interaction between frames and lenses, serve the industry better through a broader distribution and transform consumer experience through digitalization and more efficient logistics.

Cost synergies are expected to come in the range of €220-300 million from the combined supply chain optimization, G&A rationalization and sourcing savings.

Up to 2023, the Company's ambition on financial targets, at constant exchange rates <sup>(2)</sup> and excluding the impact of strategic acquisitions, is as follows:

- revenue: mid-single digit growth with a growing contribution from Direct-to-Consumer activities and Fast-Growing Markets <sup>(3)</sup>;
- adjusted <sup>(1)</sup> operating profit growth: 1.0-1.4x revenue growth;
- adjusted <sup>(1)</sup> net profit growth: 1.0-1.5x revenue growth.

#### Notes

**(1) Adjusted measures or figures:** for a definition of adjusted measures or figures, please refer to paragraph *Adjusted measures* in Section 3.1.1.

**(2) Constant exchange rates:** figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.

**(3) Fast-Growing Countries or Markets:** include China, India, ASEAN, South Korea, Hong Kong, Taiwan, Africa, the Middle East, Russia, Eastern Europe and Latin America.

## 3.3 Consolidated Group Financial Statements

### 3.3.1 Consolidated statement of profit or loss

| <i>€ millions</i>   | Notes | 2019           | Restated<br>2018 <sup>(a)</sup> |
|---|-------|----------------|---------------------------------|
| Revenue   | 5     | 17,390         | 10,833                          |
| Cost of sales   |       | (6,573)        | (3,961)                         |
| <b>GROSS PROFIT</b>   |       | <b>10,817</b>  | <b>6,872</b>                    |
| Research and development  |       | (548)          | (190)                           |
| Selling   |       | (4,918)        | (3,389)                         |
| Royalties   |       | (168)          | (157)                           |
| Advertising and marketing   |       | (1,331)        | (745)                           |
| General and administrative  |       | (2,000)        | (987)                           |
| Other income/(expenses)   | 6     | (174)          | (5)                             |
| <b>Total operating expenses</b>   |       | <b>(9,138)</b> | <b>(5,473)</b>                  |
| <b>OPERATING PROFIT</b>   |       | <b>1,678</b>   | <b>1,399</b>                    |
| Cost of net debt  | 7     | (117)          | (100)                           |
| Other financial income/(expenses)   | 7     | (25)           | (9)                             |
| Share of profits of associates  | 12    | (2)            | 0                               |
| <b>PROFIT BEFORE TAXES</b>  |       | <b>1,534</b>   | <b>1,289</b>                    |
| Income taxes  | 8     | (350)          | (139)                           |
| <b>NET PROFIT</b>   |       | <b>1,185</b>   | <b>1,150</b>                    |
| of which attributable to:   |       |                |                                 |
| • owners of the parent  |       | 1,077          | 1,083                           |
| • non-controlling interest  |       | 108            | 67                              |
| Weighted average number of shares outstanding:                                | 9     |                |                                 |
| • basic   |       | 434,084,752    | 260,699,711                     |
| • diluted   |       | 441,137,525    | 266,246,307                     |
| Earnings per share (EPS) for net profit attributable to owners of the parent: | 9     |                |                                 |
| • basic   |       | 2.48           | 4.16                            |
| • diluted   |       | 2.44           | 4.07                            |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases, as described in Note 2 – New accounting standards, as well as to reflect the finalization of the purchase price allocation ("PPA") related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

### 3.3.2 Consolidated statement of comprehensive income

| <i>€ millions</i>  | <b>Notes</b> | <b>2019</b>  | <b>Restated<br/>2018<sup>(a)</sup></b> |
|--|--------------|--------------|--|
| <b>NET PROFIT</b>  |              | <b>1,185</b> | <b>1,150</b>                           |
| <b>Items that may be reclassified subsequently to profit or loss</b>       |              |              |  |
| Cash flow hedges   |              | 1            | (2)                                    |
| Net investment hedges  |              | 1            | 0                                      |
| Foreign currency translation differences                                   |              | 521          | 286                                    |
| Related tax effect   | 8            | (1)          | 1                                      |
| <b>TOTAL ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS</b> |              | <b>522</b>   | <b>285</b>                             |
| <b>Items that will not be reclassified to profit or loss</b>               |              |              |  |
| Actuarial gain/(loss) on employee benefits                                 | 23           | (50)         | (18)                                   |
| Related tax effect   | 8            | 13           | 4                                      |
| <b>TOTAL ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>         |              | <b>(36)</b>  | <b>(14)</b>                            |
| <b>TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX</b>                        |              | <b>485</b>   | <b>271</b>                             |
| <b>TOTAL COMPREHENSIVE INCOME</b>  |              | <b>1,670</b> | <b>1,421</b>                           |
| Total comprehensive income attributable to:                                |              |              |  |
| • owners of the parent   |              | 1,554        | 1,350                                  |
| • non-controlling interests  |              | 116          | 71                                     |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases, as described in Note 2 – New accounting standards, as well as to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

3

### 3.3.3 Consolidated statement of financial position

#### Assets

| <i>€ millions</i>               | Notes | December 31, 2019 | Restated<br>December 31, 2018 <sup>(a)</sup> |
|---------------------------------|-------|-------------------|--|
| Goodwill                        | 10    | 24,074            | 23,486                                       |
| Intangible assets               | 10    | 11,300            | 11,975                                       |
| Property, plant and equipment   | 11    | 3,620             | 3,339  |
| Right-of-use assets             | 11    | 2,014             | 1,828  |
| Investments in associates       | 12    | 18                | 22   |
| Other non-current assets        | 13    | 378               | 399  |
| Deferred tax assets             | 14    | 429               | 341  |
| <b>TOTAL NON-CURRENT ASSETS</b> |       | <b>41,833</b>     | <b>41,391</b>                                |
| Inventories                     | 15    | 2,166             | 2,034  |
| Trade receivables               | 16    | 2,411             | 2,348  |
| Tax receivables                 | 17    | 94                | 128  |
| Other current assets            | 18    | 1,243             | 655  |
| Cash and cash equivalents       | 19    | 4,836             | 1,829  |
| <b>TOTAL CURRENT ASSETS</b>     |       | <b>10,750</b>     | <b>6,993</b>                                 |
| Assets held for sale            | 20    | -                 | 14   |
| <b>TOTAL ASSETS</b>             |       | <b>52,583</b>     | <b>48,398</b>                                |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases, as described in Note 2 – New accounting standards, as well as to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

## Equity and liabilities

| <i>€ millions</i>                                  | Notes | December 31, 2019 | Restated<br>December 31, 2018 <sup>(a)</sup> |
|--|-------|-------------------|--|
| Share capital                                      | 21    | 79                | 77   |
| Share premium reserve                              | 21    | 21,979            | 20,931                                       |
| Treasury shares reserve                            | 21    | (68)              | (92)   |
| Other reserves                                     | 21    | 11,730            | 10,901                                       |
| Net profit attributable to owners of the parent    |       | 1,077             | 1,083  |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b> |       | <b>34,796</b>     | <b>32,899</b>                                |
| Equity attributable to non-controlling interests   | 21    | 536               | 504  |
| <b>TOTAL EQUITY</b>                                |       | <b>35,332</b>     | <b>33,403</b>                                |
| Non-current borrowings                             | 22    | 6,864             | 2,564  |
| Non-current lease liabilities                      | 22    | 1,619             | 1,481  |
| Employee benefits                                  | 23    | 556               | 459  |
| Non-current provisions                             | 25    | 265               | 525  |
| Other non-current liabilities                      | 26    | 193               | 226  |
| Deferred tax liabilities                           | 14    | 2,137             | 2,267  |
| <b>TOTAL NON-CURRENT LIABILITIES</b>               |       | <b>11,634</b>     | <b>7,522</b>                                 |
| Current borrowings                                 | 22    | 403               | 1,176  |
| Current lease liabilities                          | 22    | 529               | 481  |
| Trade payables                                     | 27    | 1,770             | 1,745  |
| Tax payables                                       | 17    | 455               | 99   |
| Current provisions                                 | 25    | 139               | 211  |
| Other current liabilities                          | 28    | 2,320             | 3,762  |
| <b>TOTAL CURRENT LIABILITIES</b>                   |       | <b>5,617</b>      | <b>7,474</b>                                 |
| <b>TOTAL EQUITY AND LIABILITIES</b>                |       | <b>52,583</b>     | <b>48,398</b>                                |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases, as described in Note 2 – New accounting standards, as well as to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

3

## Financial statements

### Consolidated Group Financial Statements

#### 3.3.4 Consolidated statement of changes in equity

| <i>€ millions</i>  | Share capital | Share premium reserve | Treasury shares reserve | Translation reserve | Retained earnings and other reserves | Net profit attributable to owners of the parent | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity  |
|--|---------------|-----------------------|-------------------------|---------------------|--------------------------------------|---|---|--|---------------|
| <b>EQUITY AT JANUARY 1, 2018</b> <sup>(a)</sup>                          | 40            | 570                   | -                       | (225)               | 4,382                                | 1,040   | 5,808                                       | 5  | 5,814         |
| Impacts from the initial application of IFRS 16 <sup>(b)</sup>           | -             | -                     | -                       | -                   | (63)                                 | -   | (63)  | -  | (63)          |
| <b>EQUITY AT JANUARY 1, 2018 RESTATED</b> <sup>(b)</sup>                 | 40            | 570                   | -                       | (225)               | 4,319                                | 1,040   | 5,745                                       | 5  | 5,750         |
| <b>Total comprehensive income for the period restated</b> <sup>(c)</sup> | -             | -                     | -                       | 279                 | (14)                                 | 1,083   | 1,348                                       | 71   | 1,419         |
| Issue of ordinary shares and changes in ownership interests              |               |                       |                         |                     |                                      |   |   |  |               |
| Acquisition of subsidiary with NCI <sup>(c)</sup>                        | 25            | 13,149                | (111)                   | (2)                 | 12,542                               | -   | 25,603                                      | 2,744  | 28,347        |
| Acquisition of NCI without a change in control                           | 12            | 7,188                 | -                       | -                   | (6,638)                              | -   | 562   | (2,263)  | (1,701)       |
| Other changes related to NCI <sup>(c)</sup>                              | -             | -                     | -                       | -                   | 11                                   | -   | 11  | (46)   | (36)          |
| Employee share issues and exercise of stock options                      | -             | 24                    | -                       | -                   | -                                    | -   | 24  | -  | 24            |
| Share-based payments   | -             | -                     | -                       | -                   | 76                                   | -   | 76  | -  | 76            |
| Net sale/(net purchase) of treasury shares                               | -             | -                     | 19                      | -                   | (4)                                  | -   | 15  | -  | 15            |
| Allocation of net profit   | -             | -                     | -                       | -                   | 1,040                                | (1,040)   | -   | -  | -             |
| Dividends paid   | -             | -                     | -                       | -                   | (484)                                | -   | (484)                                       | (7)  | (491)         |
| <b>EQUITY AT DECEMBER 31, 2018 RESTATED</b> <sup>(c)</sup>               | <b>77</b>     | <b>20,931</b>         | <b>(92)</b>             | <b>53</b>           | <b>10,848</b>                        | <b>1,083</b>                                    | <b>32,899</b>                               | <b>504</b>                                       | <b>33,403</b> |

(a) As disclosed in the line *Equity at January 1, 2018 Adjusted* of the consolidated statement of changes in equity in EssilorLuxottica's Consolidated Group Financial Statements as of and for the year ended December 31, 2018.

(b) The impact of the initial application of IFRS 16 – Leases is described in Note 2 – New accounting standards.

(c) Restated to take into account the impact of the initial application of IFRS 16 – Leases, as stated above, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

| <i>€ millions</i>   | Share capital | Share premium reserve | Treasury shares reserve | Translation reserve | Retained earnings and other reserves | Net profit attributable to owners of the parent | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity  |
|---|---------------|-----------------------|-------------------------|---------------------|--------------------------------------|---|---|--|---------------|
| <b>EQUITY AT DECEMBER 31, 2018 RESTATED <sup>(a)</sup></b>  | <b>77</b>     | <b>20,931</b>         | <b>(92)</b>             | <b>53</b>           | <b>10,848</b>                        | <b>1,083</b>                                    | <b>32,899</b>                               | <b>504</b>                                       | <b>33,403</b> |
| Impact from the application of IFRIC 23 <sup>(b)</sup>      | -             | -                     | -                       | -                   | (10)                                 | -   | (10)  | -  | (10)          |
| <b>EQUITY AT JANUARY 1, 2019 RESTATED</b>                   | <b>77</b>     | <b>20,931</b>         | <b>(92)</b>             | <b>53</b>           | <b>10,838</b>                        | <b>1,083</b>                                    | <b>32,889</b>                               | <b>504</b>                                       | <b>33,393</b> |
| <b>Total comprehensive income for the period</b>            | <b>-</b>      | <b>-</b>              | <b>-</b>                | <b>511</b>          | <b>(34)</b>                          | <b>1,077</b>                                    | <b>1,554</b>                                | <b>116</b>                                       | <b>1,670</b>  |
| Issue of ordinary shares and changes in ownership interests |               |                       |                         |                     |                                      |   |   |  |               |
| <i>Acquisition of subsidiary with NCI</i>                   | -             | -                     | -                       | -                   | -                                    | -   | -   | -  | -             |
| <i>Changes related to NCI without a change in control</i>   | 2             | 1,017                 | -                       | -                   | 16                                   | -   | 1,035                                       | -  | 1,035         |
| Changes in consolidation scope and NCI                      | -             | -                     | -                       | -                   | (4)                                  | -   | (4)   | (12)   | (16)          |
| Employee share issues and exercise of stock options         | -             | 31                    | -                       | -                   | -                                    | -   | 31  | -  | 31            |
| Share-based payments  | -             | -                     | -                       | -                   | 154                                  | -   | 154   | -  | 154           |
| Net sale/(net purchase) of treasury shares                  | -             | -                     | 24                      | -                   | -                                    | -   | 24  | -  | 24            |
| Allocation of net profit                                    | -             | -                     | -                       | -                   | 1,083                                | (1,083)   | -   | -  | -             |
| Dividends paid  | -             | -                     | -                       | -                   | (887)                                | -   | (887)                                       | (72)   | (959)         |
| <b>EQUITY AT DECEMBER 31, 2019</b>                          | <b>79</b>     | <b>21,979</b>         | <b>(68)</b>             | <b>564</b>          | <b>11,166</b>                        | <b>1,077</b>                                    | <b>34,796</b>                               | <b>535</b>                                       | <b>35,332</b> |

(a) Restated to take into account the impact of the initial application of IFRS 16 – Leases, as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

(b) The impact of the application of IFRIC 23 – *Uncertainty over Income Tax Treatments* is described in Note 2 – New accounting standards.

3

**3.3.5 Consolidated statement of cash flows**

| <i>€ millions</i>   | <b>Notes</b> | <b>2019</b>    | <b>Restated<br/>2018<sup>(a)</sup></b> |
|---|--------------|----------------|--|
| <b>NET PROFIT</b>   |              | <b>1,185</b>   | <b>1,150</b>                           |
| Depreciation and amortization   |              | 2,121          | 1,219                                  |
| (Gains)/losses from disposal of assets                                |              | (43)           | 2                                      |
| Expense arising from share-based payments                             |              | 154            | 76                                     |
| Income taxes  | 8            | 350            | 139                                    |
| Finance result, net   | 7            | 142            | 109                                    |
| Other non-cash items  |              | 29             | 30                                     |
| Changes in provisions and other                                       |              | 32             | (175)                                  |
| Changes in working capital  |              | (52)           | 284                                    |
| Taxes paid, net   |              | (502)          | (352)                                  |
| Interest paid, net  |              | (116)          | (124)                                  |
| <b>NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>      |              | <b>3,299</b>   | <b>2,359</b>                           |
| Purchase of property, plant and equipment and intangible assets       | 10, 11       | (903)          | (710)                                  |
| Disposal of property, plant and equipment and intangible assets       |              | 30             | -                                      |
| Acquisitions of businesses, net of cash acquired                      | 3            | (370)          | 753                                    |
| Changes in other non-financial assets                                 |              | (13)           | (5)                                    |
| Changes in other financial assets                                     |              | (437)          | -                                      |
| <b>NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>      |              | <b>(1,692)</b> | <b>38</b>                              |
| Share capital increase  |              | 32             | 31                                     |
| (Purchase)/sale of treasury shares                                    |              | -              | 15                                     |
| Dividends paid:   |              |                |  |
| • to the owners of the parent   | 21           | (887)          | (484)                                  |
| • to non-controlling interests  | 21           | (72)           | (7)                                    |
| Transactions with non-controlling interests                           |              | (628)          | (13)                                   |
| Cash payments for principal portion of lease liabilities              | 22           | (571)          | (455)                                  |
| Issuance of bonds, private placements and other long-term debts       | 22           | 4,954          | -                                      |
| Repayment of bonds, private placements and other long-term debts      | 22           | (1,324)        | (293)                                  |
| Changes in other current and non-current borrowings                   | 22           | (125)          | (504)                                  |
| <b>NET CASH FLOWS PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>      |              | <b>1,379</b>   | <b>(1,710)</b>                         |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>           |              | <b>2,985</b>   | <b>687</b>                             |
| Cash and cash equivalents at the beginning of the financial year      | 19           | 1,829          | 1,159                                  |
| Effects of exchange rate changes on cash and cash equivalents         |              | 22             | 5                                      |
| <b>CASH AND CASH EQUIVALENTS<br/>AT THE END OF THE FINANCIAL YEAR</b> | <b>19</b>    | <b>4,836</b>   | <b>1,852</b>                           |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases, as described in Note 2 – New accounting standards, as well as to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

## 3.4 Notes to the Consolidated Group Financial Statements

|                |   |     |                |  |     |
|----------------|---|-----|----------------|--|-----|
| <b>NOTE 1</b>  | Significant accounting principles                     | 186 | <b>NOTE 18</b> | Other current assets                                 | 223 |
| <b>NOTE 2</b>  | New accounting standards                              | 198 | <b>NOTE 19</b> | Cash and cash equivalents                            | 223 |
| <b>NOTE 3</b>  | Business combinations                                 | 204 | <b>NOTE 20</b> | Assets held for sale                                 | 223 |
| <b>NOTE 4</b>  | Segment information                                   | 209 | <b>NOTE 21</b> | Equity   | 224 |
| <b>NOTE 5</b>  | Revenue   | 211 | <b>NOTE 22</b> | Financial debt, including lease liabilities          | 226 |
| <b>NOTE 6</b>  | Operating income and expenses                         | 212 | <b>NOTE 23</b> | Employee benefits                                    | 229 |
| <b>NOTE 7</b>  | Financial income and expenses                         | 213 | <b>NOTE 24</b> | Share-based payment                                  | 233 |
| <b>NOTE 8</b>  | Income taxes  | 213 | <b>NOTE 25</b> | Provisions (current and non-current)                 | 234 |
| <b>NOTE 9</b>  | Earnings per share                                    | 214 | <b>NOTE 26</b> | Other non-current liabilities                        | 235 |
| <b>NOTE 10</b> | Goodwill and other intangible assets                  | 215 | <b>NOTE 27</b> | Trade payables                                       | 236 |
| <b>NOTE 11</b> | Property, plant and equipment and right-of-use assets | 219 | <b>NOTE 28</b> | Other current liabilities                            | 236 |
| <b>NOTE 12</b> | Investments in associates                             | 220 | <b>NOTE 29</b> | Financial instruments and management of market risks | 237 |
| <b>NOTE 13</b> | Other non-current assets                              | 220 | <b>NOTE 30</b> | Contingencies and commitments                        | 241 |
| <b>NOTE 14</b> | Deferred tax assets and liabilities                   | 221 | <b>NOTE 31</b> | Related party transactions                           | 243 |
| <b>NOTE 15</b> | Inventories   | 222 | <b>NOTE 32</b> | Capital management                                   | 244 |
| <b>NOTE 16</b> | Trade receivables                                     | 222 | <b>NOTE 33</b> | Independent auditors' fees                           | 244 |
| <b>NOTE 17</b> | Tax receivables and tax payables                      | 222 | <b>NOTE 34</b> | Subsequent events                                    | 245 |

## General information

EssilorLuxottica SA (hereinafter the “Company”, “EssilorLuxottica” or, together with its subsidiaries, the “Group”) is a public limited company (“Société Anonyme”) with a Board of Directors and is governed by the laws of France. The Company is headquartered in Paris, 1-5 rue Paul Cézanne, while its registered office is located in Charenton-le-Pont, 147, rue de Paris.

The Company originates from the combination that occurred between Essilor International (Compagnie Générale d’Optique) SA (“Essilor” or, together with its subsidiaries, “Essilor Group”) and Luxottica Group S.p.A. (“Luxottica” or, together with its subsidiaries, “Luxottica

Group”) on October 1, 2018 (referred hereinafter as the “EL Combination”).

The Group is a global leader in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses.

These consolidated financial statements are prepared under the responsibility of the Board of Directors and are presented to the Shareholders’ Meeting for approval. The 2019 consolidated financial statements were approved and authorized for issue by the Board of Directors on March 5, 2020.

## Basis of preparation of the financial statements

In accordance with European Regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter also “IFRS”) as issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union.

The principles and standards utilized in preparing these consolidated financial statements have been consistently applied through all periods presented, with the exception of the new standards and interpretations that are effective for reporting periods beginning on January 1, 2019 (described in Note 2 – New accounting standards).

These consolidated financial statements are composed of a consolidated statement of profit or loss, a consolidated statement of comprehensive income, a consolidated statement of financial position, a consolidated statement of changes in equity, a consolidated statement of cash flows and related notes to the consolidated financial statements.

The Group presents its consolidated statement of profit or loss using the function of expense method. The Group presents current and non-current assets and liabilities as separate classifications in its consolidated statements of financial position. This presentation of the consolidated statement of profit or loss and of the consolidated

statement of financial position is believed to provide the most relevant information. The consolidated statement of cash flows was prepared utilizing the indirect method, in view of the presentation of the cash flows arising from operating activities.

The Group’s reporting currency is the euro. All amounts are expressed in millions of euros, unless otherwise specified. Certain numerical figures contained in this document, including financial information and certain operating data, have been subject to rounding adjustments.

The financial statements are prepared on a going concern basis. Management believes that there are no financial or other indicators presenting material uncertainties that may cast significant doubt upon the Group’s ability to meet its obligations in the foreseeable future and in particular in the next 12 months.

The comparability in 2019 consolidated financial statements is still affected by the EL Combination which occurred on October 1, 2018. Since this transaction is considered a reverse acquisition according to the requirements of IFRS 3 – *Business Combinations*, the consolidated financial statements reflect the following structure:

| <b>Statements</b>          | <b>Year ended<br/>December 31, 2019</b> | <b>Year ended<br/>December 31, 2018</b> |                          |
|----------------------------|---|---|--------------------------|
| Profit or loss             | EssilorLuxottica’s                      | Luxottica’s                             | Essilor’s                |
| Other comprehensive income | 12 months                               | 12 months                               | 3 months                 |
| Cash flows                 | (Jan-Dec)                               | (Jan-Dec) <sup>(a)</sup>                | (Oct-Dec) <sup>(a)</sup> |
| Financial position         | EssilorLuxottica’s                      | EssilorLuxottica’s                      |                          |
| Changes in equity          | historical cost                         | historical cost <sup>(a)</sup>          |                          |

(a) Restated to reflect the retrospective application of IFRS 16 – *Leases* as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination, as described in Note 3 – *Business combinations*.

Therefore, the information presented as comparative information in 2019 consolidated financial statements is not comparable.

## Significant events of the year

### Mandatory tender offer for Luxottica shares

In the context of the EL Combination, on **March 5, 2019**, the mandatory tender exchange offer (the "Offer" or "MTO") on all Luxottica shares still outstanding as of December 31, 2018, was finalized.

Following the completion of the MTO, EssilorLuxottica owned 100% of Luxottica's share capital. On the same date, Luxottica shares were delisted from the MTA (*Mercato Telematico Azionario* managed by Borsa Italiana S.p.A.).

Detailed information related to the Offer and its effects on EssilorLuxottica's 2019 consolidated financial statements is disclosed in Note 3 – Business combinations.

### Acquisition of GrandVision

On **July 31, 2019**, EssilorLuxottica announced an agreement with Hal Optical Investments B.V. ("HAL"), a wholly-owned subsidiary of HAL Holding N.V, for the sale of HAL's 76.72% ownership interest in GrandVision N.V. ("GrandVision"), a global leader in optical retail (the "Block Trade Agreement"). Under the Block Trade Agreement, EssilorLuxottica will buy HAL's shares for a price of €28 per share, to be increased by 1.5% to €28.42 if closing of the transaction (the "Transaction") does not occur within 12 months from the announcement date. GrandVision supports the Transaction under the terms of a support agreement with EssilorLuxottica.

After the Transaction is successfully concluded, EssilorLuxottica will launch a mandatory cash public offer for all outstanding shares in GrandVision, in accordance with the applicable Dutch public offer rules. After closing of the Transaction and the mandatory public offer, EssilorLuxottica intends to terminate GrandVision's listing on Euronext Amsterdam and to acquire 100% of the shares of GrandVision pursuant to statutory buy-out proceedings or to obtain full ownership of GrandVision's business through other second-step transactions.

Closing of the Transaction between EssilorLuxottica and HAL is subject to various conditions, including obtaining antitrust clearance.

The Transaction has been unconditionally cleared in 2019 by antitrust authorities in the United States, Russia and Colombia, and is currently under review in Brazil, Chile, Mexico and Turkey, as well as by the European Commission. On February 6, 2020, the European Commission initiated a Phase II review of the proposed acquisition. The Group is confident that Phase II will be completed in a timely manner and will closely cooperate with the European Commission to fully demonstrate the rationale of the proposed acquisition and the benefits that it will bring to customers, consumers and all the eyewear industry players.

Both EssilorLuxottica and GrandVision reaffirmed the shared objective to close the Transaction within 12 to 24 months from the announcement date, July 31, 2019, in cooperation with the relevant authorities.

The total transaction costs incurred as of December 31, 2019 amount to €11 million recorded under *General and administrative expenses* in the consolidated profit or loss.

### EssilorLuxottica €5 billion bond issuance

On November 20, 2019, EssilorLuxottica successfully launched a bond issuance for a total amount of €5 billion with tenors of 3.5 years carrying a coupon of 0% (negative yield of -0.02%) and 5.5, 8 and 12 years, carrying respectively a coupon of 0.125%, 0.375% and 0.750% (the "5BIL Bonds"). The 5.5, 8 and 12 years bonds include an acquisition event call option, valid until July 30, 2021, exercisable in whole at 101% of par value.

The final orderbook amounted to more than €13 billion, attracting high quality institutional investors, and on **November 27, 2019** the 5BIL Bonds were settled and admitted to trading on Euronext Paris.

The 5BIL Bonds were issued with the purpose of (re)finance a portion of the consideration to be paid in relation to the contemplated acquisition of GrandVision and certain indebtedness of GrandVision upon consummation of its acquisition, to refinance the existing indebtedness of the Group, including its 2019's maturing indebtedness, and to fund general corporate purposes.

Detailed information related to the 5BIL Bonds issuance is disclosed in Note 22 – Financial debt, including lease liabilities.

### Fraudulent financial activities at an Essilor plant in Thailand

On **December 30, 2019**, the Company announced that its subsidiary Essilor International discovered fraudulent financial activities in one of its plants in Thailand.

The Company filed complaints in Thailand and in other jurisdictions and mobilized all available internal and external resources to put an immediate end to these fraudulent activities and implement remedial actions. It is also carrying out comprehensive investigations and is taking all possible actions to seek to recover the misappropriated funds in order to mitigate the impact on the Group. The employees known to date to be associated with these fraudulent activities have been terminated. Additional internal controls have been put in place at Essilor International worldwide in order to strengthen existing security processes.

The financial impact of those fraudulent financial activities has been fully recorded in the 2019 consolidated statement of profit or loss in the *Operating profit* within the line *Other incomes/(expenses)* for an amount of €185 million after taking into account foreign exchanges impacts (see Note 6 – Operating income and expenses). This amount does not take into account potential future insurance proceeds, positive outcome of legal actions and recovery of funds currently frozen on various bank accounts.

## Note 1 Significant accounting principles

### 1.1. 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.

Estimates are based on historical experience and other factors. The resulting accounting estimates could differ from the related actual results. Estimates are periodically reviewed and the effects of each change are reflected in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income in the period in which the change occurs.

The most significant estimates and assumptions concern, in particular:

- fair values of assets and liabilities acquired in business combinations;
- the recoverable amount of goodwill;
- depreciation period for intangible assets with a definite useful life;
- put options over non-controlling interests;
- provisions for risks;
- pension and other employee-benefit obligations;
- various assumptions related to lessee accounting under IFRS 16 such as assessment of the lease term of contracts with renewal options, or as the determination of discount rates;
- the recoverability of receivables and inventories.

The Group is subject to different tax jurisdictions. The determination of tax liabilities for the Group requires the use of assumptions with respect to transactions whose fiscal consequences are not yet certain at the end of the reporting period. Calculation of taxes on a global scale requires the use of estimates and assumptions based on the information available at the balance sheet date.

### 1.2. Consolidation principles

#### 1.2.1. Subsidiaries

Subsidiaries are any entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is generally presumed with an ownership of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in the consolidated statement of profit or loss.

The accounting policies and methods applied by subsidiaries comply with IFRS and are consistent with the policies adopted by the Group.

Intercompany transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated. Unrealized losses are eliminated to the extent that there is no evidence of impairment.

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### 1.2.2. Associates

Associates are any entities over which the Group has significant influence, generally with ownership of between 20% and 50% of the voting rights. Equity investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Goodwill arising on acquisitions of associates is included in the carrying amount of the investment.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's equity investment in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The cumulative post-acquisition movements are adjusted against the carrying amount of the equity investment. When the Group's share of losses in an associate equals or exceeds its equity investment in the associate, the Group does not recognize further losses, unless it has incurred obligations to make payments on behalf of the associate.

#### 1.2.3. Other companies

Equity investments in entities in which the Group does not have either control or significant influence, generally with ownership of less than 20%, are originally recorded at fair value. Any ancillary costs incurred on initial recognition of the investments are immediately recognized through consolidated profit or loss. After initial recognition, the investments are measured at fair value. Gains and losses deriving from changes in fair value are recognized through other comprehensive income in the period in which they occur. Amounts presented in other comprehensive income will not subsequently be transferred to the statement of profit or loss.

#### 1.2.4. Transactions with equity owners

Transactions such as contributions from equity owners are recorded in equity.

Transactions with non-controlling interests in controlled entities are treated as transactions with equity owners of the Group. For purchases from non-controlling interests, any difference between the consideration paid and the relevant share acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### 1.2.5. Translation of the financial statements of foreign companies

The financial statements of foreign subsidiaries are prepared in the subsidiary's functional currency. The functional currency is defined as the currency of the primary economic environment in which the subsidiary operates.

The results and financial position of all the Group subsidiaries that have a functional currency different from the presentation currency (i.e. euro) are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- all resulting exchange differences are recognized in other comprehensive income within the line item *Foreign currency translation differences*;
- accumulated translation differences are reclassified to the statement of profit or loss when the foreign investments to which they relate are sold or wound up.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The main exchange rates used in translating the results and financial position of foreign operations are reported in Appendix 1.

### 1.3. Consolidated statement of cash flows

The statement of cash flows has been prepared applying the indirect method for reporting cash flows from operating activities, 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. Items of income or expense associated with investing or financing activities have then been reported under their respective categories.

Working capital comprises inventories, operating receivables and payables, other 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, except for significant transactions if difference is material.

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.

Interest paid, including interest payments on lease liabilities under IFRS 16, and received are classified as *operating* cash flows.

The amounts reported in *Acquisitions of businesses, net of cash acquired* represents the consideration transferred adjusted by the net cash and cash equivalents of the acquired business at the acquisition date.

## 1.4. Revenue

The Group's revenue includes:

- considerations for the sales of goods to customers;
- considerations for the rendering of services;
- considerations for the sales of goods to franchisees along with other revenue from franchisees, such as royalties based on sales and initial franchise fee revenue; and
- sub-lease income (accounted for in accordance with IFRS 16).

In accordance with IFRS 15, the Group recognizes revenue after identifying the contracts with its customers and the relevant performance obligations (transfer of goods and/or services), determining the consideration to which it expects to be entitled in exchange for performing each of said obligations, and assessing how to perform these obligations (at a specific point in time *versus* over time).

The Group recognizes revenue only if the following requirements are met (so-called requirements for identifying the "contract" with the customer):

- the parties have approved the contract and are committed to perform their respective obligations;
- the Group can identify each party's rights regarding the goods or services to be transferred;
- the Group can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance; and
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for goods or services transferred to the customer.

If the above requirements are not met, the relevant revenue is recognized when the Group has already transferred goods and/or rendered services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the Group and is non-refundable or the contract has been terminated and the consideration received from the customer is non-refundable.

If the above requirements are met, the main recognition rules by nature of revenue are as follows.

#### 1.4.1. Sale of goods

Revenue from the sale of goods is recognized when control of the asset is transferred to the buyer, i.e. when the asset is delivered to the customer in accordance with contractual provisions and the customer acquires the ability to direct the use of and obtain substantially all of the benefits from the asset.

If the sales contract includes retrospective volume-related discounts, the Group estimates the relevant impact and treat it as variable consideration. In addition, the Group estimates the impact of potential returns from customers based on the Group's right of return policies and practices along with historical data on returns. There are no post-delivery obligations other than product warranties, if required by local law; these warranties do not represent a separate performance obligation and are accounted for applying IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

Any advance payments or deposits from customers are not recognized as revenue until the control of the relevant good is transferred to the customer, as described above.

### 1.4.2. Rendering of services

Revenue is recognized when the service is rendered to the customer.

The *Retail* segment's revenue includes the consideration arising from vision care services (such as eye exams, contact lens fitting fees, etc.) which is also recognized when the service is rendered to the customer. As for the fixed-fee insurance plans offered to customers, the Group acts through a sponsor. The plan sponsor pays the Group a monthly premium for each subscriber. Premium revenue is recognized as earned during the benefit coverage period. Any unearned premium revenue is recognized as deferred revenue in the consolidated statement of financial position. For plans with fees varying according to the service, the sponsor pays the Group a fee to process claims. For these programs, the sponsor is responsible for the cost associated with claims. The Group makes provisions for the receivables accrued under these agreements based on an estimate of the amounts considered uncollectible.

As part of the provision of administrative services related to the vision care business, the Group bears costs for the acquisition and performance of long-term contracts, which typically have a term of four years. These costs, which can be specifically referred to new individually identifiable contracts, generate resources used to comply with the contract and will be recovered by means of revenue deriving from the contracts. Therefore, these costs are recognized as a contractual asset and amortized over the term of the relevant contracts, on a systematic basis that is consistent with the transfer to the customer of the services to which the asset relates.

### 1.4.3. Franchising and licensing agreements

Within the *Retail* segment, revenue from franchising agreements is recognized based on the sales accrued and accounted for by unconsolidated franchisees.

Upfront franchise fees may refer to: (i) fees paid for the franchising agreement and/or the improvement of retail premises which are recognized along with license fees throughout the term of the franchising agreement; and (ii) franchising fees associated with the sale of tangible assets necessary for business operations (e.g. furniture) recognized as revenue when control of the asset is transferred to the buyer.

The franchising agreement may also include: (i) fees associated with the ongoing rendering of services to the franchisee throughout the term of the franchising agreement, recognized at the time the service is rendered; and (ii) fees associated with the management and implementation of advertising and marketing initiatives, recognized upon realization of the related separate performance obligations.

The Group licenses the rights to certain intellectual property to third parties and recognizes royalty revenue based on the characteristics of the agreements with customers.

### 1.4.4. Financing components

The payment terms offered to the Group's customers normally do not exceed 12 months; in that case, the Group applies the practical expedient provided by IFRS 15 that enables not to adjust the transaction price of the contract for the effects of any significant financing component.

In case of payment terms that lead the Group to expect the delay between the revenue recognition for the transfer of a promised good or service and the payment collection from the customer will exceed 12 months the Group recognizes adjustments to the transaction price of the contract to account for significant financing components.

### 1.4.5. Sub-lease income (accounted for in accordance with IFRS 16)

Some entities in the Group's *Retail* segment, in particular in North America and Australia, sublease space in the retail optical stores to third party doctors who perform eye exam services, while retaining the primary obligation under the original lease (so-called "head lease"). Those entities continue to account for the head lease as a lessee and account for the sublease as the lessor (so-called "intermediate lessor").

These entities classify the sub-lease as an operating lease (i.e. continue to account for the lease liability and right-of-use asset on the head lease, like any other lease) and recognize all income earned under the sublease contracts with doctors on a straight-line basis as revenue in the Group's consolidated statement of profit or loss. This classification is made by reference to the right-of-use asset arising from the head lease.

## 1.5. Research and development costs

Research costs are recognized as an expense for the year in which they are incurred.

Research and development costs that are 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.

For ophthalmic lens development projects, 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; consequently, the related development costs are recognized as an expense.

For instrument and laboratory equipment projects, development costs are capitalized when the above criteria are fulfilled.

## 1.6. Share-based payments

Share-based payments are classified as equity-settled or cash-settled depending on the terms of the arrangements. The classification determines the accounting for the arrangement.

### 1.6.1. Stock subscription options and share awards

The fair value of stock options and share awards, which are accounted for as equity-settled share-based payments, is determined based on methods adapted to their characteristics. Both performance-based stock subscription options and 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; whereas for share award without performance conditions, the valuation reflects the face value of the awards as at the date of grant discounted by the estimated value of dividends to be paid during the course of the vesting period.

The fair value of stock subscription options on the grant date is recognized as an expense over the vesting period of the awards, taking into account the probability of such options being exercised earlier, with a corresponding increase in consolidated reserves.

For performance share awards, the vesting period is considered as being the most probable period over which the performance conditions will be fulfilled, determined using the Monte Carlo model.

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 distributed in the previous year; and
- the options' expected life is determined based on the vesting period and the exercise period.

At the end of each reporting period, 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 the statement of profit or loss, with a corresponding adjustment to consolidated reserves.

### 1.6.2. 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.

### 1.6.3. Cash-settled share-based payments

The fair value of the amount payable to the employee in respect to cash-settled share-based payments is recognized as an expense with a corresponding increase in liabilities, within *Employee benefits*, over the period during which the employee becomes unconditionally entitled to payments. The liability is remeasured at each reporting date and at settlement date based on the fair value of the awards. Any change in the recognized liability is recognized in the consolidated statement of profit or loss.

## 1.7. Other income/(expenses)

Income and expenses that, because of their nature, cannot be classified in any of the functions detailed in the operating expenses, are recognized under *Other income/(expenses)*. They might include, among others, changes in price supplements for acquisitions (e.g. earn-out), net income on disposals of a business, as well as net income realized on business combination achieved in stages (i.e. step acquisition), impairment losses on goodwill and investments and net gain/losses on disposal of fixed assets.

## 1.8. Financial results

Interest receivable or payable is recognized on an accrual basis in the period in which it is earned or due, using the effective interest method.

Dividend income is recognized in the statement of profit or loss on the date on which the Group's right to receive payment is established.

The *Cost of net debt* consists of interest on debt, borrowings and leases, net of income from cash and cash equivalents. The *Cost of net debt* also includes interest on derivatives related to financing operations. Income from cash and cash equivalents includes interest received and accrued on investments made by Group companies (bank deposits) and gain or loss on money market funds.

## 1.9. Foreign currency transactions

On initial recognition of foreign currency transactions, the assets and liabilities are translated into the entity's functional currency using the exchange rate on the transaction date. At the period-end, monetary items mainly including receivables and payables are re-translated using the closing date rate. The resulting gains and losses are recognized in *Other financial income/(expenses)*.

## 1.10. Current and deferred income taxes

Income taxes for the period comprise current and deferred income taxes. They are recognized in the statement of profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current taxes are calculated on the basis of the tax laws enacted or substantially enacted at the reporting date in the countries where the Group operates and generates taxable income. Current tax receivables and payables are measured at the amount expected to be recovered or paid to the tax authorities.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes are recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, based on tax rates (and tax laws) that have been enacted (or substantively enacted) at the reporting date, and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

A deferred tax liability is recognized for all taxable temporary differences, whereas 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. However, deferred tax assets and liabilities are not accounted for if they arise from: (i) the initial recognition of goodwill; and (ii) the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Adjustments to deferred taxes resulting from changes in tax rates are recognized in the statement of profit or loss. However, when the deferred tax relates to items recognized in equity, the adjustment is also recognized in equity.

Deferred taxes are provided on temporary differences arising on equity investments in subsidiaries and associates, except for deferred taxes where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. No provision is made for deferred taxes on tax-suspended reserves subject to taxation in the event of distribution and/or use, where distribution or use is not envisioned.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 1.11. Earnings per share

### 1.11.1. Basics earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period excluding treasury shares.

Awards of performance shares are taken into account in the weighted 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.

### 1.11.2. 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;
- share grants without performance condition: the number of shares used for the calculation is determined based on the number of shares that will be granted at the end of the vesting period.

## 1.12. Business combination and goodwill

In accordance with the IFRS 3 – *Business Combinations*, the Group applies the acquisition method of accounting to account for business combinations.

The acquired company's identifiable assets, liabilities and contingent liabilities meeting the recognition criteria of the IFRS 3 are recognized at fair value determined at the acquisition date, with the exception of non-current assets held-for-sale which are recognized at fair value less costs to sell. A restructuring liability is not recognized as a liability if the acquired company is not obligated, at the acquisition date, to undertake such restructuring.

The fair values for the acquired assets and liabilities can be determined on a provisional basis. After the acquisition, the Group may adjust the provisional amounts recognized. However, the measurement period shall not exceed one year from the acquisition date. Any differences compared to the provisional amounts are recognized as a retrospective adjustment against goodwill if recorded within 12 months of the acquisition date and related to facts existing before the acquisition date.

During the measurement period, the Group recognizes adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the Group revises comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other profit and losses effects recognized in completing the initial accounting.

Any adjustments made more than 12 months after the acquisition date are recognized directly in the consolidated statement of profit or loss, unless they correspond to corrections of errors.

The consideration transferred for the acquisition of a subsidiary is measured at the fair value of the assets transferred, the liabilities assumed or the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Goodwill represents the excess of (i) the consideration transferred and the amount of any non-controlling interest in the acquiree, over (ii) the fair value of the identifiable net assets acquired.

When a put option is granted to non-controlling shareholders of a subsidiary, if the option provides for settlement in cash, a liability is recognized for the present value of the exercise price of the option. This liability is classified as *Other non-current liabilities* or *Other current liabilities* in the consolidated statement of financial position based on its due date. Subsequent changes in the liability's fair value are recognized through Group equity. When the put option provides the non-controlling shareholders with present access to the returns associated with the underlying ownership interest, then, profit or loss and changes in other comprehensive income are still allocated to the non-controlling interests. However, in the statement of financial position, the non-controlling interests are derecognized as if they were acquired at the closing date. When the put option does not provide the non-controlling shareholders with present access to the returns associated with the underlying ownership interest, then, the Group derecognizes the non-controlling interests accounted for at the acquisition date.

The Group can measure non-controlling interests acquired in a business combination either at the fair value (full goodwill method) or at the non-controlling interest's proportionate share of the acquiree's net assets (partial goodwill method). This option applies on an individual transaction basis.

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 acquisition in which the Group obtains control in stages (step acquisitions), the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in the statement of profit or loss.

Costs that are directly attributable to the acquisition are recognized as expenses for the period.

### 1.12.1. Impairment of goodwill

Goodwill is not subject to amortization but is tested at least annually for impairment.

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs corresponding to the analytical focus and return on investment followed by the Group's Management. If the initial accounting for a business combination can be determined only provisionally by the end of the reporting period, it might not be possible for the Group to complete the initial allocation of the goodwill before the end of the annual period in which the combination occurred. When this is the case, the Group disclosed the amount of the unallocated goodwill together with the reasons why that amount remains unallocated.

Impairment test consists in the comparison of the recoverable amount of each group of CGUs with their corresponding carrying amount of net assets including goodwill. 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 future cash flows net of income taxes, calculated as follows:

- future cash flows are estimated based on actual cash flows for the current year, the annual budget for the following year and mid-term projections based on previous years' cash flows, management expectations and plans, and past experience; subsequent years are extrapolated with a perpetuity growth rate;
- the Group discount rate is determined on the basis of market information on the cost of capital and the specific risk of the industry (Weighted Average Cost of Capital, WACC).

An impairment loss is recognized if the recoverable amount is lower than the carrying amount. An impairment loss recognized for goodwill cannot be reversed in a subsequent period.

### 1.13. Other intangible assets

Separately acquired intangible assets are accounted for at cost.

Trademarks, tradenames, brands, licenses, contractual customer relationships, technologies and other intangible assets acquired in a business combination are recognized at their fair value at the acquisition date.

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. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. They are reported under *Other intangible assets*.

All intangible assets have a finite useful life and are amortized on a straight-line basis over the assets' useful lives:

- trademarks, tradenames and brands are amortized on a straight-line basis over periods ranging from 15 to 25 years;
- technologies are amortized on a straight-line basis over periods ranging from 6 to 10 years;
- distributor network, contractual customer relationships and franchise agreements are amortized on a straight-line basis over periods ranging between from 8 to 25 years;
- patents are amortized on a straight-line basis over the period of legal protection;
- other intangible assets are amortized on a straight-line basis over periods ranging between 1 and 7 years.

The useful life and residual value of intangible assets 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.

All intangible assets with a finite useful 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 there is an indication that an impairment loss recognized in prior periods may no longer exist or has decreased. If such an indication exists, the loss is reversed and the carrying amount of the asset is increased to its recoverable amount, which may not exceed the carrying amount that would have been determined if no impairment loss had been recorded.

### 1.14. Property, plant and equipment

Property, plant and equipment are reported on the statement of financial position at their acquisition price, net of accumulated depreciation and impairment losses.

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.

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

The depreciable amount of the items of property, plant and equipment, measured as the difference between their historical cost and their residual value, is allocated on a straight-line basis over their estimated useful lives as follows:

| Category                | Useful life  |
|-------------------------|--|
| Buildings               | From 3 to 40 years   |
| Machinery and equipment | From 3 to 20 years   |
| Other equipment         | From 2 to 20 years   |
| Leasehold improvements  | According to the economic life of the leasehold improvement, unless the Group does not expect to use the leasehold improvements beyond the lease term of the related lease (if this is the case the useful life of the leasehold improvements is the same as the lease term) |

Land is not subject to depreciation.

Depreciation ceases when property, plant and equipment is classified as held for sale, in compliance with IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*.

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 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.

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 an impairment loss if the carrying amount is more than the recoverable amount. A review is carried out at each period-end to determine whether such indications exist.

Upon disposal or when no future economic benefits are expected from the use of an item of property, plant and equipment, its carrying amount is derecognized. The gain or loss arising from derecognition is included in the consolidated statement of profit or loss.

### 1.15. Right-of use assets and lease liabilities

The recognition, measurement, presentation and disclosure of right-of-use assets and lease liabilities are governed by IFRS 16 – *Leases*. IFRS 16 is effective for periods beginning on January 1, 2019 and has been applied by the Group in its 2019 consolidated financial statements using the full retrospective approach. The effects of the implementation of the new standard are described in Note 2 – New accounting standards.

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the *right to control the use of an identified asset* for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the leased asset is explicitly or implicitly specified in the contract and is physically distinct or represent substantially all of the capacity of a physical distinct asset. If the supplier of the asset has a substantive substitution right (e.g. when suppliers rent selling spaces within department stores, so called "shop-in-shop" agreements, they have substantive right to substitute the assigned selling space during the lease term) the asset is not identified and IFRS 16 accounting does not apply;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

As a lessee, the Group recognizes a right-of-use asset and a lease liability at the commencement date of the lease (i.e. the date on which the lessor makes the underlying asset available for use by the Group).

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment (IAS 36 – *Impairment of Assets* requirements do apply).

Lease liabilities are initially measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group

exercising the option to terminate. The variable lease payments that do not depend on an index or a rate (such as those depending on the performance of the leased store) are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate (i.e. the interest rate that a lessee would have to pay to borrow an equivalent amount to the right-of-use asset and with similar characteristics) at the lease commencement date if the interest rate implicit in the lease is not readily determinable (in most of the cases, the incremental borrowing rate is elected by the Group). The Group defines the incremental borrowing rate considering, among the other, the term of the arrangement (notably the length of the lease term), the economic environment in which the lease is concluded as well as the currency and the date at which the lease is entered into. The Group decided not to reflect in the determination of the incremental borrowing rate the payment profile of the lease payments. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments, a change in the assessment to purchase the underlying asset or a lease modification that does not constitute a separate lease.

In particular, the Group considers as separate leases those modifications that increase the scope of the lease by adding the right to use one or more underlying assets with a commensurate increase in the consideration.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. In assessing the length of the non-cancellable period of a lease, the Group refers to the period for which the contract is *enforceable* and considers the broader economics of the contract (e.g. the existence of contractual termination penalties as well as the cost of abandoning or dismantling leasehold improvements).

The Group has the option, under some of its leases (especially stores), to lease the assets for additional terms without any ability of opposition for the lessor. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group applies the short-term lease recognition exemption to all of its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Leases corresponding to short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

## 1.16. Financial assets

The Group's financial assets are classified based on the business model for managing them and the contractual cash flow characteristics of the financial assets. The Group has identified the following categories.

### 1.16.1. Financial assets measured at amortized cost

This category includes financial assets that meet the following requirements: (i) the financial asset is held within a business model whose objective is to hold financial assets to collect their contractual cash flows; and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. These are mainly trade receivable, cash deposits with a maturity of less than 12 months (*i.e. Short-term investments* classified under *Other current assets*), loans, and other receivables (as described in the paragraph *Trade receivable and other receivables*). Loans and receivables are included in current assets, except for those with contractual maturities greater than 12 months compared to the reporting date, which are classified as non-current assets. Except for trade receivables that do not contain a significant financing component, other loans and receivables are initially recognized at fair value plus directly attributable transaction costs. Trade receivables that do not contain a significant financing component are recognized at the transaction price (determined in accordance with IFRS 15 – *Revenue from Contract with Customers*). After initial recognition, the assets included in this category are measured at amortized cost, using the effective interest method. The effects of this measurement are recognized within the financial result. These assets are subject to the impairment model introduced by IFRS 9 – *Financial Instruments*.

### 1.16.2. Equity investments that the Group designates as FVOCI on initial recognition

These are mainly investments in non-consolidated companies over which the Group does not have significant influence. These assets are recognized under *Other non-current assets*. The Group made an irrevocable election to present in other comprehensive income changes in the fair value of those investments. Amounts presented in other comprehensive income will not subsequently transferred to the statement of profit or loss. Moreover, investments included in this category are not subject to the impairment model required by IFRS 9.

### 1.16.3. Financial assets at fair value through consolidated profit or loss (FVPL)

This category includes financial assets not classified in any of the previous categories (*i.e. residual category*). These are mainly derivative instruments and money market funds. Assets in this category are classified as current or non-current assets based on their maturity and are initially recognized at fair value. Any ancillary costs incurred on initial recognition of the assets are immediately recognized through consolidated profit or loss. After initial recognition, financial assets at FVPL are measured at fair value. Gains and losses deriving from changes in fair value are recognized through consolidated profit or loss in the period in which they occur, within financial result.

### 1.16.4. Applicable to all financial assets

Purchases and sales of financial assets are recognized at the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the instrument have expired and the Group has transferred substantially all risks and rewards of ownership.

The fair value of listed financial instruments is based on the current bid price. If the market for a financial asset is not active (or if it refers to unlisted securities), the Group defines the fair value by utilizing valuation techniques such as recent arms' length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flows analysis and pricing models based on observable market inputs.

## 1.17. Assets held for sale

Non-current assets and disposal groups of assets 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.

## 1.18. Inventories

Inventories are accounted for at the lower of the weighted-average cost and the net realizable value. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity.

The net realizable value represents the estimated sales price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Write-downs for raw materials, work in process and finished goods which are considered obsolete or slow moving are computed taking into account their expected future utilization and their net realizable value. The Group also considers other reasons that the cost of inventories may not be recoverable such as damage, obsolescence, declines in selling price. The cost of inventories may not be recoverable if the estimated costs of completion or the estimated costs incurred to make the sale exceed that cost.

## 1.19. Trade receivable and other receivables

Trade receivables and other receivables are recognized at amortized cost and measured on the basis of the impairment model introduced by IFRS 9 – *Financial instruments* (see the paragraph *Financial assets* for the measurement on initial recognition).

In the case of trade receivables, the Group adopts the *simplified approach* that does not require assessing changes in credit risk on a regular basis, allowing instead to recognize an Expected Credit Loss (ECL) calculated over the entire *lifetime* of the receivables. Specifically, trade receivables are analyzed based on the number of days past due and the counterparty's solvency. The Group applies different impairment percentages that reflect the relevant expectations for recovery. Trade receivables are fully written down in the absence of a reasonable expectation of recovery.

The other receivables, for which the Group estimates a low credit risk, are measured using the *general approach* which requires to monitor at each reporting date changes in credit risk compared to the initial measurement and adjust the loss allowance accordingly.

The amount of receivables is reported in the statement of financial position net of the relevant bad debt provisions. The impairment losses reported pursuant to IFRS 9 – *Financial instruments* (including reversals of impairment losses or impairment gains) are recognized in the consolidated income statement within the line item *Selling expenses*.

## 1.20. Cash and cash equivalent

Cash comprises cash on hand and at bank, carried at nominal amount, equal to fair value.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Investments qualify for cash equivalents only when they have a maturity of three months or less from the date of the acquisition, or when the Group has the right to redeem the investment at any time, subject to a notice period not exceeding three months.

## 1.21. Equity

### 1.21.1. Share premium reserve

Share premium reserve represents the excess of the capital increases price over the *par value* of the shares issued.

### 1.21.2. Treasury shares reserve

Treasury shares are deducted from equity at cost, including directly attributable transaction expenses. Capital gains and losses on sales of treasury shares are recorded directly in equity, for their amount net of tax.

### 1.21.3. Translation reserve

Translation differences are generated by the translation into euro of consolidated entities' financial statements prepared in currency other than euro.

### 1.21.4. Retained earnings and other reserves

This includes undistributed earnings of the Group, the cumulated amount of items recognized in other comprehensive income (such as actuarial gains and losses, cash-flow hedge reserves, etc.), equity-settled share-based payments and other reserves.

Incremental costs directly attributable to the issue of ordinary shares are recognized as deduction from equity. Income taxes relating to transaction costs of an equity transaction are accounted in accordance with IAS 12 – *Income Taxes*.

### 1.21.5. Dividends

Dividends are deducted from equity when they are approved by the Shareholders' Meeting.

### 1.21.6. Negative equity

Where a consolidated company has negative equity, non-controlling interests are treated as being attributable to the non-controlling shareholders unless they are not liable for their share of the losses or are not capable of fulfilling this obligation.

### 1.21.7. 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.

When a put option is granted to non-controlling shareholders of a subsidiary, if the option provides for settlement in cash, a liability is recognized for the present value of the exercise price of the option. This liability is classified as *Other non-current liabilities* or *Other current liabilities* in the consolidated statement of financial position based on its due date. Subsequent changes in the liability's fair value are recognized through Group equity. When the put option provides the non-controlling shareholders with present access to the returns associated with the underlying ownership interest, then, profit or loss and changes in other comprehensive income are still allocated to the non-controlling interests. However, in the statement of financial position, the non-controlling interests are derecognized as if they were acquired at the closing date. When the put option does not provide the non-controlling shareholders with present access to the returns associated with the underlying ownership interest, then, the Group derecognizes the non-controlling interests accounted for at the acquisition date.

## 1.22. Borrowings

Borrowings are initially recorded at fair value, less directly attributable transaction costs, and subsequently measured at their amortized cost by applying the effective interest method.

If there is a change in expected cash flows, the carrying amount of the liability is recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate.

Borrowings are classified among current liabilities, unless the Group has an unconditional right to defer their payment for at least 12 months after the reporting date.

Borrowings are removed from the statement of financial position when they are extinguished, *i.e.* when the obligation specified in the contract is discharged, canceled or expires.

### 1.23. Employee benefits

Short-term employee benefits are expensed as the related services is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group has both defined benefit and defined contribution plans.

Where obligations are payable under defined contribution plans, the Group has no further payment obligations once the contributions have been paid. These contributions are recognized as expenses when they are due.

A defined benefit plan is a pension plan or an incentive plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive upon retirement, usually based on one or more factors such as age, years of service and compensation. The Group also has long-term incentive plans (LTI) in place with its employees, which, depending on their characteristics, are included in the category of other long-term benefits.

The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, if any, together with adjustments for unrecognized past-service costs.

The defined benefit obligation is calculated annually based on actuarial valuations performed by independent actuaries using the "projected unit credit method".

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

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).

Actuarial gains and losses due to changes in actuarial assumptions or to changes in the plan's conditions are recognized as incurred in other comprehensive income.

If the Group introduces a defined benefit plan or changes the benefit formula under an existing defined benefit plan, the related change in the Group's obligation (*past service cost*) is immediately recognized in the statement of profit or loss.

Other long-term benefits are discounted to determine their present value. Remeasurements are recognized in the statement of profit or loss in the period in which they arise.

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring.

### 1.24. Provision for risks

Provisions for risks are recognized when:

- the Group has a present obligation, legal or constructive, as a result of a past event;
- it is probable that the outflow of resources will be required; and
- the amount of the obligation can be reliably estimated.

Provisions are determined by the Group based on facts and circumstances, historical risk data and the information available at the balance sheet date.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the time value of money is recognized as a financial expense.

Contingent liabilities are not recognized in the statement of financial position – 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 remote.

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 the plan.

Provisions for warranty costs are recognized when the products are sold. The corresponding expense is recognized in *Cost of sales*.

### 1.25. Trade payables and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are initially recognized at fair value and subsequently measured at amortized cost.

### 1.26. Other current and non-current liabilities

Other current and non-current liabilities include, among the others, liabilities related to put options over non-controlling interests and other liabilities related to financial investments (e.g. earn out).

For the accounting of put options over non-controlling interests of subsidiaries, refer to paragraph *Business combination and goodwill*.

Earn out are recognized as a liability from the acquisition date at their fair value. Subsequent changes in price supplements are recognized in *Other income/(expenses)*.

## 1.27. Derivative financial instruments

Derivative financial instruments are accounted for in accordance with IFRS 9 – *Financial instruments*. At the inception of the contract, derivative instruments are initially recognized at fair value as financial assets at FVPL when the fair value is positive, or financial liabilities at FVPL when the fair value is negative.

The Group designates certain derivatives as instruments for hedging to cover specific risks associated with highly probable transactions (hedge accounting). For each derivative financial instrument designated as a hedging instrument, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objectives, the hedging strategy and the methodology to measure the hedging effectiveness. The hedging effectiveness of the instruments is assessed both at the hedge inception date and on an ongoing basis.

Changes in the fair value of derivative instruments are accounted for as follows:

### 1.27.1. Cash flow hedges

When a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows or highly probable forecasted transactions, the effective portion of the changes in fair value of the derivative financial instrument is recognized directly in the statement of other comprehensive income, whereas the gain or loss related to the ineffective portion of the derivative instrument is recognized in the consolidated statement of profit or loss. The amount that has been accumulated in the cash flow hedge reserve is recycled into the statement of profit or loss in the period when the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated statement of profit or loss.

### 1.27.2. Hedge of the net investment in a foreign operation

The Group might hedge the amount of its interest in the net assets of a foreign operation. In that case, the effective portion of the changes in the fair value of the instrument is recognized directly in the statement of other comprehensive income in the line *Foreign currency translation differences*. The amount recognized in the *Translation reserve* is reclassified to the statement of profit or loss when the investment in the foreign operation is sold or the entity is wound up. The ineffective portion of the changes in the fair value is recognized in the statement of profit or loss.

### 1.27.3. Fair value hedge

When a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability, both the changes in fair value of the derivative instrument as well as changes in the hedged item are recorded in the consolidated statement of profit or loss.

### 1.27.4. Financial instruments not qualifying for hedge accounting

Certain derivatives financial instruments that in substance are used for hedging purposes do not qualify for hedge accounting under IFRS 9 – *Financial instruments*. Gains and losses resulting from the changes in the fair value of these financial instruments are recognized directly in the statement of profit or loss.

## 1.28. Fair value

In accordance with IFRS 13 – *Fair Value Measurement*, the fair value of financial instruments accounted for in the Group's financial statements is determined using different valuation techniques. The Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (*i.e.* as a prices) or indirectly (*i.e.* derived from prices);
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

## Note 2 New accounting standards

### 2.1. New endorsed standards, amendments and interpretations that are effective for annual periods beginning on January 1, 2019

#### 2.1.1. IFRS 16 – Leases

IFRS 16 was published in January 2016 and replaces IAS 17 – *Leases*, IFRIC 4 – *Determining Whether an Arrangement Contains a Lease*, SIC 15 – *Operating Leases—Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to recognize all leases based on a single model similar to the one used for finance leases under IAS 17. The standard includes two exemptions to the application of the model: leases of “low value” assets and short-term leases. Except for the leases falling within the scope of the above exemptions, at the commencement date, the lessee shall recognize a liability for the future lease payments (so-called “lease liability”) and an asset representing the right to use the underlying asset for the lease term (so-called “right-of-use asset”). Lessees shall separately recognize interest expense on the lease liability and depreciation on the right-of-use asset in their income statement.

IFRS 16 was endorsed by the European Union in October 2017 and is effective for periods beginning on January 1, 2019 (i.e. date of initial application). To ensure comparability between the information presented in the financial statements, the Group adopted IFRS 16 using the full retrospective approach (paragraph C5 (a) of IFRS 16). Accordingly, 2018 information presented for comparative purposes has been restated and the cumulative impact of applying IFRS 16 has been accounted for as an adjustment to equity as at January 1, 2018 (i.e. the beginning of the earliest period presented in 2019 consolidated financial statements). Moreover, the Group measured the lease liabilities and right-of-use assets for leases in which the Essilor Group was the lessee as if the acquired leases were new leases at the EL Combination date, i.e. October 1, 2018.

As a practical expedient, the Group decided not to reassess whether a contract is, or contain, a lease at the date of initial application and relied on the assessment performed applying IAS 17 and IFRIC 4 (paragraph C3 of IFRS 16). Other recognition exemptions applied by the Group (such as those related to “short-term leases” or leases of “low-value assets”) are described in Note 1 – Significant accounting principles.

IFRS 16 has a material impact on the Group’s consolidated financial statements and mainly concern leased stores, plants, warehouses and offices.

#### Impacts on 2018 comparative information

The following tables summarize the impacts of adopting IFRS 16 on 2018 comparative information presented in these consolidated financial statements. It has to be noted that, due to the accounting of the EL Combination, the IFRS 16 impacts on (i) the consolidated statement of profit or loss, (ii) the consolidated statement of comprehensive income and (iii) the consolidated statement of cash flows are those of Luxottica Group for the 12-month period ended December 31, 2018 plus those of Essilor Group for the three-month period ended December 31, 2018; the IFRS 16 impacts on opening equity as at January 1, 2018 are those of Luxottica Group only; whereas the IFRS 16 impacts on the statement of financial position as at December 31, 2018 and on opening equity as at January 1, 2019 are those of EssilorLuxottica.

The main impacts on the comparative figures of the Group’s consolidated statement of financial position as of December 31, 2018 are also described below:

- recognition of *Right-of-use assets* amounting to €1,828 million presented separately in the statement of financial position. Lease assets previously recognized under finance lease for €28 million were reclassified from *Property, plant and equipment*;
- recognition of *Lease liabilities* amounting to €1,962 million presented separately in the statement of financial position (both in the current and non-current sections based on their maturity). Lease liabilities previously recognized under finance lease for €26 million were reclassified from *Current and Non-current borrowings*;
- increase in *Deferred tax assets* amounting to €5 million and decrease in *Deferred tax liabilities* amounting to €10 million;
- reversal, from the *Other non-current liabilities*, of the effect coming from the recognition of operating leases on a straight-line basis, as required by the previous standard IAS 17 – *Leases*, for €52 million.

The net effect of these adjustments has been recorded for €64 million into *Other reserves*.

For the 12 months period ended December 31, 2018:

- sub-lease income of €34 million were reclassified in the *Revenue* line from *Selling expenses*;
- depreciation expenses increased by €457 million relating to the depreciation of additional assets recognized (i.e. increase in *Right-of-use assets*, net of decrease in *Property, plant and equipment*);
- rent expense relating to leases previously classified as operating leases and classified within the operating expenses decreased in total by €461 million;
- finance costs increased by €46 million relating to the interest expenses on additional lease liabilities recognized.

The cash outflows from operating activities decreased by €455 million while the cash outflows from financing activities increased by the same amount, representing the payments for the principal portion of recognized lease liabilities.

*Impacts on consolidated statement of profit or loss for the year ended December 31, 2018*

| € millions                        | Published      | IFRS 16 adjustments | Under IFRS 16  |
|-----------------------------------|----------------|---------------------|----------------|
| Revenue                           | 10,799         | 34                  | 10,833         |
| Cost of sales                     | (3,963)        | 2                   | (3,961)        |
| <b>GROSS PROFIT</b>               | <b>6,836</b>   | <b>36</b>           | <b>6,872</b>   |
| Research and development          | (190)          | -                   | (190)          |
| Selling                           | (3,391)        | 6                   | (3,385)        |
| Royalties                         | (157)          | -                   | (157)          |
| Advertising and marketing         | (746)          | 0                   | (745)          |
| General and administrative        | (989)          | 2                   | (987)          |
| Other income/(expenses)           | (5)            | -                   | (5)            |
| <b>Total operating expenses</b>   | <b>(5,478)</b> | <b>9</b>            | <b>(5,470)</b> |
| <b>OPERATING PROFIT</b>           | <b>1,358</b>   | <b>45</b>           | <b>1,402</b>   |
| Cost of net debt                  | (54)           | (46)                | (100)          |
| Other financial income/(expenses) | (9)            | -                   | (9)            |
| Share of profits of associates    | -              | -                   | -              |
| <b>PROFIT BEFORE TAXES</b>        | <b>1,295</b>   | <b>(2)</b>          | <b>1,293</b>   |
| Income taxes                      | (139)          | -                   | (139)          |
| <b>NET PROFIT</b>                 | <b>1,156</b>   | <b>(1)</b>          | <b>1,154</b>   |
| of which attributable to          |                |                     |                |
| • owners of the parent            | 1,087          | (1)                 | 1,086          |
| • non-controlling interests       | 69             | 0                   | 68             |

*Impacts on the consolidated statement of financial position as of January 1, 2018*

**Assets**

| € millions                      | Published <sup>(a)</sup> | IFRS 16 adjustments | Under IFRS 16 |
|---------------------------------|--------------------------|---------------------|---------------|
| Goodwill                        | 3,608                    | -                   | 3,608         |
| Intangible assets               | 1,246                    | (4)                 | 1,242         |
| Property, plant and equipment   | 1,809                    | (27)                | 1,782         |
| Right-of-use assets             | -                        | 1,522               | 1,522         |
| Investment in associates        | 4                        | -                   | 4             |
| Other non-current assets        | 92                       | -                   | 92            |
| Deferred tax assets             | 130                      | 4                   | 134           |
| <b>TOTAL NON-CURRENT ASSETS</b> | <b>6,889</b>             | <b>1,495</b>        | <b>8,384</b>  |
| Inventories                     | 832                      | -                   | 832           |
| Trade receivables               | 944                      | -                   | 944           |
| Tax receivables                 | 66                       | -                   | 66            |
| Other current assets            | 174                      | (8)                 | 166           |
| Cash and cash equivalents       | 1,159                    | -                   | 1,159         |
| <b>TOTAL CURRENT ASSETS</b>     | <b>3,175</b>             | <b>(8)</b>          | <b>3,167</b>  |
| Assets held for sale            | -                        | -                   | -             |
| <b>TOTAL ASSETS</b>             | <b>10,064</b>            | <b>1,487</b>        | <b>11,551</b> |

## Financial statements

### Notes to the Consolidated Group Financial Statements

#### Equity and liabilities

| <i>€ millions</i>                                  | <b>Published <sup>(a)</sup></b> | <b>IFRS 16 adjustments</b> | <b>Under IFRS 16</b> |
|--|---------------------------------|----------------------------|----------------------|
| Share capital                                      | 40                              | -                          | 40                   |
| Share premium reserve                              | 570                             | -                          | 570                  |
| Treasury shares reserve                            | -                               | -                          | -                    |
| Other reserves                                     | 4,158                           | (63)                       | 4,094                |
| Net profit attributable to owners of the parent    | 1,040                           | -                          | 1,040                |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>5,808</b>                    | <b>(63)</b>                | <b>5,745</b>         |
| Equity attributable to non-controlling interests   | 6                               | -                          | 5                    |
| <b>TOTAL EQUITY</b>                                | <b>5,814</b>                    | <b>(63)</b>                | <b>5,750</b>         |
| Non-current borrowings                             | 1,671                           | (22)                       | 1,650                |
| Non-current lease liabilities                      | -                               | 1,250                      | 1,250                |
| Employee benefits                                  | 122                             | -                          | 122                  |
| Non-current provisions                             | 130                             | -                          | 130                  |
| Other non-current liabilities                      | 77                              | (51)                       | 26                   |
| Deferred tax liabilities                           | 157                             | (10)                       | 147                  |
| <b>TOTAL NON-CURRENT LIABILITIES</b>               | <b>2,157</b>                    | <b>1,168</b>               | <b>3,325</b>         |
| Current borrowings                                 | 228                             | (9)                        | 219                  |
| Current lease liabilities                          | -                               | 404                        | 404                  |
| Trade payables                                     | 907                             | -                          | 907                  |
| Tax payables                                       | 22                              | -                          | 22                   |
| Current provisions                                 | 171                             | -                          | 171                  |
| Other current liabilities                          | 765                             | (12)                       | 753                  |
| <b>TOTAL CURRENT LIABILITIES</b>                   | <b>2,093</b>                    | <b>383</b>                 | <b>2,476</b>         |
| <b>TOTAL EQUITY AND LIABILITIES</b>                | <b>10,064</b>                   | <b>1,487</b>               | <b>11,551</b>        |

(a) Consolidated statement of financial position as of December 31, 2017 as published in EssilorLuxottica's 2018 consolidated financial statements, i.e. information related to Luxottica Group except for the share capital retroactively adjusted to reflect the share capital of the Company.

#### Impacts on the consolidated statement of financial position as of December 31, 2018

#### Assets

| <i>€ millions</i>               | <b>Published</b> | <b>IFRS 16 adjustments</b> | <b>Under IFRS 16</b> |
|---------------------------------|------------------|----------------------------|----------------------|
| Goodwill                        | 23,241           | -                          | 23,241               |
| Intangible assets               | 11,873           | (4)                        | 11,869               |
| Property, plant and equipment   | 3,368            | (28)                       | 3,339                |
| Right-of-use assets             | -                | 1,828                      | 1,828                |
| Investment in associates        | 22               | -                          | 22                   |
| Other non-current assets        | 390              | -                          | 390                  |
| Deferred tax assets             | 336              | 5                          | 341                  |
| <b>TOTAL NON-CURRENT ASSETS</b> | <b>39,230</b>    | <b>1,801</b>               | <b>41,032</b>        |
| Inventories                     | 2,045            | -                          | 2,045                |
| Trade receivables               | 2,357            | -                          | 2,357                |
| Tax receivables                 | 128              | -                          | 128                  |
| Other current assets            | 667              | (7)                        | 660                  |
| Cash and cash equivalents       | 1,829            | -                          | 1,829                |
| <b>TOTAL CURRENT ASSETS</b>     | <b>7,025</b>     | <b>(7)</b>                 | <b>7,018</b>         |
| Assets held for sale            | 14               | -                          | 14                   |
| <b>TOTAL ASSETS</b>             | <b>46,269</b>    | <b>1,794</b>               | <b>48,064</b>        |

## Equity and liabilities

| <i>€ millions</i>                                  | <b>Published</b> | <b>IFRS 16 adjustments</b> | <b>Under IFRS 16</b> |
|--|------------------|----------------------------|----------------------|
| Share capital                                      | 77               | -                          | 77                   |
| Share premium reserve                              | 20,931           | -                          | 20,931               |
| Treasury shares reserve                            | (92)             | -                          | (92)                 |
| Other reserves                                     | 10,821           | (64)                       | 10,757               |
| Net profit attributable to owners of the parent    | 1,087            | (1)                        | 1,086                |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b> | <b>32,823</b>    | <b>(65)</b>                | <b>32,758</b>        |
| Equity attributable to non-controlling interests   | 438              | -                          | 438                  |
| <b>TOTAL EQUITY</b>                                | <b>33,262</b>    | <b>(65)</b>                | <b>33,196</b>        |
| Non-current borrowings                             | 2,582            | (18)                       | 2,564                |
| Non-current lease liabilities                      | -                | 1,481                      | 1,481                |
| Employee benefits                                  | 459              | -                          | 459                  |
| Non-current provisions                             | 428              | -                          | 428                  |
| Other non-current liabilities                      | 278              | (52)                       | 226                  |
| Deferred tax liabilities                           | 2,245            | (10)                       | 2,235                |
| <b>TOTAL NON-CURRENT LIABILITIES</b>               | <b>5,993</b>     | <b>1,401</b>               | <b>7,394</b>         |
| Current borrowings                                 | 1,184            | (8)                        | 1,176                |
| Current lease liabilities                          | -                | 481                        | 481                  |
| Trade payables                                     | 1,746            | (1)                        | 1,745                |
| Tax payables                                       | 99               | -                          | 99                   |
| Current provisions                                 | 211              | -                          | 211                  |
| Other current liabilities                          | 3,775            | (13)                       | 3,762                |
| <b>TOTAL CURRENT LIABILITIES</b>                   | <b>7,015</b>     | <b>459</b>                 | <b>7,474</b>         |
| <b>TOTAL EQUITY AND LIABILITIES</b>                | <b>46,269</b>    | <b>1,794</b>               | <b>48,064</b>        |

## Impact on opening equity as of January 1, 2018 and 2019

| <i>€ millions</i>  |             |
|--|-------------|
| <b>IFRS 16 impact on the balance as of January 1, 2018</b> | <b>(63)</b> |
| <b>IFRS 16 impact on the balance as of January 1, 2019</b> | <b>(65)</b> |

The impact of IFRS 16 first-time application on the equity opening balances includes:

- as of January 1, 2018: the cumulative impact of the initial application of the standard for Luxottica Group;
- as of January 1, 2019: the impact for 2018 for both Luxottica Group (on a 12-month basis) and Essilor Group (from the EL Combination date, i.e. October 1, 2018).

3

## Financial statements

### Notes to the Consolidated Group Financial Statements

#### Impacts on consolidated statement of cash flow for the year ended December 31, 2018

| <i>€ millions</i>   | <b>Published</b> | <b>IFRS 16 adjustments</b> | <b>Under IFRS 16</b> |
|---|------------------|----------------------------|----------------------|
| <b>NET PROFIT</b>   | <b>1,156</b>     | <b>(1)</b>                 | <b>1,154</b>         |
| Depreciation and amortization   | 759              | 457                        | 1,216                |
| (Gains)/losses from disposal of assets                                | 2                | -                          | 2                    |
| Expense arising from share-based payments                             | 76               | -                          | 76                   |
| Income taxes  | 139              | -                          | 139                  |
| Finance result, net   | 63               | 46                         | 109                  |
| Other non-cash items  | 30               | -                          | 30                   |
| Changes in provisions and other                                       | (173)            | -                          | (173)                |
| Changes in working capital  | 259              | -                          | 259                  |
| Taxes paid, net   | (352)            | -                          | (352)                |
| Interest paid, net  | (78)             | (46)                       | (124)                |
| <b>NET CASH FLOWS PROVIDED BY/<br/>(USED IN) OPERATING ACTIVITIES</b> | <b>1,881</b>     | <b>455</b>                 | <b>2,336</b>         |
| Purchase of property, plant and equipment and intangible assets       | (710)            | -                          | (710)                |
| Disposal of property, plant and equipment and intangible assets       | -                | -                          | -                    |
| Acquisitions of businesses, net of cash acquired                      | 753              | -                          | 753                  |
| Changes in other financial assets                                     | -                | -                          | -                    |
| Changes in other non-financial assets                                 | (5)              | -                          | (5)                  |
| <b>NET CASH FLOWS PROVIDED BY/<br/>(USED IN) INVESTING ACTIVITIES</b> | <b>38</b>        | <b>-</b>                   | <b>38</b>            |
| Share capital increase  | 31               | -                          | 31                   |
| (Purchase)/sale of treasury shares                                    | 15               | -                          | 15                   |
| Dividends paid:   |                  |                            |                      |
| • to the owners of the parent   | (484)            | -                          | (484)                |
| • to non-controlling interests  | (7)              | -                          | (7)                  |
| Transactions with non-controlling interests                           | (13)             | -                          | (13)                 |
| Cash payments for principal portion of lease liabilities              | -                | (455)                      | (455)                |
| Issuance of bonds, private placement and other long-term debt         | -                | -                          | -                    |
| Repayment of bonds, private placement and other long-term debt        | (293)            | -                          | (293)                |
| Changes in other current and non-current borrowings                   | (504)            | -                          | (504)                |
| <b>NET CASH FLOWS PROVIDED BY/<br/>(USED IN) FINANCING ACTIVITIES</b> | <b>(1,255)</b>   | <b>(455)</b>               | <b>(1,710)</b>       |
| <b>NET INCREASE/(DECREASE)<br/>IN CASH AND CASH EQUIVALENTS</b>       | <b>664</b>       | <b>-</b>                   | <b>664</b>           |
| Cash and cash equivalents at the beginning of the financial year      | 1,159            | -                          | 1,159                |
| Effects of exchange rate changes on cash and cash equivalents         | 5                | -                          | 5                    |
| <b>CASH AND CASH EQUIVALENTS<br/>AT THE END OF THE FINANCIAL YEAR</b> | <b>1,829</b>     | <b>-</b>                   | <b>1,828</b>         |

#### Impact on other statements

There is no material impact on the consolidated statement of other comprehensive income nor on the basic and dilutive earnings per share coming from the application of IFRS 16.

### 2.1.2. IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation was endorsed by the European Union in October 2018 and is effective for annual periods beginning on January 1, 2019. The interpretation provides guidance on how to reflect uncertain tax treatments in accounting for income taxes. It also clarifies that uncertain tax liabilities shall be considered as current (or deferred) tax liabilities as per IAS 12 – *Income taxes*. Therefore, despite the fact that IFRIC 23 does not contain presentation requirements, an entity shall classify uncertain tax liabilities within the line *Tax payables* according to IAS 1 – *Presentation of Financial Statements* (as confirmed by the IFRS Interpretation Committee in September 2019).

The Group decided to apply IFRIC 23 retrospectively in accordance with paragraph B2 (b), i.e. recognizing the cumulative effect of initially applying the Interpretation as an adjustment to January 1, 2019 opening balances. No restatement of comparative information is required.

The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances

The Group concluded that the Interpretation did not have a significant impact on its consolidated financial statements, except for the reclassification from *Provisions* to *Tax payables* of the amounts already accounted for as of December 31, 2018 and the accrual of additional €10 million into *Tax payables*. The following table summarize the overall impacts.

| € millions   | Restated <sup>(a)</sup><br>December 31, 2018 | IFRIC 23<br>adjustments | January 1, 2019 |
|--|--|-------------------------|-----------------|
| Non-current provisions   | 525  | (259)                   | 265             |
| Current provisions   | 211  | (76)                    | 139             |
| Tax payables   | 99   | 345                     | 444             |
| <i>Total effects accounted for as an increase<br/>in uncertain tax liabilities</i> |  | 10                      |                 |

(a) Restated to take into account the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

### 2.1.3. Other standards and interpretations

The Group also adopted the following amendments and interpretations endorsed by the European Union and effective for annual periods beginning on January 1, 2019. The adoption of these amendments and interpretations by the Group did not require changes to accounting policies or retrospective adjustments.

- Amendments to IFRS 9: *Prepayment Features with Negative Compensation*.
- Amendments to IAS 28: *Long term interests in Associates and Joint Ventures*.
- Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*.
- *Annual Improvements to IFRS Standards 2015-2017 Cycle*.

### 2.2. New endorsed standards, amendments and interpretations effective for annual periods beginning after January 1, 2019 and not yet adopted by the Group

The following amendments, that are effective for periods beginning after January 1, 2019 have already been endorsed by the European Union.

- Amendments to References to the *Conceptual Framework* in IFRS Standards (issued on March 29, 2018, endorsed on November 29, 2019 and effective for periods beginning on January 1, 2020).
- Amendments to IAS 1 and IAS 8: *Definition of Material* (issued on October 31, 2018, endorsed on November 29, 2019 and effective for periods beginning on January 1, 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest Rate Benchmark Reform* (issued on September 26, 2019, endorsed on January 15, 2020 and effective for periods beginning on January 1, 2020).

Their potential impacts on the Group's consolidated financial statements are currently being analyzed.

3

## Note 3 Business combinations

### 3.1. Combination between Luxottica and Essilor

#### 3.1.1. Description of the transaction

On October 1, 2018, Delfin S.à.r.l ("Delfin"), the majority shareholder of Luxottica Group S.p.A. ("Luxottica"), and Essilor International (Compagnie Générale d'Optique) ("Essilor") announced the successful completion of the combination of Essilor and Luxottica (the "**EL Combination**").

Following the contribution by Delfin of its 62.42% stake in Luxottica to Essilor (the "**Contribution**"), Essilor became the parent company of Luxottica and was renamed EssilorLuxottica. As a consideration for the Contribution, Essilor issued 139,703,301 ordinary shares to Delfin who then owned 38.93% of EssilorLuxottica.

On October 11, 2018, EssilorLuxottica launched a mandatory tender exchange offer (the "**Offer**" or MTO) for all the remaining outstanding Luxottica shares (176,276,154 ordinary shares of Luxottica). The first phase of this agreed tender offer began on October 29, 2018 and ended on November 28, 2018 ("**First phase of the MTO**"). 143,788,312 ordinary shares of Luxottica (representing 29.64% of the Luxottica's share capital as updated at the end of the First phase of the MTO) were tendered in exchange for 66,329,548 newly-issued EssilorLuxottica's ordinary shares (on the basis of an Exchange Ratio of 0.4613 EssilorLuxottica shares for 1 Luxottica share).

Owning 93.30% of Luxottica's share capital (including treasury shares) and having reached the 90% threshold, EssilorLuxottica decided to further offer to purchase from any shareholder of Luxottica so requesting, the remaining outstanding ordinary shares of Luxottica not already held by EssilorLuxottica, which amounted in aggregate to 32,487,842 shares (representing 6.70% of Luxottica's share capital). The Group offered to the remaining non-controlling shareholders of Luxottica either: (i) a consideration equalling 0.4613 EssilorLuxottica shares for each Luxottica share (similar to the First phase of the MTO); or, alternatively (ii) only to those shareholders so requesting, a cash consideration equal to €51.64 per Luxottica share, which corresponds to the weighted average of the closing prices of EssilorLuxottica shares recorded on Euronext Paris during the five trading days prior to the payment date of the First phase of the MTO (i.e. on November 28, 29 and 30, and December 3 and 4, 2018) multiplied by the Exchange Ratio (i.e. 0.4613).

The period agreed for the submission of the request by the holders of the remaining shares started on December 12, 2018 and ended on January 18, 2019 ("**Second phase of the MTO**"). During the Second phase of the MTO, 20,561,815 ordinary shares of Luxottica were tendered. Such tendered shares represented 4.24% of the Luxottica's share capital. The consideration due to the holders of the ordinary shares of Luxottica tendered in the Second phase of the MTO consisted of:

- for 14,313,208 Luxottica shares, 0.4613 newly issued EssilorLuxottica shares per each Luxottica share (i.e. 6,602,682 EssilorLuxottica shares with a par value of €0.18 each);
- for 6,248,607 Luxottica shares, a cash consideration amounting to €51.64 per each Luxottica share (i.e. €322.7 million).

Following the completion of the Second phase of the MTO, EssilorLuxottica owned 97.542% of the share capital of Luxottica (including treasury shares). Having reached the 95% threshold, EssilorLuxottica exercised its right to purchase all of the 11,926,027 outstanding shares of Luxottica not already held (amounting to 2.458% of Luxottica's share capital) through a specific joint procedure agreed upon with CONSOB and Borsa Italiana S.p.A. (the "Joint Procedure" or "Squeeze-out"). The Squeeze-out results in the transfer to EssilorLuxottica of the ownership of all outstanding shares of Luxottica not already held for a consideration equal to that set for the Second phase of the MTO (i.e. (i) a consideration equalling 0.4613 EssilorLuxottica shares for each Luxottica share; or, alternatively (ii) only to those shareholders so requesting, a cash consideration equal to €51.64 per Luxottica share).

The period agreed for the submission of the request by the holders of the remaining shares started on January 28, 2019 and ended on February 26, 2019 ("**Third phase of the MTO**"). Any Luxottica's shareholder holding residual shares that did not submit any request received EssilorLuxottica shares.

During the Third phase of the MTO, 11,926,027 ordinary shares of Luxottica were tendered. The consideration due to the holders of the ordinary shares of Luxottica tendered in the Third phase of the MTO consisted of:

- for 5,758,817 Luxottica shares, 0.4613 newly issued EssilorLuxottica shares per each Luxottica share (i.e. 2,656,542 EssilorLuxottica shares with a par value of €0.18 each);
- for 6,167,210 Luxottica shares, a cash consideration amounting to €51.64 per each Luxottica share (i.e. €318.5 million).

Borsa Italiana S.p.A. suspended the trading of Luxottica shares on March 1 and 4, 2019 then ordered the delisting of the Luxottica shares from the MTA (*Mercato Telematico Azionario* managed by Borsa Italiana S.p.A.) as from March 5, 2019, corresponding to the settlement date of the Joint Procedure.

Following the completion of the Third phase of the MTO, EssilorLuxottica owns 100% of Luxottica's share capital whereas the interest held by Delfin decreased to 32.05% of the share capital of EssilorLuxottica.

### 3.1.2. Accounting of the transaction

The Contribution of Delfin's stake in Luxottica to Essilor has been accounted for as a *business combination* in EssilorLuxottica's consolidated financial statement as of and for the year ended December 31, 2018.

In particular, for accounting purposes, the Contribution has been treated as the acquisition of Essilor by Luxottica (so-called "reverse acquisition"), even though, legally, Essilor is the acquirer and is the entity that issued new shares to Luxottica shareholders. Accordingly, the 2018 consolidated financial statements reflected the acquisition of Essilor by applying IFRS 3 – *Business combination*, including the acquisition method of accounting on Essilor's identified assets acquired and liabilities assumed.

In accordance with IFRS 3, the Contribution has been accounted on a provisional basis in 2018 consolidated financial statements. During the measurement period (*i.e.* October 1, 2018-October 1, 2019, also referred as "window period"), these provisional amounts have been retrospectively adjusted to reflect new information obtained about facts and circumstances existing as of the acquisition date that, if known, would have significantly impacted the measurement of the amounts recognized or would have resulted in the recognition of significant new assets acquired and liabilities assumed (see paragraph *PPA finalization (restatement of 2018 comparative figures)* below).

The purchases of additional interests in Luxottica in the context of the Offer (*i.e.* First, Second and Third phase of the MTO) have been considered as separate equity transactions. In particular, the First phase of the MTO was accounted for as a change in ownership interests not resulting in a change of control in the 2018 consolidated financial statements. Whereas, for the Second and Third phases of the MTO, still on-going at December 31, 2018, the Group had to recognize in the 2018 consolidated financial statements its potential obligation to purchase against cash all the remaining Luxottica shares not already held by EssilorLuxottica.

Therefore, as of December 31, 2018, the Group:

- accounted for a put liability over the remaining 32,487,842 Luxottica shares not already held amounting to €1,677 million (the maximum cash consideration to be recognized to Luxottica's shareholders) in *Other current liabilities*; and
- reclassified from *Equity attributable to non-controlling interests* to *Equity attributable to the parent* Luxottica's non-controlling interests outstanding as of that date (*i.e.* 6.7% of Luxottica's share capital) for an amount equal to €417 million.

In 2019, following the finalization of the Second and Third phases of the MTO, the Group accounted for:

- a capital increase resulting in the issuance of 9,259,224 EssilorLuxottica shares, with a par value of €0.18 each, as a consideration due to the holders of the ordinary shares of Luxottica exchanged against EssilorLuxottica's shares in the Second and Third phase of the MTO; EssilorLuxottica's share capital and share premium reserve were increased accordingly (€2 million and €1,017 million respectively); and
- a total cash-out amounting to €641 million as a consideration due to Luxottica shareholders that tendered their shares against a cash consideration in the Second and Third phases of the MTO (accounted for under *Transactions with non-controlling interests* in the consolidated statement of cash flows).

EssilorLuxottica consequently reversed the put liability accounted for as at December 31, 2018 (€1,677 million) against the total cash-out recognized to Luxottica's shareholders (€641 million) and the increase in share capital and share premium reserve (€2 million and €1,017 million respectively); the resulting difference has been recognized in *Retained earnings and other reserves*.

**3.1.3. PPA finalization (restatement of 2018 comparative figures)**

As consented by IFRS 3, the Contribution was accounted on a provisional basis in the 2018 consolidated financial statements. During the window period, the Group obtained

additional information about facts and circumstances that existed as of the acquisition date and retrospectively adjusted the provisional amounts recognized as follows.

| <i>€ millions</i>                     | <b>Notes</b> | <b>Oct. 1, 2018<br/>Provisional</b> | <b>Adjustments</b> | <b>Oct. 1, 2018<br/>Final</b> |
|---------------------------------------|--------------|-------------------------------------|--------------------|-------------------------------|
| Intangible assets                     | 10           | 10,842                              | 110                | 10,952                        |
| Property, plant and equipment         | 11           | 1,289                               | -                  | 1,289                         |
| Investment in associates              |              | 23                                  | -                  | 23                            |
| Other non-current assets              |              | 195                                 | 9                  | 204                           |
| Deferred tax assets                   | 14           | 214                                 | -                  | 214                           |
| Inventories                           |              | 1,276                               | (11)               | 1,265                         |
| Trade receivables                     |              | 1,420                               | (9)                | 1,411                         |
| Tax receivables                       |              | 64                                  | -                  | 64                            |
| Other current assets                  |              | 394                                 | (5)                | 389                           |
| Cash and cash equivalents             |              | 809                                 | -                  | 809                           |
| Asset held for sale                   |              | 17                                  | -                  | 17                            |
| <b>TOTAL IDENTIFIABLE ASSETS</b>      |              | <b>16,543</b>                       | <b>95</b>          | <b>16,638</b>                 |
| Non-current borrowings                |              | 1,620                               | -                  | 1,620                         |
| Employee benefits                     | 23           | 305                                 | -                  | 305                           |
| Non-current provisions                | 25           | 335                                 | 95                 | 430                           |
| Other non-current liabilities         | 26           | 176                                 | -                  | 176                           |
| Deferred tax liabilities              | 14           | 2,286                               | 32                 | 2,318                         |
| Current borrowings                    |              | 995                                 | -                  | 995                           |
| Trade payables                        |              | 714                                 | -                  | 714                           |
| Tax payables                          |              | 99                                  | -                  | 99                            |
| Current provisions                    | 25           | 51                                  | -                  | 51                            |
| Other current liabilities             |              | 1,210                               | -                  | 1,210                         |
| <b>TOTAL IDENTIFIABLE LIABILITIES</b> |              | <b>7,791</b>                        | <b>127</b>         | <b>7,918</b>                  |
| <b>TOTAL NET IDENTIFIABLE ASSETS</b>  |              | <b>8,752</b>                        | <b>(32)</b>        | <b>8,720</b>                  |

The goodwill arising from the Contribution has been updated accordingly:

| <i>€ millions</i>   | <b>Oct. 1, 2018<br/>Provisional</b> | <b>Adjustments</b> | <b>Oct. 1, 2018<br/>Final</b> |
|---|-------------------------------------|--------------------|-------------------------------|
| Consideration transferred   | 27,868                              | -                  | 27,868                        |
| Non-controlling interests based on the proportionate interest in the recognized net assets of the subsidiaries of Essilor | 416                                 | 65                 | 481                           |
| Identifiable assets acquired and liabilities assumed  | 8,752                               | (32)               | 8,720                         |
| <b>GOODWILL</b>   | <b>19,532</b>                       | <b>97</b>          | <b>19,629</b>                 |

As required by IFRS 3, those adjustments have been recognized as if the accounting for the Contribution had been completed at October 1, 2018. Consequently, the consolidated statement of financial position as of December 31, 2018 presented in these financial statements has been restated. The main effects are as follows:

(i) *Goodwill* increased by €245 million (€97 million related to the change recognized as of October 1, 2018 and €148 million related to the effect of translation

differences from October 1, 2018 to December 31, 2018);

(ii) *Intangible assets* increased by €106 million (net of the related additional amortization to be recognized since the acquisition date until the end of the year) following the recognition of additional customer relationships;

(iii) *Deferred tax liabilities* increased by €31 million; and

(iv) *Non-current provisions* increased by €97 million.

The table below summarizes the restatements recognized on the consolidated statement of financial position as of December 31, 2018.

| <i>€ millions</i>                                | <b>Notes</b> | <b>PPA Restatements on Dec. 31, 2018</b> |
|--|--------------|--|
| Goodwill   | 10           | 245                                      |
| Intangible assets                                | 10           | 106                                      |
| Other non-current assets                         | 13           | 9  |
| Inventories                                      | 15           | (11)                                     |
| Trade receivables                                | 16           | (9)                                      |
| Other current assets                             | 18           | (5)                                      |
| Equity attributable to owners of the parent      | 21           | 141                                      |
| Equity attributable to non-controlling interests | 21           | 66                                       |
| Non-current provisions                           | 25           | 97                                       |
| Deferred tax liabilities                         | 14           | 31                                       |

The 2018 consolidated statement of profit or loss, statement of comprehensive income and statement of cash flows were also restated to account for the higher amortization of the intangible assets since the acquisition date until the end of the year (€4 million) as well as associated tax impacts.

### 3.2. Other business combinations

The main business combinations that occurred during the year are listed in the table below (also referred as "Other business combinations").

| <b>Name</b>              | <b>Country</b> | <b>Acquisition month</b> | <b>Consolidation method</b> | <b>% interest</b> | <b>% consolidated</b> |
|--------------------------|----------------|--------------------------|-----------------------------|-------------------|-----------------------|
| Union Optic              | Greece         | 01/2019                  | Fully consolidated          | 33%*              | 100%                  |
| Brille24                 | Germany        | 03/2019                  | Fully consolidated          | 100%              | 100%                  |
| Future Vision            | China          | 04/2019                  | Fully consolidated          | 51%               | 100%                  |
| Devlyn                   | Mexico         | 06/2019                  | Fully consolidated          | 100%              | 100%                  |
| 4Patient Care            | USA            | 07/2019                  | Fully consolidated          | 100%              | 100%                  |
| Barberini Group          | Italy          | 08/2019                  | Fully consolidated          | 100%              | 100%                  |
| Optimed                  | Australia      | 09/2019                  | Fully consolidated          | 75%               | 100%                  |
| MES Group                | USA            | 10/2019                  | Fully consolidated          | 100%              | 100%                  |
| Future Eyewear           | Sweden         | 11/2019                  | Fully consolidated          | 100%              | 100%                  |
| R. Mathieu Opticians Ltd | Mauritius      | 11/2019                  | Fully consolidated          | 51%               | 100%                  |
| Antoine Laoun Group      | Canada         | 12/2019                  | Fully consolidated          | 49%*              | 100%                  |

\* Controlled through shareholders agreements.

## Financial statements

### Notes to the Consolidated Group Financial Statements

The impact on the 2019 consolidated statement of financial position of the Other business combinations is presented in the table below.

| <i>€ millions</i>  | <b>Total other business combinations</b> |
|--|--|
| Intangible assets  | 76                                       |
| Property, plant and equipment  | 78                                       |
| Right-of-use assets  | 8  |
| Other non-current assets   | -  |
| Current assets   | 93                                       |
| Cash and cash equivalents  | 35                                       |
| <b>TOTAL ASSETS ACQUIRED AT FAIR VALUE (A)</b>                         | <b>291</b>                               |
| Non-current borrowings   | 5  |
| Other non-current liabilities  | 20                                       |
| Non current and current lease liabilities                              | 9  |
| Current borrowings   | 1  |
| Other current liabilities  | 55                                       |
| <b>TOTAL LIABILITIES ASSUMED AT FAIR VALUE (B)</b>                     | <b>90</b>                                |
| <b>NET ASSETS ACQUIRED (C=A-B)</b>                                     | <b>201</b>                               |
| <b>CONSIDERATION FOR THE ACQUISITIONS (D)</b>                          | <b>400</b>                               |
| <b>EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS (E)</b>            | <b>3</b>                                 |
| <b>FAIR VALUE OF NET ASSETS ACQUIRED (C)</b>                           | <b>201</b>                               |
| <b>GOODWILL RECOGNIZED (F=D+E-C)</b>                                   | <b>202</b>                               |
| Consideration for the acquisition (D)                                  | (400)                                    |
| Deferred payments (G)  | 84                                       |
| Acquired cash (H)  | 35                                       |
| <b>CASH FLOW FROM THE ACQUISITIONS, NET OF CASH ACQUIRED (I=D+G+H)</b> | <b>(281)</b>                             |
| <b>CONTRIBUTION TO 2019 CONSOLIDATED REVENUE</b>                       | <b>67</b>                                |
| <b>CONTRIBUTION TO 2019 NET PROFIT</b>                                 | <b>(6)</b>                               |

The amount recognized as *Goodwill* is not tax deductible and primarily reflects the expected synergies and growth outlook of the acquired companies within the Group.

If the combination agreements provided for obligation to purchase, or put options on, any remaining non-controlling interest in the acquired companies, the Group applied the accounting policy described in Note 1 – Significant accounting principles and recognized a corresponding liability in *Other current liabilities* or *Other non-current liabilities* based on its due date.

The amount reported above in the line *cash flow from the acquisitions, net of cash acquired* does not include cash flows related to earn-out on business combination occurred in previous periods nor cash flows linked to the exercise of put options over non-controlling interests.

The fair value used for the acquired assets and assumed liabilities of acquisitions for the period is calculated on a provisional basis and may be reviewed at a later date. Any discrepancies resulting from the final valuation will be recognized as a retrospective adjustment against goodwill if they take place within twelve months of the acquisition date and relate to facts and circumstances that existed as of the acquisition date.

The closing of the Other business combinations did not cause the Group to incur any significant acquisition costs towards third parties.

On an unaudited *pro forma* basis, had those Other business combinations occurred at the beginning of the year, revenue and net profit contributed by the acquisitions to the consolidated financial statements would have been, respectively, €176 and €7 million.

## Note 4 Segment information

### 4.1. Information by segment

In accordance with IFRS 8 – *Operating Segments*, the Group's segment information is presented in line with the information provided internally to the Executive Chairman Leonardo Del Vecchio, the Executive Vice-Chairman Hubert Sagnières and the directors to whom the Executive Chairman and Vice-Chairman delegated part of their powers (i.e. Francesco Milleri and Laurent Vacherot respectively), in their role of Chief Operating Decision Makers, 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 criteria applied to identify the operating segments are consistent with the way the Group is currently managed. The operating segments for the year ended December 31, 2019 have been identified accordingly.

Information by operating segment is as follows:

| € millions   | Wholesale    | Retail       | Lenses and Optical Instruments | Equipment  | Sunglasses & Readers | Elimination and other adjustments | Total 2019    |
|--|--------------|--------------|--------------------------------|------------|----------------------|-----------------------------------|---------------|
| <b>Revenue</b>   | <b>3,260</b> | <b>6,232</b> | <b>6,791</b>                   | <b>221</b> | <b>885</b>           | <b>-</b>                          | <b>17,390</b> |
| Operating profit before depreciation of intangible assets acquired in business combinations <sup>(a)</sup> | 743          | 918          | 805                            | 55         | 129                  | (145)                             | 2,505         |
| Depreciation of intangible assets acquired in business combinations  |              |              |                                |            |                      |                                   | (827)         |
| <b>OPERATING PROFIT</b>  |              |              |                                |            |                      |                                   | <b>1,678</b>  |
| Cost of net debt   |              |              |                                |            |                      |                                   | (117)         |
| Other financial income/ (expenses)   |              |              |                                |            |                      |                                   | (25)          |
| Share of profits (loss) of associates  |              |              |                                |            |                      |                                   | (2)           |
| Income tax   |              |              |                                |            |                      |                                   | (350)         |
| <b>NET PROFIT</b>  |              |              |                                |            |                      |                                   | <b>1,185</b>  |
| Acquisitions of property, plant and equipment and intangible assets  | 290          | 264          | 289                            | 7          | 55                   | -                                 | 905           |
| Amortization and depreciation of property, plant and equipment, intangible assets and right-of-use assets  | (217)        | (710)        | (962)                          | (15)       | (129)                | (88)                              | (2,121)       |

(a) Operating profit from the *Wholesale* segment is related to the revenue generated with third-party customers only, excluding the 'manufacturing profit' generated on the intercompany revenue with the *Retail* segment. Operating profit from operations of the *Retail* segment is related to retail revenue, considering the cost of goods acquired from the *Wholesale* segment at manufacturing cost, thus including the relevant 'manufacturing profit' attributable to this revenue.

The Group operates in five segments:

- Wholesale: manufacturing and wholesale distribution of high-end luxury and sports eyewear operated by Luxottica Group entities;
- Retail: retail distribution of high-end luxury and sports eyewear operated by Luxottica Group entities;
- Lenses and optical instruments: production, prescription, distribution and trading of lenses and small equipment used by opticians and relating to the sale of lenses, operated by Essilor Group entities;
- Equipment: production, distribution and sale of high capacity equipment, such as digital surfacing machines and lens coating machines, operated by Essilor Group entities; and
- Sunglasses and readers: production, distribution and sale of both non-prescription sunglasses and non-prescription reading glasses, operated by Essilor Group entities.

## Financial statements

### Notes to the Consolidated Group Financial Statements

Following the EL Combination that occurred on October 1, 2018 (see paragraph *Basis of preparation of the financial statements* and Note 3 – Business combinations), the *Wholesale* and *Retail* operating segments reflect Luxottica's performance for 2018 whereas the *Lenses and optical instruments*, *Equipment* and *Sunglasses and readers* reflect Essilor's performance for the three-month period ended December 31, 2018.

| <i>€ millions</i>  | <b>Wholesale</b> | <b>Retail</b> | <b>Lenses and<br/>Optical<br/>Instruments</b> | <b>Equipment</b> | <b>Sunglasses<br/>&amp; Readers</b> | <b>Elimination<br/>and other<br/>adjustments</b> | <b>Total 2018<sup>(a)</sup></b> |
|--|------------------|---------------|---|------------------|-------------------------------------|--|---------------------------------|
| <b>Revenue</b>   | <b>3,187</b>     | <b>5,769</b>  | <b>1,591</b>                                  | <b>73</b>        | <b>214</b>                          | <b>-</b>   | <b>10,833</b>                   |
| Operating profit before depreciation of intangible assets acquired in business combinations <sup>(b)</sup> | 719              | 849           | 187   | 12               | 53                                  | (156)  | 1,665                           |
| Depreciation of intangible assets acquired in business combinations  |                  |               |   |                  |                                     |  | (266)                           |
| <b>OPERATING PROFIT</b>  |                  |               |   |                  |                                     |  | <b>1,399</b>                    |
| Cost of net debt   |                  |               |   |                  |                                     |  | (100)                           |
| Other financial income/ (expenses)   |                  |               |   |                  |                                     |  | (9)                             |
| Share of profits (loss) of associates  |                  |               |   |                  |                                     |  | -                               |
| Income tax   |                  |               |   |                  |                                     |  | (139)                           |
| <b>NET PROFIT</b>  |                  |               |   |                  |                                     |  | <b>1,150</b>                    |
| Acquisitions of property, plant and equipment and intangible assets  | 344              | 239           | 100   | 3                | 15                                  | -  | 701                             |
| Amortization and depreciation of property, plant and equipment, intangible assets and right-of-use assets  | (193)            | (670)         | (241)   | (3)              | (22)                                | (89)   | 1,219                           |

(a) The comparative period has been restated to reflect the retrospective application of IFRS 16 – *Leases* as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

(b) Operating profit from the *Wholesale* segment is related to the revenue generated with third-party customers only, excluding the 'manufacturing profit' generated on the intercompany revenue with the *Retail* segment. Operating profit from operations of the *Retail* segment is related to retail revenue, considering the cost of goods acquired from the *Wholesale* segment at manufacturing cost, thus including the relevant 'manufacturing profit' attributable to this revenue.

## 4.2. Information by geographical area

The geographic segments include North America, Europe (including Turkey and Russia), Asia, Oceania, Africa (including Middle East) and Latin America.

Revenue is attributed to geographical area based on customers' location, whereas non-current assets are based on geographical area where the legal entities are located.

Information by geographical area is as follows:

| € millions            | Revenue       |                     | Non-current assets <sup>(a)</sup> |                     |
|-----------------------|---------------|---------------------|-----------------------------------|---------------------|
|                       | 2019          | 2018 <sup>(b)</sup> | 2019                              | 2018 <sup>(b)</sup> |
| North America         | 9,154         | 6,004               | 6,581                             | 6,493               |
| Europe                | 4,236         | 2,466               | 8,355                             | 8,556               |
| Asia, Oceania, Africa | 2,892         | 1,672               | 2,236                             | 2,306               |
| Latin America         | 1,108         | 692                 | 587                               | 550                 |
| <b>TOTAL</b>          | <b>17,390</b> | <b>10,833</b>       | <b>17,759</b>                     | <b>17,905</b>       |

(a) Non-current assets excluding goodwill.

(b) The comparative period has been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

The main countries in which the Group operated are the United States for North America (revenue amounting to €8,722 million for the period ended December 31, 2019) and France, United Kingdom and Italy for Europe (cumulated revenue amounting to €2,251 million for the period ended December 31, 2019).

## Note 5 Revenue

The breakdown of revenue by category is as follows:

| € millions                             | 2019          | 2018 <sup>(a)</sup> |
|--|---------------|---------------------|
| Sales of products                      | 16,236        | 9,864               |
| Vision care business                   | 916           | 742                 |
| Eye-exam and related professional fees | 123           | 118                 |
| Income from franchisee royalties       | 80            | 77                  |
| Sub-lease income                       | 36            | 34                  |
| <b>TOTAL REVENUE</b>                   | <b>17,390</b> | <b>10,833</b>       |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

For 2019, the reconciliation between the breakdown by category of the Group's revenue and its five operating segments is as follows:

| € millions                             | Wholesale    | Retail       | Lenses and Optical Instruments |            | Sunglasses & Readers | Total 2019    |
|--|--------------|--------------|--------------------------------|------------|----------------------|---------------|
|  |              |              | Equipment                      |            |                      |               |
| Sales of products                      | 3,247        | 5,091        | 6,791                          | 221        | 885                  | 16,236        |
| Vision care business                   | -            | 916          | -                              | -          | -                    | 916           |
| Eye-exam and related professional fees | -            | 123          | -                              | -          | -                    | 123           |
| Income from franchisee royalties       | 13           | 67           | -                              | -          | -                    | 80            |
| Sub-lease income                       | -            | 36           | -                              | -          | -                    | 36            |
| <b>TOTAL REVENUE</b>                   | <b>3,260</b> | <b>6,232</b> | <b>6,791</b>                   | <b>221</b> | <b>885</b>           | <b>17,390</b> |

## Financial statements

### Notes to the Consolidated Group Financial Statements

For 2018, the reconciliation between the breakdown by category of the Group's revenue and its five operating segments is as follows:

| € millions                             | Wholesale    | Retail       | Lenses and Optical Instruments | Equipment | Sunglasses & Readers | Total 2018 <sup>(a)</sup> |
|--|--------------|--------------|--------------------------------|-----------|----------------------|---------------------------|
| Sales of products                      | 3,175        | 4,811        | 1,591                          | 73        | 214                  | 9,864                     |
| Vision care business                   | -            | 742          | -                              | -         | -                    | 742                       |
| Eye-exam and related professional fees | -            | 118          | -                              | -         | -                    | 118                       |
| Income from franchisee royalties       | 12           | 64           | -                              | -         | -                    | 77                        |
| Sub-lease income                       | -            | 34           | -                              | -         | -                    | 34                        |
| <b>TOTAL REVENUE</b>                   | <b>3,187</b> | <b>5,769</b> | <b>1,591</b>                   | <b>73</b> | <b>214</b>           | <b>10,833</b>             |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

For information on contractual assets and contractual liabilities, see Notes 13 – Other non-current assets, 18 – Other current assets, 26 – Other non-current liabilities and 28 – Other current liabilities.

## Note 6 Operating income and expenses

For the period ended December 31, 2019, the depreciation, amortization and impairment loss of property, plant and equipment, intangible assets and right-of-use assets amount to €2,148 million (€1,232 million for 2018).

Depreciation and rent expenses related to leases recognized within the *Operating profit* are as follows:

| € millions  | 2019         | 2018 <sup>(a)</sup> |
|---|--------------|---------------------|
| Depreciation expenses on right-of-use assets        | (568)        | (463)               |
| Rent expenses – short term leases                   | (7)          | (2)                 |
| Rent expenses – low value leases                    | (22)         | (11)                |
| Rent expenses – variable leases payments            | (368)        | (341)               |
| <b>TOTAL AMOUNTS RECOGNIZED IN OPERATING PROFIT</b> | <b>(965)</b> | <b>(817)</b>        |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

The portfolio of leases to which the rent expenses reported above refer varies over the two periods presented because the 2018 comparative information refers to Luxottica Group for 12 months and to Essilor Group for three months only (as described in the paragraph *Basis of preparation of the financial statements*).

Personnel costs amount to €5,344 million (€3,259 million for 2018) including €169 million related to share based payment expenses (€85 million for 2018).

In the consolidated statement of profit or loss, share based payment expenses are mainly included into the *General and administrative* line item.

The number of employees is as follows:

| Number of employees at closing date | 2019           | 2018           |
|-------------------------------------|----------------|----------------|
| Wholesale                           | 32,924         | 31,482         |
| Retail                              | 48,712         | 50,876         |
| Lenses and Optical Instruments      | 64,202         | 63,591         |
| Equipment                           | 907            | 899            |
| Sunglasses & Readers                | 4,497          | 4,192          |
| <b>TOTAL NUMBER OF EMPLOYEES</b>    | <b>151,242</b> | <b>150,040</b> |

Other operating income and expenses are as follows:

| € millions   | 2019         | 2018       |
|--|--------------|------------|
| Capital gains/(losses) on disposals of operations and assets | 25           | (2)        |
| Other  | (199)        | (3)        |
| <b>OTHER INCOME/(EXPENSES)</b>                               | <b>(174)</b> | <b>(5)</b> |

The impact of the fraudulent financial activities at an Essilor plant in Thailand has been recorded in the 2019 consolidated statement of profit or loss in the *Operating profit* within the line *Other incomes/(expenses)* for an amount of €185 million after taking into account foreign exchanges effects and is reported in the line *Other* in the above table (refer to the paragraph *Significant events of the year*).

In September 2019, the Group has disposed its minority stake into an associate in the US resulting in a profit of €37 million.

## Note 7 Financial income and expenses

Financial income and expenses are as follows:

| € millions  | 2019         | 2018 <sup>(a)</sup> |
|---|--------------|---------------------|
| Interest on debt and borrowings and related derivatives | (113)        | (71)                |
| Interest on leases liabilities                          | (58)         | (47)                |
| Interest income   | 53           | 18                  |
| <b>COST OF NET DEBT</b>                                 | <b>(117)</b> | <b>(100)</b>        |
| Dividend income   | 1            | -                   |
| Foreign exchange gains or losses                        | (20)         | (9)                 |
| Other   | (5)          | (1)                 |
| <b>OTHER FINANCIAL INCOME/(EXPENSES)</b>                | <b>(25)</b>  | <b>(9)</b>          |
| <b>TOTAL FINANCIAL RESULT</b>                           | <b>(142)</b> | <b>(110)</b>        |

(a) The comparative period has been restated in accordance with the transitional requirements of the initial application of IFRS 16 – *Leases* as described in Note 2 – New accounting standards.

## Note 8 Income taxes

The amount of income tax recognized in the statement of profit or loss is as follows:

| € millions                         | 2019         | 2018 <sup>(a)</sup> |
|------------------------------------|--------------|---------------------|
| Current year tax (expense) benefit | (604)        | (334)               |
| Deferred taxes                     | 254          | 194                 |
| <b>TOTAL INCOME TAXES</b>          | <b>(350)</b> | <b>(139)</b>        |

(a) The comparative period has been restated to reflect the retrospective application of IFRS 16 – *Leases* as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

3

## Financial statements

### Notes to the Consolidated Group Financial Statements

The amount of income tax recognized in other comprehensive income is as follows:

| € millions   | 2019        |                       |             | 2018 <sup>(a)</sup> |                       |             |
|--|-------------|-----------------------|-------------|---------------------|-----------------------|-------------|
|  | Before tax  | Tax (expense) benefit | Net of tax  | Before tax          | Tax (expense) benefit | Net of tax  |
| <b>Items that may be reclassified subsequently to profit or loss</b> |             |                       |             |                     |                       |             |
| Cash flow hedges   | 1           | (1)                   | -           | (2)                 | 1                     | (1)         |
| Net investment hedges  | 1           | (0)                   | 0           | -                   | -                     | -           |
| Foreign currency translation differences                             | 521         | -                     | 521         | 286                 | -                     | 286         |
| <b>TOTAL (A)</b>   | <b>523</b>  | <b>(1)</b>            | <b>522</b>  | <b>284</b>          | <b>1</b>              | <b>285</b>  |
| <b>Items that will not be reclassified to profit or loss</b>         |             |                       |             |                     |                       |             |
| Actuarial gain/(loss) on employee benefits                           | (50)        | 13                    | (36)        | (18)                | 4                     | (14)        |
| <b>TOTAL (B)</b>   | <b>(50)</b> | <b>13</b>             | <b>(36)</b> | <b>(18)</b>         | <b>4</b>              | <b>(14)</b> |
| <b>TOTAL (A+B)</b>   | <b>473</b>  | <b>12</b>             | <b>485</b>  | <b>266</b>          | <b>5</b>              | <b>271</b>  |

(a) The comparative period has been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

The reconciliation between the statutory tax rate and the effective rate is as follows:

| As a % of profit before tax                                      | 2019          | 2018 <sup>(a)</sup> |
|--|---------------|---------------------|
| Statutory income tax rate in %                                   | 34.43%        | 34.43%              |
| Non-taxable income and tax incentives                            | -8.04%        | -5.08%              |
| Withholding and other taxes                                      | 0.89%         | 0.10%               |
| Tax rate changes   | -             | -12.25%             |
| Net effect of unrecognized tax losses                            | 2.01%         | 1.16%               |
| Prior year tax adjustments                                       | -1.71%        | -                   |
| Aggregate effect of different tax rates in foreign jurisdictions | -10.94%       | -5.94%              |
| Others (net)   | 6.15%         | -1.61%              |
| <b>EFFECTIVE INCOME TAX RATE</b>                                 | <b>22.79%</b> | <b>10.81%</b>       |

(a) The comparative period has been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

## Note 9 Earnings per share

The net profit used for the calculation of earnings per share is €1,077 million (€1,083 million in 2018).

At December 31, 2019 the average number of ordinary shares outstanding used for the calculation of basic earnings per share is 434,084,752.

In 2018 and until the EL Combination effective date October 1, 2018, the average number of ordinary shares is 165,691,424. This is based on the average number of

ordinary shares outstanding of Luxottica multiplied by the Exchange ratio of 0.4613 Essilor shares for 1 Luxottica share as established in the Combination Agreement (see Note 3 – Business combinations). From the EL Combination effective date October 1, 2018 and until December 31, 2018, the average number of ordinary shares is 95,008,287. This is based on the average number of ordinary shares outstanding of EssilorLuxottica.

The average number of ordinary shares outstanding used to calculate diluted earnings per share is as follows:

| € millions  | 2019               | 2018               |
|---|--------------------|--------------------|
| Weighted average number of ordinary shares                | 434,084,752        | 260,699,711        |
| Dilutive effect of stock subscription options             | 27,446             | 36,211             |
| Dilutive effect of performance share grants               | 7,025,327          | 5,510,385          |
| <b>DILUTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES</b> | <b>441,137,525</b> | <b>266,246,307</b> |

At December 31, 2019, 191,472 options (2018: 206,503) were excluded from the diluted weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive<sup>(1)</sup>.

## Note 10 Goodwill and other intangible assets

Changes in goodwill and intangible assets for the year ended December 31, 2019 and 2018 are as follows:

| € millions  | Goodwill      | Trade names, trademarks and brands | Technologies | Customer relationships | Other       | Total         |
|---|---------------|------------------------------------|--------------|------------------------|-------------|---------------|
| <b>Balance as of January 1, 2019</b>                      |               |                                    |              |                        |             |               |
| Historical cost   | 23,486        | 4,723                              | 2,834        | 5,272                  | 1,488       | 37,803        |
| Accumulated amortization and impairment                   | -             | (1,192)                            | (67)         | (259)                  | (825)       | (2,342)       |
| <b>NET BOOK VALUE AS OF JANUARY 1, 2019<sup>(a)</sup></b> | <b>23,486</b> | <b>3,532</b>                       | <b>2,767</b> | <b>5,013</b>           | <b>663</b>  | <b>35,461</b> |
| Additions   | -             | -                                  | -            | -                      | 175         | 175           |
| Business combinations                                     | 206           | 2                                  | 23           | 44                     | 8           | 283           |
| Amortization and impairment losses                        | -             | (218)                              | (280)        | (354)                  | (195)       | (1,046)       |
| Divestments and assets classified as held for sale        | -             | -                                  | -            | -                      | (3)         | (3)           |
| Translation differences and other                         | 382           | 38                                 | 15           | 78                     | (10)        | 504           |
| <b>TOTAL CHANGES</b>                                      | <b>588</b>    | <b>(178)</b>                       | <b>(242)</b> | <b>(231)</b>           | <b>(24)</b> | <b>(87)</b>   |
| <b>Balance as of December 31, 2019</b>                    |               |                                    |              |                        |             |               |
| Historical Cost   | 24,074        | 4,683                              | 2,870        | 5,384                  | 1,654       | 38,665        |
| Accumulated amortization and impairment                   | -             | (1,329)                            | (345)        | (602)                  | (1,015)     | (3,291)       |
| <b>NET BOOK VALUE AS OF DECEMBER 31, 2019</b>             | <b>24,074</b> | <b>3,353</b>                       | <b>2,525</b> | <b>4,782</b>           | <b>639</b>  | <b>35,374</b> |

(a) The net book value as of January 1, 2019 has been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

(1) Options not included in the calculation of dilutive shares as the average value was greater than the average price during the respective period or performance measures related to the awards have not yet been met.

| <i>€ millions</i>   | <b>Goodwill</b> | <b>Trade names, trademarks and brands</b> | <b>Technologies</b> | <b>Customer relationships</b> | <b>Other</b> | <b>Total</b>  |
|---|-----------------|---|---------------------|-------------------------------|--------------|---------------|
| <b>Balance as of January 1, 2018</b>                        |                 |   |                     |                               |              |               |
| Historical cost   | 3,608           | 1,765                                     | -                   | 268                           | 1,142        | 6,783         |
| Accumulated amortization and impairment                     | -               | (1,062)                                   | -                   | (156)                         | (714)        | (1,932)       |
| <b>NET BOOK VALUE AS OF JANUARY 1, 2018<sup>(a)</sup></b>   | <b>3,608</b>    | <b>702</b>                                | <b>-</b>            | <b>112</b>                    | <b>428</b>   | <b>4,851</b>  |
| <b>Balance as of December 31, 2018</b>                      |                 |   |                     |                               |              |               |
| Historical cost   | 23,486          | 4,723                                     | 2,834               | 5,272                         | 1,488        | 37,803        |
| Accumulated amortization and impairment                     | -               | (1,192)                                   | (67)                | (259)                         | (825)        | (2,342)       |
| <b>NET BOOK VALUE AS OF DECEMBER 31, 2018<sup>(a)</sup></b> | <b>23,486</b>   | <b>3,532</b>                              | <b>2,767</b>        | <b>5,013</b>                  | <b>663</b>   | <b>35,461</b> |

(a) The net book value as of January 1, 2018 and December 31, 2018 as well as 2018 movements have been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

Most significant intangible assets of the Group are related to:

- (i) the Group's brands, with a total carrying amount of €3,353 million as of December 31, 2019 (€3,532 million as of December 31, 2018);
- (ii) the technologies recognized in 2018 as a result of the EL Combination, with a carrying amount of €2,503 million as of December 31, 2019 (€2,767 million as of December 31, 2018);
- (iii) the customer relationship recognized in 2018 as a result of the EL Combination, with a carrying amount of €4,633 million as of December 31, 2019 (€4,892 million as of December 31, 2018).

In 2019, *Goodwill* increased by €588 million, of which:

- €206 million resulting from acquisitions of the year (see Note 3 – Business combinations); and
- €382 million resulting from foreign currency fluctuations (including foreign currency fluctuations on the goodwill arising from the EL Combination, amounting to €333 million).

The main increases in *Intangible assets* resulted from business combinations occurred in 2019 (€77 million) as well as from investment in the IT infrastructure of the Group (€66 million).

During 2018, the main increase in *Goodwill* and *Intangible assets* resulted from the EL Combination, as described in Note 3 – Business combinations. The acquisition accounting resulting from the EL Combination, which include the determination of goodwill, has been finalized prior to October 1, 2019, see Note 3 – Business combinations (paragraph *PPA finalization (restatement of 2018 comparative figures)*).

## 10.1. Impairment test of goodwill

The annual impairment test on goodwill is performed as part of the year end closing. For 2019, the Group performed the annual impairment test on goodwill as of September 30, 2019. As of December 31, 2019, there was no indication that the groups of CGUs to which goodwill has been allocated may be impaired.

Following the implementation of IFRS 16 (effective from annual period beginning on January 1, 2019), the value in use of each group of CGUs is calculated as follows:

- future cash flows exclude the payments for both principal portion of lease liabilities and related interests, while include cash outflows for expected future variable rents, short-term leases and low-value-asset leases;
- future cash flows also include cash outflows needed to replace leased assets at the end of the lease-term which are essential to the ongoing operation of the Group; and
- the Group discount rate (weighted average cost of capital, WACC) reflects a market assessment of the capital structure after IFRS 16 implementation (i.e. lease liabilities are considered as part of the capital structure of the Group's peer companies).

Furthermore, the carrying amount tested against the groups of CGUs value in use includes *Right-of-use assets* and excludes *Lease liabilities*.

### 10.1.1. Impairment test of goodwill – Luxottica Goodwill

The carrying amount of goodwill related to Luxottica Group ("Luxottica Goodwill"), i.e. excluding the one arising from the EL Combination and the amount of goodwill related to acquisitions finalized by the Essilor Group after October 1, 2018, is allocated to the following different groups of CGUs:

| € millions     | Luxottica Goodwill<br>December 31, 2018 | Changes in<br>Luxottica Goodwill | Luxottica Goodwill<br>December 31, 2019 |
|----------------|---|----------------------------------|---|
| Wholesale      | 1,387                                   | 67                               | 1,454                                   |
| Retail Optical | 1,142                                   | 28                               | 1,169                                   |
| Retail Sun     | 1,168                                   | 16                               | 1,184                                   |
| <b>TOTAL</b>   | <b>3,697</b>                            | <b>110</b>                       | <b>3,808</b>                            |

In 2019, the Group reorganized its reporting structure in a way that changed the composition of Luxottica Group's groups of CGUs. In particular, for internal management purposes, goodwill is no longer monitored at the level of Retail Oakley since its results are currently analyzed as part of the larger Retail Sun business. The amount of goodwill previously allocated to Retail Oakley (€174 million) has been reallocated accordingly. Consequently, the lowest level at which goodwill is now monitored within the Retail segment is: Retail Optical and Retail Sun. The group of CGUs Wholesale was not impacted by the change.

Impairment tests are performed using the methodology described above and in Note 1 – Significant accounting principles. As required by IAS 36 – *Impairment of Assets*, before testing for impairment the new groups of CGUs to which the goodwill was reallocated, the Group tested the previous groups of CGUs. Neither tests resulted in the recognition of an impairment loss. Moreover, no goodwill impairment losses were recognized in 2018.

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 weighted average cost of capital (WACC) for 2019 is 6.3% (6.4% for 2018). The post-tax discount rates allocated to the respective group of CGUs are as follows:

| In %           | September 30, 2019 | December 31, 2018 |
|----------------|--------------------|-------------------|
| Wholesale      | 6.5%               | 6.7%              |
| Retail Optical | 6.1%               | 6.3%              |
| Retail Sun     | 6.3%               | 6.5%              |

The growth rates used to determine terminal values were set between 1.8% and 2.2% (2018: between 1.9% and 2.2%), with the highest rate applying to emerging markets. The growth rates used to determine terminal values are in line with the long-term expected inflation in the countries where the Group operates.

In percentages, the surplus of recoverable amount over the net carrying amount of the Wholesale, Retail Optical, Retail Sun groups of CGUs equals to, respectively, 499%, 128% and 114% (2018: Wholesale 496%, Retail Optical 75%, Retail Sun & Luxury 117% and Oakley Retail 154%).

A 50 basis points increase in the benchmark discount rate would not generate any impairment loss on the net amount of goodwill at December 31, 2019. A 50 basis points decrease in the perpetual growth rate would not generate any impairment loss on the net amount of goodwill at December 31, 2019.

A 100 basis points decrease in operating profit margin would not generate any impairment loss on the net amount of goodwill as at December 31, 2019.

### 10.1.2. Impairment test of goodwill – Goodwill arising from the EL Combination

The initial allocation of the goodwill arising from the EL Combination was provisional in 2018 consolidated financial statements. In 2019, the Group finalized the accounting of the EL Combination (see paragraph *PPA finalization (restatement of 2018 comparative figures)*) and proceeded with the finalization of the allocation of the goodwill arising from such combination.

As of December 31, 2019, the carrying amount of goodwill arising from the EL Combination together with any goodwill recognized as a result of business combinations finalized by the Essilor Group after October 1, 2018 is allocated to the following groups of CGUs:

| <i>€ millions</i>                              | <b>Net goodwill<br/>December 31, 2019</b> |
|--|---|
| Lenses and Optical Instruments – North America | 9,772                                     |
| Lenses and Optical Instruments – Europe        | 3,759                                     |
| Lenses and Optical Instruments – Amera         | 3,880                                     |
| Lenses and Optical Instruments – Latam         | 480                                       |
| Equipment                                      | 718                                       |
| Sunglasses & Readers                           | 1,656                                     |
| <b>TOTAL</b>                                   | <b>20,266</b>                             |

Impairment tests are performed using the methodology described above and in Note 1 – Significant accounting principles. The recoverable amount of groups of CGUs has been determined by reference to the value in use, based on a discounted cash flow methodology using the parameters described below.

No goodwill impairment loss was recognized neither in 2019 nor in 2018.

The post-tax discount rates allocated to the respective groups of CGUs can be summarized as follows, leading to a weighted average cost of capital (WACC) used of 6.3% (6.5% for 2018).

| <i>In %</i>                                    | <b>September 30, 2019</b> |
|--|---------------------------|
| Lenses and Optical Instruments – North America | 6.0%                      |
| Lenses and Optical Instruments – Europe        | 5.8%                      |
| Lenses and Optical Instruments – Amera         | 6.6%                      |
| Lenses and Optical Instruments – Latam         | 8.8%                      |
| Equipment                                      | 5.7%                      |
| Sunglasses & Readers                           | 6.5%                      |

The growth rates used to determine terminal values were set between 1.8% and 3.4% with the highest rates applied to emerging markets.

In percentages, the surplus of recoverable amount over the net carrying amount of the Lenses and Optical Instruments – North America, Lenses and Optical Instruments – Europe, Lenses and Optical Instruments – Amera, Lenses and Optical Instruments – Latam, Equipment and Sunglasses & Readers groups of CGUs equals to, respectively, 12%, 19%, 22%, 49%, 37% and 39%.

A 50 basis points increase in the benchmark discount rate would not generate any impairment loss on the net amount of goodwill at December 31, 2019. A 50 basis points decrease in the perpetual growth rate would not generate any impairment loss on the net amount of goodwill at December 31, 2019.

A 100 basis points decrease in operating profit margin would not generate any impairment loss on the net amount of goodwill as at December 31, 2019.

## Note 11 Property, plant and equipment and right-of-use assets

### 11.1. Property, plant and equipment

Changes in items of property, plant and equipment in 2019 are as follows:

| <i>€ millions</i>  | Land, Buildings<br>and related<br>leasehold<br>improvements | Plant,<br>equipment,<br>machinery | Other      | Total        |
|--|---|-----------------------------------|------------|--------------|
| <b>Balance as of January 1, 2019</b>                       |   |                                   |            |              |
| Historical cost  | 2,128   | 2,335                             | 1,376      | 5,839        |
| Accumulated depreciation and impairment                    | (727)   | (1,197)                           | (576)      | (2,500)      |
| <b>NET BOOK VALUE AS OF JANUARY 1, 2019 <sup>(a)</sup></b> | <b>1,401</b>  | <b>1,139</b>                      | <b>800</b> | <b>3,339</b> |
| Additions  | 125   | 219                               | 385        | 729          |
| Business combinations                                      | 32  | 39                                | 6          | 76           |
| Depreciation and impairment losses                         | (128)   | (263)                             | (143)      | (534)        |
| Disposals and assets classified as held for sale           | (11)  | (12)                              | (14)       | (37)         |
| Translation differences and other                          | 41  | 136                               | (131)      | 45           |
| <b>TOTAL CHANGES</b>                                       | <b>59</b>   | <b>119</b>                        | <b>102</b> | <b>280</b>   |
| <b>Balance as of December 31, 2019</b>                     |   |                                   |            |              |
| Historical cost  | 2,358   | 2,829                             | 1,570      | 6,757        |
| Accumulated depreciation and impairment                    | (898)   | (1,571)                           | (668)      | (3,137)      |
| <b>NET BOOK VALUE AS OF DECEMBER 31, 2019</b>              | <b>1,460</b>  | <b>1,258</b>                      | <b>902</b> | <b>3,620</b> |

(a) The net book value as of January 1, 2019 has been restated to reflect the application of IFRS 16 as described in Note 2 – New accounting standards.

Changes in items of property, plant and equipment in 2018 are as follows:

| <i>€ millions</i>  | Land, Buildings<br>and related<br>leasehold<br>improvements | Plant,<br>equipment,<br>machinery | Other      | Total        |
|--|---|-----------------------------------|------------|--------------|
| <b>Balance as of January 1, 2018</b>                         |   |                                   |            |              |
| Historical cost  | 1,364   | 1,583                             | 1,067      | 4,013        |
| Accumulated depreciation and impairment                      | (660)   | (1,037)                           | (535)      | (2,232)      |
| <b>NET BOOK VALUE AS OF JANUARY 1, 2018 <sup>(a)</sup></b>   | <b>704</b>  | <b>545</b>                        | <b>532</b> | <b>1,782</b> |
| Additions  | 115   | 150                               | 333        | 599          |
| Business combinations  | 518   | 525                               | 252        | 1,295        |
| <i>of which EL Combination</i>                               | 517   | 523                               | 249        | 1,289        |
| <i>of which other business combinations</i>                  | 1   | 2                                 | 3          | 6            |
| Depreciation and impairment losses                           | (83)  | (169)                             | (94)       | (346)        |
| Disposals and assets classified as held for sale             | (3)   | (22)                              | (9)        | (34)         |
| Translation differences and other                            | 150   | 108                               | (214)      | 44           |
| <b>TOTAL CHANGES</b>   | <b>697</b>  | <b>593</b>                        | <b>268</b> | <b>1,558</b> |
| <b>Balance as of December 31, 2018</b>                       |   |                                   |            |              |
| Historical cost  | 2,128   | 2,335                             | 1,376      | 5,839        |
| Accumulated depreciation and impairment                      | (727)   | (1,197)                           | (576)      | (2,500)      |
| <b>NET BOOK VALUE AS OF DECEMBER 31, 2018 <sup>(a)</sup></b> | <b>1,401</b>  | <b>1,139</b>                      | <b>800</b> | <b>3,339</b> |

(a) The net book value as of January 1, 2018 and December 31, 2018 as well as 2018 movements have been restated to reflect the application of IFRS 16 as described in Note 2 – New accounting standards.

## Financial statements

### Notes to the Consolidated Group Financial Statements

The Group's property, plant and equipment mainly include:

- buildings consisting mainly of plants, prescription laboratories and administrative offices. Their locations reflect the Group's broad international presence;
- production plants and equipment including machines and equipment for producing semi-finished and finished lenses.

The prescription laboratories also have machines and equipment for surfacing, coating, edging and mounting lenses.

Other mainly includes assets under construction with a corresponding carrying amount of €388 million as at December 31, 2019 (€345 million as at December 31, 2018).

Investments in 2019 mainly relate to:

- technology upgrades and enlargement of the manufacturing infrastructure of Group as well as investments in plants automation (€129 million);

- opening of new stores and the remodeling of older stores (€142 million).

In 2018, the main increase in *Property, plant and equipment* resulted from the EL Combination. Except for business combinations mentioned above, investments in 2018 mainly relate to routine technology upgrades to the manufacturing infrastructure, opening of new stores and the remodeling of older stores. The Group also purchased land and buildings for a consideration of €107 million, mainly in relation to the acquisition of the building hosting Luxottica offices in New York.

Since no impairment indicators were brought to management's attention, no specific impairment tests were performed neither in 2019 nor in 2018.

## 11.2. Right-of-use assets (following the adoption of IFRS 16)

The following table summarizes the amounts recognized in the Group's consolidated statement of financial position as a result of the application of IFRS 16. In particular, the table shows the carrying amounts of the Group's right-of-use assets as well as their movements during the period ended December 31, 2019.

| <i>€ millions</i>                       | Store and other buildings | Equipment and machinery | Other     | Total        |
|---|---------------------------|-------------------------|-----------|--------------|
| <b>NET BOOK VALUE JANUARY 1, 2019</b>   | <b>1,759</b>              | <b>35</b>               | <b>34</b> | <b>1,828</b> |
| Additions                               | 683                       | 5                       | 16        | 704          |
| Business combination                    | 8                         | -                       | -         | 8            |
| Depreciation                            | (538)                     | (12)                    | (18)      | (568)        |
| Translation differences and other       | 41                        | (4)                     | 3         | 41           |
| <b>NET BOOK VALUE DECEMBER 31, 2019</b> | <b>1,955</b>              | <b>24</b>               | <b>35</b> | <b>2,014</b> |

## Note 12 Investments in associates

Investments in associates amount to €18 million as at December 31, 2019 (€22 million as at December 31, 2018).

For the period ended December 31, 2019, the Group's share of profits in associates amounts to €(2) million (€0.3 million for 2018).

## Note 13 Other non-current assets

Other non-current assets are described as follows:

| <i>€ millions</i>                     | December 31, 2019 | December 31, 2018 <sup>(a)</sup> |
|---------------------------------------|-------------------|----------------------------------|
| Other non-financial assets            | 249               | 231                              |
| Other financial assets                | 129               | 169                              |
| <b>TOTAL OTHER NON-CURRENT ASSETS</b> | <b>378</b>        | <b>399</b>                       |

(a) The comparative period has been restated to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

Other non-current non-financial assets mainly include security deposits with a corresponding carrying amount of €78 million (€70 million in 2018) and the long-term portion of the upfront payment related to a distribution agreement signed by Luxottica in 2018 (Bass Pro agreement) for €47 million.

Contractual assets included in other non-financial assets amount to €3 million (€17 million in 2018).

Other financial assets mainly include loans and non-consolidated companies.

## Note 14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are as follows:

| € millions                                   | December 31, 2019 | December 31, 2018 <sup>(a)</sup> |
|--|-------------------|----------------------------------|
| Deferred tax assets                          | 429               | 341                              |
| Deferred tax liabilities                     | (2,137)           | (2,267)                          |
| <b>DEFERRED TAX ASSETS/LIABILITIES (NET)</b> | <b>(1,708)</b>    | <b>(1,925)</b>                   |

(a) Deferred tax positions as of December 31, 2018 have been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

Changes in deferred taxes are as follows:

| € millions   | 2019           | 2018 <sup>(a)</sup> |
|--|----------------|---------------------|
| <b>POSITION AS OF JANUARY 1</b>                    | <b>(1,925)</b> | <b>(27)</b>         |
| Tax charged/credited to profit or loss             | 254            | 194                 |
| Tax charged/credited to other comprehensive income | 12             | 5                   |
| Tax charged/credited to equity                     | 1              | 23                  |
| Business combinations                              | (5)            | (2,102)             |
| <i>of which EL Combination</i>                     | -              | (2,104)             |
| <i>of which other business combinations</i>        | (5)            | 2                   |
| Exchange rate difference and other movements       | (45)           | (17)                |
| <b>POSITION AS OF DECEMBER 31</b>                  | <b>(1,708)</b> | <b>(1,925)</b>      |

(a) Deferred tax positions as of December 31, 2018 have been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

Deferred taxes by nature are as follows:

| € millions  | December 31, 2019 | December 31, 2018 <sup>(a)</sup> |
|---|-------------------|----------------------------------|
| Elimination of inter-company profits                | 63                | 61                               |
| Differences in depreciation periods                 | (637)             | (583)                            |
| Temporarily non-deductible provisions               | 160               | 101                              |
| Actuarial gains and losses                          | 71                | 58                               |
| Assets and liabilities recognized on an acquisition | (1,980)           | (2,150)                          |
| Assets recognized on tax loss carryforward          | 129               | 119                              |
| Other   | 486               | 469                              |
| <b>TOTAL</b>  | <b>(1,708)</b>    | <b>(1,925)</b>                   |

(a) Deferred tax positions as of December 31, 2018 have been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination, as described in Note 3 – Business combinations.

Deferred tax assets are recognized for tax losses carried forward and other temporary differences to the extent that the realization of the related tax benefit through future profit is probable. As at December 31, 2019, the Group did not recognize deferred tax assets of €163 million (€139 million in 2018) in respect of losses and other temporary differences.

The Group does not recognize deferred tax liabilities on undistributed earnings of its subsidiaries to the related parent company that are intended to be permanently invested.

3

## Note 15 Inventories

The composition of inventories is as follows:

| <i>€ millions</i>                    | <b>December 31, 2019</b> | <b>December 31, 2018 <sup>(a)</sup></b> |
|--------------------------------------|--------------------------|---|
| Raw material, supplies and packaging | 503                      | 449                                     |
| Work in progress                     | 75                       | 65                                      |
| Finished Goods                       | 1,816                    | 1,696                                   |
| <b>INVENTORIES - GROSS</b>           | <b>2,395</b>             | <b>2,210</b>                            |
| Inventory obsolescence reserve       | (228)                    | (176)                                   |
| <b>INVENTORIES - NET</b>             | <b>2,166</b>             | <b>2,034</b>                            |

(a) The comparative period has been restated to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

For the period ended December 31, 2019, a provision on inventories has been booked for €117 million (€120 million for 2018).

## Note 16 Trade receivables

Trade receivables are as follows:

| <i>€ millions</i>              | <b>December 31, 2019</b> | <b>December 31, 2018 <sup>(a)</sup></b> |
|--------------------------------|--------------------------|---|
| Trade receivables – gross      | 2,498                    | 2,426                                   |
| Bad debt provision             | (86)                     | (78)                                    |
| <b>TRADE RECEIVABLES - NET</b> | <b>2,411</b>             | <b>2,348</b>                            |

(a) The comparative period has been restated to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

For the period ended December 31, 2019, the impairment loss of trade receivables in accordance with IFRS 9 amounted to €9 million (€11 million for 2018).

## Note 17 Tax receivables and tax payables

Tax receivables and tax payables are as follows:

| <i>€ millions</i> | <b>December 31, 2019</b> | <b>December 31, 2018 <sup>(a)</sup></b> |
|-------------------|--------------------------|---|
| Tax receivables   | 94                       | 128                                     |
| Tax payables      | (455)                    | (99)                                    |

(a) The comparative period has been restated to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

Following the adoption of IFRIC 23 – *Uncertainty over Income Tax Treatments*, from January 1, 2019, any liability related to tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law is recognized within the line *Tax payables* (as described in Note 2 – New accounting standards).

Therefore, as of December 31, 2019, *Tax payables* include liabilities related to fiscal litigation in various countries in which the Group operates.

## Note 18 Other current assets

Other current assets are as follows:

| <i>€ millions</i>                 | <b>December 31, 2019</b> | <b>December 31, 2018 <sup>(a)</sup></b> |
|-----------------------------------|--------------------------|---|
| Social and sales tax receivable   | 247                      | 189                                     |
| Advances to suppliers             | 78                       | 64                                      |
| Prepaid expenses                  | 153                      | 137                                     |
| Other                             | 211                      | 215                                     |
| <b>TOTAL NON-FINANCIAL</b>        | <b>690</b>               | <b>605</b>                              |
| Derivative financial instruments  | 42                       | 39                                      |
| Short-term investments            | 500                      | -                                       |
| Other                             | 11                       | 11                                      |
| <b>TOTAL FINANCIAL</b>            | <b>553</b>               | <b>50</b>                               |
| <b>OTHER CURRENT ASSETS – NET</b> | <b>1,243</b>             | <b>655</b>                              |

(a) Other current assets as of December 31, 2018 have been restated to reflect the application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

The increase in *Other current financial assets* is related to a portion of the proceeds from the issuance of the 5BIL Bonds (see paragraph *Significant events of the year*) invested in cash deposits with a maturity of less than 12 months (reported under *Short-term investments*).

As at December 31, 2019, contractual assets included in other current assets amount to €21 million (€15 million in 2018).

3

## Note 19 Cash and cash equivalents

Cash and cash equivalents are as follows:

| <i>€ millions</i>                      | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|--|--------------------------|--------------------------|
| Cash in hand and at bank               | 1,895                    | 1,344                    |
| Time deposits and money market funds   | 2,942                    | 485                      |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b> | <b>4,836</b>             | <b>1,829</b>             |

The Group is operating in some countries where cash and cash equivalents are subject to legal restrictions. The respect of preliminary formalities in these countries is mandatory before transferring these funds with some delay and eventually some tax payment. Cash and cash equivalents can also be held by some subsidiaries where the initial approval of our partners is required to transfer any funds.

The overall increase in *Cash and cash equivalents* (as well as in *Other current assets*, see Note 18 – Other current assets) is mainly linked to the proceeds from the issuance of the 5BIL Bonds occurred in November 2019.

## Note 20 Assets held for sale

On October 1, 2018, the Turkish Competition Authority (TCA) approved the combination between Essilor and Luxottica after the Group agreed to dispose of a Turkish

subsidiary operating in the distribution of frames and sunglasses before the end of 2019. The disposal was completed on December 5, 2019.

## Note 21 Equity

### 21.1. Number of shares

The changes in number of shares between January 1 and December 31 for the years 2019 and 2018 are as follows:

| <i>In number of shares</i>                                      | <b>2019</b>        | <b>2018</b>        |
|---|--------------------|--------------------|
| <b>NUMBER OF SHARES AS OF JANUARY 1</b>                         | <b>426,777,218</b> | <b>219,125,439</b> |
| Issued for cash – Employee stock ownership plan                 | 249,635            | 277,926            |
| Acquisition of subsidiaries with NCI                            | -                  | 139,703,301        |
| Changes related to NCI without a change in control              | 9,259,224          | 66,329,548         |
| Delivery of performance shares                                  | 1,206,509          | 1,308,339          |
| Exercise of stock options and performance shares <sup>(a)</sup> | 71,845             | 32,665             |
| <b>NUMBER OF SHARES AS OF DECEMBER 31</b>                       | <b>437,564,431</b> | <b>426,777,218</b> |

(a) Including 30,915 shares delivered but not yet registered.

Due to the reverse acquisition accounting (see Note 3 – Business combinations), the amount of share capital as at January 1, 2018 is that of Essilor (accounting acquiree but legal acquirer) while the total amount of net equity at the same date being the amount of Luxottica (accounting acquirer), with any relevant difference with Luxottica published financial statements accounted in retained earnings. Therefore, the number of shares indicated at January 1, 2018 is the number of shares of Essilor and the number of shares indicated at December 31, 2018 is the number of shares of EssilorLuxottica.

### 21.2. Share capital

The share capital of the Company amounted to €79 million as of December 31, 2019 and was comprised of 437,564,431 ordinary shares with a par value of €0.18 each.

The share capital of the Company amounted to €77 million as of December 31, 2018 and was comprised of 426,777,218 ordinary shares with a par value of €0.18 each.

The changes in share capital and share premiums (issue of ordinary shares) are described below.

- Changes related to NCI without a change in control: the consideration due to the holders of the ordinary shares of Luxottica tendered in the Second and the Third phases of the MTO consisted of 0.4613 newly-issued

ordinary share of EssilorLuxottica per each Luxottica share (i.e. a total of 9,259,224 EssilorLuxottica shares with a par value of €0.18 each, for an increase in share capital of €2 million and in share premium of €1,017 million).

- Delivery of performance shares and employee share issuance: refers to the delivery of 1,206,509 shares in the context of performance share plans as well as 249,635 shares issues in connection with the employee stock ownership plans.
- Exercise of stock options: refers to the delivery of 71,845 shares.

### 21.3. Treasury shares reserves

The reserve for the Company's treasury shares comprises the cost of the Company's shares held by the Group.

The changes in number of Treasury shares as of December 31, 2019 are as follows:

|                           | <b>December 31, 2018</b> | <b>Cancellations</b> | <b>Options exercised</b> | <b>Performance Shares vested</b> | <b>Share Purchase (Sale)</b> | <b>December 31, 2019</b> |
|---------------------------|--------------------------|----------------------|--------------------------|----------------------------------|------------------------------|--------------------------|
| Number of Treasury shares | 1,099,757                | -                    | -                        | -                                | (312,447)                    | 787,310                  |

At December 31, 2019, the Group held 787,310 of the Company's shares valued at €68 million.

At December 31, 2018, the Group held 1,099,757 of the Company's shares valued at €92 million.

During the period from January 1, 2019 to December 31, 2019 the Group accounted for a decrease of €24 million in treasury shares reserve due to a sale of 312,447 treasury shares to Essilor employees as part of employee shares plans.

## 21.4. Retained earnings and other reserves

Retained earnings and other reserves amount to €11,166 million as of December 31, 2019 (€10,848 as of December 31, 2018).

The main changes accounted in the period are as follows:

- *Changes related to NCI without a change in control:* the accounting of the Second and Third phase of the MTO determined an increase in *Retained earnings and other reserves* of €16 million which is the net impact resulting from:
  - the reverse of the put liability for an amount of €1,677 million (See Note 3 – Business combinations) from *Other current liabilities*;
  - the capital increases for an amount of €1,020 million (of which, €2 million from the increase in share capital, €1,017 million from the increase in share premium and €1 from related costs) resulting from the issuance of 9,259,224 EssilorLuxottica shares, as a consideration due to the holders of the ordinary shares of Luxottica exchanged against EssilorLuxottica's shares;
  - the cash out amounting to €641 million as a consideration due to Luxottica shareholders that tendered their shares against a cash consideration (accounted for under *Transactions with non-controlling interests* in the consolidated statement of cash flows).

- *Allocation of net profit:* net profit attributable to owners of the parent of EssilorLuxottica accounted as of December 31, 2018 increased the amount of *Retained earnings and other reserves* for an amount of €1,083 million.
- *Share-based payments:* *Retained earnings and other reserves* increased by €152 million as a result of the share-based payments costs recorded in 2019.
- *Dividends paid:* the dividend distribution described below decreased *Retained earnings and other reserves* for €887 million.

Costs incurred in issuing equity instruments have been accounted for, net of tax, as a deduction from equity to the extent they were deemed as incremental costs directly attributable to the equity transactions that otherwise would have been avoided. Costs related to the EL Combination accounted for as a reduction of equity in 2019 amounted to €2 million before tax.

## 21.5. Dividends

Dividend presented in 2019 statement of changes in equity represent dividends paid during 2019 by EssilorLuxottica whereas, due to the reverse acquisition accounting, dividends presented in the 2018 consolidated statement of changes in equity correspond to the dividends paid during 2018 by Luxottica. Dividends distributed to EssilorLuxottica shareholders during 2019 amounted to €887 million (€2.04 per share), and the amount distributed to non-controlling interests totaled €72 million during the same period.

3

## 21.6. Non-controlling interests

The following table provides a reconciliation of the changes in non-controlling interests over the period:

| € millions  | 2019       | 2018 <sup>(a)</sup> |
|---|------------|---------------------|
| <b>POSITION AS OF JANUARY 1</b>                           | <b>504</b> | <b>5</b>            |
| Total comprehensive income of the period                  | 116        | 71                  |
| Effect related to the EL Combination                      |            |                     |
| <i>Acquisition of subsidiaries with NCI</i>               | -          | 2,744               |
| <i>Changes related to NCI without a change in control</i> | -          | (2,263)             |
| Other changes related to NCI                              | (12)       | (46)                |
| Dividends paid  | (72)       | (7)                 |
| <b>POSITION AS AT DECEMBER 31</b>                         | <b>535</b> | <b>504</b>          |

(a) The comparative period has been restated to reflect the application of IFRS 16 – Leases, as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

## Note 22 Financial debt, including lease liabilities

Total financial debt is €9,416 million and €5,702 million as of December 31, 2019 and 2018, respectively.

The balances in financial debt as of December 31, 2019 and 2018 and the changes over the respective periods, are as follows:

| € millions                              | Balance as of January 1, 2019 <sup>(a)</sup> | Change in financing flows <sup>(b)</sup> | Other scope effect | Translation differences | Other <sup>(c)</sup> | Balance as of December 31, 2019 |
|---|--|--|--------------------|-------------------------|----------------------|---------------------------------|
| Non-current borrowings                  | 2,564  | 4,386                                    | 6                  | 12                      | (103)                | 6,864                           |
| Non-current lease liabilities           | 1,481  | (3)                                      | 8                  | 25                      | 109                  | 1,619                           |
| <b>TOTAL NON-CURRENT FINANCIAL DEBT</b> | <b>4,045</b>                                 | <b>4,383</b>                             | <b>13</b>          | <b>36</b>               | <b>6</b>             | <b>8,484</b>                    |
| Current borrowings                      | 1,176  | (881)                                    | (3)                | 10                      | 101                  | 403                             |
| Current lease liabilities               | 481  | (568)                                    | 1                  | 7                       | 607                  | 529                             |
| <b>TOTAL CURRENT FINANCIAL DEBT</b>     | <b>1,657</b>                                 | <b>(1,448)</b>                           | <b>(2)</b>         | <b>18</b>               | <b>708</b>           | <b>932</b>                      |
| <b>TOTAL FINANCIAL DEBT</b>             | <b>5,702</b>                                 | <b>2,934</b>                             | <b>11</b>          | <b>54</b>               | <b>714</b>           | <b>9,416</b>                    |

(a) The balance as of January 1, 2019 has been restated to reflect the application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

(b) The total change in financing flow corresponds to the Issuance of bonds, private placements and other long-term debts, Repayment of bonds, private placements and other long-term debts, the Changes in other current and non-current borrowings and the Cash payments for principal portion of lease liabilities lines as reported in the consolidated statement of cash flows.

(c) The column “Other” includes, among others, interests paid, reported within the Net cash flows provided by/(used in) operating activities in the consolidated statement of cash flows.

| € millions                              | Balance as of January 1, 2018 <sup>(a)</sup> | Change in financing flows <sup>(a) (b)</sup> | EL Combination <sup>(a)</sup> | Other scope effect <sup>(a)</sup> | Translation differences <sup>(a)</sup> | Other <sup>(a) (c)</sup> | Balance as of December 31, 2018 <sup>(a)</sup> |
|---|--|--|-------------------------------|-----------------------------------|--|--------------------------|--|
| Non-current borrowings                  | 1,650  | (85)   | 1,620                         | 10                                | 7                                      | (637)                    | 2,564  |
| Non-current lease liabilities           | 1,250  | (0)  | 240                           | 4                                 | 2                                      | (15)                     | 1,481  |
| <b>TOTAL NON-CURRENT FINANCIAL DEBT</b> | <b>2,900</b>                                 | <b>(86)</b>                                  | <b>1,860</b>                  | <b>14</b>                         | <b>9</b>                               | <b>(652)</b>             | <b>4,046</b>                                   |
| Current borrowings                      | 219  | (711)  | 995                           | 7                                 | (3)                                    | 668                      | 1,176  |
| Current lease liabilities               | 404  | (455)  | 63                            | 5                                 | 0                                      | 464                      | 481  |
| <b>TOTAL CURRENT FINANCIAL DEBT</b>     | <b>622</b>                                   | <b>(1,166)</b>                               | <b>1,058</b>                  | <b>12</b>                         | <b>(2)</b>                             | <b>1,133</b>             | <b>1,657</b>                                   |
| <b>TOTAL FINANCIAL DEBT</b>             | <b>3,522</b>                                 | <b>(1,252)</b>                               | <b>2,918</b>                  | <b>26</b>                         | <b>7</b>                               | <b>481</b>               | <b>5,702</b>                                   |

(a) The balance as of January 1, 2018 and December 31, 2018 as well as 2018 movements have been restated to reflect the application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

(b) The total change in financing flow corresponds to the Issuance of bonds, private placements and other long-term debts, Repayment of bonds, private placements and other long-term debts, the Changes in other current and non-current borrowings and the Cash payments for principal portion of lease liabilities lines as reported in the consolidated statement of cash flows.

(c) The column “Other” includes, among others, interests paid, reported within the Net cash flows provided by/(used in) operating activities in the consolidated statement of cash flows.

## 22.1. Non-current borrowings

The Group uses debt financing to raise financial resources for medium/long-term business operations and to finance acquisitions.

The table below summarizes the Group's non-current borrowings as of December 31, 2019.

| € millions                          | December 31, 2019 | December 31, 2018 | Face value | Currency | Nominal interest rate | Issue date | Maturity   |
|-------------------------------------|-------------------|-------------------|------------|----------|-----------------------|------------|------------|
| US private placement <sup>(a)</sup> | -                 | 44                | 50         | USD      | 5.75%                 | 01/29/2010 | 01/29/2020 |
| US private placement <sup>(a)</sup> | -                 | 61                | 70         | USD      | 2.79%                 | 11/05/2013 | 11/05/2020 |
| US private placement <sup>(a)</sup> | -                 | 57                | 65         | USD      | 3.07%                 | 11/05/2013 | 11/05/2020 |
| Eurobond                            | 509               | 520               | 500        | EUR      | 1.75%                 | 04/09/2014 | 04/09/2021 |
| US private placement                | 173               | 167               | 200        | USD      | 2.05%                 | 01/05/2017 | 01/05/2022 |
| Bank Loan <sup>(a)</sup>            | -                 | 250               | 250        | EUR      | Euribor 3m + 0.7%     | 03/10/2017 | 03/10/2022 |
| Bank Loan <sup>(a)</sup>            | -                 | 250               | 250        | EUR      | Euribor 3m + 0.62% 3m | 03/10/2017 | 03/10/2022 |
| Eurodollar bond                     | 261               | 257               | 300        | USD      | 2.50%                 | 06/30/2017 | 06/30/2022 |
| US private placement                | 27                | 26                | 30         | USD      | 3.40%                 | 11/05/2013 | 11/04/2023 |
| Eurobond                            | 498               | 500               | 500        | EUR      | 2.625%                | 02/10/2014 | 02/10/2024 |
| Eurobond                            | 341               | 335               | 300        | EUR      | 2.375%                | 04/09/2014 | 04/09/2024 |
| US private placement                | 83                | 79                | 100        | USD      | 2.65%                 | 01/05/2017 | 01/05/2027 |
| Eurobond <sup>(b)</sup>             | 983               | -                 | 1,000      | EUR      | 0.75%                 | 11/27/2019 | 11/27/2031 |
| Eurobond <sup>(b)</sup>             | 1,482             | -                 | 1,500      | EUR      | 0.38%                 | 11/27/2019 | 11/27/2027 |
| Eurobond <sup>(b)</sup>             | 1,486             | -                 | 1,500      | EUR      | 0.13%                 | 11/27/2019 | 05/27/2025 |
| Eurobond <sup>(b)</sup>             | 998               | -                 | 1,000      | EUR      | 0.00%                 | 11/27/2019 | 05/27/2023 |
| Other                               | 23                | 18                |            |          |                       |            |            |
| <b>TOTAL NON-CURRENT BORROWINGS</b> | <b>6,864</b>      | <b>2,564</b>      |            |          |                       |            |            |

(a) Changes compared to December 31, 2018 balances are reported within the line *Repayment of bonds, private placements and other long-term debts* in the consolidated statement of cash flows.

(b) Those lines refer to the 5BIL Bonds issued on November 27, 2019 and described in the paragraph *5BIL Bonds* below.

As at December 31, 2019, non-current borrowings increased of €4,300 million compared to December 2018, mainly due to the issuance of the 5BIL Bonds already mentioned in the paragraph *Significant events of the year*, partially offset by the reclassification to current borrowings of the amount due within 12 months from the reporting date and to the early repayment of some of the Group's financial exposure positioned at Luxottica Group level. In particular, in pursuance of EssilorLuxottica Group's financing policy according to which EssilorLuxottica should concentrate the treasury management of the Group at holding level, in 2019 the Group carried out the following transactions:

- on April 8, 2019, Luxottica US Holdings repaid in advance the Series E private placement contracted on January 29, 2010 for a total of USD 50 million (€45 million); and
- on September 23, 2019, Luxottica Group repaid in advance the two term loans contracted on March 10, 2017 for a total of €500 million.

Finally, EssilorLuxottica and Luxottica announced on November 26, 2019 the launch of a consent solicitation by Luxottica in relation to its €500 million bond due in February 2024 (the "Notes"). The purpose was to invite eligible holders of the Notes to consider and, if thought fit,

approve, the transfer of the Notes from Luxottica to EssilorLuxottica, the release of the guarantors under the Notes and certain modifications to the conditions of the Notes. This consent solicitation has been successfully completed on December 2, 2019. This transaction had no impacts on the consolidated Net debt of EssilorLuxottica.

The Group's debt agreements contain certain financial covenants (for more details see Note 29 – Financial instruments and management of market risks). As of December 31, 2019, the Company was in compliance with these financial covenants.

### 22.1.1. 5BIL Bonds

On July 31, 2019, EssilorLuxottica announced its intention to acquire HAL's 76.72% interest in GrandVision and to launch a mandatory public offer for the remaining shares upon completion of the transaction (see paragraph *Significant events of the year*). At that date, it also informed about the implementation, subject to customary conditions, of a committed bridge financing for such transaction from reputable global financial institutions of €8 billion and about its plan to refinance through debt and equity, or equity-like instruments, in the amount of up to €2 billion.

## Financial statements

### Notes to the Consolidated Group Financial Statements

On November 21, 2019, EssilorLuxottica confirmed a bond issuance for €5 billion with tenors of 3.5, 5.5, 8 and 12 years with a coupon respectively of 0%, 0.125%, 0.375% and 0.750% (the "5BIL Bonds" as defined in the paragraph *Significant events of the year*). The 5,5, 8 and 12 years bonds include an acquisition event call option, valid until July 30, 2021, exercisable in whole at 101% of par value.

The net proceeds cashed-in amounted to €4,954 million. The 5BIL Bonds has been accounted for at their fair values less directly attributable transaction costs (amortized cost method).

## 22.2. Current borrowings

At December 31, 2018, the Group's short-term funding structure was as follows:

| € millions                          | December 31, 2019 | December 31, 2018 | Face value | Currency | Nominal interest rate | Issue date | Maturity   |
|-------------------------------------|-------------------|-------------------|------------|----------|-----------------------|------------|------------|
| US private placement <sup>(a)</sup> | -                 | 66                | 75         | USD      | 5.39%                 | 01/29/2010 | 01/29/2019 |
| US Commercial Paper <sup>(b)</sup>  | 125               | 223               | 140        | USD      | 1.96%                 | Q3-2019    | Q1-2020    |
| US private placement <sup>(a)</sup> | -                 | 87                | 100        | USD      | 3.1%                  | 11/05/2013 | 03/15/2019 |
| Eurobond <sup>(a)</sup>             | -                 | 500               | 500        | EUR      | 3.625%                | 03/19/2012 | 03/19/2019 |
| US private placement <sup>(a)</sup> | -                 | 118               | 135        | USD      | 2.79%                 | 11/05/2013 | 11/04/2019 |
| US private placement                | 62                | -                 | 70         | USD      | 2.79%                 | 11/05/2013 | 11/04/2020 |
| US private placement                | 58                | -                 | 65         | USD      | 3.07%                 | 11/05/2013 | 11/04/2020 |
| Other                               | 158               | 181               |            |          |                       |            |            |
| <b>TOTAL CURRENT BORROWINGS</b>     | <b>403</b>        | <b>1,176</b>      |            |          |                       |            |            |

(a) Changes compared to December 31, 2018 balances are reported within the line *Repayment of bonds, private placement and other long-term debt* in the consolidated statement of cash flows.

(b) Changes compared to December 31, 2018 balances are reported within the line *Changes in other current and non-current borrowings* in the consolidated statement of cash flows.

The other current borrowings correspond to short term bank borrowings, overdraft and accrued interest, and amount to €158 million as of December 31, 2019 (€181 million as of December 31, 2018).

## 22.3. Net debt

The table below summarizes the Group's Net debt as of December 31, 2019 and 2018.

| € millions                                  | December 31, 2019 | December 31, 2018 <sup>(a)</sup> |
|---|-------------------|----------------------------------|
| Non-current borrowings                      | 6,864             | 2,564                            |
| Current borrowings                          | 403               | 1,176                            |
| <b>TOTAL LIABILITIES</b>                    | <b>7,268</b>      | <b>3,740</b>                     |
| Short-term investments <sup>(b)</sup>       | (500)             | -                                |
| Cash and cash equivalents                   | (4,836)           | (1,829)                          |
| <b>TOTAL ASSET</b>                          | <b>(5,336)</b>    | <b>(1,829)</b>                   |
| Interest Rate Swap measured at fair value   | (34)              | (25)                             |
| <b>NET DEBT EXCLUDING LEASE LIABILITIES</b> | <b>1,898</b>      | <b>1,887</b>                     |
| Lease liabilities (current and non-current) | 2,148             | 1,962                            |
| <b>NET DEBT</b>                             | <b>4,046</b>      | <b>3,849</b>                     |

(a) The balance as of December 31, 2018 has been restated to reflect the application of IFRS 16 – *Leases* as described in Note 2 – *New accounting standards*.

(b) As reported in Note 18 – *Other current assets*.

## Note 23 Employee benefits

As at December 31, 2019, net recognized employee benefit obligations amount to €555 million (€459 million as at December 31, 2018).

In accordance with laws and regulations in each country in which it operates, the Group has legal obligation with regard to employee post-employment benefits.

The major post-employment plans granted by the Luxottica Group are the followings:

**TFR** (post-employment benefits of the Italian companies' employees):

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from January 1, 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to National Social Insurance Agency (INPS). Liabilities related to severance pay pre-dating January 1, 2007 remain a defined-benefit plan to be valued using actuarial methods.

**US Pension plan:**

- **Lux Pension Plan** — US Holdings sponsors a qualified non-contributory defined benefit pension plan, the Luxottica Group Pension Plan ("Lux Pension Plan"), which provides for the payment of benefits to eligible past and present employees of US Holdings upon retirement. Pension benefits are gradually accrued based on length of service and annual compensation excluding non-cash components. Participants become vested in the Lux Pension Plan after three years of vesting service as defined by the Lux Pension Plan. In 2013, the Lux Pension Plan was amended so that employees hired on or after January 1, 2014 would not be eligible to participate.
- **Lux SERP** — US Holdings also maintains a non-qualified, unfunded supplemental executive retirement plan ("Lux SERP") for participants of its qualified pension plan to provide benefits in excess of amounts permitted under the provisions of prevailing US tax law. This plan's liability mirrors the actuarial methods and assumptions used for the Lux Pension Plan.
- US Holdings also sponsors the Cole National Group, Inc. (hereinafter "Cole") Supplemental Pension Plan. This plan is a non-qualified unfunded SERP for certain employees of the above-mentioned US companies who were designated by the Board of Directors of Cole on the recommendation of Cole's chief executive officer at such time. This plan provides benefits in excess of amounts permitted under the provisions of the prevailing tax law. This plan's liability mirrors the actuarial methods and assumptions used for the Lux Pension Plan.

- All plans operate under the US regulatory framework. The plans are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Luxottica Group ERISA Plans Compliance and Investment Committee controls and manages the operation and administration of the plans. The plans expose the Group to actuarial risks, such as longevity risk, exchange rate risk, and interest rate risk.

**Other:**

In Australia, Germany and Hong Kong, the Group makes mandatory contributions to retirement funds. The plans provide benefits on a defined contribution basis for employees upon retirement, resignation, injury or death. Contributions to defined contribution superannuation plans are recognized as an expense as the contributions are paid or become payable to the fund. Contributions are accrued based on legal rates and annual compensation.

The major post-employment plans granted by the Essilor Group are the followings:

**France:**

- **Article 39:** Since its inception in December 1997, the Essilor Group provides to its senior management teams (category III C and HC in accordance with the definition of the French metallurgy collective agreement) the opportunity to reward seniority to remain with the group through a supplementary pension scheme (Article 39 of the French tax code) in addition to the general requirements applicable to all other employees. Eligible personnel needed to demonstrate at least 10 years of service within the group to benefit from the scheme. In addition, they were required to still be working for the group at their retirement date. The additional pension was calculated based on the number of years of service within the group as well as an average of the yearly gross salary (fixed and variable) based on the three highest years of compensation throughout their employment history with the group. On July 4, 2019, the "Loi Pacte" amended the treatment of the Art. 39 pension. Since then, these plans are now no more authorized according to this law. This constitutes a plan amendment generating a past service costs which is a change in the present value of the defined benefit obligation. This plan is closed to new members and rights are currently frozen. 29 senior team members are part of this plan.
- **Jubilee and termination benefits:** Jubilee and termination benefits schemes are regulatory and compulsory schemes applicable to all companies incorporated in France.

Upon retirement, employees are eligible to receive a lump sum payment depending on the number of years of service within the group. Rights are acquired based on legal requirements (French labor law), general collective agreements, as well as company specific agreements in place when the employee first joined the group.

A provision is recorded in the consolidated financial statements to cover for the defined benefit obligation. The most significant plan is carried by Essilor International (SAS). For this entity, rights are calculated based on the metallurgy collective agreement (in additional salary).

No assets are associated to this liability and represent the defined benefit obligation for the 2,859 French permanent contract employees working for the group as of December 31, 2019.

#### Germany:

There are several different types of defined benefit plans in Germany. The most significant plan is carried by Essilor GmbH. As of December 31, 2019, this plan had 277 active members and 723 non active members (including 288 retired members). This plan is closed to new members and rights are currently frozen. Before its change of status, to join the plan, employees were required to hold a permanent contract, be younger than 55 years old and have a specified number of years of service. Rights offered by this plan are based on a final salary type of scheme. Payouts are based on 0.4% of the base salary for each eligible year of service, plus an additional 12%. No assets are currently associated to this defined benefit plan.

#### USA:

There are several types of defined benefit plans in the U.S. The most significant plan is carried by Essilor USA.

- **Essilor USA: supplementary retirement plans for Executives:**

Essilor USA provides the opportunity to reward seniority to remain with the group for Executives through a supplementary pension plan. As of December 31, 2019, there are five active members and eight non active members to this defined benefit plan.

To be eligible to join the plan, Executives need to be at least 62 years old, have held for at least five years an executive position, and have at least 10 years of service within the group. Additionally, they are required to still be working for the group at their retirement date. The additional payout represents 40% of the base salary received over the last three years preceding retirement.

Additionally, other post-employment benefits are paid out in case of early retirement, death, or end of employment resulting in lower accessibility conditions and a lower payout.

There are no assets associated to this defined benefit plan.

Changes in the defined benefit obligation are as follows:

| € millions                                      | 2019                       |                           |                       | 2018                       |                           |                       |
|---|----------------------------|---------------------------|-----------------------|----------------------------|---------------------------|-----------------------|
|   | Defined benefit obligation | Fair value of plan assets | Net liability (asset) | Defined benefit obligation | Fair value of plan assets | Net liability (asset) |
| <b>BALANCE AS OF JANUARY 1</b>                  | <b>1,456</b>               | <b>997</b>                | <b>459</b>            | <b>923</b>                 | <b>802</b>                | <b>122</b>            |
| Included in profit or loss                      |                            |                           |                       |                            |                           |                       |
| Cost of services rendered in the period         | 62                         | -                         | 62                    | 45                         | -                         | 45                    |
| Cost of past services                           | (12)                       | -                         | (12)                  | -                          | -                         | -                     |
| Interest cost (income)                          | 44                         | 32                        | 13                    | 33                         | 26                        | 6                     |
| <b>TOTAL MOVEMENTS IN PROFIT OR LOSS</b>        | <b>94</b>                  | <b>32</b>                 | <b>63</b>             | <b>77</b>                  | <b>26</b>                 | <b>51</b>             |
| <b>Included in OCI</b>                          |                            |                           |                       |                            |                           |                       |
| Remeasurement loss (gain):                      |                            |                           |                       |                            |                           |                       |
| Actuarial loss (gain) arising from:             |                            |                           |                       |                            |                           |                       |
| <i>demographic assumptions</i>                  | 1                          | -                         | 1                     | 5                          | -                         | 5                     |
| <i>financial assumptions</i>                    | 178                        | -                         | 178                   | (63)                       | -                         | (63)                  |
| <i>experience adjustment</i>                    | 13                         | -                         | 13                    | 10                         | -                         | 10                    |
| Return on plan assets excluding interest income | -                          | 141                       | (141)                 | -                          | (67)                      | 67                    |
| Translation differences and other movements     | 35                         | 19                        | 17                    | 41                         | 37                        | 4                     |
| <b>TOTAL MOVEMENTS IN OCI</b>                   | <b>227</b>                 | <b>160</b>                | <b>66</b>             | <b>(9)</b>                 | <b>(30)</b>               | <b>22</b>             |
| <b>Other</b>                                    |                            |                           |                       |                            |                           |                       |
| Contributions to plan assets                    | -                          | 16                        | (16)                  | -                          | 35                        | (35)                  |
| Benefits paid                                   | (67)                       | (50)                      | (17)                  | (49)                       | (42)                      | (8)                   |
| Business combinations                           | -                          | -                         | -                     | 513                        | 206                       | 307                   |
| <i>of which EL Combination</i>                  | -                          | -                         | -                     | 504                        | 200                       | 304                   |
| <i>of which other business combinations</i>     | -                          | -                         | -                     | 9                          | 6                         | 3                     |
| <b>TOTAL OTHER MOVEMENTS</b>                    | <b>(67)</b>                | <b>(34)</b>               | <b>(33)</b>           | <b>464</b>                 | <b>199</b>                | <b>265</b>            |
| <b>BALANCE AS OF DECEMBER 31</b>                | <b>1,709</b>               | <b>1,154</b>              | <b>555</b>            | <b>1,456</b>               | <b>997</b>                | <b>459</b>            |

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 – *Employee Benefits*, the rates were determined by currency areas and by reference 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.

## Financial statements

### Notes to the Consolidated Group Financial Statements

The main rates used by the Group are as follows:

| In %   | 2019      |               |                | 2018      |               |                |
|--|-----------|---------------|----------------|-----------|---------------|----------------|
|  | Eurozone  | United States | United Kingdom | Eurozone  | United States | United Kingdom |
| Discount rate                                  | 0.6%-0.9% | 2.9%-3.3%     | 2.1%           | 1.6%-1.8% | 4.2%-4.4%     | 2.8%           |
| Inflation rate                                 | 1%-1.8%   | 3%            | 3.1%           | 1.5%-1.8% | 2.5%-3.5%     | 3.1%           |
| Weighted average rate of return on plan assets | 12%       | 10.4%         | 14.6%          | 3.4%      | 4.6%          | 6.6%           |
| Weighted average rate of salary increases      | 2%-2.3%   | 1.5%-4.8%     | 0%             | 2.4%-2.5% | 4.8%          | 1.6%           |

The composition by type of plan assets is as follows:

| In %                         | December 31, 2019 | December 31, 2018 |
|------------------------------|-------------------|-------------------|
| Shares and equity funds      | 33%               | 31%               |
| Bonds and fixed income funds | 53%               | 46%               |
| General insurance funds      | 3%                | 12%               |
| Real estate/property         | 4%                | 4%                |
| Other                        | 6%                | 7%                |
| <b>TOTAL</b>                 | <b>100%</b>       | <b>100%</b>       |

The Plan's long-term investment objectives are to generate investment returns that provide adequate assets to meet the Plan's benefit obligations and to maintain sufficient liquidity to pay benefits and administrative expenses.

Plan assets are invested in pension funds or insurance companies for which invested assets are managed directly by pension fund managers or insurance companies. They determine appropriate investment strategies and funding allocations.

Plan assets are also invested in diversified portfolios across various asset classes based on the targets envisioned for the allocation of resources, using a mix of active management strategies, for which various consultants have been employed. Risk management is ensured by investment diversification across various asset classes, managers, strategies, market capitalizations (equity investments) and individual securities. Certain transactions

and securities are not authorized to be conducted or held in the pension funds, such as purchase or sale of commodity contracts, real estate investments, excluding in trust funds, and American Depositary Receipts (ADR) or treasury shares of the Company. Risk is further controlled both at the asset class and manager level by assigning benchmarks and performance objectives. The investment managers are monitored on an ongoing basis to evaluate performance against these benchmarks and performance objectives.

Investments comply with local regulations in the countries in question.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| € millions      | Discount rate |         | Compensation increase |          |
|-----------------|---------------|---------|-----------------------|----------|
|                 | -50 bps       | +50 bps | -100 bps              | +100 bps |
| DBO at year end | 1,829         | 1,541   | 1,649                 | 1,710    |

## Note 24 Share-based payment

Compensation costs on share based-payments are measured by the methods described in Note 1 – Significant accounting principles. The breakdown of the expenses recorded into the consolidated statement of profit or loss is as follows:

| € millions  | 2019         | 2018        |
|---|--------------|-------------|
| Performance shares                                | (110)        | (35)        |
| Restricted shares                                 | (25)         | (26)        |
| Stock options subscriptions                       | (2)          | (3)         |
| Employee share issues                             | (31)         | (22)        |
| <b>COMPENSATION COSTS ON SHARE-BASED PAYMENTS</b> | <b>(169)</b> | <b>(85)</b> |

### 24.1. Performance shares

Since 2006, the Group has launched performance-based bonus share allotment plans (performance shares). In particular, these plans allow the beneficiaries to be awarded a certain amount of performance share based on the annualized growth in the average share price of the Company, depending on the performance of the Company's share price compared with the price on the grant date (corresponding to the average of the prices quoted over the 20 trading days preceding the Board of Directors' Meeting at which the grant is decided).

The maximum number of performance shares that would vest assuming that the vesting conditions were met is 2,322,966 shares for the 2019 awards.

The following table analyzes changes in the number of performance shares at each period-end:

| In number of shares                            | 2019             |
|--|------------------|
| <b>PERFORMANCE SHARES AT JANUARY 1, 2019</b>   | <b>5,510,385</b> |
| Performance shares vested                      | (1,198,509)      |
| Performance shares canceled                    | (393,115)        |
| Awards for the fiscal year                     | 2,322,966        |
| <b>PERFORMANCE SHARES AT DECEMBER 31, 2019</b> | <b>6,241,727</b> |

The main assumptions used to measure costs related to performance shares granted in 2019 (individual and collective grants) are as follows:

- share volatility: 16.2% – 16.6%;
- risk-free interest rate: (0.6)% – (0.7)%;
- yield: 1.6%.

Based on these assumptions, the weighted average fair value of the shares awarded in 2019 was €49.13 per share.

### 24.2. Restricted shares

At the end of December 2017, Luxottica Board of Directors approved a long-term cash retention plan (Long-Term Incentive plan or LTI) vesting on March 30, 2021. The term of the arrangement provided Luxottica with the choice of whether to settle in cash or by issuing Luxottica or EssilorLuxottica shares, subject to the approval of the relevant governance bodies.

EssilorLuxottica Shareholders' Meeting held on November 29, 2018, authorized Luxottica's corporate bodies to proceed with the award of free existing shares (without any performance condition) to Luxottica Group's employees, replacing cash retention bonuses.

In accordance with IFRS 2 – *Share-Based Payment*, in 2018 EssilorLuxottica's consolidated financial statements the plan has been accounted for as a cash-settled share-based payment until November 29, 2018; on that date the plan changed its classification from cash-settled to equity-settled. The liability accounted for the cash-settled plan has been recognized in equity.

On March 6, 2019 Luxottica Board of Directors proceeded with the awards of such shares to Luxottica Group's employees, which were then granted by EssilorLuxottica Board of Directors on March 7, 2019, without affecting the classification of the LTI (the plan was already accounted for as an equity-settled share-based payment as of December 31, 2018).

### 24.3. Stock subscription option

During 2019, 71,845 options were vested, 36,201 options were cancelled, and 127,117 options were awarded. As such, the total number of options outstanding as of December 31, 2019 amounts to 509,989.

With regards to the options exercised during the course of 2019, the weighted average share price of EssilorLuxottica shares was equal to €92.25. The total cost accounted during the period amount to €2 million.

## 24.4. Employee share issues

The 2019 total expense for employee share issues amount to €31 million including €18 million related to the Boost Plan (an offer to subscribe to existing shares of EssilorLuxottica to employees of foreign subsidiaries of the Group, extended in 2019 to some Luxottica Group' employees).

During the period the Group issued 249,635 shares to its employees with a weighted average fair value, based on listed prices of the shares of the Company, of €109.63.

In addition, the Group transferred 312,447 treasury shares to its employees as part of the Boost plan.

## Note 25 Provisions (current and non-current)

The balances as of December 31, 2019 and 2018 are detailed below:

| € millions                             | December 31, 2019 | December 31, 2018 <sup>(b)</sup> |
|--|-------------------|----------------------------------|
| Warranty and returns                   | 110               | 108                              |
| Litigations                            | 172               | 174                              |
| Self-insurance                         | 32                | 32                               |
| Tax <sup>(a)</sup>                     | -                 | 335                              |
| Restructuring and other                | 90                | 87                               |
| <b>TOTAL PROVISIONS</b>                | <b>404</b>        | <b>736</b>                       |
| <i>of which current provisions</i>     | 139               | 211                              |
| <i>of which non-current provisions</i> | 265               | 525                              |

(a) The Group applied IFRIC 23 from the date of its initial application (i.e. January 1, 2019), as described in Note 2 – New accounting standards.

(b) Balances as of December 31, 2018 have been restated to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

The changes in provision as of December 31, 2019 and 2018, are as follows:

| € millions   | Warranty and returns | Litigations | Self-insurance | Restructuring and other | Total      |
|--|----------------------|-------------|----------------|-------------------------|------------|
| <b>BALANCE AS OF JANUARY 1, 2019<sup>(a)</sup></b> | <b>108</b>           | <b>174</b>  | <b>32</b>      | <b>87</b>               | <b>401</b> |
| Provisions for the period                          | 27                   | 17          | 12             | 36                      | 92         |
| Utilization  | (29)                 | (19)        | (13)           | (29)                    | (90)       |
| Releases   | (1)                  | (1)         | -              | (7)                     | (9)        |
| Translation differences                            | 2                    | 2           | 1              | 7                       | 11         |
| Business combinations                              | -                    | -           | -              | -                       | -          |
| Other movements                                    | 3                    | (0)         | -              | (4)                     | (1)        |
| <b>TOTAL CHANGES</b>                               | <b>2</b>             | <b>(2)</b>  | <b>-</b>       | <b>3</b>                | <b>3</b>   |
| <b>BALANCE AS OF DECEMBER 31, 2019</b>             | <b>110</b>           | <b>172</b>  | <b>32</b>      | <b>90</b>               | <b>404</b> |
| <i>of which current provisions</i>                 | 100                  | 2           | 7              | 30                      | 139        |
| <i>of which non-current provisions</i>             | 10                   | 170         | 25             | 60                      | 265        |

(a) The balance as of January 1, 2019 has been affected by the application of IFRIC 23 as described in Note 2 – New accounting standards as well by the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

| <i>€ millions</i>                                     | Warranty<br>and returns | Litigations | Self-<br>insurance | Tax        | Restructuring<br>and other | Total      |
|---|-------------------------|-------------|--------------------|------------|----------------------------|------------|
| <b>BALANCE AS OF JANUARY 1, 2018</b>                  | <b>72</b>               | <b>21</b>   | <b>30</b>          | <b>101</b> | <b>77</b>                  | <b>301</b> |
| Provisions for the period                             | 19                      | 8           | 11                 | 18         | 21                         | 78         |
| Utilization   | (21)                    | (7)         | (11)               | (27)       | (47)                       | (112)      |
| Releases  | -                       | -           | -                  | (23)       | (20)                       | (43)       |
| Translation differences                               | -                       | -           | 1                  | 33         | (4)                        | 30         |
| Business combinations                                 | 38                      | 151         | -                  | 232        | 59                         | 481        |
| <i>of which EL Combination <sup>(a)</sup></i>         | 38                      | 151         | -                  | 232        | 59                         | 481        |
| <i>of which other business combinations</i>           | -                       | -           | -                  | -          | -                          | -          |
| Other movements                                       | -                       | -           | -                  | -          | -                          | -          |
| <b>TOTAL CHANGES</b>                                  | <b>36</b>               | <b>153</b>  | <b>2</b>           | <b>234</b> | <b>9</b>                   | <b>434</b> |
| <b>BALANCE AS OF DECEMBER 31, 2018 <sup>(a)</sup></b> | <b>108</b>              | <b>174</b>  | <b>32</b>          | <b>335</b> | <b>87</b>                  | <b>736</b> |
| <i>of which current provisions</i>                    | 100                     | 3           | 6                  | 76         | 26                         | 211        |
| <i>of which non-current provisions</i>                | 8                       | 171         | 26                 | 259        | 60                         | 525        |

(a) 2018 figures have been restated to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

Litigations include provisions for various legal disputes that have occurred in the course of business of the Group.

The item self-insurance includes provisions made since the Group insures itself against certain risks. The Group is self-insured for certain losses relating to workers' compensation, general liability, own risk, and employee medical benefits for claims incurred but not reported.

The Group's liability is estimated using historical claims experience and industry averages; however, the final cost of the claims may not be known for over five years.

Restructuring and other provisions mainly include accruals for sale agent termination indemnity (*Fondo Indennità Suppletiva di Clientela*) of certain Italian companies.

## Note 26 Other non-current liabilities

Other non-current liabilities as of December 31, 2019 and 2018 are detailed below:

| <i>€ millions</i>   | December 31, 2019 | December 31, 2018 <sup>(a)</sup> |
|---|-------------------|----------------------------------|
| Liabilities related to long-term put options over non-controlling interests | 159               | 153                              |
| Trade payables and liabilities related to long-term financial investments   | 8                 | 49                               |
| Derivative financial instruments  | -                 | 4                                |
| Other   | 27                | 20                               |
| <b>TOTAL OTHER NON-CURRENT LIABILITIES</b>                                  | <b>193</b>        | <b>226</b>                       |

(a) The balance as of December 31, 2018 has been restated to reflect the application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

The other non-current liabilities include also contract liabilities for a total amount of €2 million (€5 million as at December 31, 2018).

## Note 27 Trade payables

Trade payables amount to €1,770 million (€1,745 million as of December 31, 2018).

| <i>€ millions</i>     | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|-----------------------|--------------------------|--------------------------|
| <b>TRADE PAYABLES</b> | <b>1,770</b>             | <b>1,745</b>             |

The book value of trade payables is approximately equal to their fair value.

## Note 28 Other current liabilities

Other current liabilities as of December 31, 2019 and 2018 are detailed below:

| <i>€ millions</i>  | <b>December 31, 2019</b> | <b>December 31, 2018 <sup>(a)</sup></b> |
|--|--------------------------|---|
| Liabilities related to short-term put options over non-controlling interests | 267                      | 1,898                                   |
| Liabilities related to short-term financial investments                      | 49                       | 25                                      |
| Personnel expenses, social contribution, VAT and other indirect tax payables | 1,005                    | 895                                     |
| Premium and discount   | 329                      | 290                                     |
| Derivative financial instruments   | 6                        | 10                                      |
| Other current liabilities  | 665                      | 645                                     |
| <b>TOTAL OTHER CURRENT LIABILITIES</b>                                       | <b>2,320</b>             | <b>3,762</b>                            |

(a) The balance as of December 31, 2018 has been restated to reflect the application of IFRS 16 – Leases as described in Note 2 – New accounting standards.

As at December 31, 2018, the Group recorded in *Other current liabilities* an amount of €1,677 million related to the short-term put options over non-controlling interests, representing EssilorLuxottica's obligation or potential obligation to purchase against cash all remaining Luxottica shares not already held by the Group at December 31, 2018 and liabilities related to short-term financial investments (see Note 2 – Business combinations).

During the first half of 2019, as a result of the finalization of the Second and Third phases of the MTO, the Group incurred a total cash-out of €641 million due to Luxottica shareholders that tendered their shares against cash in the Second and Third phases of the MTO and has consequently reversed the put liability accounted for as at December 31, 2018 for €1,677 million.

The other current liabilities include also contract liabilities for a total amount of €60 million (€58 million as at December 31, 2018).

## Note 29 Financial instruments and management of market risks

### 29.1. Financial instruments recognized in the consolidated statement of financial position

| € millions   | Notes | Total        | Financial assets/ (liabilities) at fair value through profit or loss | Equity investments at fair value through other comprehensive income | Financial assets/ (liabilities) at amortized cost | Other financial liabilities | Derivatives documented in hedging relationships |
|--|-------|--------------|--|---|---|-----------------------------|---|
| Other non-current financial assets (excluding derivatives)                     | 13    | 129          | -  | 33  | 97  | -                           | -   |
| Trade receivables  | 16    | 2,411        | -  | -   | 2,411   | -                           | -   |
| Other current financial assets (excluding derivatives)                         | 18    | 511          | 500  | -   | 11  | -                           | -   |
| Derivative financial instruments   | 13-18 | 42           | 5  | -   | -   | -                           | 37  |
| Cash and cash equivalents  | 19    | 4,836        | 2,942  | -   | 1,895   | -                           | -   |
| <b>FINANCIAL INSTRUMENTS RECOGNIZED IN ASSETS</b>                              |       | <b>7,930</b> | <b>3,447</b>   | <b>33</b>   | <b>4,414</b>                                      | <b>-</b>                    | <b>37</b>                                       |
| Non-current borrowings   | 22    | 6,864        | -  | -   | 6,864   | -                           | -   |
| Other non-current financial liabilities (excluding derivatives) <sup>(a)</sup> | 26    | 192          | 3  | -   | 30  | 159                         | -   |
| Current borrowings   | 22    | 403          | -  | -   | 403   | -                           | -   |
| Trade payables   | 27    | 1,770        | -  | -   | 1,770   | -                           | -   |
| Other current financial liabilities (excluding derivatives) <sup>(b)</sup>     | 28    | 316          | 48   | -   | 1   | 267                         | -   |
| Derivative financial instruments   | 26-28 | 6            | 3  | -   | -   | -                           | 4   |
| <b>FINANCIAL INSTRUMENTS RECOGNIZED IN LIABILITIES</b>                         |       | <b>9,551</b> | <b>53</b>  | <b>-</b>  | <b>9,068</b>                                      | <b>426</b>                  | <b>4</b>  |

(a) Excluding IFRS 15 contract liabilities.

(b) Excluding personnel expenses, social contribution, VAT and other indirect tax payables, premium and discount, other current liabilities and IFRS 15 contract liabilities.

The carrying value of assets and liabilities recorded at amortized cost is close to its fair value, except for long-term borrowing for which fair value is €6,973 million.

The fair value hierarchy of the relevant financial assets and liabilities is as follows:

- borrowings: the fair value of listed debt is equal to their market price. The level of the hierarchy used for determining this fair value is Level 1. The fair value of the non-listed debt equals the present value of future cash flows, calculated by utilizing the market rate currently available for similar debt and adjusted in order to take into account the Company's current credit rating. The level of the hierarchy used for determining this fair value is Level 2;

- cash and cash equivalent: the level of the hierarchy used for determining the fair value of money market mutual funds is Level 1;
- derivatives financial instruments: the fair value of the derivatives financial instruments equals the present value of future cash flows, calculated by utilizing the market inputs currently available. The level of the hierarchy used for determining this fair value is Level 2;
- equity investments at fair value through other comprehensive income: the Level of the hierarchy used for determining this fair value is Level 3.

Other financial liabilities include the put liabilities and liabilities related to earn-out clauses. Changes in put liability's fair value are recognized through Group equity.

## 29.2. Counterparty risk

### 29.2.1. Credit risk related to financial counterparties

The Group is exposed to counterparty risk, *i.e.*, the risk that a bank defaults on its contractual obligations (short term investment, hedge or credit facility), which would result in a financial loss for the Group.

Default by a counterparty may result in loss in value (the case of non-payment of a financial asset) or liquidity (the case of inability to draw on an unused line of credit).

In order to limit this risk:

- available cash is invested over the short term;
- the Group favors dealing with leading banks, while pursuing diversification. As for cash and cash equivalents (excluding Money Market Funds) and short-term investment, the first exposure of the Group, representing 15%, lies with a BBB rated counterparty.

The Group enters into derivative transactions under various master agreements, which contain clauses for the offsetting of amounts payable and receivable only on the occurrence of future events, such as a default or other credit event by one of the contracting parties. Since the Group does not have any currently legally enforceable right to offset recognized amounts, the mentioned agreements

do not meet the criteria of offsetting in the statements of financial position.

Based on the information available to the Group, during the course of the year, there were no potential losses deriving from the inability of the above-mentioned counterparties to meet their contractual obligations.

### 29.2.2. Credit risk related to commercial counterparties

The credit risk is managed locally and monitored centrally by the Group. Nevertheless, a portion of the Group's sales is realized directly with the end customer and those sales do not expose the Group to any credit risk.

The Group does not have a significant concentration of credit risk. In any case, there are proper procedures in place to ensure that the sales of products and services are made to reliable customers on the basis of their financial position as well as past experience. Credit limits are defined according to thresholds that take into consideration internal and external evaluation of the customer's reliability. The utilization of credit limits is regularly monitored through automated controls.

As of December 31, 2019, non-provisioned past due trade receivables amount to €293 million (€301 million at the end of 2018).

| € millions   | 2019  | 2018 <sup>(c)</sup> |
|--|-------|---------------------|
| Trade receivables due within one year <sup>(a)</sup> | 2,411 | 2,348               |
| Trade receivables beyond one year <sup>(b)</sup>     | 38    | 38                  |
| of which:  |       |                     |
| trade receivables not yet due                        | 2,156 | 2,085               |
| past due trade receivables                           | 293   | 301                 |

(a) In line item *Trade receivables* in the consolidated statement of financial position.

(b) In line item *Other non-current assets* in the consolidated statement of financial position.

(c) The comparative period has been restated to reflect the finalization of the PPA related to the EL Combination (defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

## 29.3. 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 maintain a permanent source of liquidity in order to ensure its independence and growth. The funding 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.

As of December 31, 2019, most of the Group's long-term financing and credit facilities are concentrated on EssilorLuxottica which then refinances its subsidiaries. Some companies may, however, need to arrange their own local financing when local regulations hamper intra-Group arrangements.

At December 31, 2019, the Group has €5,201 million of committed credit facilities with leading banks. Drawing down these lines is not subject to any covenant. At December 31, 2019 none of these lines had been used.

Primary rating agencies have assigned to the Group the following rating:

|                   | Long term | Short term | Outlook | Last confirmation |
|-------------------|-----------|------------|---------|-------------------|
| Moody's           | A2        | Prime-1    | Stable  | August 1, 2019    |
| Standard & Poor's | A         | A-1        | Stable  | July 31, 2019     |

The distribution of the Group's net financial debt and available credit facilities by contractual maturity at the end of 2019 was as follows:

| € millions   | 2020           | 2021       | 2022       | 2023         | 2024       | 2025         | 2026 | >2026        | Total        |
|--|----------------|------------|------------|--------------|------------|--------------|------|--------------|--------------|
| Bonds  | -              | 509        | 261        | 998          | 839        | 1,486        | -    | 2,465        | 6,559        |
| Commercial Paper                                     | 125            | -          | -          | -            | -          | -            | -    | -            | 125          |
| Bank loans   | 61             | 1          | 1          | 2            | -          | -            | -    | -            | 65           |
| Private Placement                                    | 120            | -          | 173        | 27           | -          | -            | -    | 83           | 403          |
| Overdraft  | 37             | -          | -          | -            | -          | -            | -    | -            | 37           |
| Others debt  | 60             | 14         | 5          | -            | -          | -            | -    | -            | 79           |
| <b>GROSS DEBT</b>                                    | <b>403</b>     | <b>524</b> | <b>441</b> | <b>1,027</b> | <b>839</b> | <b>1,486</b> | -    | <b>2,548</b> | <b>7,268</b> |
| Short-term investments                               | (500)          | -          | -          | -            | -          | -            | -    | -            | (500)        |
| Cash & cash equivalents                              | (4,836)        | -          | -          | -            | -          | -            | -    | -            | (4,836)      |
| Interest Rate Swap measured at fair value            | -              | -          | -          | -            | -          | -            | -    | -            | (34)         |
| <b>NET DEBT<br/>(EXCLUDING LEASE LIABILITIES)</b>    | <b>(4,933)</b> | <b>524</b> | <b>441</b> | <b>1,027</b> | <b>839</b> | <b>1,486</b> | -    | <b>2,548</b> | <b>1,898</b> |
| Available committed syndicated credit facilities     | -              | -          | 900        | -            | -          | -            | -    | -            | 900          |
| Available committed bilateral bank facilities        | 734            | 323        | 245        | -            | -          | -            | -    | -            | 1,301        |
| Available committed bridge facilities <sup>(a)</sup> | 3,000          | -          | -          | -            | -          | -            | -    | -            | 3,000        |

(a) The bridge facility, dedicated to the GrandVision financing may, under certain conditions and at the Company option, be extended until July 2022.

Please also refer to Note 22 – Financial debt, including lease liabilities.

### 29.3.1. Negative pledges and financial covenants

Some of the financing agreements of the Group (see Note 22 – Financial debt, including lease liabilities) require compliance with negative pledges and financial covenants, as set forth in the respective agreements.

Financial covenants require the Group to comply with specific levels of financial ratios. The most significant covenants establish a threshold for the ratio of EBITDA to financial expenses and priority debt to consolidated total assets.

In the case of a failure to comply with the above-mentioned ratios, the Group may be called upon to pay the outstanding debt if it does not correct such default within the period indicated in the applicable agreement.

Compliance with these covenants is monitored by the Group at the end of semester and, as of December 31, 2019, the Group was fully in compliance with these covenants.

### 29.4. Currency risk

Due to its international presence, the Group is naturally exposed to risks related to fluctuations in foreign currencies. This international presence impacts its operations, its financing, and the conversion into euros of the financial statements of foreign subsidiaries denominated in other currencies.

In particular, the Group operations and sales are disseminated in several countries with multiple currencies. As a consequence, Group results could be materially affected by foreign exchange rate fluctuations.

The primary exchange rate to which the Group is exposed is the EUR/USD parity.

At December 31, 2019, most of the currency hedging is managed by EssilorLuxottica and by Luxottica. The Group seeks to limit currency risk with natural hedges, by hedging residual transactional exposure through currency forwards or options. Foreign exchange derivatives are entered into solely to hedge currency risks arising on business and financing operations. The Group does not carry out any currency trading transactions without any underlying transaction.

### 29.5. 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 now concentrated on EssilorLuxottica, interest rate risk management is therefore centralized.

## Financial statements

### Notes to the Consolidated Group Financial Statements

The interest rate position before and after hedging is as follows:

| € millions                                    | Net debt     |                | Derivatives  |               | Net IR position |                |
|---|--------------|----------------|--------------|---------------|-----------------|----------------|
|   | Fixed rate   | Floating rate  | Fixed rate   | Floating rate | Fixed rate      | Floating rate  |
| Gross debt                                    | 6,859        | 408            | (601)        | 567           | 6,259           | 975            |
| Short-term investments                        | -            | (500)          | -            | -             | -               | (500)          |
| Cash and cash equivalents                     | -            | (4,836)        | -            | -             | -               | (4,836)        |
| <b>NET DEBT (EXCLUDING LEASE LIABILITIES)</b> | <b>6,859</b> | <b>(4,928)</b> | <b>(601)</b> | <b>567</b>    | <b>6,259</b>    | <b>(4,361)</b> |

The interest rate position, by currency, before and after hedging is as follows:

| € millions                                    | Net debt     |                | Derivatives  |               | Net IR position |                |
|---|--------------|----------------|--------------|---------------|-----------------|----------------|
|   | Fixed rate   | Floating rate  | Fixed rate   | Floating rate | Fixed rate      | Floating rate  |
| EUR   | 6,297        | (4,145)        | (329)        | 153           | 5,968           | (3,993)        |
| USD   | 546          | (236)          | (272)        | 276           | 274             | 39             |
| Other   | 16           | (546)          | -            | 139           | 16              | (408)          |
| <b>NET DEBT (EXCLUDING LEASE LIABILITIES)</b> | <b>6,859</b> | <b>(4,928)</b> | <b>(601)</b> | <b>567</b>    | <b>6,259</b>    | <b>(4,361)</b> |

## 29.6. Derivatives financial instruments

### 29.6.1. Market value by nature

| € millions                   | 2019       |              | 2018       |              |
|------------------------------|------------|--------------|------------|--------------|
|                              | Fair value | Nominal      | Fair value | Nominal      |
| Forward contracts            | 2          | 1,357        | 5          | 1,270        |
| Interest rate swaps          | 34         | 567          | 21         | 1,249        |
| Interest rate options (caps) | -          | -            | -          | 87           |
| <b>TOTAL DERIVATIVES</b>     | <b>36</b>  | <b>1,924</b> | <b>27</b>  | <b>2,606</b> |

### 29.6.2. Market value by hedge strategy

| € millions   | 2019 | 2018 |
|--|------|------|
| <b>CASH FLOW HEDGE</b>   |      |      |
| Interest rate swaps  | -    | (5)  |
| Forward contracts  | (1)  | 3    |
| <b>FAIR VALUE HEDGE</b>  |      |      |
| Interest rate swap   | 34   | 25   |
| <b>NOT ALLOCATED TO A HEDGING RELATIONSHIP</b>                 |      |      |
| Forward contracts  | 3    | 2    |
| <b>MARKET VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS</b>        |      |      |
| <i>of which derivative financial instruments (assets)</i>      | 42   | 39   |
| <i>of which derivative financial instruments (liabilities)</i> | (6)  | (13) |

### 29.6.3. Foreign exchange derivatives hedging commercial and financing exposures at December 31, 2019 (nominal amount)

|               | Currency purchased |            |            |            |           |           |           |           |           |           |           |           | Total        |
|---------------|--------------------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--------------|
|               | EUR                | USD        | CNY        | HKD        | GBP       | AUD       | JPY       | THB       | CAD       | CHF       | SEK       | Others    |              |
| Currency sold |                    |            |            |            |           |           |           |           |           |           |           |           |              |
| EUR           | -                  | 23         | 84         | 30         | 82        | 67        | 12        | -         | 5         | 14        | 5         | 39        | 362          |
| USD           | 146                | -          | 1          | 3          | -         | 1         | 52        | 25        | 10        | -         | -         | 11        | 249          |
| GBP           | 158                | 2          | -          | -          | -         | -         | -         | -         | -         | -         | 7         | 3         | 171          |
| HKD           | 55                 | 20         | 31         | -          | -         | -         | -         | -         | -         | -         | -         | 6         | 111          |
| CAD           | 38                 | 57         | -          | -          | -         | -         | -         | -         | -         | -         | -         | -         | 94           |
| AUD           | 17                 | 1          | -          | 44         | -         | -         | -         | -         | -         | -         | -         | -         | 62           |
| MXN           | 52                 | -          | -          | -          | -         | -         | -         | -         | -         | -         | -         | -         | 53           |
| JPY           | 29                 | -          | -          | 17         | -         | -         | -         | -         | -         | -         | -         | -         | 47           |
| SEK           | 25                 | -          | -          | -          | 5         | -         | -         | -         | -         | -         | -         | -         | 30           |
| INR           | 10                 | 20         | -          | -          | -         | -         | -         | -         | -         | -         | -         | -         | 29           |
| THB           | 11                 | 1          | -          | 5          | -         | -         | -         | -         | -         | -         | -         | -         | 17           |
| NOK           | 12                 | 1          | -          | -          | 3         | -         | -         | -         | -         | -         | -         | -         | 15           |
| CNY           | 4                  | 5          | -          | 2          | -         | 1         | 2         | -         | -         | -         | -         | -         | 14           |
| BRL           | 10                 | 1          | -          | -          | -         | -         | -         | -         | -         | -         | -         | -         | 11           |
| SGD           | 7                  | -          | -          | 3          | -         | -         | -         | -         | -         | -         | -         | -         | 10           |
| ZAR           | 9                  | 1          | -          | -          | -         | -         | -         | -         | -         | -         | -         | -         | 10           |
| Others        | 54                 | 8          | -          | 1          | -         | 7         | -         | -         | -         | -         | -         | -         | 70           |
| <b>TOTAL</b>  | <b>636</b>         | <b>142</b> | <b>116</b> | <b>106</b> | <b>90</b> | <b>76</b> | <b>65</b> | <b>25</b> | <b>15</b> | <b>14</b> | <b>12</b> | <b>60</b> | <b>1,357</b> |

## Note 30 Contingencies and commitments

### 30.1. Commitments

At December 31, 2019, the Group's contractual obligations and commitments were as follows:

| € millions                     | December 31, 2019 | December 31, 2018 <sup>(a)</sup> |
|--------------------------------|-------------------|----------------------------------|
| Guarantees and endorsements    | 160               | 111                              |
| Licenses                       | 721               | 744                              |
| Other                          | 136               | 483                              |
| <b>TOTAL COMMITMENTS GIVEN</b> | <b>1,017</b>      | <b>1,338</b>                     |

(a) The balance as of December 31, 2018 has been restated to reflect the application of IFRS 16 - Leases as described in Note 2 – New accounting standards.

#### 30.1.1. Guarantees and endorsements

Guarantees and endorsements mainly consist of parent company guarantees of Group subsidiaries.

#### 30.1.2. Licenses

The Group has entered into license agreements with certain designers for the production, design and distribution of sunglasses and prescription frames. Under these license agreements, which typically have terms ranging from 4 to 10 years, the Group is also required to

pay a royalty generally ranging from 5% to 13% of net sales of the related collection. Certain agreements also provide for the payment of minimum annual guaranteed amounts and a mandatory marketing contribution (the latter typically amounts to between 5% and 12% of net sales of the related collection). These agreements can typically be terminated early by either party for several reasons, including but not limited to non-payment of royalties, failure to reach minimum sales thresholds, and unauthorized changes to products.

The minimum payments related to these agreements are, as follows:

| € millions               | December 31, 2019 | December 31, 2018 |
|--------------------------|-------------------|-------------------|
| Due within 1 year        | 141               | 139               |
| Due in 1 to 5 years      | 453               | 435               |
| Due in more than 5 years | 127               | 170               |
| <b>TOTAL</b>             | <b>721</b>        | <b>744</b>        |

### 30.1.3. Operating leases

As a result of the application of IFRS 16 – Leases, operating lease commitments are now accounted for in the statement of financial position, as described in Note 2 – New accounting standards, and no longer as off-balance-sheet commitments.

## 30.2. Litigation and contingent liabilities

### 30.2.1. Fraud at Essilor Manufacturing Thailand Co.

During the second half of 2019, very significant fraudulent financial activities occurred at Essilor Manufacturing Thailand Co. (EMTC). The impact recorded in the 2019 consolidated profit and loss amount to €185 million before insurance, pending litigation and anticipated recovery. Many civil and criminal actions have been, and many will be, taken in Thailand and in many other jurisdictions in order to maximize the recovery of misappropriate funds.

### 30.2.2. Alleged anti-competitive practices

#### French Competition Authority Investigation

In July 2014, the French competition authority's investigation department made unannounced visits to selected Essilor entities in France and other actors in the ophthalmic lens industry involved in the online sale of ophthalmic lenses. The enquiry is ongoing.

In 2015, the French Competition Authority's investigation department issued a statement of objections ("First SoO") against Luxottica, its subsidiary Alain Mikli and other competitors alleging certain anti-competitive practices. In 2017 the French competition authority determined that the preliminary investigation was insufficient and sent the case back to the investigative department. On April 19, 2019, Luxottica and certain subsidiaries received a new statement of objection ("Second SoO") as a supplement to the First SoO. On March 2, 2020, a *Rapport* has been served taking position on the observations submitted by Luxottica in response to the SoOs. Luxottica challenges the conclusions of the First and Second SoOs as well as the *Rapport*. Management has determined the risk of a negative outcome as not probable and that it is not possible at this stage to estimate the potential exposure.

#### 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 in connection with this ongoing investigation.

### 30.2.3. Class actions

Certain US subsidiaries of EssilorLuxottica are defendant in class actions and putative class actions brought before US Federal and State courts alleging suppression of competition, false and misleading advertising, misleading representations, warranty claims and unlawful control of optometrists. The relevant subsidiaries dispute the merits of all of these actions.

### 30.2.4. Tax disputes

EssilorLuxottica is part of various tax litigations, for which provisions have already been made.

### 30.2.5. Other existing proceedings

EssilorLuxottica and its subsidiaries are defendants in other legal proceedings arising in the ordinary course of business. EssilorLuxottica disputes the merits of all such outstanding claims, which it will vigorously pursue.

As of the date of this Document, such 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.

### 30.2.6. Other event of the period

On March 27, 2019 the shareholder Delfin S.à r.l. filed a request for arbitration with the International Chamber of Commerce (ICC) against the Executive Vice-Chairman, Hubert Sagnières, and EssilorLuxottica for alleged breach of the Combination Agreement entered into by Essilor and Delfin S.à r.l. on January 15, 2017.

On April 18, 2019, the Executive Vice-Chairman, Hubert Sagnières, EssilorLuxottica and some directors of the latter filed a *référé* before the Paris Commercial Court against the four independent members of EssilorLuxottica Board of Directors designated – pursuant to the Combination Agreement – by Delfin S.à r.l.. On April 26, 2019, the Court appointed a *mandataire*.

On May 13, 2019, EssilorLuxottica and Delfin S.à r.l. reached an agreement to overcome the governance issues and settle the disputes.

## Note 31 Related party transactions

Main related parties are:

- members of EssilorLuxottica Board of Directors, key management personnel and their close family members;
- companies over which members of the Board of Directors, key management personnel or their close family members have control or significant influence;
- companies over which the Group exercises joint control or significant influence; and
- people and companies which exercise significant influence over the Group.

### 31.1. Remuneration paid to members of the Board of Directors and key management personnel

| € millions                           | 2019      | 2018     |
|--------------------------------------|-----------|----------|
| Total compensation and benefits paid | 21        | 6        |
| Directors' fees paid                 | 4         | 3        |
| <b>TOTAL</b>                         | <b>25</b> | <b>9</b> |

The Board of Directors consisted of 16 members as of December 31, 2019.

Total compensation and benefit paid reported above include salaries, non-cash benefit, stock options and performance share awards and contribution to post-employment defined benefit plan.

Because of the reverse acquisition accounting (see paragraph *Basis of preparation of the financial statements*

and Note 3 – Business combinations), the information related to remuneration paid to the Board of Directors and key management personnel in the prior year is not fully comparable.

No transactions outside the normal course of business were concluded during the year with the Board of Directors' members or key executives.

3

### 31.2. Related parties' transactions

A summary of related party transactions carried out in 2019 and 2018 is provided below.

| € millions                    | Consolidated statement of profit or loss |             | Balance outstanding as at December 31 |             |
|-------------------------------|--|-------------|---------------------------------------|-------------|
|                               | Revenue                                  | Costs       | Assets                                | Liabilities |
| December 31, 2019             |  |             |                                       |             |
| Brooks Brothers Group Inc     | 0  | (1)         | -                                     | 0           |
| Milleri's Group               | -  | (4)         | 20                                    | 8           |
| Visionweb <sup>(a)</sup>      | 1  | (12)        | 52                                    | 0           |
| Lenstec <sup>(a)</sup>        | 10                                       | (0)         | 1                                     | 0           |
| Triapex s.r.o. <sup>(a)</sup> | -  | (1)         | -                                     | -           |
| Others                        | -  | (0)         | -                                     | 0           |
| <b>TOTAL</b>                  | <b>11</b>                                | <b>(18)</b> | <b>74</b>                             | <b>9</b>    |

(a) Group's associates.

| € millions                  | Consolidated statement of profit or loss |             | Balance outstanding as at December 31 |             |
|-----------------------------|--|-------------|---------------------------------------|-------------|
|                             | Revenue                                  | Costs       | Assets                                | Liabilities |
| December 31, 2018           |  |             |                                       |             |
| Brooks Brothers Group, Inc. | -  | (1)         | -                                     | -           |
| Milleri's Group             | -  | (5)         | 20                                    | 10          |
| Euclid <sup>(a)</sup>       | 22                                       | (8)         | 3                                     | 1           |
| Visionweb <sup>(a)</sup>    | 14                                       | (2)         | 1                                     | -           |
| Others                      | 1  | -           | -                                     | -           |
| <b>TOTAL</b>                | <b>36</b>                                | <b>(16)</b> | <b>24</b>                             | <b>11</b>   |

(a) Group's associates.

## Financial statements

### Notes to the Consolidated Group Financial Statements

#### 31.2.1. License agreements

The Group executed an exclusive worldwide license for the production and distribution of Brooks Brothers brand eyewear. The brand is held by Brooks Brothers Group, Inc. (BBG), which is owned and controlled by Claudio Del Vecchio. The license expired on December 31, 2015 and has been renewed until December 31, 2019.

#### 31.2.2. Technology advisory agreements

The Group has IT technology advisory agreements in place with some companies owned and controlled by Francesco Milleri, member of EssilorLuxottica Board of Directors and CEO and Vice-Chairman of Luxottica. These contracts refer mainly to the implementation/ development of the Group's IT platforms.

## Note 32 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue, as a going concern, to provide returns to its shareholders and benefit to other stakeholders, balancing the capital structure and lowering the cost of capital in order to reach a strong financial position.

One way the management use to monitor the capital is observing the ratio between *Net debt* and *Total equity*.

The Net debt is calculated as total debt less cash and cash equivalents (see Note 22 – Financial debt, including lease liabilities), while the total equity comprises all components of equity (see Note 21 – Equity).

The Group's Net debt to total equity ratio at December 31, 2019 and 2018 was as follows:

| € millions                              | Notes | 2019         | 2018 <sup>(a)</sup> |
|---|-------|--------------|---------------------|
| Net debt (A)                            | 22    | 4,046        | 3,849               |
| Total equity (B)                        |       | 35,332       | 33,403              |
| <b>NET DEBT TO EQUITY RATIO (A)/(B)</b> |       | <b>11.5%</b> | <b>11.5%</b>        |

(a) Comparative information has been restated to reflect the retrospective application of IFRS 16 – Leases as described in Note 2 – New accounting standards, as well as the finalization of the PPA related to the EL Combination (as defined in paragraph *Basis of preparation of the financial statements*), as described in Note 3 – Business combinations.

As at December 31, 2019, the ratio amounted to 11.5%, in line with the value reported as at December 31, 2018 (11.5%).

## Note 33 Independent auditors' fees

The fees shown below represent the fees invoiced by PricewaterhouseCoopers Audit France & Mazars France to the French fully consolidated entities:

| € thousands   | PricewaterhouseCoopers<br>Audit | Mazars       |
|---|---------------------------------|--------------|
| <b>CERTIFICATION OF ACCOUNTS (I)</b>                              | <b>1,210</b>                    | <b>942</b>   |
| Services required by law  | 140                             | 30           |
| Services provided during the acquisition or disposal of Companies | -                               | -            |
| Other services  | 40                              | 124          |
| <b>AUDIT RELATED SERVICES OTHER THAN CERTIFICATION (II)</b>       | <b>180</b>                      | <b>154</b>   |
| <b>TOTAL (I) + (II)</b>   | <b>1,390</b>                    | <b>1,096</b> |

Services required by law include especially auditors' reports related to Non-Financial Statements and transactions relating to share capital.

## Note 34 Subsequent events

Subsequent events described below refer to the period from January 1, 2020 until March 5, 2020, the date of approval by EssilorLuxottica Board of Directors of these Group consolidated financial statements.

### 34.1. Update on the proposed acquisition of GrandVision by EssilorLuxottica

EssilorLuxottica S.A. and GrandVision confirm early February that the European Commission has initiated a Phase II review of the proposed acquisition of GrandVision by EssilorLuxottica. The parties are confident that Phase II will be completed in a timely manner and will closely cooperate with the European Commission to fully demonstrate the rationale of the proposed acquisition and the benefits that it will bring to customers, consumers and all the eyewear industry players.

The companies reaffirm the shared objective to close the transaction within 12 to 24 months from the announcement date, July 31, 2019, in cooperation with the relevant authorities.

The transaction has been unconditionally cleared so far in the United States, Russia and Colombia, and it is currently under review also in Brazil, Chile, Mexico and Turkey.

### 34.2. COVID-19

The current COVID-19 epidemic has a negative impact on the Company's business in Greater China, which represents approximately 5% of consolidated revenue. So far, the virus has also slightly impacted the Company's revenue performance in other regions. At the current level, inventory is sufficient to meet several weeks of demand.

In terms of production, EssilorLuxottica plants in China are currently operating at a slightly reduced capacity which is quickly normalizing, while the plants in Italy and all other locations are currently running at full capacity. Contingency plans can be activated in case of a protracted pandemic. They would aim at optimizing the Company's global infrastructure. EssilorLuxottica can rely on a worldwide network of plants and laboratories, which allow flexibility and continuity.

Appendix 1

**Exchange Rates**

| <i>Per EUR 1</i> |                   | <b>Closing rate</b> |                   | <b>Average rate</b> |             |
|------------------|-------------------|---------------------|-------------------|---------------------|-------------|
|                  |                   | <b>12/31/2019</b>   | <b>12/31/2018</b> | <b>2019</b>         | <b>2018</b> |
| AUD              | Australian Dollar | 1.5995              | 1.6220            | 1.6109              | 1.5797      |
| BRL              | Brazilian Real    | 4.5157              | 4.4440            | 4.4134              | 4.3085      |
| CAD              | Canadian Dollar   | 1.4598              | 1.5605            | 1.4855              | 1.5294      |
| CNY              | Chinese Yuan      | 7.8205              | 7.8751            | 7.7355              | 7.8081      |
| GBP              | British Pound     | 0.8508              | 0.8945            | 0.8778              | 0.8847      |
| HKD              | Hong Kong Dollar  | 8.7473              | 8.9675            | 8.7715              | 9.2559      |
| JPY              | Japanese Yen      | 121.9400            | 125.8500          | 122.0058            | 130.3959    |
| INR              | Indian Rupee      | 80.1870             | 79.7298           | 78.8361             | 80.7332     |
| MXN              | Mexican Peso      | 21.2202             | 22.4921           | 21.5565             | 22.7054     |
| TRY              | Turkish Lira      | 6.6843              | 6.0588            | 6.3578              | 5.7077      |
| USD              | US Dollar         | 1.1234              | 1.1450            | 1.1195              | 1.1810      |

## Appendix 2

## Interest in Group companies

Listed below are the main Group companies. The complete list of consolidated companies is available on request at the registered office of the Company.

| Company  | Country   | 2019                             |            | 2018       |
|--|-----------|----------------------------------|------------|------------|
|  |           | Consolidation method             | % interest | % interest |
| ESSILORLUXOTTICA   | France    | Legal parent <sup>(a)</sup>      |            |            |
| LUXOTTICA GROUP SPA  | Italy     | Accounting parent <sup>(a)</sup> |            |            |
| ESSILOR LABORATORIES PTY LTD                               | Australia | Full consolidation               | 100%       | 100%       |
| EYEBIZ LABORATORIES PTY LTD                                | Australia | Full consolidation               | 70%        | 70%        |
| LUXOTTICA RETAIL AUSTRALIA PTY LTD                         | Australia | Full consolidation               | 100%       | 100%       |
| LUXOTTICA SOUTH PACIFIC HOLDINGS PTY LIMITED               | Australia | Full consolidation               | 100%       | 100%       |
| OPTIMED AUSTRALIA PTY LDT                                  | Australia | Full consolidation               | 75%        | -          |
| BRASILOR COMÉRCIO DE PRODUTOS ÓPTICOS E PARTICIPACOES LTDA | Brazil    | Full consolidation               | 100%       | 100%       |
| ESSILOR DA AMAZONIA E COMERCIO LTDA                        | Brazil    | Full consolidation               | 100%       | 100%       |
| LUXOTTICA BRASIL PRODUTOS OTICOS E ESPORTIVOS LTDA         | Brazil    | Full consolidation               | 100%       | 100%       |
| MULTI-OPTICA DISTRIBUIDORA LTDA                            | Brazil    | Full consolidation               | 100%       | 100%       |
| OTICAS CAROL SA  | Brazil    | Full consolidation               | 100%       | 100%       |
| SGH BRASIL COMERCIO DE OCULOS LTDA                         | Brazil    | Full consolidation               | 100%       | 100%       |
| ESSILOR GROUP CANADA LTD.                                  | Canada    | Full consolidation               | 100%       | 100%       |
| ESSILORLUXOTTICA OF CANADA INC                             | Canada    | Full consolidation               | 100%       | 100%       |
| NIKON OPTICAL CANADA INC                                   | Canada    | Full consolidation               | 50%        | 50%        |
| LUXOTTICA OF CHILE SA                                      | Chile     | Full consolidation               | 100%       | 100%       |
| OTICAS OPV SPA   | Chile     | Full consolidation               | 100%       | 100%       |
| CHEMILENS (JIAXING) CO. LTD                                | China     | Full consolidation               | 50%        | 50%        |
| ESSILOR (CHINA) HOLDING CO LTD                             | China     | Full consolidation               | 100%       | 100%       |
| JIANGSU WANXIN OPTICAL CO LTD                              | China     | Full consolidation               | 80%        | 80%        |
| LUXOTTICA (CHINA) INVESTMENT CO LTD                        | China     | Full consolidation               | 100%       | 100%       |
| LUXOTTICA (SHANGHAI) TRADING CO LTD                        | China     | Full consolidation               | 100%       | 100%       |
| LUXOTTICA COMMERCIAL SERVICE (DONGGUAN) CO LTD             | China     | Full consolidation               | 100%       | 100%       |
| LUXOTTICA TRISTAR (DONGGUAN) OPTICAL CO LTD                | China     | Full consolidation               | 100%       | 100%       |
| SHANGHAI ESSILOR OPTICAL COMPANY LIMITED                   | China     | Full consolidation               | 100%       | 100%       |
| XIAMEN ARTGRI OPTICAL CO LTD                               | China     | Full consolidation               | 50%        | 50%        |
| XIN TIANHONG OPTICAL COMPANY LIMITED                       | China     | Full consolidation               | 50%        | 50%        |
| LUXOTTICA COLOMBIA SAS                                     | Colombia  | Full consolidation               | 100%       | 100%       |
| SERVIOPTICA S.A.S.   | Colombia  | Full consolidation               | 100%       | 100%       |
| BBGR   | France    | Full consolidation               | 100%       | 100%       |
| ESSIDEV  | France    | Full consolidation               | 100%       | 100%       |
| ESSILOR INTERNATIONAL                                      | France    | Full consolidation               | 100%       | 100%       |
| INVOPTIC   | France    | Full consolidation               | 100%       | 100%       |
| LUXOTTICA FRANCE SASU                                      | France    | Full consolidation               | 100%       | 100%       |

## Financial statements

### Notes to the Consolidated Group Financial Statements

| Company                                 | Country     | 2019                 |            | 2018       |
|---|-------------|----------------------|------------|------------|
|   |             | Consolidation method | % interest | % interest |
| MEGA OPTIC DESIGN                       | France      | Full consolidation   | 75%        | 75%        |
| MIKLI DIFFUSION FRANCE SASU             | France      | Full consolidation   | 100%       | 100%       |
| NOVACEL OPHTALMIQUE                     | France      | Full consolidation   | 75%        | 75%        |
| SUNGLASS HUT FRANCE SASU                | France      | Full consolidation   | 100%       | 100%       |
| BRILLE24 GMBH                           | Germany     | Full consolidation   | 100%       | -          |
| ESSILOR GmbH                            | Germany     | Full consolidation   | 100%       | 100%       |
| LUXOTTICA GERMANY GMBH                  | Germany     | Full consolidation   | 100%       | 100%       |
| RUPP + HUBRACH OPTIK GMBH               | Germany     | Full consolidation   | 100%       | 100%       |
| SATISLOH GmbH                           | Germany     | Full consolidation   | 100%       | 100%       |
| LUXOTTICA HELLAS AE                     | Greece      | Full consolidation   | 70%        | 70%        |
| LUXOTTICA HONG KONG SERVICES LIMITED    | Hong Kong   | Full consolidation   | 100%       | 100%       |
| ESSILOR INDIA PRIVATE LIMITED           | India       | Full consolidation   | 100%       | 100%       |
| GKB RX LENS PRIVATE LIMITED             | India       | Full consolidation   | 76%        | 76%        |
| LUXOTTICA INDIA EYEWEAR PRIVATE LIMITED | India       | Full consolidation   | 100%       | 100%       |
| SUNGLASS HUT IRELAND LIMITED            | Ireland     | Full consolidation   | 100%       | 100%       |
| TRANSITIONS OPTICAL LIMITED             | Ireland     | Full consolidation   | 100%       | 100%       |
| ESSILOR ISRAELI HOLDINGS LTD            | Israel      | Full consolidation   | 100%       | 100%       |
| LUXOTTICA OPTICS LTD                    | Israel      | Full consolidation   | 100%       | 100%       |
| SHAMIR OPTICA HOLDING LTD               | Israel      | Full consolidation   | 50%        | 50%        |
| SHAMIR OPTICAL INDUSTRY LTD             | Israel      | Full consolidation   | 50%        | 50%        |
| BARBERINI SPA                           | Italy       | Full consolidation   | 100%       | -          |
| ESSILOR ITALIA                          | Italy       | Full consolidation   | 100%       | 100%       |
| L.T.L. SPA                              | Italy       | Full consolidation   | 100%       | 100%       |
| LUXOTTICA ITALIA SRL                    | Italy       | Full consolidation   | 100%       | 100%       |
| LUXOTTICA SRL                           | Italy       | Full consolidation   | 100%       | 100%       |
| SALMOIRAGHI & VIGANO' SPA               | Italy       | Full consolidation   | 100%       | 100%       |
| FUKUI MEGANE INDUSTRY CO LTD            | Japan       | Full consolidation   | 67%        | 67%        |
| LUXOTTICA JAPAN CO LTD                  | Japan       | Full consolidation   | 100%       | 100%       |
| NIKON ESSILOR CO LIMITED                | Japan       | Full consolidation   | 50%        | 50%        |
| CHEMIGLAS CORP.                         | Korea       | Full consolidation   | 50%        | 50%        |
| LUXOTTICA KOREA LTD                     | Korea       | Full consolidation   | 100%       | 100%       |
| LUXOTTICA WHOLESAL<br>MALAYSIA SDN BHD  | Malaysia    | Full consolidation   | 100%       | 100%       |
| ESSILOR MEXICO S.A DE C.V.              | Mexico      | Full consolidation   | 100%       | 100%       |
| LUXOTTICA MEXICO SA DE CV               | Mexico      | Full consolidation   | 100%       | 100%       |
| SUNGLASS HUT DE MEXICO SAPI DE CV       | Mexico      | Full consolidation   | 100%       | 100%       |
| LUXOTTICA HOLLAND BV                    | Netherland  | Full consolidation   | 100%       | 100%       |
| LUXOTTICA THE NETHERLANDS BV            | Netherland  | Full consolidation   | 100%       | 100%       |
| ESSILOR NEDERLAND BV                    | Netherlands | Full consolidation   | 100%       | 100%       |
| ESSILOR NEDERLAND HOLDING BV            | Netherlands | Full consolidation   | 100%       | 100%       |
| OPTICAS GMO PERU SAC                    | Peru        | Full consolidation   | 100%       | 100%       |
| LUXOTTICA POLAND SP ZOO                 | Poland      | Full consolidation   | 100%       | 100%       |

| Company  | Country      | 2019                 |            | 2018       |
|--|--------------|----------------------|------------|------------|
|  |              | Consolidation method | % interest | % interest |
| ESSILOR PORTUGAL - Sociedade Industrial de óptica, Lda | Portugal     | Full consolidation   | 100%       | 100%       |
| LUXOTTICA PORTUGAL SA                                  | Portugal     | Full consolidation   | 100%       | 100%       |
| COMPANY GRANDVISION LLC                                | Russia       | Full consolidation   | 75%        | 75%        |
| LUXOTTICA RUS LLC                                      | Russia       | Full consolidation   | 100%       | 100%       |
| OPTIC CLUB LLC   | Russia       | Full consolidation   | 75%        | 75%        |
| ESSILOR AMERA PTE LTD                                  | Singapore    | Full consolidation   | 100%       | 100%       |
| LUXOTTICA SEA PTE LTD                                  | Singapore    | Full consolidation   | 100%       | 100%       |
| OSA INVESTMENTS HOLDINGS PTE LTD                       | Singapore    | Full consolidation   | 100%       | 100%       |
| SPECTACLE HUT PTE LTD                                  | Singapore    | Full consolidation   | 60%        | 60%        |
| TRANSITIONS OPTICAL (S) PTE. LTD.                      | Singapore    | Full consolidation   | 100%       | 100%       |
| LUXOTTICA SOUTHERN AFRICA PTY LTD                      | South Africa | Full consolidation   | 100%       | 100%       |
| ESSILOR ESPANA   | Spain        | Full consolidation   | 100%       | 100%       |
| ESSILOR OPTICA INTERNATIONAL HOLDING SL                | Spain        | Full consolidation   | 100%       | 100%       |
| LUXOTTICA SPAIN SLU                                    | Spain        | Full consolidation   | 100%       | 100%       |
| FUTURE EYEWEAR SWEDEN GROUP AB                         | Sweden       | Full consolidation   | 100%       | -          |
| LENSCO AB  | Sweden       | Full consolidation   | 100%       | 100%       |
| ESSILOR SUISSE SA                                      | Switzerland  | Full consolidation   | 100%       | 100%       |
| SATISLOH AG  | Switzerland  | Full consolidation   | 100%       | 100%       |
| SATISLOH HOLDING AG                                    | Switzerland  | Full consolidation   | 100%       | 100%       |
| ESSILOR MANUFACTURING (THAILAND)CO LTD                 | Thailand     | Full consolidation   | 100%       | 100%       |
| LUXOTTICA WHOLESALE (THAILAND) LTD                     | Thailand     | Full consolidation   | 100%       | 100%       |
| LUXOTTICA GOZLUK ENDUSTRI VE TICARET ANONIM SIRKETI    | Turkey       | Full consolidation   | 100%       | 100%       |
| CLASSIC OPTICAL LABORATORIES, INC.                     | U.S.A.       | Full consolidation   | 95%        | 95%        |
| COSTA DEL MAR, INC                                     | U.S.A.       | Full consolidation   | 100%       | 100%       |
| DAC VISION INC   | U.S.A.       | Full consolidation   | 100%       | 100%       |
| EOA HOLDING CO., INC.                                  | U.S.A.       | Full consolidation   | 100%       | 100%       |
| ESSILOR LABORATORIES OF AMERICA HOLDING CO INC         | U.S.A.       | Full consolidation   | 100%       | 100%       |
| ESSILOR LABORATORIES OF AMERICA INC                    | U.S.A.       | Full consolidation   | 100%       | 100%       |
| ESSILOR LABS COMPANY                                   | U.S.A.       | Full consolidation   | 100%       | 100%       |
| ESSILOR LATIN AMERICA & CARIBBEAN, INC                 | U.S.A.       | Full consolidation   | 100%       | 100%       |
| ESSILOR OF AMERICA, INC                                | U.S.A.       | Full consolidation   | 100%       | 100%       |
| EYEBUY DIRECT, INC                                     | U.S.A.       | Full consolidation   | 100%       | 100%       |
| EYEMED INSURANCE COMPANY                               | U.S.A.       | Full consolidation   | 100%       | 100%       |
| EYEMED VISION CARE LLC                                 | U.S.A.       | Full consolidation   | 100%       | 100%       |
| FGX INTERNATIONAL INC.                                 | U.S.A.       | Full consolidation   | 100%       | 100%       |
| FRAMES FOR AMERICA, INC.                               | U.S.A.       | Full consolidation   | 100%       | 100%       |
| I-COAT COMPANY, LLC                                    | U.S.A.       | Full consolidation   | 100%       | 100%       |
| INTERSTATE OPTICAL CO.                                 | U.S.A.       | Full consolidation   | 80%        | 80%        |
| K.B. CO. LLC, THE POLARIZED LENS COMPANY               | U.S.A.       | Full consolidation   | 100%       | 100%       |
| LUXOTTICA OF AMERICA INC                               | U.S.A.       | Full consolidation   | 100%       | 100%       |

## Financial statements

### Notes to the Consolidated Group Financial Statements

| Company                       | Country              | 2019                 |            | 2018       |
|-------------------------------|----------------------|----------------------|------------|------------|
|                               |                      | Consolidation method | % interest | % interest |
| LUXOTTICA US HOLDINGS CORP    | U.S.A.               | Full consolidation   | 100%       | 100%       |
| MOC ACQUISITION CORPORATION   | U.S.A.               | Full consolidation   | 84%        | 84%        |
| NASSAU OOGP VISION GROUP, INC | U.S.A.               | Full consolidation   | 100%       | 100%       |
| OAKLEY INC                    | U.S.A.               | Full consolidation   | 100%       | 100%       |
| PECH OPTICAL CORP.            | U.S.A.               | Full consolidation   | 100%       | 100%       |
| SATISLOH NORTH AMERICA        | U.S.A.               | Full consolidation   | 100%       | 100%       |
| SHAMIR INSIGHT INC            | U.S.A.               | Full consolidation   | 50%        | 50%        |
| SIGNET ARMORLITE, INC.        | U.S.A.               | Full consolidation   | 100%       | 100%       |
| TRANSITIONS OPTICAL INC       | U.S.A.               | Full consolidation   | 100%       | 100%       |
| TRI-SUPREME OPTICAL, LLC      | U.S.A.               | Full consolidation   | 100%       | 100%       |
| VISION SOURCE                 | U.S.A.               | Full consolidation   | 100%       | 100%       |
| LUXOTTICA MIDDLE EAST FZE     | United Arab Emirates | Full consolidation   | 100%       | 100%       |
| BBGR LIMITED                  | United Kingdom       | Full consolidation   | 100%       | 100%       |
| ESSILOR LIMITED               | United Kingdom       | Full consolidation   | 100%       | 100%       |
| LUXOTTICA NORTH EUROPE LTD    | United Kingdom       | Full consolidation   | 100%       | 100%       |
| LUXOTTICA RETAIL UK LTD       | United Kingdom       | Full consolidation   | 100%       | 100%       |
| TRIFLE HOLDINGS LIMITED       | United Kingdom       | Full consolidation   | 100%       | 100%       |
| VISION DIRECT LIMITED         | United Kingdom       | Full consolidation   | 100%       | 100%       |

(a) EssilorLuxottica is the legal parent of the Group. However, for accounting purposes the EL Combination has been accounted for as a reverse acquisition (see Note 3 – Business combinations), i.e. the consolidated financial statements of the Group have been prepared as a continuation of the financial statements of the accounting acquirer, Luxottica Group S.p.A..

## 3.5 Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2019

*This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the Management report and other documents provided to the shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Annual General Meeting of EssilorLuxottica,

### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of EssilorLuxottica for the year ended December 31, 2019. These financial statements were approved by the Board of Directors on March 5, 2020 based on information available at that date and in the evolving context of the Covid-19 pandemic.

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, 2019 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.

3

### 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 "Statutory Auditors' responsibilities for the audit of the consolidated financial statements" section of our report.

#### Independence

We conducted our audit engagement in compliance with independence rules applicable to us for the period from

January 1, 2019 to the date of our report and specifically we did not provide any prohibited nonaudit services referred to article 5 (1) of Regulation (EU) No 537/2014 or in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

#### Emphasis of Matter

We draw attention to Note 2 – NNew accounting standards to the consolidated financial statements relating to the impact of the first-time application of IFRS 16 – *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*. Our opinion is not modified in respect of these matters.

### 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 of the current period, 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, approved in the context described above, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

#### Accounting for the combination between Essilor and Luxottica

##### Risk identified

In 2019, as part of the finalization of the exchange offers, the Group accounted the following:

- share capital and share premium reserve increase by €2 million and €1,017 million respectively;
- €641 million cash payment to Luxottica shareholders who tendered their shares against cash; and
- reversal of the put liability recorded as at December 31, 2018 (€1,677 million).

In accordance with IFRS 3 – Business Combinations, the purchase price allocation exercise, which was provisional as at December 31, 2018, was finalized during the window period ending October 1, 2019 based on additional information about facts and circumstances that existed at the acquisition date. As a result, intangible assets and goodwill initially recognized were adjusted by €110 million and €97 million to €10,952 million and €19,629 million respectively.

Due to the materiality of the transaction and the finalization of the combination between Luxottica and Essilor, the related accounting treatments, we have considered the accounting of the EssilorLuxottica combination as a key audit matter.

#### Our response

Our procedures primarily consisted in:

- confirming the accounting treatment relating to the finalization of the exchange offers;
- reviewing the finalization by Management, with the support of an independent valuation specialist, of the identification and valuation of the Essilor main assets acquired. We have assessed and confirmed with our valuation experts, the process and methodologies adopted, the underlying assumptions and tested the mathematical accuracy of the valuation models;
- verifying that the consolidated financial statements disclosures in respect of the finalization of the combination (Note 3.1 – Combination between Essilor and Luxottica) are appropriate.

#### Impairment test of goodwill and other intangible assets

##### Risk identified

As at December 31, 2019, goodwill and finite lives intangible assets net book values total €24.1 billion and €11.3 billion respectively.

The Group performs at least once a year an impairment test on goodwill, by reference to market data or to value in use calculations based on discounted cash-flows as described in Note 1 – Significant accounting policies – Impairment of goodwill to the consolidated financial statements. The determination of the recoverable value and the sensitivity to key data and assumptions used, require significant Management judgment and estimates.

Intangible assets with a finite useful 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. Management has assessed whether impairment indicators existed as at December 31, 2019 and, where necessary, performed an impairment test. The recoverable amount has been determined as the higher of the value in use, calculated consistently with the basis applied for goodwill, and the fair value less costs to sell.

The significant value of goodwill and intangible assets, the sensitivity to the fluctuation of certain key data and assumptions and judgment applied by Management, have led us to consider the measurement of the recoverable value of goodwill and intangible assets as a key audit matter.

#### Our response

Our procedures primarily consisted in:

- performing an understanding of the impairment testing procedures adopted by Management, policies applied in measuring goodwill and finite lives intangible assets and of estimates developed by Management;
- assessing the adequacy of the groups of Cash Generating Units (CGUs) used for the allocation of goodwill and their consistency with the Group organizational structure, the internal level at which return on investments is monitored and internal decision-making processes and reporting. This assessment includes the change in the structure of the Luxottica Group's groups of CGUs in 2019;
- examining methodologies applied in developing cash flows projections used to determine the value in use and the approach adopted in applying the discounted cash flow mathematical model, with the support of our valuation experts. In addition, we confirmed the adequate consideration of IFRS 16 – Leases. We have also verified the mathematical accuracy of the calculations and consistency of the information used with relevant data source;
- analysing the consistency of the projections with Management business plans. We have also carried out, when possible, a retrospective analysis comparing estimates developed by Management in previous years with the actual results, in order to confirm Management's ability in developing reliable estimates;
- with reference to measurement of finite lives intangible assets, reviewing and discussing Management's assessment of the existence of impairment indicators and relevant assumptions;
- assessing the information disclosed in Note 10 – Goodwill and other intangible assets to the consolidated financial statements.

#### Revenue recognition

##### Risk identified

The Group has adopted and follows a revenue growth strategy. This is, in particular, illustrated by the different acquisitions made in recent years, its geographical footprint and expansion, the large number of commercial agreements and related terms and conditions, its innovation activities (including research and development) and advertising and marketing approach. Revenue and revenue growth are part of the Group key performance measures.

Revenue recognition accounting policies are described in Note 1 – Significant accounting policies – Revenue to the consolidated financial statements. Certain business agreements are complex and require specific attention to ensure accuracy of the related accounting entries.

The recognition of revenues, given the large number of transactions, carried out on a global basis, through various sales channels, has been considered as a key audit matter.

### Our response

Our procedures primarily consisted in:

- assessing the appropriateness of the accounting policies applied by the Group with respect to revenue recognition;
- gaining an understanding of the Revenue process, including relevant controls implemented by the Group and testing, on a sample basis, the main controls;
- performing detailed substantive tests on revenue transactions and testing journal entries relating to revenue, based on samples as deemed appropriate;
- obtaining customer external confirmations to support trade receivables and related revenue recognized;
- assessing the information disclosed in Note 1 – Significant accounting principles – Revenue to the consolidated financial statements as at December 31, 2019.

### First-time application of IFRS 16 – Leases

#### Risk identified

The new standard IFRS 16 – Leases requires the lessees to recognize a liability for the future lease payments and an asset representing the right to use the underlying asset for the lease term.

IFRS 16 is effective for periods beginning on January 1, 2019 and the Group adopted IFRS 16 applying the full retrospective approach. Details on the IFRS 16 first application are provided in Note 2 – New accounting standards – paragraph IFRS 16 – Leases to the consolidated financial statements.

### Specific verification

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the Group's information given in the Management Report of the Board of Directors approved on March 5, 2020. The latter describes, in paragraphs 1.2.2 *Significant events* and 2.1.2 *Other events – Fraud*, (i) the fraudulent financial activities the Group's subsidiary, Essilor International, discovered end of 2019 in one of its plants in Thailand and (ii) the specific circumstances of the fraud, the actions put in place and the measures to implement, in particular on related internal controls.

With regards to Covid-19 pandemic related events occurred, information known since the date the financial statements were approved and authorized for issue,

The first-time application of this standard led to the recognition of right-of-use assets with a carrying amount of €1,522 million and non-current and current lease liabilities respectively of €1,250 million and €404 million as of January 1, 2018.

The first time application of the IFRS 16 standard was considered as a key audit matter due to the materiality of right-of-use assets and lease liabilities on the consolidated financial statements, the large scope of the standard and the degree of judgment involved.

### Our response

Our procedures primarily consisted in:

- performing specific procedures to gain an understanding of the procedures implemented by the Group at central and local levels to analyze its lease contracts and address the IFRS 16 – Leases requirements;
- assessing the reasonableness of the accounting estimates and key assumptions developed by Management in adopting IFRS 16 - Leases. We have carried out specific procedures to confirm the identification of the contracts in scope, the consistency of the data inputs used and the mathematical accuracy of the quantifications;
- verifying the appropriateness of disclosures included in Note 2 – New accounting standards to the consolidated financial statements.

3

Management has confirmed that this will be subject to a specific communication at the Annual General Meeting called to decide on these financial statements

We have no matters to report as to their fair presentation and their consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement required by Article L.225-102-1 of the French Commercial Code (*Code de commerce*) is included in the Group's Management report, it being specified that, in accordance with Article L.823-10 of this Code, we have verified neither the fair presentation nor the consistency with the consolidated financial statements of the information contained therein. This information should be reported on by an independent third party.

### Report on other legal and regulatory requirements

#### Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Essilor International (Compagnie Générale d'Optique), subsequently renamed EssilorLuxottica, by the Annual General Meeting held on June 14, 1983 for PricewaterhouseCoopers Audit and on May 11, 2007 for Mazars.

As at December 31, 2019, PricewaterhouseCoopers Audit was in its thirty-seventh year of uninterrupted engagement and Mazars in its thirteenth year of uninterrupted engagement.

## Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 is expected 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 risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

## Statutory Auditors' responsibilities for 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 from 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 (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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;
- obtains 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;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;

- assesses 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 his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains 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 auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

### 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, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

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 of the current period and which are therefore 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) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (Code de commerce) and in the

French Code of Ethics (Code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit and Risk Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards

Neuilly-sur-Seine and Paris-La Défense, March 27, 2020

The Statutory Auditors  
*French original signed by*

|                              |               |                  |                 |
|------------------------------|---------------|------------------|-----------------|
| PricewaterhouseCoopers Audit |               | MAZARS           |                 |
| Olivier Lotz                 | Cédric Le Gal | Guillaume Devaux | Jean-Luc Barlet |

## 3.6 Restated Unaudited Pro Forma Consolidated Financial Information

### Introduction

The Restated Unaudited *Pro Forma* Consolidated Financial Information of EssilorLuxottica (also referred as the “Group”) includes the restated unaudited *pro forma* consolidated statement of profit or loss for the year ended December 31, 2018 with the related explanatory notes (together the “**Restated Unaudited Pro Forma Consolidated Financial Information**”). It has been prepared to represent the *pro forma* effects of the combination between Essilor and Luxottica (the “**EL Combination**”), which occurred as at October 1, 2018, as a result of the contribution by Delfin of its entire stake in Luxottica to Essilor (the “**Contribution**”). The Contribution was followed by a mandatory exchange offer on all the remaining issued and outstanding Luxottica shares aimed to acquire 100 % of Luxottica’s share capital (the “**Offer**”). The Restated Unaudited *Pro Forma* Consolidated Financial Information has been prepared taking into consideration the impact relating to the implementation of IFRS 16 – Leases and the finalization of the purchase price allocation related to the EL Combination consistently with EssilorLuxottica consolidated financial statements as of and for the year ended December 31, 2019 prepared in accordance with IFRS as endorsed by the European Union.

The Restated Unaudited *Pro Forma* Consolidated Financial Information has been produced for illustrative purposes only and with the aim to provide comparative information.

The *pro forma* adjustments related to the Restated Unaudited *Pro Forma* Consolidated Financial Information are limited to those that are (i) directly attributable to the EL Combination, and (ii) factually supportable.

The restated unaudited *pro forma* consolidated statement of profit or loss does not include the following items:

- any restructuring and integration costs that may be additionally incurred as a result of the EL Combination;
- any synergies, operating efficiencies and cost savings that may result from the EL Combination.

In addition,

- restated unaudited adjusted *pro forma* consolidated statement of profit or loss for the year ended December 31, 2018 is disclosed in Note 4 to the Restated Unaudited *Pro Forma* Consolidated Financial Information. It is intended to (i) reverse the impact of the EL Combination and other transactions that are unusual, infrequent or unrelated to normal operations, as the impact of these events might affect the understanding of the Group’s performance and (ii) present, on a *pro forma* basis, the adjusted indicators regularly produced by EssilorLuxottica for the purpose of its financial communication. These adjustments are described in Note 4 to the Restated Unaudited *Pro Forma* Consolidated Financial Information;

- restated unaudited *pro forma* consolidated revenue by operating segment for the year ended December 31, 2018 are disclosed in Note 5 to the Restated Unaudited *Pro Forma* Consolidated Financial Information.

The consolidated financial information of the Group reflects the continuation of Luxottica and the reverse acquisition of Essilor by Luxottica as at October 1, 2018, as a result of the Contribution. Accordingly, Essilor identifiable assets acquired and liabilities assumed have been measured at fair value in accordance with IFRS 3 – Business Combinations as at October 1, 2018.

The restated unaudited *pro forma* consolidated statement of profit or loss for the year ended December 31, 2018 has been prepared assuming that the EL Combination had occurred on January 1, 2018. Because of its nature, the Restated Unaudited *Pro Forma* Consolidated Financial Information addresses a hypothetical situation and is neither intended to represent or to be indicative of the result of operations that EssilorLuxottica would have achieved had the EL Combination occurred as of January 1, 2018, nor is the Restated Unaudited *Pro Forma* Consolidated Financial Information indicative of the future operating results of the Group. The Restated Unaudited *Pro Forma* Consolidated Financial Information is based upon certain assumptions that EssilorLuxottica believes reasonable at the date of this document.

The Restated Unaudited *Pro Forma* Consolidated Financial Information is derived from:

- the restated comparative consolidated statement of profit or loss for the year ended December 31, 2018 (the “**EssilorLuxottica 2018 P&L Restated**”), as disclosed in the EssilorLuxottica’s consolidated financial statements as of and for the year ended December 31, 2019 prepared in accordance with IFRS as endorsed by the European Union (the “**EssilorLuxottica 2019 FS**”). These consolidated financial statements are included in this document, together with the audit report issued by PricewaterhouseCoopers Audit and Mazars dated March 27, 2020, which does not include any qualification;
- the accounting records (neither audited nor reviewed) of Essilor for the nine-month period ended September 30, 2018 used for the preparation of the Essilor consolidated financial information and restated to reflect the application of IFRS 16 – Leases (the “**Essilor 9m 2018 P&L Restated**”).

As required by Annex I of Commission Regulation (EC) n° 809/2004, an unaudited *pro forma* consolidated statement of profit or loss for the year ended December 31, 2018 ("**2018 Pro Forma**") was included in the EssilorLuxottica's 2018 Registration Document filed on April 9, 2019. The 2018 *Pro Forma* has been prepared without taking in consideration the effects coming from the implementation of IFRS 16 – Leases (effective starting from annual period beginning on or after January 1, 2019) nor the finalization of the purchase price allocation related to the EL Combination (completed within one year from the EL Combination date, i.e. October 1, 2018).

The Restated Unaudited *Pro Forma* Consolidated Financial Information is prepared on a basis that is consistent with the accounting policies used in the preparation of EssilorLuxottica 2019 FS, including the application of new accounting standards.

Furthermore, the Restated Unaudited *Pro Forma* Consolidated Financial Information for year ended December 31, 2018 has not been restated to reflect the full year effect of business combinations, other than the EL Combination, finalized by Luxottica or Essilor during the course of 2018, as they are not significant.

The Restated Unaudited *Pro Forma* Consolidated Financial Information is presented in millions of Euro.

## Regulatory framework

The Restated Unaudited *Pro Forma* Consolidated Financial Information for the year ended December 31, 2018 has been prepared on a voluntary basis in order to enable comparability between 2019 and 2018 figures. The Restated Unaudited *Pro Forma* Consolidated Financial Information has been prepared in accordance with Annex 20 "*Pro forma* information" of Commission Delegated

Regulation (EU) 2019/980 of March 14, 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council, the recommendations issued by ESMA (ESMA/2013/319 of March 20, 2013) and the recommendation n° 2013-08 issued by the AMF on *pro forma* financial information, as amended on July 21, 2019.

## Restated unaudited *pro forma* consolidated statement of profit or loss for the year ended December 31, 2018

|                                       | 2018 restated                            |                                    |  |                      | EssilorLuxottica<br><i>pro forma</i><br>information<br>Restated |
|---------------------------------------|--|------------------------------------|--|----------------------|---|
|                                       | EssilorLuxottica<br>2018 P&L<br>Restated | Essilor<br>9m 2018 P&L<br>Restated | PPA adjustments<br>for the period from<br>January 1, 2018 to<br>September 30,<br>2018 Restated | Other<br>adjustments |   |
| € millions                            | Note 1                                   | Note 1                             | Note 2   | Note 3               |   |
| Revenue                               | 10,833                                   | 5,537                              | -  | (176) (a)            | 16,194  |
| Cost of sales                         | (3,961)                                  | (2,286)                            | (60) (a)   | 176 (a)              | (6,131)   |
| <b>GROSS PROFIT</b>                   | <b>6,872</b>                             | <b>3,251</b>                       | <b>(60)</b>  | <b>-</b>             | <b>10,063</b>   |
| % of revenue                          | 63.4%                                    | 58.7%                              |  |                      | 62.1%   |
| Research and development              | (190)                                    | (149)                              | (193) (a)  | -                    | (531)   |
| Selling                               | (3,389)                                  | (997)                              | (210) (a)  | -                    | (4,596)   |
| Royalties                             | (157)                                    | (6)                                | -  | -                    | (163)   |
| Advertising and marketing             | (745)                                    | (392)                              | (68) (a)   | -                    | (1,206)   |
| General and administrative            | (987)                                    | (882)                              | (8) (a)  | (131) (b)            | (2,008)   |
| Other income/(expenses)               | (5)                                      | (42)                               | -  | -                    | (47)  |
| <b>Total operating expenses</b>       | <b>(5,473)</b>                           | <b>(2,468)</b>                     | <b>(479)</b>   | <b>(131)</b>         | <b>(8,552)</b>  |
| <b>OPERATING PROFIT</b>               | <b>1,399</b>                             | <b>783</b>                         | <b>(539)</b>   | <b>(131)</b>         | <b>1,511</b>  |
| % of revenue                          | 12.9%                                    | 14.1%                              |  |                      | 9.3%  |
| Cost of net debt                      | (100)                                    | (48)                               | 5 (b)  | (5) (c)              | (148)   |
| Other financial income/<br>(expenses) | (9)                                      | (7)                                | -  | 6 (d)                | (11)  |
| Share of profits of associates        | 0  | -                                  | -  | (1) (e)              | (0)   |
| <b>PROFIT BEFORE TAXES</b>            | <b>1,289</b>                             | <b>728</b>                         | <b>(534)</b>   | <b>(131)</b>         | <b>1,352</b>  |
| % of revenue                          | 11.9%                                    | 13.1%                              |  |                      | 8.3%  |
| Income taxes                          | (139)                                    | (214)                              | 106 (c)  | 27 (f)               | (221)   |
| Effective tax rate                    | 10.8%                                    | 29.4%                              |  |                      | 16.3%   |
| <b>NET PROFIT</b>                     | <b>1,150</b>                             | <b>514</b>                         | <b>(428)</b>   | <b>(105)</b>         | <b>1,131</b>  |

See accompanying notes to the Restated Unaudited *Pro Forma* Consolidated Financial Information.

## Notes to the Restated Unaudited *Pro Forma* Consolidated Financial Information

### Note 1 EssilorLuxottica restated consolidated statement of profit or loss for the year ended December 31, 2018 and Essilor restated accounting records for the nine-month period ended September 30, 2018

These columns include (i) the EssilorLuxottica 2018 P&L Restated, derived from the EssilorLuxottica 2019 FS and (ii) the Essilor 9m 2018 P&L Restated. Both statements of profit or loss are consistent with the presentation applied in EssilorLuxottica 2019 FS.

### Note 2 Purchase price allocation adjustments

The EL Combination is accounted for using the acquisition method of accounting in accordance with IFRS 3.

The consideration transferred has been allocated to Essilor assets acquired and liabilities assumed as of October 1, 2018 based upon their fair values at that date ("purchase price allocation"). The accounting for the EL Combination has been finalized and disclosed in EssilorLuxottica 2019 FS.

The adjustments related to the purchase price allocation ("PPA adjustments") correspond to the incremental profit or loss impacts (for the nine-month period from January 1, 2018 to September 30, 2018) resulting from the measurement of Essilor's assets acquired and liabilities assumed at their fair value at the date of the Contribution (October 1, 2018). Those impacts are already reflected in the EssilorLuxottica 2018 P&L Restated for the three-month period from October 1, 2018 to December 31, 2018.

#### (a) Fair value step-up on assets acquired

For the purpose of the restated unaudited *pro forma* consolidated statement of profit or loss for the year ended December 31, 2018, the PPA adjustments related to the fair value step-up on assets acquired consisted in:

- adding the nine-month period (from January 1, 2018 to September 30, 2018) amortization related to the fair value of intangible assets (technologies, brands, trade names, customer relationships, others) – including new intangibles recognised as a result of the EL Combination – after eliminating the nine-month period amortization impacts relating to historical intangible assets recognised in the Essilor 9m 2018 P&L Restated;
- adding the nine-month period (from January 1, 2018 to September 30, 2018) depreciation of the fair value step-up of properties, plant and equipment;
- adding the nine-month period (from January 1, 2018 to September 30, 2018) impact related to the use of the inventories subject to a fair-value step-up.

The purchase price allocation reflects the output from the valuation work performed by EssilorLuxottica with the support of an independent valuation expert. Fair values have been determined as of October 1, 2018 and have been used, as they stand, for the purpose of the Restated Unaudited *Pro Forma* Consolidated Financial Information.

## Financial statements

### Restated Unaudited Pro Forma Consolidated Financial Information

The following is a description of each significant fair value step-up on assets acquired.

| <i>€ millions</i>  | Fair value<br>step-up | Estimated<br>weighted avg.<br>remaining<br>useful life<br>(years) | 12 month<br>P&L<br>impact | Of which 9<br>month P&L<br>impact<br>reflected in the<br>restated<br><i>pro forma</i> |
|--|-----------------------|---|---------------------------|---|
| Customer relationships   | 4,940                 | 15.2  | (324)                     | (243)   |
| Technologies   | 2,833                 | 10.6  | (266)                     | (200)   |
| Premium optical brands   | 2,425                 | 25.0  | (97)                      | (73)  |
| Trade names  | 489                   | 19.0  | (26)                      | (19)  |
| Other intangibles  | 265                   | 3.7   | (81)                      | (60)  |
| + Estimated fair value of intangible assets  | 10,952                | 13.8  | (794)                     | (595)   |
| - Less the net historical carrying value of intangible assets                              | (1,682)               |   | 166                       | 124   |
| <b>FAIR VALUE STEP-UP ON INTANGIBLE ASSETS</b>   | <b>9,270</b>          |   | <b>(628)</b>              | <b>(471)</b>  |
| <b>FAIR VALUE STEP-UP ON PP&amp;E</b>  | <b>191</b>            |   | <b>(11)</b>               | <b>(8)</b>  |
| + Fair value step-up on inventories  | 119                   |   | (119)                     | (119)   |
| - Less the reversal of fair value step-up recognized in EssilorLuxottica 2018 P&L Restated | n.a.                  |   |                           | (59)  |
| <b>FAIR VALUE STEP-UP ON INVENTORIES</b>   | <b>119</b>            |   |                           | <b>(60)</b>   |
| 1. of which accounted for in <i>Cost of sales</i>  | n.a.                  |   |                           | (60)  |
| 2. of which accounted for in <i>Research and development</i>                               | n.a.                  |   |                           | (193)   |
| 3. of which accounted for in <i>Selling</i>  | n.a.                  |   |                           | (210)   |
| 4. of which accounted for in <i>Advertising and marketing</i>                              | n.a.                  |   |                           | (68)  |
| 5. of which accounted for in <i>General and administrative</i>                             | n.a.                  |   |                           | (8)   |

1. Represents the impact related to the use of the inventories subject to a fair-value step-up. For the purpose of the restated unaudited *pro forma* consolidated statement of profit or loss, it is assumed that all inventories owned by Essilor as of January 1, 2018 are sold during the financial year 2018 and thus the remeasurement fully impacts the 2018 restated unaudited *pro forma* consolidated statement of profit or loss. These costs will not have a recurring impact on the results of the Group. In order to reflect a full year impact, a *pro forma* adjustment of €(60) million has been added on top of the €(59) million already included in EssilorLuxottica 2018 P&L Restated.
2. Represents the nine-month amortization related to the fair value of technologies taking into account their estimated weighted average useful life, after the cancellation of the historical amortization of technologies recognised in Essilor 9m 2018 P&L Restated.
3. Represents the nine-month amortization related to the fair value of customer relationships taking into account their estimated weighted average useful life, after the cancellation of the historical amortization of customer relationships recognised in Essilor 9m 2018 P&L Restated.
4. Represents the nine-month amortization related to the fair value of brands and trade names taking into

account their estimated weighted average useful life, after the cancellation of the historical amortization of these intangible assets recognised in Essilor 9m 2018 P&L Restated.

5. Represents the nine-month depreciation related to the fair value step-up of property, plant and equipment taking into account their estimated weighted average useful life.

**(b) Fair value step-up on financial debt**

The PPA adjustment related to the fair value step-up on financial debt consisted in a decrease in the *Cost of net debt* for €5 million.

As for the PPA on assets acquired, the fair value of financial debt has been determined as of October 1, 2018 and has been used, as it stands, for the purpose of the Restated Unaudited *Pro Forma* Consolidated Financial Information.

**(c) Tax effect on PPA adjustments**

Based on the prevailing tax rate of each entity/area where the PPA adjustments have been recognised, the tax effect on fair value step-up corresponds to the tax effects of the fair value step-up on intangible, PP&E and inventories for €107 million and of the fair value step-up on financial debt for €(1) million.

## Note 3 Other adjustments

- (a) Reflects the elimination of the intercompany transactions between Essilor and Luxottica for the nine-month period ended September 30, 2018. Some transactions between Essilor and Luxottica (approximately €130 million for the nine-month period ended September 30, 2018) were not eliminated as considered third-party sales according to requirements of IFRS 15 – *Revenues from Contracts with Customers*.
- (b) Represents the following.
- Additional transaction costs, compared to the amount recorded in EssilorLuxottica 2018 P&L Restated and

in Essilor 9m 2018 P&L Restated, recognized in *General and administrative* expenses for €(136) million (i.e. the total transaction costs accounted for by the combined Group in 2017 and 2019). The transaction costs are composed of non-recurring legal, advisory, accounting, valuation, banking and other professional or consulting fees attributable to the EL Combination. Total transaction costs incurred by the combined Group until December 31, 2019 amount to €(158) million before tax. These costs are not expected to have a recurring impact on the results of the Group.

€ millions

|  |              |
|--|--------------|
| + Total transaction costs in <i>General and administrative</i> expenses        | (158)        |
| - Total transactions costs accounted for in 2018 statements of profit or loss* | (22)         |
| <b>ADDITIONAL TRANSACTION COSTS ADJUSTED IN GENERAL AND ADMINISTRATIVE</b>     | <b>(136)</b> |

\* Both in EssilorLuxottica 2018 P&L Restated and in Essilor 9m 2018 P&L Restated.

- *Pro forma* adjustments relating to Essilor's share based payments for €5 million.
  - The terms of the share-based payments granted by Essilor to its employees (also referred as "awards") remained unchanged as a result of the EL Combination. However, those share-based payments have been measured at their market-based value at the acquisition date. The acquisition-date market-based value of the original awards has been allocated to equity for the vested portion of the awards and to post-combination expense for the unvested portion of the awards over the remaining vesting period.
  - For purposes of the restated unaudited *pro forma* consolidated statement of profit or loss, the remeasurement of share-based payments at January 1, 2018, results in a reduction of €5 million of the *General and administrative* expenses.
- (c) Corresponds to the estimation of the incremental *Cost of net debt* of €(5) million the Group incurred in connection with the Luxottica shares transferred against cash consideration during the Offer.
- (d) Reflects the elimination of €6 million of *Other financial income/(expenses)* related to the effect of undiscounting related to the put options granted by Essilor to its non-controlling interests. In accordance with the accounting policy applied by EssilorLuxottica, these effects are accounted for in equity in EssilorLuxottica 2019 FS whereas they were accounted for in *Other financial income/(expenses)* in Essilor 9m 2018 P&L Restated.
- (e) Reflects the elimination of €(1) million of income recognised by Luxottica for the *Share of profits of associates* in Essilor subsidiaries (Eyebiz Laboratories Pty Ltd and Eyebiz Laboratory Co Ltd) for the nine-month period ended September 30, 2018. As a result of the EL Combination, the Group gained 100% control over these subsidiaries.
- (f) Based on prevailing tax rates, represents the followings:
- €25 million for the tax effect on the additional transaction costs recognized in *General and administrative expenses*, as explained in Note 3 (b);
  - €2 million for the tax effect on the additional *Cost of net debt* related to the acquisition of the Luxottica remaining outstanding shares, as described in Note 3 (c).

3

## Note 4 Restated unaudited adjusted *pro forma* consolidated statements of profit or loss for the year ended December 31, 2018

The restated unaudited adjusted *pro forma* consolidated statement of profit or loss for the year ended December 31, 2018 is intended to (i) offset the impact of the EL Combination and other transactions that are unusual, infrequent or unrelated to normal operations, as the impact of these events might affect the understanding of the Group's performance and (ii) present, on a *pro forma* basis, the adjusted indicators regularly produced by EssilorLuxottica for the purpose of its financial communication. These adjustments are limited in numbers, well-identified and significant at the level of the EssilorLuxottica's consolidated performance.

| € millions                            | 2018 restated   |  |  | EssilorLuxottica<br><i>pro forma</i><br>adjusted<br>information<br>Restated |
|---------------------------------------|---|--|--|---|
|                                       | EssilorLuxottica<br><i>pro forma</i><br>information<br>Restated | Elimination of 12 months<br>PPA adjustments<br>(inventory step-up, PP&E<br>step-up, intangible assets<br>amortization expenses...) | Other non-GAAP<br>adjustments<br>(i.e. restructuring<br>charges, etc.) |   |
| Revenue                               | 16,194  | -  |  | 16,194  |
| Cost of sales                         | (6,131)   | 119  | 27   | (5,985)   |
| <b>GROSS PROFIT</b>                   | <b>10,063</b>   | <b>119</b>   | <b>27</b>  | <b>10,209</b>   |
| % of revenue                          | 62.1%   |  |  | 63.0%   |
| Research and development              | (531)   | 257  | -  | (275)   |
| Selling                               | (4,596)   | 280  | 7  | (4,308)   |
| Royalties                             | (163)   | -  | -  | (163)   |
| Advertising and marketing             | (1,206)   | 91   | -  | (1,115)   |
| General and administrative            | (2,008)   | 11   | 278  | (1,719)   |
| Other income/(expenses)               | (47)  | -  | 36   | (11)  |
| <b>Total operating expenses</b>       | <b>(8,552)</b>  | <b>639</b>   | <b>322</b>   | <b>(7,591)</b>  |
| <b>OPERATING PROFIT</b>               | <b>1,511</b>  | <b>758</b>   | <b>349</b>   | <b>2,618</b>  |
| % of revenue                          | 9.3%  |  |  | 16.2%   |
| Cost of net debt                      | (148)   | (6)  | 5  | (149)   |
| Other financial income/<br>(expenses) | (11)  | -  | -  | (11)  |
| Share of profits of associates        | (0)   | -  | -  | (0)   |
| <b>PROFIT BEFORE TAXES</b>            | <b>1,352</b>  | <b>752</b>   | <b>354</b>   | <b>2,458</b>  |
| % of revenue                          | 8.3%  |  |  | 15.2%   |
| Income taxes                          | (221)   | (297)  | (74)   | (593)   |
| Effective tax rate                    | 16.3%   |  |  | 24.1%   |
| <b>NET PROFIT</b>                     | <b>1,131</b>  | <b>455</b>   | <b>279</b>   | <b>1,866</b>  |

The adjustments include:

- the impact of the purchase price allocation related to the EL Combination for the year ended December 31, 2018 as disclosed in Note 2. For the purpose of the 2018 restated unaudited *pro forma* consolidated statement of profit or loss, the 12-month impacts of (i) the use of the inventories owned by Essilor subject to a fair-value step-up, (ii) the incremental amortizations of intangible assets recognised as a result of the EL Combination compared

to existing intangible assets, (iii) the depreciation of PP&E fair value step-up, and (iv) the cost of net debt impact related to the fair value step-up of the financial liabilities were eliminated, including the associated tax effect. Those effects are eliminated through the adjusted indicators that EssilorLuxottica regularly produces;

- other non-GAAP adjustments, as described below.

The other non-GAAP adjustments reflected into the restated unaudited adjusted *pro forma* consolidated statement of profit or loss for the year period ended December 31, 2018 are related to the following transactions:

- (i) non-recurring *Cost of sales* for €27 million associated with restructuring and reorganization projects mainly linked to initiatives aimed at transforming the Group's distributive network (*i.e.* centralization of the Group warehouses removing stock in store; closing down some local warehouses) as well as those related to a change in the Group business model (*e.g.* removal of lenses laboratories from the stores). In particular, the expenses adjusted in 2018 consist of write-off of the equipment and stock affected by those restructuring and reorganization projects, as well as the related logistic costs incurred;
- (ii) non-recurring *Selling* expenses for a net cost of €7 million resulting from an impairment loss recorded on specific brands, as well as from some projects aimed at transforming significantly the Group's sales force organization;
- (iii) non-recurring *General and administrative* expenses for €278 million associated with the following impacts:
  - total transaction costs related to the EL Combination for €158 million (see Note 3 (b)),
  - non-recurring costs of €77 million mainly linked to the removal of the performance conditions from the 2015 and 2016 share-based plans authorized by the Essilor Annual General Meeting of May 2017, less the €5 million adjustment described in Note 3 (b),
- (iv) non-recurring expenses for €36 million accounted for in *Other income/(expenses)* including:
  - restructuring and reorganization expenses for €48 million;
  - loss on assets disposal for €5 million following the request from the Turkish Antitrust authorities to divest Merve as a condition precedent to approve the EL Combination,
  - net loss impact of the change in consolidation scope of one entity for €24 million,
  - net negative impact of €5 million related to other non-recurring transactions mainly linked to significant claims and litigations,
  - distribution of exceptional bonuses to French employees for €2 million;
- (v) *Cost of net debt* is adjusted for €5 million corresponding to a non-recurring financial expense linked to early repayment of debt;
- (vi) *Income taxes* are adjusted for an amount of €(74) million corresponding to the tax effect of the above-mentioned adjustments (from (i) to (v)) for €(27) million and to a non-recurring tax income of €(47) million.

3

## Note 5 Restated unaudited *pro forma* consolidated revenue by operating segment for the year ended December 31, 2018

The restated unaudited *pro forma* consolidated revenue by operating segment is presented on the basis of the segment structure disclosed in the EssilorLuxottica 2019 FS.

| <i>€ millions</i>              | <b>2018 EssilorLuxottica <i>pro forma</i> information Restated</b> |
|--------------------------------|--|
| Lenses and optical instruments | 6,283  |
| Equipment                      | 210  |
| Sunglasses & Readers           | 787  |
| Wholesale                      | 3,145  |
| Retail                         | 5,769  |
| <b>REVENUE</b>                 | <b>16,194</b>  |

### 3.7 Statutory Auditors' report on the Pro Forma Financial Information for the year ended December 31, 2018

*This is a free translation into English of the auditors' report issued in the French language and is provided solely for the convenience of English speaking readers.*

*This report should be read in conjunction with, and is construed in accordance with, French law and professional standards applicable in France.*

To the Executive Chairman,  
To the Executive Vice-Chairman,

In our capacity as Statutory Auditors of your company and in accordance with Regulation (EU) n°2017/1129 supplemented by the Commission Delegated Regulation (EU) n°2019/980, we hereby report to you on the pro forma financial information of EssilorLuxottica (the "Company") for the year ended December 31, 2018 set out in Section 3.6 Restated Unaudited Pro Forma Consolidated Financial Information of the 2019 Universal Registration Document (the "Pro Forma Financial Information").

The Pro Forma Financial Information has been prepared for the sole purpose of illustrating the impact that the combination between Essilor and Luxottica, which occurred as at October 1, 2018 as a result of the contribution by Delfin of its entire stake in Luxottica to Essilor and the mandatory exchange offer on all the remaining issued and outstanding Luxottica shares aimed to acquire 100 % of Luxottica's share capital, might have had on the Company consolidated statement of profit or loss restated for the year ended December 31, 2018 had the combination taken place on January 1, 2018. By its very nature, this information is based on a hypothetical situation and does not represent the financial position or performance that would have been reported, had the operation or the event taken place at an earlier date than the actual or contemplated date.

It is your responsibility to prepare the Pro Forma Financial Information in accordance with the provisions of Regulation (EU) n°2017/1129 and ESMA's recommendations on pro forma financial information.

It is our responsibility to express a conclusion, based on our work, in accordance with Annex 20, section 3 of Commission Delegated Regulation (EU) n°2019/980, as to the proper compilation of the Pro Forma Financial Information on the basis stated.

We performed those procedures that we deemed necessary in accordance with the professional guidance issued by the French Institute of Statutory Auditors ("CNCC") applicable to such engagements.

These procedures, which did not include an audit nor a review of the financial information used as a basis to prepare the Pro Forma Financial Information, mainly consisted in ensuring that the information used to prepare the Pro Forma Financial Information was consistent with the underlying financial information, as described in the introduction and the notes to the Pro Forma Financial Information, reviewing the evidence supporting the pro forma adjustments and conducting interviews with the management of the Company to obtain the information and explanations that we deemed necessary.

In our opinion:

- the Pro Forma Financial information has been properly compiled on the basis stated; and
- this basis is consistent with the accounting policies of the issuer.

This report has been issued solely for the purpose of filing the Universal Registration Document with the AMF and cannot be used for any other purpose.

Neuilly-sur-Seine and Paris-La Défense, on April 8, 2020

The Statutory Auditors  
French original signed by

PricewaterhouseCoopers Audit  
Olivier Lotz

Cédric Le Gal

MAZARS  
Guillaume Devaux

Jean-Luc Barlet

### 3.8 Fees paid to the Auditors and the members of their network

| € thousands<br>Amounts excluding VAT   | 2019                                  |              |                            | 2018                                  |              |                            |
|--|---------------------------------------|--------------|----------------------------|---------------------------------------|--------------|----------------------------|
|  | EssilorLuxottica<br>and Essilor Group |              | Luxottica Group            | EssilorLuxottica<br>and Essilor Group |              | Luxottica Group            |
|  | Pricewaterhouse<br>Coopers            | Mazars       | Pricewaterhouse<br>Coopers | Pricewaterhouse<br>Coopers            | Mazars       | Pricewaterhouse<br>Coopers |
| <b>AUDIT</b>   |                                       |              |                            |                                       |              |                            |
| <b>STATUTORY AUDITORS, CERTIFICATION, REVIEW OF SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS</b> |                                       |              |                            |                                       |              |                            |
| • Legal parent company   | 490                                   | 410          | -                          | 955                                   | 750          | -                          |
| • Fully consolidated subsidiaries  | 3,756                                 | 3,518        | 7,967                      | 5,493                                 | 5,145        | 8,498                      |
| <b>SUB-TOTAL</b>   | <b>4,246</b>                          | <b>3,928</b> | <b>7,967</b>               | <b>6,448</b>                          | <b>5,895</b> | <b>8,498</b>               |
| <b>NON AUDIT SERVICES*</b>   |                                       |              |                            |                                       |              |                            |
| • Services required by law   | 145                                   | 48           | 119                        | 160                                   | 38           | 175                        |
| • Services provided on the acquisition or disposal of companies (due diligences)                   | 205                                   | 58           | 100                        | -                                     | -            | 75                         |
| • Legal, tax and social  | 452 <sup>(1)</sup>                    | 41           | 109                        | 145                                   | 27           | 49                         |
| • Other services   | 78                                    | 149          | 340 <sup>(2)</sup>         | 29                                    | 60           | 377                        |
| <b>SUB-TOTAL</b>   | <b>880</b>                            | <b>295</b>   | <b>668</b>                 | <b>333</b>                            | <b>124</b>   | <b>676</b>                 |
| <b>TOTAL</b>   | <b>5,126</b>                          | <b>4,223</b> | <b>8,635</b>               | <b>6,782</b>                          | <b>6,019</b> | <b>9,174</b>               |

\* For 2018 fees, for the EssilorLuxottica parent company and the Essilor Group, the amounts related to non audit services above represent the fees due since October 1, 2018.

(1) These services mainly refer to the review of the local tax compliance in foreign subsidiaries.

(2) These services mainly refer to the revue of the efficiency of the IT framework in foreign subsidiaries.

## 3.9 Financial statements of EssilorLuxottica

The statutory financial statements for 2019 include the income statement, balance sheet, cash flow statement and notes presented below.

The statutory auditors' report on the annual financial statements for 2019 is included in Section 3.12.

### 3.9.1 Key figures at December 31, 2019

| <i>€ millions, except per share data, which is in euros</i> | <b>2019</b>      | <b>2018</b>   |
|---|------------------|---------------|
| <b>INCOME STATEMENT</b>                                     |                  |               |
| Operating profit (loss)                                     | (45)             | 24            |
| Profit (loss) before non-operating items and tax            | (23)             | 405           |
| Profit (loss)   | (58)             | 395           |
| <b>BALANCE SHEET</b>  |                  |               |
| Share capital   | 79               | 77            |
| Shareholders' equity  | 24,134           | 24,012        |
| Net debt  | 3,686            | 1,891         |
| Non-current assets, net                                     | 28,430           | 26,153        |
| <b>TOTAL ASSETS</b>   | <b>33,238</b>    | <b>26,537</b> |
| Net dividend per ordinary share ( <i>in euros</i> )         | 0 <sup>(a)</sup> | 2.04          |

(a) On April 18, 2020, in light of the current COVID-19 outbreak, the Board of Directors decided not to submit a dividend for 2019 to the Annual Shareholders' Meeting of June 25, 2020.

The final stages of the combination between Essilor and Luxottica was completed in fiscal year 2019.

As at December 31, 2019, EssilorLuxottica fully owned Luxottica Group S.p.A. as a result of the following transactions:

- Mandatory exchange offer to acquire all outstanding shares of Luxottica Group S.p.A., closed on January 18, 2019.
- Compulsory delisting on March 5, 2019 of Luxottica Group S.p.A. shares from the Italian Electronic Stock Market (*Mercato Telematico Azionario*) (MTA) managed by Borsa Italiana S.p.A.

On July 31, 2019, EssilorLuxottica announced an upcoming agreement with HAL Optical Investments B.V. ("HAL"), the majority shareholder of GrandVision N.V. ("GrandVision"), a global leader in optical retailing, with a view to acquiring HAL's 76.72% stake at a share price of €28. The price will be increased by 1.5% to €28.42 if the transaction does not take place within 12 months of the announcement. HAL has undertaken to irrevocably sell its stake to EssilorLuxottica. Finalization of the transaction is subject to the usual suspensive conditions, including approval from the regulatory authorities in several jurisdictions.

About new fundings, on November 20, 2019, the Company issued a €5 billion bond maturing in 3.5, 5.5, 8 and 12 years,

with annual coupon rates of 0%, 0.125%, 0.375% and 0.75% respectively. The bond issue will enable EssilorLuxottica to fund part of the acquisition price of GrandVision and part of GrandVision's liabilities, once the acquisition takes place. It will also enable the Company to refinance the Group's existing debt and cover its general requirements. To guarantee the planned cash payment of the acquisition of GrandVision shares, the Group took out a bridge loan, initially for a maximum amount of €8 billion on July 30, 2019, reduced to €3 billion following the bond issuance on November 20, 2019.

On December 2, 2019, bonds issued in 2014 by Luxottica Group S.p.A. for €500 million were transferred to EssilorLuxottica. They mature in February 2024 and bear interest at 2.625%. This transfer of the Notes from Luxottica to EssilorLuxottica had been approved on November 26, 2019 by the meeting of the holders of the Notes.

In 2019, EssilorLuxottica generated a net loss of €58 million. Operating loss amounted to €45 million. Financial income amounted to €22 million, mainly comprising €18 million in dividends received and €21 million in foreign exchange gains, net of interest on loans (€18 million). The net non-operating loss amounted to €41 million include net cost related to the performance and restricted share plans granted to the employees of Group subsidiaries for €25 million and tax-driven provision for €18 million.

### 3.9.2 Income Statement at December 31, 2019

| € millions  | Notes | 2019        | 2018       |
|---|-------|-------------|------------|
| Reversals of depreciation, amortization and provisions  | 2     | 1           | 200        |
| Other income  |       | 3           | 2          |
| <b>TOTAL OPERATING INCOME</b>                           |       | <b>4</b>    | <b>202</b> |
| Other external purchases and expenses                   |       | 27          | 6          |
| Personnel expenses                                      |       | 15          | 3          |
| Depreciation, amortization and provisions               |       | 1           |            |
| Other expenses  | 3     | 6           | 169        |
| <b>TOTAL OPERATING EXPENSES</b>                         |       | <b>49</b>   | <b>178</b> |
| <b>OPERATING PROFIT (LOSS)</b>                          |       | <b>(45)</b> | <b>24</b>  |
| Financial income  | 4     | 22          | 381        |
| <b>PROFIT (LOSS) BEFORE NON-OPERATING ITEMS AND TAX</b> |       | <b>(23)</b> | <b>405</b> |
| Non-operating income (expense)                          | 5     | (41)        | (10)       |
| Income tax (income) expense                             | 6     | (6)         |            |
| <b>PROFIT (LOSS)</b>                                    |       | <b>(58)</b> | <b>395</b> |

### 3.9.3 Balance Sheet at December 31, 2019

#### Assets

| € millions                    | Notes | 2019          |   |               | 2018          |
|-------------------------------|-------|---------------|---|---------------|---------------|
|                               |       | Gross amount  | Depreciation, amortization & provisions | Net amount    | Net amount    |
| Property, plant and equipment |       | 4             | 1                                       | 3             | 4             |
| Financial assets              | 7     | 28,431        | 4                                       | 28,427        | 26,149        |
| <b>NON-CURRENT ASSETS</b>     |       | <b>28,435</b> | <b>5</b>                                | <b>28,430</b> | <b>26,153</b> |
| Trade and related receivables | 8     | 7             |   | 7             |               |
| Other receivables             | 8     | 819           |   | 819           | 366           |
| Marketable securities         | 9     | 3,079         |   | 3,079         |               |
| Cash                          |       | 845           |   | 845           | 11            |
| <b>CURRENT ASSETS</b>         |       | <b>4,750</b>  |   | <b>4,750</b>  | <b>377</b>    |
| Bond redemption premium       |       | 39            |   | 39            | 2             |
| Prepaid expenses              | 10    | 19            |   | 19            | 5             |
| <b>TOTAL</b>                  |       | <b>33,243</b> | <b>5</b>                                | <b>33,238</b> | <b>26,537</b> |

#### Shareholders' equity & liabilities

| € millions                 | Notes | 2019   | 2018   |
|----------------------------|-------|--------|--------|
| Share capital              | 11.1  | 79     | 77     |
| Additional paid-in capital |       | 22,025 | 20,978 |
| Legal reserves             |       | 8      | 4      |
| Other reserves             |       | 2,058  | 2,554  |
| Retained earnings          |       |        |        |
| Profit (loss) for the year |       | (58)   | 395    |
| Tax-driven provisions      |       | 22     | 4      |

## Financial statements

Financial statements of EssilorLuxottica

| € millions   | Notes       | 2019          | 2018          |
|--|-------------|---------------|---------------|
| <b>SHAREHOLDERS' EQUITY</b>                              | <b>11.1</b> | <b>24,134</b> | <b>24,012</b> |
| <b>PROVISIONS FOR CONTINGENCIES AND LIABILITIES</b>      | <b>12</b>   | <b>284</b>    | <b>49</b>     |
| Other bonds  | 13.1        | 7,013         | 1,693         |
| Other short-term financing                               | 13.1        | 125           | 223           |
| Other financial debt (including loans from subsidiaries) | 13.1        | 472           |               |
| <b>FINANCIAL LIABILITIES</b>                             |             | <b>7,610</b>  | <b>1,916</b>  |
| Trade and related payables                               | 13.2        | 21            | 10            |
| Accrued taxes and personnel expenses                     | 13.2        | 4             | 3             |
| Other liabilities  | 13.2        | 1,137         | 478           |
| <b>OPERATING AND OTHER LIABILITIES</b>                   |             | <b>1,162</b>  | <b>491</b>    |
| Foreign currency translation adjustment                  | 14          | 48            | 69            |
| <b>TOTAL</b>   |             | <b>33,238</b> | <b>26,537</b> |

### 3.9.4 Cash Flow Statement at December 31, 2019

| € millions   | 2019           | 2018         |
|--|----------------|--------------|
| Profit for the fiscal year   | (58)           | 395          |
| Adjustments for non-cash items   | 251            | (132)        |
| Cash flow  | 193            | 263          |
| Change in working capital <sup>(a)</sup>                                   | 227            | (61)         |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>                             | <b>420</b>     | <b>202</b>   |
| Purchases of property, plant & equipment                                   | (3)            | (1)          |
| Acquisition of shares in subsidiaries and affiliates and other investments | (721)          | (26)         |
| Loans granted to subsidiaries  | (616)          |              |
| <b>NET CASH FLOW USED IN INVESTING ACTIVITIES</b>                          | <b>(1,340)</b> | <b>(27)</b>  |
| Capital increase   | 31             | 28           |
| Disposal of treasury shares  | 33             | 12           |
| Dividends paid   | (887)          | (333)        |
| Increase and decrease in borrowings  | 5,238          | 129          |
| Increase and decrease in loans from subsidiaries                           | 418            |              |
| <b>NET CASH FLOW USED IN FINANCING ACTIVITIES</b>                          | <b>4,833</b>   | <b>(164)</b> |
| Change in cash and cash equivalents  | 3,913          | 11           |
| Cash and cash equivalents at beginning of year                             | 11             |              |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                            | <b>3,924</b>   | <b>11</b>    |

(a) Changes in working capital are as follows:

| € millions                   | 2019       | 2018       | Changes    |
|------------------------------|------------|------------|------------|
| Operating receivables        | (7)        |            | (7)        |
| Other receivables            | (837)      | (365)      | (472)      |
| Operating liabilities        | 25         | 13         | 12         |
| Other liabilities            | 1,168      | 474        | 694        |
| <b>TOTAL WORKING CAPITAL</b> | <b>349</b> | <b>122</b> | <b>227</b> |

Cash is defined as available cash and short-term deposits net of current bank overdrafts.

## 3.10 Notes to the 2019 financial statements of EssilorLuxottica

|               |  |     |                |  |     |
|---------------|--|-----|----------------|--|-----|
| <b>NOTE 1</b> | Accounting policies                      | 271 | <b>NOTE 9</b>  | Marketable securities                    | 277 |
| <b>NOTE 2</b> | Reversals of amortization and provisions | 273 | <b>NOTE 10</b> | Prepaid expenses                         | 278 |
| <b>NOTE 3</b> | Other expenses                           | 273 | <b>NOTE 11</b> | Shareholders' equity                     | 278 |
| <b>NOTE 4</b> | Financial income                         | 273 | <b>NOTE 12</b> | Provisions                               | 281 |
| <b>NOTE 5</b> | Non-operating income (expense), net      | 274 | <b>NOTE 13</b> | Financial liabilities                    | 282 |
| <b>NOTE 6</b> | Corporate income tax                     | 274 | <b>NOTE 14</b> | Foreign currency translation adjustments | 283 |
| <b>NOTE 7</b> | Financial assets                         | 275 | <b>NOTE 15</b> | Off balance sheet commitments            | 283 |
| <b>NOTE 8</b> | Current assets                           | 277 | <b>NOTE 16</b> | Information on employees                 | 284 |
|               |  |     | <b>NOTE 17</b> | Related party transactions               | 285 |
|               |  |     | <b>NOTE 18</b> | Subsequent events                        | 285 |

These notes include the balance sheet, with total assets of €33,238 million before appropriation of profit or loss for the year ended December 31, 2019, and the income statement posting a loss of €58 million.

The fiscal year covers a 12-month period, from January 1, 2019 to December 31, 2019.

EssilorLuxottica 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

### Completion of the combination between Essilor and Luxottica

Following approval by Essilor's shareholders in May 2017 of the combination between Essilor and Luxottica, during fiscal years 2018 and 2019 the following measures were taken:

In 2018:

- clearance was given by the antitrust authorities, whose approval was a condition precedent to closing the transaction;
- contribution of Delfin S.à.r.l.'s equity interests in Luxottica Group S.p.A. to EssilorLuxottica;
- mandatory exchange offer to acquire all outstanding shares of Luxottica Group S.p.A. closed on November 28, 2018. After completion of the exchange offer, EssilorLuxottica held a 93.30% stake in Luxottica Group S.p.A. (including treasury shares);
- public tender offer followed by a mandatory squeeze-out for outstanding Luxottica Group S.p.A. shares. The tender offer was initiated on December 12, 2018 and ended on January 18, 2019.

In 2019:

- closing of the public tender offer followed by a mandatory squeeze-out on January 18, 2019. Following the tender offer, EssilorLuxottica's stake in the share capital of Luxottica Group S.p.A. increased to 97.54% (including treasury shares);
- mandatory squeeze-out following the tender offer, in accordance with Italian stock exchange regulations, as EssilorLuxottica held more than 95% of Luxottica Group S.p.A. shares. On March 5, 2019, following the offer, EssilorLuxottica wholly owned Luxottica Group S.p.A. and the shares were delisted from the Italian Stock Market (*Mercato Telematico Azionario*) (MTA) managed by Borsa Italiana S.p.A.

### Public tender offer and mandatory squeeze-out

Public tender offer: Pursuant to Italian stock exchange regulations, on December 12, 2018, EssilorLuxottica launched a public tender offer to acquire all outstanding Luxottica Group S.p.A. shares (6.7% of share capital). The offer ended on January 18, 2019. In line with the terms and conditions of the offer, the shares tendered were paid either in cash (€322.7 million) or in newly-issued EssilorLuxottica shares (6,602,682 shares). Following the tender offer, EssilorLuxottica's stake in the share capital of Luxottica Group S.p.A. increased to 97.54% (including treasury shares).

Mandatory squeeze-out: the mandatory squeeze-out succeeded to the Public tender offer in accordance with Italian stock market regulations. As a result, EssilorLuxottica has acquired all Luxottica Group S.p.A. shares from shareholders under the same conditions as for the mandatory exchange offer. Residual shares were paid for

either in cash (€318.5 million) or in newly-issued EssilorLuxottica shares (2,656,542 shares).

Following closing of the procedure, as at March 5, 2019, EssilorLuxottica held 100% of Luxottica Group S.p.A. shares. The latter have been delisted from the Italian Stock Market (*Mercato Telematico Azionario*) (MTA) managed by Borsa Italiana S.p.A.

To guarantee the cash payment of the shares surrendered in the tender offer and squeeze-out, first-demand bank guarantees were provided by a consortium of four banks with which EssilorLuxottica took out a €3,200 million bridge loan on October 30, 2018 for a six-month period, renewable twice. The first-demand guarantees and the bridge loan became obsolete after expiration of the tender offer.

### Agreement to acquire a 76.72% stake in GrandVision

On July 31, 2019, the Company announced that it was planning to acquire HAL Optical Investments B.V.'s 76.72% stake in GrandVision, at a share price of €28. The price will be increased by 1.5% to €28.42 if the transaction does not take place within 12 months of the announcement. HAL has undertaken to irrevocably sell its stake to EssilorLuxottica. Upon the closing of the transaction, EssilorLuxottica will launch a mandatory public offer for all the remaining GrandVision shares in accordance with the applicable public offer rules.

The transaction is subject to customary closing conditions, including regulatory approvals.

### New funding

On November 20, 2019, the Company issued a €5 billion bond maturing in 3.5, 5.5, 8 and 12 years, with annual coupon rates of 0%, 0.125%, 0.375% and 0.75% respectively.

The bond issue will enable EssilorLuxottica to fund part of the acquisition price of GrandVision and part of GrandVision's liabilities, once the acquisition takes place. It will also enable the Company to refinance the Group's existing debt and cover its general requirements.

To guarantee the planned cash payment of the acquisition of GrandVision shares, the Group took out a bridge loan, initially for a maximum amount of €8 billion on July 30, 2019, reduced to €3 billion following the bond issuance on November 20, 2019.

### Transfer of the Notes from Luxottica to EssilorLuxottica

On December 2, 2019, bonds issued in 2014 by Luxottica Group S.p.A. for €500 million were transferred to EssilorLuxottica. They mature in February 2024 and bear interest at 2.625%. This transfer of the Notes from Luxottica to EssilorLuxottica had been approved on November 26, 2019 by the meeting of the holders of the Notes.

## Note 1 Accounting policies

The financial statements have been prepared in accordance with the provisions of the French Accounting Standards Board's (ANC) amended Regulation no. 2014-03 on the French Chart of Accounts.

Regulation ANC no. 2018-01 of April 20, 2018, amending Regulation no. 2014-03 of June 5, 2014, is implemented by the Order of October 8, 2018, published in the French Official Journal of October 9, 2018.

The new regulation provides additions both to previously published regulations and to generally accepted accounting principles.

### 1.1. Property, plant & equipment

Property, plant and equipment is measured at acquisition cost (purchase price and associated transaction costs). Property, plant and equipment mainly comprises fixtures and fittings and other property, plant and equipment, which is depreciated using the straight-line method over the assets' estimated useful lives.

Property, plant and equipment is tested for impairment when the occurrence of an event or a change of circumstances indicates that the recoverable amount may be less than the carrying amount.

When the impairment test shows that an 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 assets includes directly-related transaction costs.

### 1.2. Financial assets

Equity investments are carried at their acquisition cost or contribution value. EssilorLuxottica has opted to include acquisition costs in the initial cost of equity investments.

At the year-end closing date, Equity investments are measured at their value in use, based on a multi-criteria approach taking into account in particular the proportional value of the investments in the subsidiary's equity and future cash flow projection.

If value in use is below gross value, an impairment loss is recognized. Impairment is recorded under financial income.

Loans and receivables are measured at nominal value. A provision 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. An impairment loss is recorded for shares whose acquisition cost is greater than their average market price for the last month of the fiscal year, except for shares repurchased for cancellation and shares covered by provisions for performance or restricted shares and stock options.

External expenses reflecting the professional fees incurred in the business combination that qualify as acquisition costs are recorded under *Other long-term financial investments*. They are then reallocated to *Equity investments* upon completion of the business combination.

### 1.3. 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.

### 1.4. Marketable securities

Marketable securities are recorded at acquisition cost. An impairment loss is recorded if their value falls below their acquisition cost.

### 1.5. Financial instruments and foreign currency transactions

EssilorLuxottica applies the provisions of ANC Regulation No. 2015-05 on financial futures and hedging transactions.

#### 1.5.1. 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.

EssilorLuxottica 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.

EssilorLuxottica also uses forward purchases and sales to hedge future foreign currency transactions. Foreign exchange losses and gains relating to these derivatives are recognized in the income statement symmetrically with the hedged items.

In principle, EssilorLuxottica 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 derivative is recorded on the balance sheet, with an offsetting 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.

#### 1.5.2. Interest rate derivative instruments

With regard to interest rate risk, the Company's policy is to protect itself against unfavorable interest rate changes. To hedge interest rate risk, EssilorLuxottica uses interest rate swaps.

Financial income and expenses relating to interest rate derivatives are recognized in the income statement in the same period as the hedged item.

## 1.6. 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.

## 1.7. Income tax (tax consolidation regime)

EssilorLuxottica 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 EssilorLuxottica's financial statements.

The tax savings arising from use of the losses of tax group members, which are refundable to them by EssilorLuxottica, are recognized as a liability on the Company's balance sheet.

## 1.8. Recognition and measurement of provisions

### 1.8.1. 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 performance and restricted shares granted over the fiscal year

When a performance or restricted share plan is decided to grant existing shares, a provision is recognized. The provision is based on an estimate of the number of shares definitely granted, taking into account staff turnover and, for performance shares plans, the market price assumptions. The provision is calculated based on the weighted average price of treasury shares at year-end. The provision is measured at the stock market price for commitments not covered by treasury shares.

Since French accounting board (CRC) Regulation no. 2008-15 of December 4, 2008, the provision for performance and restricted shares has been allocated over the vesting period, as vesting is conditional on the grantee's employment by the Company.

As performance or restricted shares are compensation items, the related provisions are recognized as personnel expenses for the company's beneficiaries. For transactions with other Group beneficiaries, a provision on the whole commitment is recorded at the grant date, and the equivalent amount is recharged to the corresponding subsidiaries. Those impacts are recorded in non-operating income and 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 EssilorLuxottica indefinitely and jointly and severally responsible for the liability; or
- up to the amount of commitments given by EssilorLuxottica for all other legal forms.

### 1.8.2. Tax-driven provisions

Tax-driven provisions mainly reflect additional tax depreciation.

### 1.9. Premiums on bonds

Premiums on bonds paid by EssilorLuxottica are recorded in the balance sheet in Bond redemption premium and those received are recorded in the other financial debts.

Premium are therefore amortized in the financial income over the duration of the bonds.

### 1.10. 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 Reversals of amortization and provisions

| € millions  | 2019     | 2018       |
|---|----------|------------|
| Reversals of provisions for contingencies and operating expenses <sup>(a)</sup> | 1        | 200        |
| <b>TOTAL</b>  | <b>1</b> | <b>200</b> |

(a) For fiscal year 2018, the line item *Reversals of provisions for contingencies and operating expenses* corresponds to the reversal of provisions for contingencies on performance shares for €200 million following the decision to modify the form of delivery of the 2013-2017 plans, namely to deliver new shares only (refer to Note 11.3).

## Note 3 Other expenses

For 2018 the item *Other expenses* mainly comprised €165 million in the reversal of unbilled revenue from Group subsidiaries for costs relating to free share grant plans with performance criteria, following the decision to modify the form of delivery of the 2013-2017 plans, namely to deliver new shares only (refer to Note 11.3).

## Note 4 Financial income

| € millions                       | 2019      | 2018       |
|----------------------------------|-----------|------------|
| Interest expenses                | (18)      | (14)       |
| Dividends <sup>(a)</sup>         | 18        | 388        |
| Impairment (loss) reversal       |           | (2)        |
| Currency exchange <sup>(b)</sup> | 21        | 11         |
| Other                            | 1         | (2)        |
| <b>TOTAL</b>                     | <b>22</b> | <b>381</b> |

(a) For fiscal year 2019, the line item *Dividends* comprises €18 million in payments by Essilor Korea Co., Ltd and for fiscal year 2018: €350 million in payments by Essilor International (SAS) and €38 million by Essilor Korea Co., Ltd.

(b) The line item *Currency exchange* mainly comprises the reversal of a portion of the foreign currency adjustment from the partial contribution of assets in 2017.

## Note 5 Non-operating income (expense), net

| € millions   | 2019        | 2018        |
|--|-------------|-------------|
| <b>NON-RECURRING INCOME (EXPENSE) FROM FINANCING AND INVESTING ITEMS</b> | <b>2</b>    | <b>(1)</b>  |
| Other non-recurring income and expense                                   | 2           | (1)         |
| <b>PROVISION ALLOWANCES &amp; REVERSALS AND EXPENSES TRANSFERRED</b>     | <b>(43)</b> | <b>(9)</b>  |
| Tax-driven provisions & reversals of provisions <sup>(a)</sup>           | (249)       | (52)        |
| Expenses transferred <sup>(b)</sup>                                      | 206         | 43          |
| <b>TOTAL</b>   | <b>(41)</b> | <b>(10)</b> |

(a) For 2019, the line item *Tax-driven provisions & reversals of provision* comprises €231 million of risk provision for the performance and restricted share plans granted to the employees of Group subsidiaries since November 29, 2018 and €18 million for tax-driven provisions on acquisition costs. For 2018, this line item comprised €48 million of risk provision for the performance shares plans granted to the employees of Group subsidiaries since November 29, 2018 and €4 million for tax-driven provisions on acquisition costs.

(b) The line item *Expenses transferred* relates to expected income from rebilling subsidiaries for the performance and restricted share plans awarded since November 29, 2018.

## Note 6 Corporate income tax

### 6.1. Profit excluding tax assessments

| € millions                                       | 2019 | 2018 |
|--|------|------|
| Profit (loss) for the year                       | (58) | 395  |
| Corporate income tax (income)/expense            | (6)  |      |
| Pre-tax profit (loss)                            | (64) | 395  |
| Change in tax-driven provisions                  | 18   | 4    |
| Pre-tax profit (loss), excluding tax assessments | (46) | 399  |

### 6.2. Breakdown of corporate income tax

The breakdown of corporate income tax between ordinary and non-recurring items is the following:

| 2019<br>€ millions                     | Before tax | Corresponding tax | After tax   |
|--|------------|-------------------|-------------|
| Profit (loss) from ordinary operations | (23)       | 6                 | (17)        |
| Profit (loss) from non-recurring items | (41)       |                   | (41)        |
| <b>PROFIT (LOSS)</b>                   |            |                   | <b>(58)</b> |

| 2018<br>€ millions                     | Before tax | Corresponding tax | After tax  |
|--|------------|-------------------|------------|
| Profit from ordinary operations        | 405        |                   | 405        |
| Profit (loss) from non-recurring items | (10)       |                   | (10)       |
| <b>PROFIT</b>                          |            |                   | <b>395</b> |

## 6.3. Increases and reductions in future tax liabilities

### 6.3.1. Assets

No deferred tax assets were recognized in the balance sheet.

| € millions                                | 2019       | 2018       |
|---|------------|------------|
| Provisions for retirement obligations     | 2          | 1          |
| <b>TOTAL</b>                              | <b>2</b>   | <b>1</b>   |
| <b>LOSS CARRY-FORWARDS <sup>(a)</sup></b> | <b>326</b> | <b>234</b> |
| Corporate income tax (at 32.02%)          | 104        | 75         |

(a) 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 EssilorLuxottica, are recognized as a liability on the balance sheet. The total liability amounted to €7 million at December 31, 2019. EssilorLuxottica expects to use its loss carry-forwards.

### 6.3.2. Liabilities

No deferred tax liabilities were recognized in the balance sheet.

| € millions                         | 2019      | 2018     |
|------------------------------------|-----------|----------|
| Additional tax depreciation        | 22        | 4        |
| <b>TOTAL</b>                       | <b>22</b> | <b>4</b> |
| Future tax liabilities (at 32.02%) | 7         | 1        |

## Note 7 Financial assets

### 7.1. Summary

| 2019<br>€ millions   | Carrying<br>amount at<br>January 1,<br>2019 | Increases    | Decreases  | Other<br>changes | Provisions<br>for the<br>fiscal year | Reversals<br>for the<br>fiscal year | Carrying<br>amount at<br>December 31,<br>2019 |
|--|---|--------------|------------|------------------|--------------------------------------|-------------------------------------|---|
| Equity investments <sup>(a)</sup>                                  | 26,061                                      | 1,676        | 1          |                  |                                      |                                     | 27,736  |
| Receivables from<br>equity investments <sup>(b)</sup>              |   | 816          | 200        |                  |                                      |                                     | 616   |
| Other long-term<br>investments<br>(treasury shares) <sup>(c)</sup> | 93  |              | 25         |                  |                                      |                                     | 68  |
| Other long-term<br>financial<br>investments <sup>(d)</sup>         |   | 11           |            |                  |                                      |                                     | 11  |
| <b>GROSS VALUE</b>   | <b>26,154</b>                               | <b>2,503</b> | <b>226</b> |                  |                                      |                                     | <b>28,431</b>                                 |
| Impairment   | 5   |              | (1)        |                  |                                      |                                     | 4   |
| <b>NET VALUE</b>   | <b>26,149</b>                               |              |            |                  |                                      |                                     | <b>28,427</b>                                 |

(a) Increase in equity investments due mainly to the completion of the combination between Essilor and Luxottica in fiscal year 2019, which contributed €1,663 million following the purchase Luxottica Group S.p.A. shares as at December 31, 2018 in the context of the offer (mandatory tender offer followed by a squeeze-out).

(b) As of December 31, 2019, receivables from equity investments correspond to loans granted to Luxottica Group S.p.A. of which €116 million with a maturity date in 2020 and €500 million with a maturity date in February 2024.

(c) Transfer of treasury shares reserved to Group employees under the international employee share ownership plan.

(d) €11 million in costs incurred for the planned acquisition of a 76.72% stake in GrandVision.

## Financial statements

Notes to the 2019 financial statements of EssilorLuxottica

| 2018<br>€ millions   | Carrying<br>amount at<br>January 1,<br>2018 | Increases     | Decreases | Other<br>changes | Provisions<br>for the<br>fiscal year | Reversals<br>for the<br>fiscal year | Carrying<br>amount at<br>December 31,<br>2018 |
|--|---|---------------|-----------|------------------|--------------------------------------|-------------------------------------|---|
| Equity investments <sup>(a)</sup>                                  | 5,589                                       | 20,384        |           | 88               |                                      |                                     | 26,061  |
| Other long-term<br>investments (treasury<br>shares) <sup>(b)</sup> | 112   |               | 19        |                  |                                      |                                     | 93  |
| Other long-term<br>financial investments <sup>(c)</sup>            | 74  | 14            |           | (88)             |                                      |                                     | 0   |
| <b>GROSS VALUE</b>   | <b>5,775</b>                                | <b>20,398</b> | <b>19</b> |                  |                                      |                                     | <b>26,154</b>                                 |
| Impairment   | 2   |               |           |                  | 2                                    |                                     | 5   |
| <b>NET VALUE</b>   | <b>5,773</b>                                |               |           |                  |                                      |                                     | <b>26,149</b>                                 |

(a) Increase in equity investments due to the business combination between Essilor and Luxottica during the 2018 fiscal year, which contributed €20,374 million in Luxottica Group S.p.A. shares from Delfin S.à.r.l. as well as shares from the public exchange offer.

(b) Transfer of treasury shares reserved to Group employees under the international employee stock ownership plan.

(c) The €88 million in other changes during the fiscal year correspond to the reclassification of acquisition costs for equity investments after finalization of Delfin S.à.r.l.'s contribution of Luxottica Group S.p.A. shares.

## 7.2. Subsidiaries and equity investments

Subsidiaries and equity investments held by EssilorLuxottica at December 31, 2019 (all at least a 50% interest):

| € millions                          | Share<br>capital | Other<br>equity | Carrying amount<br>of shares held |        | Net<br>revenue of<br>last<br>fiscal year | Profit for<br>last fiscal<br>year | Dividends<br>received<br>by the<br>Company<br>during the<br>fiscal year |
|-------------------------------------|------------------|-----------------|-----------------------------------|--------|--|-----------------------------------|---|
|                                     |                  |                 | Gross                             | Net    |  |                                   |   |
| Luxottica Group S.p.A.              | 29               | 3,346           | 22,125                            | 22,125 | 2,953                                    | 540                               | 0   |
| Essilor International (SAS)         | 278              | 6,532           | 5,487                             | 5,487  | 989                                      | 453                               | 0   |
| Other international<br>subsidiaries | 116              | 49              | 124                               | 120    | 134                                      | 39                                | 18  |

Luxottica Group S.p.A. is an Italian company and parent company of the Luxottica Group. As a vertically integrated group, Luxottica designs, manufactures, distributes and retails its eyewear brands. Its best-known brands are Ray-Ban, Persol, and Oakley. At December 31, 2019, the value in use of the equity investments in Luxottica Group S.p.A., based on future cash flow projections, is higher than the carrying amount.

Essilor International (SAS) is based in France and holds directly or indirectly the companies comprising the Essilor group. 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. In addition, Essilor is the North American leader in non-prescription reading glasses and also sells non-prescription sunglasses. At December 31, 2019, the value in use of the equity investments in Essilor International (SAS), based on the proportional value of the investments in the subsidiary's equity is higher than the carrying amount.

## Note 8 Current assets

### 8.1. Maturities of receivables

| € millions                       | 2019       |
|----------------------------------|------------|
| <b>MORE THAN ONE YEAR</b>        |            |
| <b>LESS THAN ONE YEAR</b>        | <b>576</b> |
| Trade and related receivables    | 6          |
| Other receivables <sup>(a)</sup> | 570        |
| <b>TOTAL</b>                     | <b>576</b> |

(a) The line item *Other receivables* primarily comprises a €481 million current account balance between EssilorLuxottica and Essilor International (SAS), as well as tax receivables of €52 million.

### 8.2. Accrued income

| € millions                             | 2019       | 2018      |
|--|------------|-----------|
| <b>Receivables:</b>                    |            |           |
| • Unbilled revenue (trade receivables) | 1          |           |
| • Other receivables <sup>(a)</sup>     | 249        | 43        |
| <b>TOTAL</b>                           | <b>250</b> | <b>43</b> |

(a) The line item *Other receivables* comprises income from rebilling the cost of the both performance and restricted share plans awarded since November 29, 2018.

### 8.3. Cash instruments

| € millions                         | 2019      | 2018      |
|------------------------------------|-----------|-----------|
| Hedging instruments <sup>(a)</sup> | 25        | 14        |
| <b>TOTAL</b>                       | <b>25</b> | <b>14</b> |

(a) This line item reflects the re-measurement of hedging instruments set up to cover currency risk associated with the Company's debt denominated in USD.

## Note 9 Marketable securities

| € millions                                      | 2019         |              |
|---|--------------|--------------|
|   | Gross        | Net          |
| SICAV (open-ended collective investment scheme) | 1,319        | 1,319        |
| Certificates of deposit                         | 1,760        | 1,760        |
| <b>TOTAL</b>                                    | <b>3,079</b> | <b>3,079</b> |

Marketable securities are short-term investments that are subject to an insignificant risk of changes in value.

## Note 10 Prepaid expenses

| <i>€ millions</i>                 | <b>2019</b> | <b>2018</b> |
|-----------------------------------|-------------|-------------|
| <b>Prepaid expenses:</b>          |             |             |
| • Operating income                | 1           | 3           |
| • Financial income <sup>(a)</sup> | 18          | 2           |
| <b>TOTAL</b>                      | <b>19</b>   | <b>5</b>    |

(a) The line item corresponds to the borrowing costs.

## Note 11 Shareholders' equity

### 11.1. Changes in share capital

|                 | Number of shares   |                   |           |           | Par value<br><i>(in euros)</i> |                      |
|-----------------|--------------------|-------------------|-----------|-----------|--------------------------------|----------------------|
|                 | At January 1, 2019 | Issued            | Cancelled | Exchanged |                                | At December 31, 2019 |
| Ordinary shares | 426,777,218        | 10,756,298        |           |           | 437,533,516                    | 0.18                 |
| <b>TOTAL</b>    | <b>426,777,218</b> | <b>10,756,298</b> |           |           | <b>437,533,516</b>             | <b>0.18</b>          |

#### Of which treasury shares

|                             | Number of shares   |                                       |                              |                      |
|-----------------------------|--------------------|---------------------------------------|------------------------------|----------------------|
|                             | At January 1, 2019 | Group employee<br>stock transfer plan | Performance<br>shares vested | At December 31, 2019 |
| Other long-term investments | 1,099,757          | 312,447                               |                              | 787,310              |
| <b>TOTAL</b>                | <b>1,099,757</b>   | <b>312,447</b>                        |                              | <b>787,310</b>       |

## 11.2. Statement of changes in shareholders' equity

| <i>€ millions</i>  | Share capital | Additional paid-in capital | Reserves and retained earnings | Profit (loss) for the year | Tax-driven provisions | Shareholders' equity |
|--|---------------|----------------------------|--------------------------------|----------------------------|-----------------------|----------------------|
| <b>SHAREHOLDERS' EQUITY AT JANUARY 1, 2019</b>                       | <b>77</b>     | <b>20,978</b>              | <b>2,558</b>                   | <b>395</b>                 | <b>4</b>              | <b>24,012</b>        |
| Capital increases:   |               |                            |                                |                            |                       |                      |
| • Public tender offer  | 1             | 735                        |                                |                            |                       | 736                  |
| • Squeeze-out procedure  | 1             | 282                        |                                |                            |                       | 283                  |
| • Allocation of public exchange offer expenses against share premium |               | (1)                        |                                |                            |                       | (1)                  |
| • Stock options  |               | 4                          |                                |                            |                       | 4                    |
| • Performance share plans  |               |                            |                                |                            |                       |                      |
| • FCP mutual funds   |               | 27                         |                                |                            |                       | 27                   |
| Other changes in the fiscal year                                     |               |                            |                                |                            | 18                    | 18                   |
| Profit appropriation   |               |                            | 395                            | (395)                      |                       |                      |
| Dividends paid   |               |                            | (887)                          |                            |                       | (887)                |
| Profit for the fiscal year   |               |                            |                                | (58)                       |                       | (58)                 |
| <b>SHAREHOLDERS' EQUITY AT DECEMBER 31, 2019</b>                     | <b>79</b>     | <b>22,025</b>              | <b>2,066</b>                   | <b>(58)</b>                | <b>22</b>             | <b>24,134</b>        |

### 2019

Share capital amounted to €78,756,032.98 reflecting the increase of 10,756,298 ordinary shares as a result of:

- transactions relating to the combination between Essilor and Luxottica:
  - issue of 6,602,682 shares and recognition of a €735 million premium connected with the delisting procedure,
  - issue of 2,656,542 shares and recognition of a €282 million premium relating to the squeeze-out procedure.
- transactions relating to stock option plans, performance share plans and employee share ownership plans:
  - stock options exercised (40,930 shares),
  - new shares delivered under performance share plans (1,206,509 shares),
  - subscriptions to Essilor group FCP mutual funds (249,635 shares).

Cash dividends paid to shareholders amounted to €887 million.

### 2018

Share capital amounted to €76,819,899 reflecting an increase of 207,651,779 ordinary shares as a result of:

- transactions relating to the EssilorLuxottica business combination:
  - issue of 139,703,301 shares and recognition of a €13,149 million share premium as consideration for the contribution of Luxottica Group S.p.A. shares by Delfin S.à.r.l.,
  - issue of 66,329,548 shares and recognition of a €7,188 million share premium relating to the public exchange offer. €22 million of the related net share issuance expenses were deducted from the share premium;
- transactions from stock option plans, performance share plans and employee share ownership plans:
  - stock options (32,665 shares),
  - delivery of new shares for performance share plans (1,308,339 shares),
  - subscriptions to Essilor group FCP mutual funds (277,926 shares).

Cash dividends paid to shareholders amounted to €333 million.

3

### 11.3. Stock options, Performance shares and employee share issuance

#### 11.3.1. Stock options

The exercise price of stock options is based on the average share market price quoted over 20 trading days preceding the date of the Board of Directors' 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 market 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 market 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, 2019 | Options granted | Stock options cancelled or expired | Stock options exercised | Number of stock options at December 31, 2019 |
|---------------|--|-----------------|------------------------------------|-------------------------|--|
| Stock options | 490,918                                    | 127,117         | (36,201)                           | (71,845)                | 509,989                                      |
| <b>TOTAL</b>  | <b>490,918</b>                             | <b>127,117</b>  | <b>(36,201)</b>                    | <b>(71,845)</b>         | <b>509,989</b>                               |

#### 11.3.2. Performance shares

The Company has granted performance-based bonus shares depending on the performance of the Company's share price

The number of performance shares definitely granted depends on changes in EssilorLuxottica's share market price during the period compared with the benchmark price at the grant date (corresponding to the average price quoted over the 20 trading days preceding the Board of Directors' Meeting at which the grant was decided) for Plans from November 2010 to November 2014, or from September 2017

Following the signature of the Combination Agreement with Luxottica, and after approval by the Shareholders' General Meeting on May 11, 2017, the Company modified the vesting rights relating to share-based payments granted in 2015 and 2016 in order to:

- cancel the market performance criteria for all employees, with the exception of two executive officers as at December 31, 2017; and

- replace the market performance criteria by other criteria for the two executive officers.

In fiscal year 2018, the Company Board of Directors decided to modify the delivery of performance share plans, which are now delivered by issuing new shares. The plans concerned are those that were open as at December 31, 2017 as well as the plan awarded on May 23, 2018.

In accordance with the decision of the Extraordinary Shareholders' Meeting of November 29, 2018, the new performance share plans will be served by using Treasury shares starting this date.

The maximum number of performance shares that would vest assuming that performance conditions were met is as follows:

- 2019 awards: 2,322,966 shares;
- 2018 awards: 1,975,680 shares;
- 2017 awards: 1,572,419 shares;
- 2016 awards: 1,440,063 shares.

The following table shows changes in the number of outstanding performance shares over the fiscal year:

|                    | Number of performance shares at January 1, 2019 | Performance shares granted in the period | Performance shares cancelled | Fully vested performance shares | Number of performance shares at December 31, 2019 |
|--------------------|---|--|------------------------------|---------------------------------|---|
| Performance shares | 5,510,385                                       | 2,322,966                                | (393,115)                    | (1,198,509)                     | 6,241,727   |
| <b>TOTAL</b>       | <b>5,510,385</b>                                | <b>2,322,966</b>                         | <b>(393,115)</b>             | <b>(1,198,509)</b>              | <b>6,241,727</b>                                  |

#### 11.3.3. Allocation of restricted shares to Luxottica Group's employees

At the end of December 2017, Luxottica Board of Directors approved a long-term cash retention plan (Long-Term Incentive plan or LTI) vesting on March 30, 2021. The term of the arrangement provided Luxottica with the choice of whether to settle in cash or by issuing Luxottica or EssilorLuxottica shares, subject to the approval of the relevant governance bodies.

EssilorLuxottica Shareholders' Meeting held on November 29, 2018, authorized Luxottica's corporate bodies to proceed with the award of free existing shares (without any performance condition) to Luxottica Group's employees, replacing cash retention bonuses.

On March 6, 2019, Luxottica Board of Directors proceeded with the awards of such shares to Luxottica Group's employees, which were then granted by EssilorLuxottica Board of Directors on March 7, 2019. The maximum number of EssilorLuxottica shares that may be granted under this plan is 801,400.

The following table shows changes in the number of EssilorLuxottica outstanding shares subject to the restricted shares plan:

|                   | Number of conditional shares at January 1, 2019 | Shares granted in the period | Conditional shares cancelled | Fully vested conditional shares | Number of conditional shares at December 31, 2019 |
|-------------------|---|------------------------------|------------------------------|---------------------------------|---|
| Restricted shares |   | 801,400                      | (17,800)                     |                                 | 783,600   |
| <b>TOTAL</b>      |   | <b>801,400</b>               | <b>(17,800)</b>              |                                 | <b>783,600</b>                                    |

### 11.3.4. Employee stock purchase plan

The main characteristics of the Essilor group employee stock purchase plan are as follows:

| In €                        | 2019    | 2018    |
|-----------------------------|---------|---------|
| Share subscription price    | 109.63  | 93.39   |
| Total discount amount       | 27.41   | 23.35   |
| Number of shares subscribed | 249,635 | 277,926 |

## Note 12 Provisions

| 2019<br>€ millions  | Carrying amount at January 1, 2019 | Provision allowances for the fiscal year | Reversals for the fiscal year (used) | Reversals for the fiscal year (not used) | Carrying amount at December 31, 2019 |
|---|------------------------------------|--|--------------------------------------|--|--------------------------------------|
| Provisions for pensions   | 1                                  | 1  |                                      |  | 2                                    |
| Provision for performance and conditional shares <sup>(a)</sup> | 48                                 | 234                                      |                                      |  | 282                                  |
| <b>TOTAL</b>  | <b>49</b>                          | <b>235</b>                               |                                      |  | <b>284</b>                           |

(a) The provision for existing performance and restricted shares plans reflects the measures decided by the Company's Board of Directors since November 29, 2018.

| 2018<br>€ millions                              | Carrying amount at January 1, 2018 | Provision allowances for the fiscal year | Reversals for the fiscal year (used) | Reversals for the fiscal year (not used) | Carrying amount at December 31, 2018 |
|---|------------------------------------|--|--------------------------------------|--|--------------------------------------|
| Provisions for pensions                         | 1                                  |  |                                      |  | 1                                    |
| Provision for performance shares <sup>(a)</sup> | 200                                | 48                                       |                                      | 200                                      | 48                                   |
| <b>TOTAL</b>                                    | <b>201</b>                         | <b>48</b>                                |                                      | <b>200</b>                               | <b>49</b>                            |

(a) The provision for risk related to performance shares as at December 31, 2017 was wholly reversed for 2018 fiscal year following the decision to change the form of delivery for plans open at December 31, 2017.

## Note 13 Financial liabilities

### 13.1. Maturities of financial liabilities

#### 13.1.1. Breakdown of financial liabilities by maturity and category

| € millions   | 2019         | 2018         |
|--|--------------|--------------|
| <b>DUE IN LESS THAN ONE YEAR</b>                           | <b>707</b>   | <b>448</b>   |
| US private placements <sup>(a)</sup>                       | 120          | 205          |
| Interest on bonds and US private placements <sup>(a)</sup> | 32           | 20           |
| US commercial paper programs                               | 125          | 222          |
| Loans from subsidiaries <sup>(b)</sup>                     | 418          |              |
| Other financial liabilities                                | 12           | 1            |
| <b>DUE BETWEEN ONE AND FIVE YEARS</b>                      | <b>2,813</b> | <b>1,081</b> |
| US private placements <sup>(a)</sup>                       | 205          | 319          |
| Bonds <sup>(a)</sup>                                       | 2,567        | 762          |
| Other financial liabilities                                | 42           |              |
| <b>DUE IN MORE THAN FIVE YEARS</b>                         | <b>4,089</b> | <b>387</b>   |
| US private placements <sup>(a)</sup>                       | 89           | 87           |
| Bonds <sup>(a)</sup>                                       | 4,000        | 300          |
| <b>TOTAL</b>   | <b>7,610</b> | <b>1,916</b> |

(a) Corresponds to the balance sheet line item *Other bonds* amounting to €7,013 million.

(b) Corresponds to loans granted by EOA Holding Co. Inc. for USD 400 million (€356 million), by Luxottica Retail Australia Pty. Ltd for AUD 55 million (€34 million), by Luxottica South Pacific Holdings Pty. Ltd for AUD 42 million (€26 million) and the related accrued interest not yet due.

#### 13.1.2. Breakdown of financial liabilities by currency

| € millions   | 2019         | 2018         |
|--------------|--------------|--------------|
| EUR          | 6,379        | 812          |
| USD          | 1,170        | 1,104        |
| AUD          | 61           |              |
| <b>TOTAL</b> | <b>7,610</b> | <b>1,916</b> |

#### 13.1.3. Covenants and negative pledge

The Company's financing arrangements are not subject to specific financial covenants. Only the US private placements have a specific financial ratio requirement.

Bond issued on November 20, 2019 is subject to negative pledges which prohibit to EssilorLuxottica and other Group

entities from granting any guarantees or security interests on any of their assets in favor of third parties without the consent of the lenders above certain limits. Default with respect to the above-mentioned clauses which may be called upon to pay the outstanding debt.

EssilorLuxottica is in compliance with covenants and negative pledge.

## 13.2. Maturities of other liabilities

### 13.2.1. Breakdown of operating liabilities and other liabilities by maturity and category

| € millions                         | 2019         | 2018       |
|------------------------------------|--------------|------------|
| <b>DUE IN LESS THAN ONE YEAR</b>   | <b>1,162</b> | <b>491</b> |
| Operating liabilities              | 25           | 13         |
| Other liabilities <sup>(a)</sup>   | 1,137        | 478        |
| <b>DUE IN ONE TO FIVE YEARS</b>    |              |            |
| <b>DUE IN MORE THAN FIVE YEARS</b> |              |            |
| <b>TOTAL</b>                       | <b>1,162</b> | <b>491</b> |

(a) The line item *Other liabilities* primarily comprises a €1,085 million current account balance between EssilorLuxottica and Essilor International (SAS).

## 13.3. Accrued expenses

| € millions                           | 2019      | 2018      |
|--------------------------------------|-----------|-----------|
| Accrued interest on borrowings       | 32        | 20        |
| Accrued taxes and personnel expenses | 4         | 2         |
| Other operating liabilities          | 31        | 44        |
| <b>TOTAL</b>                         | <b>67</b> | <b>66</b> |

## Note 14 Foreign currency translation adjustments

| € millions  | 2019      | 2018      |
|---|-----------|-----------|
| Foreign currency translation adjustment – unrealized currency gain <sup>(a)</sup> | 48        | 69        |
| <b>TOTAL</b>  | <b>48</b> | <b>69</b> |

(a) The partial asset contribution in 2017 generated an €80 million unrealized currency gain, which was partially reversed in 2019 in the amount of €21 million.

## Note 15 Off balance sheet commitments

### 15.1. Financial commitments

Confirmed undrawn credit lines at December 31, 2019 amounted to €2,201 million.

Moreover, in connection with the acquisition of GrandVision, EssilorLuxottica set up a bridge loan of €8,000 million on July 30, 2019. Following the successful bond issue on November 21, 2019, the drawdown amount of the bridge loan was reduced to €3,000 million. The credit facility had not been used at December 31, 2019.

At December 31, 2019, forward foreign exchange contracts were as follows:

| € millions                             | Contract amount (initial price) | Market value at December 31, 2019 |
|--|---------------------------------|-----------------------------------|
| Cross country swaps (Buy USD/Sell EUR) | 659                             | 23                                |
| Forex swaps – forward purchases        | 65                              | 1                                 |
| Foreign currency forward purchases     | 3                               | 0                                 |
| <b>TOTAL</b>                           | <b>727</b>                      | <b>24</b>                         |

### 15.1.1. Foreign exchange instruments

The Company uses cross currency swaps (CCS) to hedge its exposure to transactions denominated in USD. The derivative instruments were entered into with Essilor International (SAS) to balance the USD positions.

## Financial statements

Notes to the 2019 financial statements of EssilorLuxottica

### 15.1.2. Interest rate instruments

| <i>In millions of currency units</i>    | <b>Notional in USD</b> | <b>Notional in EUR</b> | <b>Market value at December 31, 2019 (€)</b> |
|---|------------------------|------------------------|--|
| Interest rate swaps – pay variable rate | 300                    | 300                    | 26   |
| <b>TOTAL</b>                            | <b>300</b>             | <b>300</b>             | <b>26</b>                                    |

These instruments are used to hedge the fixed rate debt held by EssilorLuxottica.

### 15.2. Finance lease commitments

There are no commitments regarding finance leases.

### 15.3. Future payment commitments

#### 15.3.1. Contractual obligations 2019

| <i>€ millions</i> | <b>Payments due by period</b> |                     |                          | <b>Total</b> |
|-------------------|-------------------------------|---------------------|--------------------------|--------------|
|                   | <b>Less than 1 year</b>       | <b>1 to 5 years</b> | <b>More than 5 years</b> |              |
| Operating leases  | 2                             | 6                   | 4                        | 12           |
| <b>TOTAL</b>      | <b>2</b>                      | <b>6</b>            | <b>4</b>                 | <b>12</b>    |

### 15.4. Commitment relating to the GrandVision offer

On July 31, 2019, the Company announced its plan to acquire the 76.72% stake held by HAL Optical Investments B.V. ("HAL") in GrandVision, at a share price of €28. The price will be increased by 1.5% to €28.42 if the transaction does not take place within 12 months of the

announcement. HAL has undertaken to irrevocably sell its stake to EssilorLuxottica. Upon the closing of the transaction, EssilorLuxottica will launch a mandatory public offer for all the remaining GrandVision shares in accordance with the Dutch applicable public offer rules.

The transaction is subject to customary closing conditions, including regulatory approvals. The companies reaffirm the shared objective to close the transaction within 12 to 24 months from the announcement date, July 31, 2019.

## Note 16 Information on employees

### 16.1. Pension and other post-employment benefit obligations

#### 16.1.1. Supplementary pension plan

The actuarial assumptions used for fiscal year 2019 were the inflation rate (1.8%), staff turnover rate, salary increase rate (between 1.8% and 4%) and the discount rate (0.9%).

The total benefit obligation was estimated at €22 million.

| <i>€ millions</i>   | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|
| Present value of the obligation                           | 22          | 20          |
| Market value of fund assets                               | (16)        | (16)        |
| Deferred items <sup>(a)</sup>                             | (5)         | (7)         |
| <b>PROVISION (ASSETS) RECOGNIZED IN THE BALANCE SHEET</b> | <b>1</b>    | <b>(3)</b>  |

(a) Deferred items include actuarial gains or losses. The asset is classified under prepaid expenses on the balance sheet.

#### 16.1.2. Lump sum payment on retirement

Benefit obligations relating to lump sum payments on retirement amounted to €2 million at December 31, 2019. They were estimated using a retrospective approach, based on a 0.9% discount rate.

| <i>€ millions</i>                                | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|
| Present value of the obligation                  | 1           | 1           |
| <b>PROVISION RECOGNIZED IN THE BALANCE SHEET</b> | <b>1</b>    | <b>1</b>    |

### 16.1.3. Expense for the fiscal year

| € millions                         | 2019     | 2018       |
|------------------------------------|----------|------------|
| Current service cost               | 4        |            |
| Interest on benefit obligation     |          |            |
| Contributions paid                 |          |            |
| Benefits paid                      |          |            |
| Actuarial gains (losses)           |          | (3)        |
| <b>EXPENSE FOR THE FISCAL YEAR</b> | <b>4</b> | <b>(3)</b> |

### 16.2. Average number of employees

| Breakdown of average number of employees | 2019      | 2018      |
|--|-----------|-----------|
| Managerial personnel                     | 11        | 9         |
| Supervisors and employees                | 1         | 1         |
| <b>TOTAL</b>                             | <b>12</b> | <b>10</b> |

### 16.3. Compensation of executive officers

| € millions   | 2019 | 2018 |
|--|------|------|
| <b>Executive bodies<sup>(a)</sup></b>                              |      |      |
| Compensation received <sup>(b)</sup>                               | 4    | 2    |
| Benefit payable on retirement (actuarial value)                    | 1    | 1    |
| Supplementary retirement benefit (actuarial value)                 | 14   | 15   |
| Value of performance shares granted during the year <sup>(c)</sup> | 4    | 1    |
| <b>Administrative bodies</b>                                       |      |      |
| Compensation received  | 2    | 1    |

(a) Comprising executive officers.

(b) Compensation paid by EssilorLuxottica 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 17 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 18 Subsequent events

On February 6, 2020, the European Commission has initiated a Phase II review of the proposed acquisition of GrandVision by EssilorLuxottica.

The parties are confident that Phase II will be completed in a timely manner and will closely cooperate with the European Commission to fully demonstrate the rationale of the proposed acquisition and the benefits that it will bring to customers, consumers and all the eyewear industry players.

The companies reaffirm the shared objective to close the transaction within 12 to 24 months from the announcement date, July 31, 2019, in cooperation with the relevant authorities. The transaction has been unconditionally cleared so far in the United States, Russia and Colombia, and it is currently under review also in Brazil, Chile, Mexico and Turkey.

3

## 3.11 Other information related to the financial statement of EssilorLuxottica

### 3.11.1 Sumptuary expenses

Absence of sumptuary expenses.

### 3.11.2 Accounts payable payment term

As per article L. 441-1-1 dated March 20, 2017 of the French Commercial Code, the following schedule provides details on invoices received not paid as at the ending date of the fiscal year, and which are overdue:

| <b>Article D. 441-4 I.-1: Invoices received not paid as at the ending date of the fiscal year, and which are overdue</b>             |                            |                     |                                      |                      |                         |                               |
|--|----------------------------|---------------------|--------------------------------------|----------------------|-------------------------|-------------------------------|
| <i>€ millions</i>  | <b>0 days (indicative)</b> | <b>1 to 30 days</b> | <b>31 to 60 days</b>                 | <b>61 to 90 days</b> | <b>91 days and more</b> | <b>Total (1 day and more)</b> |
| <b>(A) RANGES OF PAYMENT DELAY</b>   |                            |                     |                                      |                      |                         |                               |
| Number of invoices concerned   | 42                         | 31                  | 15                                   | 4                    | 16                      | 66                            |
| Total amount of invoices concerned (tax excluded)  | 2                          | 3                   | 2                                    | 0                    | 0                       | 5                             |
| Percentage of total amount of purchases of FY (tax excluded)   | 2.9%                       | 4.5%                | 2.4%                                 | 0.1%                 | 0.3%                    | 7.3%                          |
| <b>(B) INVOICES EXCLUDED FROM (A) RELATING TO DEBTS AND CLAIMS IN DISPUTE OR NOT RECORDED</b>  |                            |                     |                                      |                      |                         |                               |
| Number of excluded invoices  |                            |                     |                                      |                      |                         |                               |
| Total amount of excluded invoices  |                            |                     |                                      |                      |                         |                               |
| <b>(C) STANDARD PAYMENT PERIOD USED (CONVENTIONAL OR LEGAL – ARTICLE L. 441-6 OR ARTICLE L. 443-1 OF THE FRENCH COMMERCIAL CODE)</b> |                            |                     |                                      |                      |                         |                               |
| Standard payment period used to calculate payment delays   |                            |                     | Conventional period and legal period |                      |                         |                               |

### 3.11.3 Profit (and other characteristic items) of the last five fiscal years

| <b>Share capital at year-end</b><br><i>€ millions</i> | <b>2019</b> | <b>2018<sup>(2)</sup></b> | <b>2017<sup>(1)</sup></b> | <b>2016</b> | <b>2015</b> |
|---|-------------|---------------------------|---------------------------|-------------|-------------|
| Share capital   | 79          | 77                        | 39                        | 39          | 39          |
| Number of ordinary shares outstanding                 | 437,533,516 | 426,777,218               | 219,125,439               | 218,507,701 | 216,456,440 |
| of which treasury shares                              | 787,310     | 1,099,757                 | 1,344,427                 | 2,046,140   | 2,860,098   |

| <b>Transactions and results of the year</b><br><i>€ millions</i>                     | <b>2019</b>      | <b>2018<sup>(2)</sup></b> | <b>2017<sup>(1)</sup></b> | <b>2016</b> | <b>2015</b> |
|--|------------------|---------------------------|---------------------------|-------------|-------------|
| Net revenue  |                  |                           |                           | 888         | 897         |
| Profit before tax and calculated expenses (amortization and provisions)              | (60)             | 195                       | 50                        | 722         | 664         |
| Corporate income tax   | (6)              | 0                         | (19)                      | 66          | 22          |
| Profit after tax and calculated expenses (depreciation, amortization and provisions) | (58)             | 395                       | 9                         | 586         | 587         |
| Dividends  | 0 <sup>(a)</sup> | 887 <sup>(b)</sup>        | 333                       | 325         | 237         |

(a) On April 18, 2020, in light of the current COVID-19 outbreak, the Board of Directors decided not to submit a dividend for 2019 to the Annual Shareholders' Meeting of June 25, 2020.

(b) Including the proportion of distributable reserves.

| <b>Earnings per share</b><br><i>In €</i>  | <b>2019</b>      | <b>2018 <sup>(2)</sup></b> | <b>2017 <sup>(1)</sup></b> | <b>2016</b> | <b>2015</b> |
|---|------------------|----------------------------|----------------------------|-------------|-------------|
| Earnings per share, after tax and employee profit-sharing, but before calculated expenses (depreciation, amortization and provisions), excluding treasury stock | (0.12)           | 0.45                       | 0.32                       | 3.03        | 3.01        |
| Earnings per share, after tax and employee profit-sharing, calculated expenses (depreciation, amortization and provisions), excluding treasury stock            | (0.13)           | 0.90                       | 0.04                       | 2.71        | 2.75        |
| Net dividend per ordinary share   | 0 <sup>(a)</sup> | 2.04                       | 1.53                       | 1.50        | 1.11        |

(a) On April 18, 2020, in light of the current COVID-19 outbreak, the Board of Directors decided not to submit a dividend for 2019 to the Annual Shareholders' Meeting of June 25, 2020.

| <b>Personnel</b><br><i>€ millions, except for average number of employees</i> | <b>2019</b> | <b>2018</b> | <b>2017 <sup>(1)</sup></b> | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|----------------------------|-------------|-------------|
| Average number of employees in the year                                       | 12          | 10          |                            | 3,024       | 3,159       |
| Total payroll   | 5           | 4           | 1                          | 172         | 176         |
| Total employee benefits   | 7           | (2)         | 1                          | 104         | 108         |

(1) The Hive-Down agreed on November 1, 2017 between Essilor International (Compagnie Générale d'Optique) renamed in 2018 EssilorLuxottica and Delamare Sovra renamed in 2017 Essilor International (SAS), which was retroactively effective as of January 1, 2017, limits the comparability of the periods.

(2) Increase in share capital in 2018 is mainly explained by the contribution of Delfin S.à.r.l.'s equity interests in Luxottica Group S.p.A. to EssilorLuxottica.

## 3.12 Statutory Auditors' report on the financial statements

### For the year ended December 31, 2019

*This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users. This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of*

*the statutory auditors or verification of the Management report and other documents provided to shareholders. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Annual General Meeting of EssilorLuxottica,

### Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of EssilorLuxottica for the year ended December 31, 2019. These financial statements were approved by the Board of Directors on March 5, 2020 based on information available at that date and in the evolving context of the Covid-19 pandemic.

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, 2019 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 "Statutory Auditors' responsibilities for 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, 2019 to the date of our report and specifically we did not provide any prohibited nonaudit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in 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 risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, approved in the context described above, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

### Completion of the combination between Essilor and Luxottica

#### Risk identified

As described in the paragraph Significant events of the fiscal year to the financial statements, the combination between Essilor and Luxottica was finalized in 2019, with the completion of the following steps:

- on December 12, 2018, EssilorLuxottica launched a public tender offer to acquire all remaining outstanding Luxottica Group S.p.A. shares, representing 6.70% of share capital (Sell Out). The Sell Out was completed on January 18, 2019, with EssilorLuxottica holding 97.54% of Luxottica Group S.p.A. shares.

- subsequent to the Sell Out, in accordance with Italian stock market regulations, a Squeeze Out procedure was initiated in order to acquire all remaining shares of Luxottica Group S.p.A. The Squeeze Out was completed on March 5, 2019 with EssilorLuxottica holding 100% of Luxottica Group S.p.A. shares.

As a result of both the Sell Out and Squeeze Out procedures, EssilorLuxottica accounted for share capital and share premium reserve increases by €2 million and €1,017 million respectively and €641 million cash payment to Luxottica Group S.p.A. shareholders who tendered their shares against cash.

Due to the complexity of these procedures and their significant impact on the 2019 financial statements, we have considered the accounting treatment of the completion of the combination between Essilor and Luxottica as a key audit matter.

## Our response

Our procedures primarily consisted in:

- assessing the accounting treatment of the acquisition of the Luxottica shares and the related remuneration paid to the shareholders who tendered their Luxottica shares during the Sell Out and Squeeze Out procedures;

- verifying the valuation of the shares exchanged and confirming the cash amount paid;
- assessing the legal and tax treatment of these procedures;
- ensuring that the notes to the financial statements fairly present the impact of the completion of the combination between Essilor and Luxottica (in particular Note 7 - Financial assets and Note 11 - Shareholders' equity).

## Valuation of equity investment

### Risk identified

As at December 31, 2019, net equity investments amount to €27,7 billion and represent 83% of the EssilorLuxottica total assets. Equity investments are initially valued and recorded at cost or contribution value.

As at December 31, 2019, the Luxottica Group S.p.A. and Essilor International (SAS) investments value (which accounts for 99.6% of the equity investments) were measured at their value in use, based on a multi-criteria approach taking notably into account the subsidiary's accounting net equity and future cash flows projections. If the latter valuation had been lower than the carrying amount, an impairment loss would have been recognized.

Given the weight of equity investments in the balance sheet and the judgment involved in the valuation methodology and the key assumptions applied, we considered the determination of the carrying amount of equity investments to be a key audit matter.

### Our response

Our procedures primarily consisted in:

- assessing the methodology used by Management to determine the 2019 value in use of equity investments;
- assessing key assumptions and estimates used by Management to determine the value in use, in particular the discounted cash-flows determined for Luxottica Group S.p.A. investment valuation;
- verifying the appropriateness of the information included in Note 1.2 - Accounting policies – Financial assets and Note 7 - Financial assets to the financial statements.

3

## Specific verification

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

### Information given in the Management report and in other documents with respect to the financial position and the financial statements provided to the Shareholders

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 approved on March 5, 2020 and in the other documents with respect to the financial position and the financial statements provided to the shareholders. With regards to Covid-19 pandemic related events occurred, information known since the date the financial statements were approved, Management has confirmed that this will be subject to a specific communication at the Annual General Meeting called to decide on these financial statements.

In accordance with French law, we report to you that the information relating to payment times referred to in Article D. 441-4 of the French Commercial Code (Code de commerce) is fairly presented and consistent with 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 (Code de commerce).

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code (Code de commerce) relating to remunerations and benefits received by or allocated to the directors and any other commitments made in their favour, 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 controlled companies which are included in the scope of consolidation. Based on these procedures, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your company considered likely to have an impact in the event of a takeover bid or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code (Code de commerce), we have agreed this information to the source documents communicated to us. Based on these procedures, we have no observations to make on this information.

## Financial statements

### Statutory Auditors' report on the financial statements

#### Other information

In accordance with French law, we have verified that the required information concerning 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), subsequently renamed EssilorLuxottica, by the Annual General Meeting held on June 14, 1983 for

PricewaterhouseCoopers Audit and on May 11, 2007 for Mazars.

As at December 31, 2019, PricewaterhouseCoopers Audit was in its thirty-seventh year of uninterrupted engagement and Mazars in its thirteenth year of uninterrupted engagement.

### Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from 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 is expected 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 risks Management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

### Statutory Auditors' responsibilities for 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 from 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 (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of Management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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;

- obtains 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;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the financial statements;
- assesses 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 his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the financial statements and assesses 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, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

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 of the current period and which are

therefore 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) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (Code de commerce) and in the French Code of Ethics (Code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit and Risk Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris-La Défense, March 27, 2020

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit

MAZARS

Olivier Lotz

Cédric Le Gal

Guillaume Devaux

Jean-Luc Barlet

OAKLEY



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## CHAPTER 4

# SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION

(2019 NON-FINANCIAL STATEMENT OF ESSILORLUXOTTICA)

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|            |   |            |            |   |            |
|------------|---|------------|------------|---|------------|
| <b>4.1</b> | <b>ESSILORLUXOTTICA'S APPROACH TO SUSTAINABLE DEVELOPMENT</b> | <b>296</b> | <b>4.3</b> | <b>FUNDAMENTAL SUSTAINABILITY PILLARS TO SUPPORT ESSILORLUXOTTICA MISSION</b>   | <b>304</b> |
| 4.1.1      | Business model, environmental and social challenges           | 296        | 4.3.1      | People  | 304        |
| 4.1.2      | Stakeholders engagement                                       | 297        | 4.3.2      | Environment   | 308        |
| 4.1.3      | Sustainable offering  | 298        | 4.3.3      | Society   | 313        |
| 4.1.4      | Main pillars of EssilorLuxottica Sustainability approach      | 300        | <b>4.4</b> | <b>NEXT STEPS OF ESSILORLUXOTTICA SUSTAINABILITY PROGRAM</b>  | <b>321</b> |
| <b>4.2</b> | <b>MANAGEMENT OF SUSTAINABLE DEVELOPMENT</b>                  | <b>301</b> | <b>4.5</b> | <b>METHODOLOGY NOTE AND CORRESPONDENCE TABLE</b>  | <b>322</b> |
| 4.2.1      | EssilorLuxottica CSR Committee and sustainability team        | 301        | <b>4.6</b> | <b>REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD-PARTY, ON THE NON-FINANCIAL STATEMENT INCLUDED IN THE MANAGEMENT REPORT</b> | <b>326</b> |
| 4.2.2      | CSR risk management   | 301        |            |   |            |
| 4.2.3      | Protocol and organization of non-financial reporting          | 302        |            |   |            |

## EssilorLuxottica Mission

**To help everyone everywhere "see more, be more and live life to its fullest".**

The Mission of EssilorLuxottica drives its strategy and everything it does. It is at the heart of the Company's values and principles and informs its integrated approach to sustainable development.

The Company's groundbreaking products correct, protect and frame the beauty of the most precious and powerful sensory organ: the eyes. By combining the expertise in lens technology and eyewear manufacturing, a portfolio of brands consumers love and global distribution capabilities, EssilorLuxottica enables people everywhere to learn, work and express themselves better and in order to fulfil their potential.

Lack of access and awareness have led to a global vision crisis with severe social and economic consequences for billions of people. EssilorLuxottica exists to give vision a louder voice and respond to the world's growing vision needs. The Company achieves this by meeting the changing lifestyles and tastes of its consumers and inventing new ways to reach the 2.7 billion people who suffer from uncorrected poor vision, and the 6.2 billion people who do not protect their eyes from harmful rays.

EssilorLuxottica is a powerful advocate for the vision cause. A passionate campaigner for greater awareness and a pioneering eyewear innovator, the Company provides solutions and styles that bring ever-greater improvements so everybody everywhere can enjoy the life-changing benefits of good vision.

This explains why EssilorLuxottica made Fortune magazine's 2019 Change the World list, taking the 17<sup>th</sup> spot. The list recognizes companies that have had a positive social impact through activities that are part of their core business strategy.

Among 52 companies, the Company is honored in particular for its commitment to bring good vision to those in need.

While EssilorLuxottica was created in 2018, its long-standing commitment to expand sustainable access to vision care builds on both Essilor and Luxottica's investments and partnerships with not-for-profit organizations:

- Since 2013, Essilor has created sustainable access to vision care for over 300 million people in developing communities by establishing more than 15,000 inclusive businesses around the world as part of Essilor's 2020 sustainability targets. Training and empowering young people to become entrepreneurial primary vision care providers in rural communities not only opens up access to vision care, it also improves livelihoods and promotes skills development. To date, Essilor has equipped 33.5 million people "at the base of the pyramid"<sup>(1)</sup> with vision care.
- As a founding sponsor of the not-for-profit organization OneSight, Luxottica and its employees have helped to open 171 Sustainable Vision Centers in Africa, China, India, Southeast Asia and the United States, providing access to vision care to over 35 million people.
- EssilorLuxottica continues to provide free vision tests, eyeglasses and sun protection to the people most in need. In 2019 alone, 3.1 million people benefitted from the Company's philanthropic eyecare programs, including its support of Vision for Life and the Essilor Vision Foundation.

(1) "Base of the pyramid" refers to underprivileged and high-risk populations characterized by high rates of poverty, living on less than 2.50 USD a day.

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## IN BRIEF

To accelerate solutions to the global vision crisis, the Company acts on many levels to elevate awareness on the importance of vision correction and vision protection, educating policy makers and consumers with dedicated campaigns.

- In 2019, the report “Eliminating Poor Vision in a Generation - What will it take to eliminate uncorrected refractive errors by 2050?” defined a first-of-its-kind roadmap on eliminating poor vision in a generation. The report was launched in New York, during the week of the United Nations General Assembly, with the support of NGOs and government partners of the development community.
- The Company continues to be a main supporter of “Think About Your Eyes”, a consumer advertising campaign on the importance of getting a comprehensive eye examination. The campaign was launched in the United States in 2010 together with The Vision Council, The American Optometric Association and other partners. Other consumer-facing media campaigns supported by EssilorLuxottica include “Good Vision For Life” in Australia.

In addition, EssilorLuxottica supports international scientific collaborations on R&D and expert-to-expert knowledge sharing on vision science as well as patient needs.

- EssilorLuxottica supports the Vision Impact Institute, whose mission is to make good vision a global priority, through research and data driven advocacy.
- The Company continues to tackle the growing myopia epidemic with global awareness and engagement efforts on myopia control among key opinion leaders, eyecare professionals and the public. These actions include publishing China's first ever white paper on myopia control and helping to establish the industry-wide Global Myopia Awareness Coalition as one of the founding members.

These, and all the actions of EssilorLuxottica, are driven by its long-standing commitment to sustainable development. The Company's efforts in this area are recognized by ECPI Indices and Ethibel as a constituent of the Ethibel Sustainability Index Excellence Europe and Global.

## 4.1 EssilorLuxottica's approach to Sustainable Development

### 4.1.1 Business model, environmental and social challenges

EssilorLuxottica is a global leader in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses. Its business model combines healthy growth, sustainability and the pursuit of excellence and, as such, relies on natural, human and financial resources. Delivering growth while making a positive social impact is part of EssilorLuxottica's business approach.

As described in Chapter 1 of this Universal Registration Document, the Company, which was formed in 2018, brings together the complementary expertise of two industry pioneers, one in advanced lens technologies and the other in the craftsmanship of iconic eyewear, to create a vertically-integrated business that is uniquely positioned to address the world's evolving vision needs and the demands of a growing eyewear industry. Influential eyewear brands including Ray-Ban and Oakley, lens technology brands including Varilux and Transitions, and world-class retail brands including Sunglass Hut and LensCrafters are part of the EssilorLuxottica family.

At EssilorLuxottica, value creation and sustainable growth go hand-in-hand with employee well-being and social impact across geographies and businesses. From product development and manufacturing to the sale to the end consumer, the Company deploys a unique go-to-market strategy globally, including Retail, Wholesale, e-commerce and inclusive business models:

- *manufacturing capabilities*: the Company's manufacturing capabilities – Essilor's 33 lens production facilities and Luxottica's 15 frame manufacturing facilities - account for the majority of direct environmental impacts due to the chemical products and raw materials used to produce, its energy and water consumption, the waste it produces, and the resulting greenhouse gas emissions. Given the concentration of environmental impacts, EssilorLuxottica places the emphasis on water and energy and the processing of waste, as well as on occupational health and safety measures;
- *lens laboratories*: as the final link in the value chain, Essilor's 449 prescription laboratories and edging-mounting facilities around the world and five integrated lens and frame platforms as well as Luxottica's seven central lens laboratories are crucial for ensuring product quality and conformity before the product is marketed to wholesale or e-commerce customers or shipped to the Company's stores. The environmental footprint of the lens laboratories is fragmented and limited, and derives primarily from the use of chemical products and the consumption of energy and water;

- *supply chain*: situated close to manufacturing sites, the role of the Company's distribution centers is to coordinate the logistics flow between suppliers, manufacturing sites, lens laboratories, wholesale clients, retail network and e-commerce customers. Most of the environmental impact of these centers – 14 at Essilor and four at Luxottica - comes from greenhouse gas emissions from transportation (air and road freight, etc.). Given the high number of employees, the nature of their activities, the Company's greatest focus here is on workplace health and safety;
- *wholesale distribution*: the Company serves eyewear retailers (e.g. independent ECPs, optical retail chains, specialty sun retailers), department stores, duty-free shops and online players in more than 150 countries. Certain brands, including Oakley, are also distributed to sporting goods stores and specialty sports locations. Pre and post-sale services, information security and data protection are key for the success of long-lasting, trust-based relationships. EssilorLuxottica's sustainability efforts extend to its subsidiaries, in terms of environmental footprint reduction (e.g. energy optimization) and of social impact on local employees (e.g. development opportunities and mobility) and communities (e.g. access to quality eyecare);
- *direct-to-consumer presence*: with approximately 11,000 stores globally and proprietary e-commerce platforms, EssilorLuxottica serves the final customer with a wide range of prescription frames and sunglasses, lens options and eyecare services. Informative websites, omnichannel solutions and the continuous training (online and on-the-job) of store employees translates into an increase in consumer awareness around vision care, as well as digitally-enhanced customer experiences and service. The monitoring of energy consumption in the directly-operated stores completes the overview of EssilorLuxottica's environmental impact and encourages the implementation of dedicated energy efficiency projects (e.g. lighting) and in-store waste management behaviors;
- *innovation and talent*: R&D and innovation capabilities are at the core of EssilorLuxottica. Thanks to talented and experienced teams, the Company's R&D centers develop approximately 130 patents and create over 2,000 new products every year. While the positive social impact of R&D is very high, the environmental impact, including energy and greenhouse gas emissions associated with buildings, business travel, electrical and electronic waste, is low.

With its offering, scale and global reach, EssilorLuxottica balances both social and environmental challenges and opportunities. The Company is committed to addressing critical CSR risks in its value chain, including climate change, talent acquisition, human rights (see Section 4.2.2). At the same time, it responds to the world's growing vision needs with a large portfolio of innovative eyecare and eyewear products accessible to everyone, everywhere in support of its Mission (see *EssilorLuxottica Mission*).

With long-term commitment to sustainable development, which is the heritage of Essilor and Luxottica, the Company

contributes to the achievement of 13 of the 17 UN Sustainable Development Goals (SDGs) which form the 2030 Agenda.

From managing and reducing water usage at manufacturing sites to the constant improvement of occupational health and safety policies, from ensuring equal opportunities to developing inclusive business models and providing eye exams and eyeglasses to people in need, the Company is consistently supporting its Mission to "help people see more, be more and live life to its fullest".

#### 4.1.2 Stakeholders engagement

EssilorLuxottica's approach to sustainable development considers heavily the environmental and social impacts of its business activities on the various stakeholders along the value chain.

As the significance and handling of social and environmental issues differ between countries, stakeholder relationships are generally managed locally, under the responsibility of the senior management of the legal entities. As EssilorLuxottica continues to grow, ensuring the Company has a unified presence across markets has become increasingly important. All employees are encouraged to apply the EssilorLuxottica Code of Ethics in their interactions with their stakeholders, together with other policies and principles already existing at Essilor and Luxottica.

Depending on the situation, interactions between EssilorLuxottica and its stakeholders serve a range of purposes including:

- to provide a consultation process for the purpose of anticipating business developments, the market and regulations, as well as managing risks and identifying opportunities;

- to hold discussions to involve stakeholders in strategic decisions through customer satisfaction surveys, employee opinion surveys, organization of forums, training sessions, etc.;
- to inform stakeholders by providing reliable factual data using different communication methods including brochures, website, annual reviews and questionnaires;
- 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 and transparent communication with them are therefore key for the Company, as their needs and viewpoints fuel its strategy and operations. Stakeholders' main concerns are also documented and addressed. In addition, EssilorLuxottica communicates on its sustainability initiatives and provides regular updates throughout the year on its corporate channels, including the corporate website and via social media.

## Social, environmental and societal information

### EssilorLuxottica's approach to Sustainable Development

The table below presents the main topics of stakeholders' engagement.

| Main stakeholders   | Main issues  |
|---|--|
| <b>Employees &amp; representative organizations (e.g. trade unions)</b> | Quality of working conditions<br>Work-life balance<br>Recruitment/Attracting and retaining talent<br>Skills development and training initiatives<br>Equal opportunities, diversity and inclusion   |
| <b>Business partners, including licensors</b>                           | Shared commitment to social and environmental concerns<br>Collaboration on innovation and development<br>Integrity in business relations   |
| <b>Clients &amp; Prescribers (e.g. eyecare professional or ECPs)</b>    | High quality and innovative products<br>High quality customer service<br>Responsible marketing<br>Integrity in business relations<br>Data protection<br>Sustainable procurement  |
| <b>Consumers</b>  | Product and service quality and efficiency<br>Responsible marketing<br>Products meeting new visual health needs related to societal trends (digitalization, urbanization, etc.)<br>Data protection   |
| <b>Shareholders, investors and rating agencies</b>                      | Management of Sustainable development<br>Transparency and evaluation of non-financial activity<br>Environmental aspects (e.g. energy, water, waste and carbon footprint)<br>Social aspects (e.g. talent acquisition, diversity, human rights)<br>Economic aspects (e.g. corporate conduct, risk management, governance)<br>Management of CSR risks |
| <b>Suppliers</b>  | Integrity in business and compliance with regulations and laws<br>Constructive collaboration/Co-innovation<br>Sustainable procurement & supplier CSR audit/Responsible sourcing  |
| <b>NGOs and consumer associations</b>                                   | Dialogue and partnership<br>Communication – Transparency (on social initiatives, environmental footprint, product performance, etc.)<br>Sponsorship and philanthropy   |
| <b>Educational institutions</b>   | Cooperation for R&D and innovation (e.g. scholarships)<br>Attracting and developing talent   |
| <b>Public authorities &amp; governments</b>                             | Social and economic impact<br>Contribution to visual health and the inclusive economy<br>Fair business practices, including responsible marketing<br>Dialogue and education  |
| <b>Local communities</b>  | Quality of life: provide quality vision for all<br>Social and economic impact (e.g. jobs, support for the local economy and inclusive business)<br>Raising awareness<br>Philanthropy   |

### 4.1.3 Sustainable offering

From product and design innovation to reimagining the consumer experience and establishing new business models, EssilorLuxottica teams constantly push the boundaries of what is possible and question how the Company can better serve both its customers and consumers. One of the most important drivers in

EssilorLuxottica's sustainability efforts is the idea that sustainability and the Company's products and services go hand-in-hand, right from the development phase. With the objective to satisfy customers' preference and demand for more sustainable products and practices, EssilorLuxottica nurtures three fundamental workstreams outlined below.

## Product safety

For EssilorLuxottica, product safety is an absolute priority and is the foundation of any sustainable offering. Its products are the result of continuous investments in research, design and innovation and developed according to high quality standards with stringent controls on mechanical, chemical and optical characteristics that are equal or superior to industry standards in terms of safety, performance and durability.

To guarantee their customers maximum product safety, EssilorLuxottica performs tests to check compliance with the main international regulations concerning chemical substances in medical and consumer products, using both in-house laboratories and expert external facilities.

With approximately 130 new patents developed per year, intellectual property is one of EssilorLuxottica's most important assets, and ensures the excellence, uniqueness, and incomparability of its products. It is based on the registration and maintenance of the Company's trademarks and patents across the world. The protection of intellectual property rights also involves combating counterfeiting. The worldwide proliferation of counterfeiting not only threatens official sales channels and company reputations, it also poses risks to the health and safety of consumers. Counterfeit products do not ensure the same elevated quality standards as the originals, whose excellence is certified by the most stringent quality tests and the use of highly innovative materials. The Company's authentic products are impossible to process or replicate without the necessary know-how as well as the ongoing innovation in its production processes. To ensure that consumers are not exposed to counterfeit products, Luxottica collaborates with local institutions and authorities around the world to intercept counterfeit products and combat the entire illegal production chain as best permitted by law. For greater effectiveness in the battle against counterfeiting and the expansion of parallel markets that divert goods into unauthorized sales channels, Luxottica has developed GLOW (Guaranteed Luxottica Origin Worldwide). GLOW is a traceability system based on RFID technology that can verify the authenticity of products as well as the suitability of resellers.

## Product development & design

EssilorLuxottica defines its innovation priorities by listening to consumers and anticipating their needs and lifestyles. Its wholesale and retail distribution channels and the close interaction with eyecare professionals give proximity to end consumers, allowing the Company to better anticipate specific as well as unmet needs and desires. Those distribution networks are further supported by online channels which serve several million unique visitors each year and create a 360-degree relationship with consumers.

EssilorLuxottica has expanded its culture of global innovation through gradual integration of the sustainable development criteria in order to answer related customer expectations and needs, and to address social and environmental challenges. The Company aims to develop products with an ever-decreasing impact on the environment (see Section 4.3.2) by analyzing product

lifecycles, favoring eco-friendly designs, working with its suppliers (purchasing raw materials with less environmental impact, etc.) and optimizing shipping flows and production processes.

At Essilor, the R&D department has integrated sustainability assessment criteria (circularity, materials, process efficiency, social benefits) in its products and technologies innovation process. For instance, to address the needs of the largest and poorest populations, commonly referred to as the "Base of the Pyramid", Essilor has developed Ready2Clip product line that reduces waste by using uncut lenses. At Luxottica, the R&D department has introduced innovative bio-based materials into its portfolio of raw materials and, following the launch of the first sustainable collection under the Arnette brand, it has started to foster a "Develop for Sustainability" culture across the organization. In 2019, it also introduced research activities to make packaging more sustainable and reduce the amount of plastic. Many other projects are in development to examine the possibility of recovering and regenerating obsolete polymeric materials deriving from warehouse stocks. The aim is to create a circular process that makes it possible to reintroduce waste materials into the production cycle.

## Responsible marketing practices

EssilorLuxottica is committed to communicating with its customers and consumers in a clear, authentic way about the performance of its products and services, in accordance with the regulations. This transparency, which reinforces the trust that the Company has built over many years with its customers, is today one of the Company's major intangible assets.

EssilorLuxottica ensures, from manufacturing to marketing, that communication about products is accurate and complies with the applicable regulations in effect, specifically with regards to advertising. This may involve a link with the local authorities and/or consumer associations who inquire about the specific features and characteristics of the Company's products in order to confirm that the performance and benefits outlined are genuine and proven.

In addition, in order to maintain the accuracy and consistency of messages, Essilor and Luxottica offer training (face-to-face or e-learning) to their salesforce, retailers, licensees and eyecare professionals which focuses on product features, lens and frames design, quality standards and other aspects. It should be noted that due to the diversity of regulations in effect around the world, each of the subsidiaries involved in marketing the Company's products, may undertake its own monitoring to comply with the local laws, standards and voluntary codes in force.

The Company has also implemented a validation process for the marketing statements of its products to ensure that for each of them, appropriate proof exists and the performance of the products in the laboratory can be taken into account within its production environment. For example, most of Essilor's products and services are based on wearer tests carried out with representative panels that take real-life and experimental conditions into account.

#### 4.1.4 Main pillars of EssilorLuxottica Sustainability approach

Sustainability is a deeply rooted commitment at EssilorLuxottica and is founded on three fundamental pillars: people, environment and society.

These support the Company's Mission and guide its efforts to create value in the communities where we do business around the world.

- **People:** the Company's employees are the leading players and contributors to EssilorLuxottica's sustainable development and value creation efforts. The Company seeks to develop a culture of learning, diversity and safety among its employees along with the creation of a working environment that offers everybody the same opportunities on the basis of merit and without discrimination. See Section 4.3.1.
- **Environment:** EssilorLuxottica is committed to optimizing the use of resources to lower its environmental footprint across the value chain, from manufacturing to distribution, by reducing energy consumption and water use, limiting carbon footprint and waste generation to

address climate change and to contribute to a more circular economy. See Section 4.3.2.

- **Society:** the Company through its powerful Mission, has an ambition to help everyone in the world see well and thereby contribute to the socioeconomic growth of individuals and societies. In addition, EssilorLuxottica is committed to respecting and promoting human rights across its entire value chain. The Company abides by the ILO Conventions and the United Nations Global Compact Principles on Human Rights and requests its suppliers to adhere to international standards in the areas of ethics, labor, health, safety and the environment. See Section 4.3.3.

EssilorLuxottica has chosen strong governance and management support to drive social, environmental and societal initiatives. These are in fact regularly reviewed by the CSR Committee, which in 2019 met three times. See Section 4.2.1 and Chapter 2 of this Universal Registration Document.

## 4.2 Management of Sustainable Development

### 4.2.1 EssilorLuxottica CSR Committee and sustainability team

The EssilorLuxottica Corporate Social Responsibility (CSR) Committee consists of four members, two of which are independent Directors. Its members are Jeanette Wong (Chairwoman), Giovanni Giallombardo, Hubert Sagnières and Cristina Scocchia.

The main duty of the CSR Committee, within the remit of the Board of Directors, is to ensure that the Company effectively addresses the deployment of the Company's Mission, which is fully integrated in the strategy. Accordingly, the Company exists to give vision a voice and to respond to the world's growing vision needs by meeting the changing lifestyles of existing consumers and inventing new ways to reach the 2.7 billion people who suffer from uncorrected poor vision and the 6.2 billion people who do not protect their eyes from harmful rays.

The CSR Committee's duties go beyond philanthropy, inclusive business and compliance to address the manner the Company manages its economic, social and environmental impacts as well as its relationships with stakeholders.

The Committee shall notably be responsible under the authority of the Board of Directors for:

- sustainable development matters, including climate change, environmental policies and management

systems, human rights, social impact, safety & well-being, diversity & inclusion, sustainability reporting & disclosure;

- ethics and compliance matters, including core values, principles, sustainability-related regulations.

The CSR Committee also coordinates its works with the Audit and Risk Committee and the Strategy Committee for all matters related to the CSR Committee's areas of intervention. For more details on EssilorLuxottica's CSR Committee, see Chapter 2 of this Universal Registration Document.

A taskforce was created, comprising the sustainability teams of Essilor and Luxottica, to support the deployment of the EssilorLuxottica sustainability program. This operational taskforce aims to:

- guarantee compliance to non-financial disclosure and other major sustainability-related regulations;
- ensure that the progress of sustainability programs at both companies is consistent with EssilorLuxottica's Mission and values;
- facilitate dialogue and engagement of different corporate functions for supporting the initial joint sustainability-related initiatives;
- lay the foundation for next years' sustainability roadmap.

### 4.2.2 CSR risk management

Risk is an integral part of doing business and can be defined as any uncertain event that could threaten the achievement of business objectives and strategies or the Company's tangible and intangible assets. EssilorLuxottica faces an evolving landscape of environmental, social and societal related risks, also called CSR risks, which can impact its profitability, growth and reputation. The Company is risk-averse towards events that could negatively affect the safety or well-being of employees, consumers and other stakeholders or endanger the natural environment.

This Chapter focuses on the topics that were highlighted as most important during the CSR risk assessment that was part of the first EssilorLuxottica group-wide risk management process.

#### Methodology of EssilorLuxottica CSR risk assessment

As part of its commitment to mitigate environmental and social risks, EssilorLuxottica integrated the identification and assessment of CSR risks and opportunities into a group-wide risk assessment process that was conducted by

the Risk Management and the Sustainability functions of Essilor and Luxottica in the last quarter of 2019 and covered all geographies, legal entities and activities of the Company (see Chapter 1 of this Universal Registration Document).

After identifying, within the EssilorLuxottica risk taxonomy, the risk factors having a CSR dimension, an extensive review of internal and external information sources (e.g. Essilor and Luxottica materiality matrices, regulatory framework, rating agencies, institutional investor requests, customer expectations and sectoral risk reports) led to their breakdown into 20 CSR sub-risk factors. These factors are then defined and assessed according to impact, likelihood and mitigating measures using internal surveys, interviews and expert reviews.

#### Priority CSR risk categories

The cross-analysis of survey results, interviews, external documentation and facts allowed the Company to identify the most relevant CSR risk factors for the business. They are divided below into six categories that cover social and environmental responsibility and have been shared at the highest levels of responsibility of the organization:

| Risk factors  | CSR risk category       |
|---|-------------------------|
| Business interruptions  | Climate change          |
| Strategic innovation & product development                      |                         |
| Intellectual property   | Sustainable offering    |
| Licensing   |                         |
| Key people attraction/retention, talent mgt & knowledge capital | Talent management       |
| Corporate compliance & reporting (incl. sustainability)         | Supplier sustainability |
| Corporate compliance & reporting (incl. sustainability)         |                         |
| Antitrust   | Business ethics         |
| Data privacy  |                         |
| Corporate compliance & reporting (incl. sustainability)         |                         |
| Business interruptions  | Human rights            |
| Licensing   |                         |
| Data privacy  |                         |

Section 4.2.2 sets out the six categories that carry CSR risks, as defined below.

- **Climate change:** the risk that the Company is not able to face and quickly adapt to physical risks or radical systematic changes linked to climate change (e.g. disruption in logistics or production due to natural hazards, change in regulation such as carbon tax) which can lead to business disruption or higher operational costs (see Section 4.3.2.2);
- **Sustainable offering:** the risk that the Company is losing customers, licenses and/or competitive advantage because of an inability to satisfy customers' preference and demand for more sustainable products and practices (e.g. CSR standards, transparency, substantiated claims, circularity, eco-design, recycled materials) (see Section 4.1.3);
- **Talent management:** the risk that the Company is not attracting, retaining or developing enough talents to support growth (see Section 4.3.1.2);
- **Supplier sustainability:** the risk that suppliers are not compliant with laws, international standards, EssilorLuxottica's Code of Ethics and Company's requirements on labor, health and safety, environmental and ethical matters and the risk of not meeting licenses

and business partners expectations on sustainability topics (see Section 4.3.3.1);

- **Business ethics:** the risk that the Company is exposed to any legal proceedings or reputational damage due to non-compliance with local and international laws on business ethics (e.g. corruption, bribery, inadequate commercial policies) and data protection, or any other unethical behavior (see Section 4.3.3.3);
- **Human rights:** the risk that the Company is not compliant with local and international regulations on human rights (e.g. Modern Slavery Act, GDPR, Duty of Care, etc.) (see Section 4.3.3.2).

In order to mitigate such risks, the Company is relying on both Essilor and Luxottica risk management organizations to ensure that specific CSR policies, procedures and controls are being implemented at both operating and holding levels.

As required by regulation, the themes of "fighting against food waste and food poverty", "means in favor of responsible, fair and sustainable food", "the respect of animal welfare" and "consequences of the use of goods and services it produces on climate change" have been analyzed and none of them have been rated with high potential CSR risks for EssilorLuxottica.

### 4.2.3 Protocol and organization of non-financial reporting

Non-financial reporting provides a tool to help the Company monitor and understand its status and progress on sustainability priorities, risk management, and its associated impacts. It is also an opportunity to provide stakeholders with a complete and consistent overview of the Company's environmental and social impact.

As a French-listed company, EssilorLuxottica is taking European Directive no. 2014/95 (transposed into French law in August 2017, decree no. 2017-1265) as reference on its non-financial statement.

## First edition of EssilorLuxottica Sustainability Reporting Protocol

In 2019, the first edition of EssilorLuxottica Sustainability Reporting Protocol with detailed guidelines and glossary was created to align on the definition of indicators and rules of reporting, as well as to ensure data consistency.

The Reporting Protocol follows the guidelines of the Global Reporting Initiative (GRI) Standards and takes into consideration the global agenda of United Nations Sustainable Development Goals (SDGs). For indicators on GHG emissions, the Company follows the GHG Protocol.

For certain specific CSR topics (e.g. health and safety indicators), the information reported are those that the Company analyzes and monitors in the normal course of its business using company-specific KPIs and definitions of both Essilor group and Luxottica group.

The Company will continue to strengthen and synthesize the Reporting Protocol in order to expand the scope of sustainability performance monitoring and management.

### (i) Reporting scope

The reference scope of non-financial reporting is all the entities and subsidiaries within the Company's financial consolidation scope. The list of entities requested for sustainability reporting is updated annually according to the financial consolidation scope.

For each specific indicator, reporting coverage can vary and is specified separately in the disclosure of each indicator based on the headcount of the entities reporting information and the Company's total headcount.

### (ii) Key indicators

The selection of the first set of EssilorLuxottica indicators is based on the activities, impact and common existing indicators of Essilor and Luxottica. It covers key sustainability pillars and topics that were identified on the basis of EssilorLuxottica's CSR risk assessment, important common topics for both Essilor and Luxottica and mandatory requirements set by the EU Directive no. 2014/95 (transposed into French law in August 2017, decree no. 2017-1265). Other criteria such as Guidelines of Global Reporting Initiative (GRI Standards), GHG Protocol, criteria of key accounts, raters and investors (DJSI, CDP, etc.) were also considered when selecting the indicators.

Meanwhile, both Essilor and Luxottica collect certain other indicators to monitor company-specific sustainability initiatives.

See Section 4.5 for more information on reporting scope, period, rules of reporting and consolidation, and other guidelines related to the information disclosed in this Chapter.

## Reporting organization

For 2019, two reporting campaigns were organized at Essilor and Luxottica separately, yet using a collaborative process which was centrally managed by the respective sustainability teams and followed the common guidelines of EssilorLuxottica's Reporting Protocol.

For Essilor, all the relevant information for the sustainability reporting was collected through an Oracle-based tool – CARS/SUSTAIN2 - which replicates the structure of Essilor's unified financial reporting system. The data were uploaded by local Finance teams in coordination with the data collectors from a network across all entities covering a range of disciplines (Human Resources, Environment-Health-Safety, Procurement, etc.). The data reported were controlled by local Finance teams at first and were consolidated and checked for consistency by Essilor's Sustainable Development Department.

For Luxottica, quantitative and qualitative inputs were collected using a combination of internal IT platforms (e.g. SAP for Finance, SAP HR and the Luxottica University platform) and templates which were prepared for each set of KPIs and included the instructions for completion. Central data collectors were identified in each of the departments or functions involved and were responsible for: i) collecting the information at a local level with the support of local data collectors using the templates provided by the Sustainability team; ii) checking the consistency and validating the data; and iii) sharing the consolidated data with the Sustainability team using the provided templates.

At the beginning of the reporting campaign, both Essilor and Luxottica Sustainability teams held specific training webinars to explain the reporting process and information requested to relevant teams, as well as to engage them on the importance of timely and consistent sustainability reporting. The consolidated data of both companies is consistent with the previous years on a standalone basis.

The information presented in this Chapter has been reviewed by PwC, an independent third-party organization, in accordance with the regulations resulting from European Directive no. 2014/95. See in Section 4.6 Report of the Independent Third-Party Organization for further details.

## 4.3 Fundamental sustainability pillars to support EssilorLuxottica Mission

### 4.3.1 People

EssilorLuxottica’s success is deeply intertwined with the over 150,000 employees worldwide who provide products of high technical and stylistic quality together with unparalleled levels of service. This global community embodies a unique know-how and DNA and contributes to the Company’s Mission to help people “see more, be more and live life to its fullest”. The broad spectrum of contexts, cultures and territories in which the Company operates gives it a distinguishing trait and is one of EssilorLuxottica’s unique strengths.

The Company seeks to develop a culture of learning, diversity and safety among its employees. Its tangible advancements in the workplace, from the learning and development programs available at Essilor and Luxottica to its focus on the prevention of work-related injuries, are examples of how EssilorLuxottica engages, grows and protects its employees. Plurality and diversity are indeed sources of enrichment and a heritage that make the Company stronger and better able to face global challenges. In this context, having qualified, motivated and engaged employees is crucial for its long-term success.

As such, the search for excellence in recruitment and the development and well-being of its employees across the world are of strategic importance and entail a working environment where everyone feels valued and is respectful of employees’ physical and moral integrity.

EssilorLuxottica aims at creating an inclusive environment where employee engagement is critical to creating an identity and a sense of belonging. For instance, employees’ involvement is encouraged by the continuous dialogue between management, employees and their representatives, in accordance with trade union rights in each country. Collective agreements cover different topics (e.g bonuses, social protection) that contribute to employee well-being, whereas employee shareholding reinforces employees’ sense of commitment to the Company’s Mission and strategy over the long-term.

#### 4.3.1.1 The Company’s employees

EssilorLuxottica has 152,954 employees.

The tables below detail the Company’s employees according to profile and demographics.

#### Total number of employees and breakdown by gender

|                                  | 2019           | 2018           |
|----------------------------------|----------------|----------------|
| <b>TOTAL NUMBER OF EMPLOYEES</b> | <b>152,954</b> | <b>152,740</b> |
| Women                            | 88,660 (58%)   | 89,037 (58%)   |
| Men                              | 64,294 (42%)   | 63,703 (42%)   |

Note: Within the Company’s employees, women represent approximately 60%.

The 2018 figure also contains 3,739 temporary workers and contractors of Luxottica, reported before the aligned methodology was defined in the EssilorLuxottica Reporting Protocol. Excluding the scope and methodology impact, the Company headcount has increased by 2.7%, mainly due to the inauguration of new labs of Essilor and new entities joining EssilorLuxottica.

For more information on reporting methodology and scope, please refer to Section 4.5.

#### Employee breakdown by geographic areas

|                                  | 2019           |
|----------------------------------|----------------|
| <b>TOTAL NUMBER OF EMPLOYEES</b> | <b>152,954</b> |
| North America                    | 50,637 (33%)   |
| Europe                           | 30,452 (20%)   |
| Asia, Oceania and Africa         | 53,107 (35%)   |
| Latin America                    | 18,758 (12%)   |

Note: For more information on reporting methodology and scope, please refer to Section 4.5.

## Employee breakdown by category and by gender

|   | 2019                  |
|---|-----------------------|
| <b>TOTAL NUMBER OF EMPLOYEES</b>            | <b>152,954</b>        |
| <b>Executives – Senior management</b>       | <b>2,235 (1.4%)</b>   |
| Women                                       | 607 (27%)             |
| Men   | 1,628 (73%)           |
| <b>Managers/Experts – Middle management</b> | <b>11,103 (7.3%)</b>  |
| Women                                       | 4,514 (41%)           |
| Men   | 6,589 (59%)           |
| <b>Professional – White collars</b>         | <b>50,413 (33.0%)</b> |
| Women                                       | 28,487 (57%)          |
| Men   | 21,926 (43%)          |
| <b>Production/Shop staff – Blue collars</b> | <b>89,203 (58.3%)</b> |
| Women                                       | 55,052 (62%)          |
| Men   | 34,151 (38%)          |

Note: Within the Company's employees, women cover approximately 40% of the managerial roles.  
For more information on reporting methodology and scope, please refer to 4.5.

## Employee breakdown by age

|                                  | 2019           |
|----------------------------------|----------------|
| <b>TOTAL NUMBER OF EMPLOYEES</b> | <b>152,954</b> |
| Below 18                         | 227 (0.1%)     |
| 18-34                            | 75,005 (49.1%) |
| 35-49                            | 53,078 (34.7%) |
| Above 50                         | 24,644 (16.1%) |

Note: In 2019, Luxottica confirmed its youth employment rate, with employees under 35 years of age accounting for over 55% of the workforce.  
For more information on reporting methodology and scope, please refer to Section 4.5.

### 4.3.1.2 Equal opportunities and people development

At the very core of EssilorLuxottica are its people, who bring the Company's assets to life and are the key drivers of its success. Based on the principle that everyone's talent makes a difference has led both Essilor and Luxottica to recruit and engage their employees with a long-term perspective in which training, development and ensuring equal opportunities for everyone everywhere play a core role throughout the employee's career.

#### Diversity and inclusion

At EssilorLuxottica equal opportunities are guaranteed for employees at all levels irrespective of gender, age, nationality or origin, religion, sexual orientation, marital status, union affiliation or disability. The organization does not tolerate any form of discrimination, intimidation or harassment. The Company is firmly committed to building a work culture that is inclusive and that nurtures diversity to allow unique perspectives and novel ideas to flourish.

Both Essilor and Luxottica have put in place strong initiatives to support the entry, the professional growth and development for all within their organizations worldwide and encourage local entities to take more action in their respective regions. For example, Essilor developed a training about unconscious bias in the workplace.

The two companies are also involved in initiatives aimed at sharing best practices, identifying common actions in the field of gender equity and enhancing women's leadership. Among these are the EVE program in France, the Manifesto for Female Employment (Valore D) in Italy and the Optical Women's Association (OWA) in North America. In 2019, several women professionals at Essilor and Luxottica were honored among Vision Monday's "Most Influential Women in Optical", a wide-ranging industry recognition of their diverse and extensive background in the optical industry in North America. Also in 2019, Essilor was awarded the title of "Diversity Leader 2020" by the Financial Times and recognized in the publication's new annual ranking of diversity and inclusion in the workplace.

#### Training and development

With a rapidly growing international business, a presence in emerging countries and areas that require specific know-how and expertise, providing people with a clear growth and development path and internal mobility is essential. Those are key elements of an employee's career at Essilor and Luxottica from their very first day. Both companies invest in the development of new skills and enrichment of professional and human qualities through different training programs, which have expanded over the past year.

## Social, environmental and societal information

### Fundamental sustainability pillars to support EssilorLuxottica Mission

At Essilor, the global learning and development team is dedicated to designing a corporate learning roadmap, to roll out and administrate the various learning campaigns. This means regularly adding new content and courses to support the organization's evolving business challenges and transformation needs. Training at Essilor falls into three categories:

- online training, including Essilor U, LinkedIn and other platforms, connects employees from all Essilor group across the world. By the end of 2019, 43,257 employees are connected, achieving 59% of the 2020 target of reaching 100% of employees;
- business management and leadership programs managed at the corporate level offer training opportunities for employees and managers at each career step to improve their business, strategy and leadership skills. In total, 512 employees and managers participated in the corporate training programs conducted in 2019;
- local trainings for production staff and all other management positions, conducted at entity level in every region. These include local onboard training and on-the-job training to help employees gain the necessary competences and grow within the company. In 2019, more than 900,000 hours of local training was performed (+25%), with 68% dedicated to production staff.

At Luxottica, the introduction or development of new skills, the opportunity to improve existing competences and the support to expansive ways of thinking have always been a core element of its learning & development approach globally. In 2019, approximately 1 million hours of training were provided to employees, managers and directors around the world through learning initiatives offered online and in a classroom setting, up by 52% from 2018. The growth was driven by the online training, as Luxottica University, which is the only incubator for all Luxottica's training initiatives, continued to invest in the digital platform, now covering all the company's offices and stores worldwide. In 2019, 78% of employees completed a learning event on the platform. In addition, Luxottica University provides on-the-job training for specific retail competences, from selling techniques to soft skills on how to better serve the customer.

Personal development and career growth are also provided through brief workshops strictly linked to the needs of the organization, like the on-boarding program for new hires and, in 2019, the launch of the new performance evaluation process for managers and their team members.

Essilor and Luxottica have recently started a process of technological convergence and common content development with the goal of building a unique on-line learning platform for EssilorLuxottica employees.

### Total number of training hours

|                             | 2019             |
|-----------------------------|------------------|
| <b>TOTAL TRAINING HOURS</b> | <b>2,024,723</b> |
| Online training             | 737,709          |
| Classroom/Local training    | 1,287,014        |

Note: The figure for EssilorLuxottica is based on the combination of Essilor and Luxottica training information collected through the respective training platforms and reporting campaigns. Online training hours accounted for 36% of the Company training hours; classroom/local training hours accounted for 64% of the Company training hours.

### Talent attraction

EssilorLuxottica is committed to offering a motivating work environment where everyone can achieve their full potential and express their talents by providing opportunities for professional development, training and internal mobility. With operations across more than 150 different countries and the ongoing growth of the Company's businesses around the world, talent attraction and retention is strategic for the Company and taps into Essilor and Luxottica's employer branding capabilities.

While the careers section on each company's website and the respective LinkedIn pages offer open opportunities and enable candidates to apply online, several employer-branding strategies are available at both Essilor and Luxottica to attract, retain and engage talents:

- internal talent-acquisition capacity, nurturing new skills and expansive ways of thinking to improve existing expertise;
- facilitation and promotion of internal mobility opportunities through talent programs in Essilor. These include People Exposure, a program aimed at increasing visibility of talent profiles within the organization; Excellor program, to better identify business succession profiles and their development areas through customized business simulations/assessments; and COMET program, an annual initiative, to increase the networking, visibility and exposure of global young talents within the organisation through cross-functional projects, presentations to executives and mentoring opportunities. A new initiative "SeeUp" to be launched in 2020, aims to further empower HR, managers and employees to own and drive their career within the organization with a series of workshops and panel discussions organized during a week dedicated to mobility;

- regular presence on international campuses of top-ranking universities and management schools (e.g. MIT, Harvard, NYU, Columbia University, HEC, ESSEC, Bocconi University, Politecnico di Milano and MIP, Fudan, PolyU HongKong, etc.) by hosting presentations on the Company's businesses; by collaborating with international alliances like CEMS, an alliance of more than 30 business schools worldwide, as well as students' associations like AEBG (Alliance of European Business Game);
- innovative talent acquisition programs, like Essilor's ETP (Emerging Talent Program), which targets recruits from the best campuses, and offers students a rotation within a region or globally, and Luxottica's "Futuresighters", its international graduate program which selects candidates from the top ranked universities and schools worldwide and provides a development path aimed at creating all-round talented profiles ready to fill key positions in the company.

Specific talent attraction projects are also developed at local level. These include Luxottica's eyeFWD in North America and EYE Launch in Australia. The former is designed to give optometry students a broader understanding on how to build and maintain a successful practice upon graduation. EYE Launch is a two-day graduate induction program and is the first part of Luxottica's two-year Graduate development pathway, designed to ensure new optometry graduates are well equipped to start their career effectively.

#### 4.3.1.3 Health and safety

For EssilorLuxottica, guaranteeing and protecting employees' health and safety is at the top of its priorities and is a common principle that will continue guiding the daily operations of the Company. Both Essilor and Luxottica have adopted all necessary measures, consistent with international standards, with the target of reducing work-related accidents to a minimum.

As such, over the course of the past few years, several production and logistics sites and prescription labs have obtained the OHSAS 18001:2007 and the more recent ISO 45001:2018 Occupational Health and Safety Management certification, which provide a framework to identify and improve employee safety while preventing workplace risks. By 2019, 19 Essilor production plants and significant export labs and 13 Luxottica manufacturing plants, logistic hubs, lens laboratories and global

headquarters were certified OHSAS 18001:2007 or ISO 45001:2018.

The respective EHS policies of Essilor and Luxottica are also shared and implemented across the two companies in order to minimize the health and safety risks to employees, customers and local communities.

#### The Company's journey towards zero-work related accidents

EssilorLuxottica is committed to a journey of zero work-related accidents through the implementation of strong health and safety programs that focus on identifying and preventing employee risks in the workplace. To achieve this, both Essilor and Luxottica have designed policies, action plans, procedures and on-site audits aimed at reducing the frequency and severity of accidents. Additionally, dedicated training programs have been essential in achieving the zero-work related accidents target.

To track the progress towards the achievement of zero-work related accidents, Essilor defined within its 2020 sustainability targets, the goal of decreasing work-related injuries by 30% compared to the 2015 baseline. In 2019, Essilor achieved 33% of this target with a reported reduction of 10% by the end of the year, thanks to the continuous expansion and deployment of safety guidelines on new topics (such as road safety) and within the new company partners. In addition, health and safety requirements, such as safe machines and processes, ergonomic workstations and chemicals management, are part of the innovation process within Essilor to prevent accident risks from the early stage.

At Luxottica, the guidelines for health and safety go beyond fulfilling the training and information obligations set forth by local regulations. Since the launch of its "Zero accidents" program in 2007, Luxottica has been developing a culture of accident prevention at its production and logistics sites. This includes the roll-out of Safety Corners, which are designated locations for posting information on health and safety matters and for reporting unsafe or risky situations for workers. First introduced in Italy in 2015, this practice has been extended to the Chinese facilities in 2018 and to the Atlanta site in 2019. In addition, since 2014 Luxottica has been deploying an innovative Behavior-Based Safety system (BBS). Its roll-out in Italy is due to conclude in 2020.

## Social, environmental and societal information

Fundamental sustainability pillars to support EssilorLuxottica Mission

The Company considers all the injuries that happened on site should be taken and analyzed seriously. The information on work-related injuries of employees are shown in the table below:

|  | 2019          |
|--|---------------|
| <b>TOTAL NUMBER OF WORK-RELATED INJURIES</b>                               | <b>784</b>    |
| Number of work-related injuries with absence                               | 372           |
| Number of work-related injuries without absence                            | 412           |
| <b>TOTAL NUMBER OF LOST DAYS DUE TO WORK-RELATED INJURIES WITH ABSENCE</b> | <b>10,913</b> |
| Frequency rate   | 1.8           |
| Severity rate  | 0.05          |

Note: The work-related information is consolidated at Company level, as consequence, the frequency and severity rate of work-related injuries with absence are calculated based on the consolidated number of work-related injuries with absence and lost days. Work-related injuries information covers 65% of the Company's total headcount.

372 work-related injuries with absence were reported in 2019, representing a frequency rate of 1.8, and resulted in 10,913 lost days, which correspond to a severity rate of 0.05. On a standalone basis, the frequency rate and severity rate were in line with previous year's levels.

For more information on the calculation method of frequency and severity rate of work-related injuries as well as the reporting scope, please refer to Section 4.5.

### 4.3.1.4 Employee shareholding

A pillar of EssilorLuxottica's culture, employee shareholding reinforces employees' sense of commitment and engagement to the Company's Mission and strategy, fostering responsible and ethical business behaviors. It also aligns their long-term interests with those of the Company and of other shareholders, and provides them with an opportunity to participate in the value creation and success of the Company.

In 2019, EssilorLuxottica celebrated the success of its first employee share ownership initiative whereby 12,000 eligible Luxottica employees in Italy joined the Company's global community of internal shareholders for the first time. The plan covered over 78 countries (vs 43 last year),

corresponding to nearly 65,000 employees eligible to subscribe. This gave Luxottica employees in Italy the opportunity to join nearly 48,000 Essilor colleagues worldwide who, since the origins of Essilor and in particular over the past few years, decided to co-invest in the company by purchasing shares on favorable terms. This resulted in an outstanding subscription rate of over 67% of eligible employees. Now approximately 56,000 EssilorLuxottica employees hold a financial stake in the Company.

The success of this International Share Ownership plan is another step forward in the integration process and construction of EssilorLuxottica, with the Company confirming its long-term commitment to promoting employee shareholding.

## 4.3.2 Environment

EssilorLuxottica is committed to optimizing the use of natural resources and reducing its environmental footprint across the value chain, from manufacturing to distribution. Among different environmental related topics, reducing energy consumption and water use, addressing climate change and reducing waste generation while increasing valorization of waste are at the forefront of the Company's commitment and actions. The Company closely monitors its environmental footprint on different topics in order to assess the effectiveness of different initiatives and prioritize future actions. This approach enables it to mitigate the risk of business interruption due to a shortage of key natural resources, loss of license to operate linked to environmental issues or regulatory changes, or climate change events.

Both Essilor and Luxottica have implemented environmental management systems that conform to the ISO 14001 standard. As a result, 19 production plants and significant export labs of Essilor as well as 14 manufacturing and distribution sites of Luxottica are ISO 14001 certified. In addition, Luxottica also obtained the Leadership in Energy and Environmental Design (LEED) certification for the new logistics hubs built in Italy, China and the United States between 2016 and 2017, attesting to the fact that those premises have been designed and built while respecting the surrounding ecosystem.

Respective EHS policies of Essilor and Luxottica are also shared and implemented across the two companies in order to minimize their environmental impacts. In addition, environmental requirements around energy consumption, water use, waste generation and valorization, are part of the innovation process within Essilor to minimize environmental impact of the product and process from the early stage.

### 4.3.2.1 Energy management

For EssilorLuxottica, energy management is a priority topic within its environmental agenda. Effective energy management not only helps the Company reduce risk of undesired business interruptions, but it is also a lever for operational costs reduction and for fighting climate change through reducing scope 1 and scope 2 of greenhouse gas (GHG) emissions (see Section 4.3.2.2).

In line with this, the Company's energy management focuses on two main aspects: improving energy efficiency and increasing the use of renewable energy.

### Improving energy efficiency

EssilorLuxottica's energy initiatives are led by the respective EHS departments of Essilor and Luxottica.

At Essilor, energy efficiency initiatives are managed within the scope of the Reboost program, which follows a methodology framework including activities such as energy mapping for the main mass production sites and laboratories, installation of smart meters, benchmarking of energy models and medium-term energy reduction plans. Essilor's Reboost program covers the following dimensions:

- a review of the energy efficiency of manufacturing processes and peripheral units;
- calibration of settings and usage of equipment, including Utilities equipment consumption (cold water, air conditioning, fresh air renewal rate, etc.);
- improvement of the equipment efficiency ratio (EER) by the sites, redefinition of the stoppage or standby conditions for equipment with the highest consumption;
- raising awareness among technicians and maintenance teams and providing them with training;
- improving the energy efficiency of existing buildings.

As part of the energy efficiency strategy, 2020 sustainability targets were set aiming to reduce energy intensity by 15% compared to 2015 baseline <sup>(1)</sup>. By 2019, Essilor had already attained 42% of its target, with a 6% reduction achieved at the end of the year. Moreover, three manufacturing sites in Thailand, China and Czech Republic are ISO 50001 certified.

For Luxottica, energy management is driven by investments in advanced technologies with low environmental impact. The goal is to increase the effectiveness of the production processes and guarantee a more efficient use of energy and natural resources. Since 2011, a structured system has been in place for the monitoring of the environmental impact of its manufacturing and distribution activities. Over the years, this system has been instrumental in obtaining

the ISO 50001 certification for its Italian manufacturing facilities, the Milan headquarters and the Chinese site.

The installation of meters to monitor energy consumption in all its facilities in real time and the use of specific indicators allow Luxottica to identify priority action areas and define new projects and improvement plans. This includes investments in the self-generation of renewable energy and the focus, between 2017 and 2019, on the implementation and management of energy efficiency projects at its manufacturing and distributions sites (Italy and China). Energy optimization efforts also progressed at Luxottica's directly managed stores thanks to improvements in lighting and HVAC (heating, ventilation and air conditioning) during the year.

### Increasing the use of renewable energy

With regard to the Company's energy mix, renewable energy is being used or is self-produced locally, particularly in countries where this option is available and offered as an alternative to industrial customers. Some examples of the use of renewable energy include:

- since 2013, Luxottica has been investing in manufacturing plants that run on self-produced renewable energy thanks to the installment of solar panel systems and biomass heating systems. Their gradual roll-out has enabled the company to more than quadruple the quota of self-generated clean energy in Italy between 2015 and 2019;
- since 2018, Essilor's export laboratory in India has been getting 70% of its energy from a neighboring solar farm;
- in 2019, Essilor's Satisloh Italy development and manufacturing plant started producing renewable energy with the help of solar panels installed in their facilities. This project contributed to 33% of the site's energy consumption, resulting in an annual reduction of 215 tons of CO<sub>2</sub> emissions.



(1) Target measured on energy consumption per each "good" lens produced through a selection of the upstream plants as per the highest environmental footprint.

## Social, environmental and societal information

Fundamental sustainability pillars to support EssilorLuxottica Mission

The below table shows the Company's combined energy consumption in 2019, and the evolution compared with 2018:

|                                       | 2019           | 2018           |
|---------------------------------------|----------------|----------------|
| <b>TOTAL ENERGY CONSUMPTION (GWh)</b> | <b>1,616.6</b> | <b>1,552.9</b> |
| Electricity                           | 1,386.6        | 1,343.0        |
| Gas                                   | 210.1          | 191.7          |
| Liquid fuel                           | 14.4           | 12.8           |
| Self-produced renewable energy        | 5.5            | 5.4            |

Note: The figure for EssilorLuxottica is based on the combination of Essilor and Luxottica's energy consumption data collected through the respective reporting campaigns. 2019 energy consumption information covers 82% of the Company's headcount.

Energy consumption has increased mainly due to 1) the expansion of Essilor's reporting scope, 2) Luxottica's strategy of internalizing some production processes, which continued in 2019 together with the expansion of its industrial and logistics footprint, and 3) the increased product complexity and production mix requiring more energy-intensive technologies at Luxottica.

However, notwithstanding increased manufacturing volumes, energy intensity at Essilor stayed at the same level as 2018, and Luxottica plants have improved energy intensity in 2019 to 4.48 kWh/frame from 4.54 kWh/frame in 2018 further confirming the efficacy of the actions taken to support better energy consumption management at the manufacturing and distribution sites.

Luxottica's 2018 energy consumption has been restated following the application of the conversion factors suggested in the EssilorLuxottica Reporting Protocol with the aim of providing comparative information. For more information on the Company's reporting scope, please refer to Section 4.5.

### 4.3.2.2 Climate change

Fighting climate change is an important topic for EssilorLuxottica. On the one hand, climate-related actions are drivers of efficiency, innovation and competitiveness; on the other hand, the Company needs to be resilient to climate-related risks, which may expose it to business interruptions or higher operational costs due to climate hazards or radical systematic changes in regulation (see Section 4.2.2).

Concerns about climate change require EssilorLuxottica to develop solutions to adapt and quickly respond to the challenges posed by this topic. For instance, started in 2018 and advanced in 2019, Essilor has built its first climate risk model based on five physical risks (temperature, humidity, droughts, flood and storm) in the long-term to improve its resilience and prepare the business for climate change consequences.

Meanwhile, both Essilor and Luxottica have made efforts across the value chain with the ambition of limiting and reducing their impact on the climate. These include investing in energy efficiency programs and optimizing their production equipment and logistics flows, while

innovating in the field of sustainable raw materials and low-carbon products and services.

As part of the initiatives in place, both companies have progressively improved their reporting capacity on greenhouse gas (GHG) emissions by strengthening the data collection process and by extending the reporting scope over the years. The carbon emissions of EssilorLuxottica have been reported according to the international classification proposed by the GHG Protocol standard, which sets the international standards and provides requirements and guidance for companies' greenhouse gas accounting and reporting.

#### Direct and indirect carbon footprint deriving from energy consumption (Scope 1 and Scope 2)

The GHG Protocol standard defined three scopes to help with the identification of the emission sources while improving the transparency of the data reported. To this effect, Scope 1 emissions refer to direct GHG emissions generated from sources that are owned or controlled by the Company; Scope 2 emissions account for GHG emissions from the generation of purchased energy (e.g. purchased electricity) consumed by the Company.

The below table shows EssilorLuxottica's overall scope 1 and scope 2 GHG emissions.

|   | 2019           | 2018           |
|---|----------------|----------------|
| <b>TOTAL GHG EMISSIONS – SCOPE 1 + 2 (tCO<sub>2</sub>e<sub>q</sub>)</b> | <b>780,018</b> | <b>748,737</b> |
| <b>Scope 1</b>  | <b>55,936</b>  | <b>52,233</b>  |
| Gas   | 51,274         | 48,102         |
| Fuel  | 4,662          | 4,131          |
| <b>Scope 2</b>  | <b>724,082</b> | <b>696,504</b> |
| Electricity   | 724,082        | 696,504        |

Note: The figure for EssilorLuxottica is based on the combination of Essilor and Luxottica's GHG emissions data calculated according to the EssilorLuxottica Reporting Protocol. As such, 2018 information has been restated following the application of the updated ADEME Database with the aim of providing comparative information. Consistently with the energy indicator, information on GHG emissions covers 82% of the Company's headcount. For more information on reporting methodology, please refer to Section 4.5.

Scope 1 and 2 emissions increased in 2019 compared to 2018, in line with the increase of energy consumption.

At each level, both Essilor and Luxottica have implemented actions to reduce the carbon footprint for Scope 1 and Scope 2 emissions such as the development of energy efficiency projects and the use of renewable energy in their different locations. See Section 4.3.2.1 for initiatives on energy management.

**Indirect carbon footprint deriving from logistics/distribution (Scope 3)**

According to GHG Protocol standards, Scope 3 emissions are a consequence of the activities of the company, arising from sources not owned or controlled by it. Fully conscious of the importance of understanding the global footprint of the Scope 3 emissions, EssilorLuxottica has focused particularly on the area of downstream transportation and distribution of products, which accounts for one of the most important carbon emission sources of the Company.

In 2019, both Essilor and Luxottica expanded the reporting scope of logistics, with the objective of getting a better overview of the carbon emissions linked to different transportation activities and a more accurate analysis of the carbon footprint per transportation lane. The improved

reporting will help the Company define and deploy action plans to reduce the carbon footprint of logistics, such as improving the saturation of delivered volumes, use of a more sustainable transportation model and optimization of the shipping flows.

The reporting of Essilor's logistics activities includes international and domestic transportation of all 40 manufacturing plants, 18 distribution centers and more than 160 significant labs and subsidiaries, covering different business activities of lens, instruments, equipment, consumables, sunglasses and readers, online business and contact lenses.

At Luxottica, the analyzed flows cover international and domestic transportation of its eyewear and, starting from 2019, Oakley's AFA<sup>(1)</sup> products between the Luxottica's four primary distribution centers (DCs) and the shipments from its biggest distribution center to wholesale, retail and e-commerce customers in EMEA and select destinations in the rest of the world.

EssilorLuxottica's total carbon footprint reported for logistics in 2019 is 412,832 tons, as shown in the table below.

|  | 2019           | 2018           |
|--|----------------|----------------|
| <b>SCOPE 3 EMISSIONS ASSOCIATED WITH TRANSPORTATION (tCO<sub>2</sub>e)</b> | <b>412,832</b> | <b>406,762</b> |

Note: The figure for EssilorLuxottica is based on the combination of Essilor and Luxottica's transportation emissions data collected on a Well-to-Wheel basis (WTW) by respective supply chain teams. For more information on reporting methodology and scope, please refer to Section 4.5.

The Scope 3 emissions increased slightly due to mixed factors:

- 1) within Essilor's scope, reported emissions linked to transportation has increased by 8% due to a significant increase in reporting scope, more than 140 entities have been newly included in the 2019 reporting scope;
- 2) excluding the scope increases impact, Essilor's transportation emissions has decreased by 2.1%, mainly thanks to shifts in transportation modes (e.g. from air to sea) and by optimizing certain flows to reduce the transportation distance;
- 3) within Luxottica's scope, reported emissions from logistics has decreased by 16%, though the scope has been expanded in 2019 with the addition of the transportation of Oakley's AFA products into the analysis, which is mainly by sea, for a total of over 3.2 million of shipments mapped during the year. The decrease in transportation emissions is linked to a decrease in shipped volumes, improved efficiency in routing, optimization of transportation means and use of lower carbon intensive vehicles.

Both Essilor and Luxottica have dedicated teams on green supply chain initiatives. In 2019, several working sessions have been organized to start aligning the carbon reporting guidelines, engagement with suppliers and action plans to reduce carbon emissions.

In an effort to add sustainable development to the selection criteria of carriers, a specific charter has been integrated in the requests for quotations and contracts of all EssilorLuxottica global forwarders, requiring carriers to provide carbon footprint related information and a summary of actions implemented to reduce their environmental footprint and associated emissions.

**4.3.2.3 Water management**

Water is a key natural resource for the Company's activities, and it is a primary element for the lens and frame manufacturing processes. Robust water management is not only important to ensure the quality, continuity and efficiency of the production operations, but it is also essential for the well-being of the Company's employees and local communities. The initiatives led by the respective EHS departments at Essilor and Luxottica have focused on two main aspects: water use reduction and wastewater discharge control.

**Water use reduction**

Both Essilor and Luxottica pursue the introduction of new technologies and processes in order to optimize water use at their facilities.

Water use reduction is a high priority at Essilor as both mass production plants and prescription laboratories use considerable quantities of water for lens machining, surfacing and rinsing operations. To actively reduce its water use, Essilor launched the "Reboost Water" program, which aims to define and roll out its performance standards, along with associated field projects, to reduce the main environmental impacts. Reboost Water program has focused on the following actions at local level:

- water mapping for equipment using water for the main laboratories and mass production sites;
- installation of "smart" meters to accurately measure the water use with different levels of granularity;
- comparison of sites' water performance with the benchmark process or "water model";
- drafting of a medium-term plan to reduce each area of water use for sites.

(1) Apparel, Footwear & Accessories.



## Social, environmental and societal information

### Fundamental sustainability pillars to support EssilorLuxottica Mission

Each region has to define its own water roadmap, a process which is overseen at the company level.

The Reboost approach has been expanded over the past few years and now covers all manufacturing sites in all regions. To track the effectiveness of the actions and progress achieved, Essilor defined its 2020 water target of reducing water intensity by 20% compared to its 2015 baseline <sup>(1)</sup>. It has already exceeded its target (128% of completion), with a 26% reduction by the end of 2019.

Over the years, Luxottica has also invested in the management and optimization of the use of water resources in its manufacturing sites and logistics hubs. These efforts range from daily commitments, such as the replacement of old valves with time-delay ones and the continuous improvement of the consumption measurement

system, to structural improvements of traditional resource heavy processes, such as galvanization.

The introduction of the new eco-sustainable galvanization technique in Luxottica's main manufacturing sites of metal frames and components in China (2014) and Italy (2016) allowed it to immediately reduce the amount of water and energy consumed as it is an integrated water treatment and recycling system that allows water to be reused in the process. Thanks to the positive effects of water consumption, between 2018 and 2019 Luxottica installed closed-circuit water systems in the galvanizing plants and in painting processes inside its other sites in Italy dedicated to metal frames and components manufacturing. In such context, the additional 6% reduction in water consumption during 2019 exemplifies the benefits deriving from all these water consumption optimization and improvement actions.

The table below shows the water footprint of the Company in 2019, and the evolution compared with 2018:

|  | 2019             | 2018             |
|--|------------------|------------------|
| <b>TOTAL WATER USE (m<sup>3</sup>)</b> | <b>8,031,007</b> | <b>8,163,795</b> |
| Municipal water                        | 6,512,445        | 6,531,830        |
| Natural water                          | 1,518,562        | 1,631,965        |

Note: The figure for EssilorLuxottica is based on the combination of Essilor and Luxottica water data collected through the respective reporting campaigns of the two companies. Water data covers 71% of the Company's headcount.

Total water consumption has decreased slightly given the increased reporting scope of Essilor. The decrease is thanks to different water reduction projects implemented within the Company. Specifically, large water decrease has been achieved in Essilor's factories in China and Mexico, and Luxottica's sites dedicated to manufacturing metal frames and components in Italy. Essilor's water intensity per good lens produced has decreased by 5% compared with 2018 level.

For more information on the Company's reporting scope, please refer to Section 4.5.

### Wastewater control

The second axis of the program concerns wastewater control. In this context, the quantity and quality of water discharges are monitored and managed, whenever relevant.

Essilor and Luxottica have both invested in onsite wastewater treatment systems at their facilities, from single or combined filtering, neutralization, settling and degreasing processes to complete processing units, purification plants or similar treatment facilities.

At Essilor suspended materials parameters are also monitored within the "Wastewater Model" program under the "Reboost" scope, which helps to identify required actions to prevent water discharge incidents outside permitted limits, especially due to reductions of water withdrawal that will consequently increase the concentration of pollutants.

At Luxottica, the installation of onsite closed-circuit water recycling systems and of the wastewater treatment system at its main Italian plant allow to reprocess industrial effluents and extract high quality water.

Lastly, according to the respective water risk assessments of Essilor and Luxottica based on WRI Aqueduct Water Risk Atlas and WWF Water Risk Filter, five manufacturing sites, accounting for 5.6% of the Company's total water use, are located in areas (in India, Mexico and California) indicated with water risks by the above mentioned tools.

These entities may encounter restrictions on water withdrawals imposed by local authorities, resulting in increases in the cost of water as well as potential questions from local stakeholders who are also dependent on these water resources. As part of the climate change physical risks (see Section 4.3.2.2), EssilorLuxottica mitigates the related water risks to ensure business continuity and good relationships with local stakeholders.

### 4.3.2.4 Waste management

Waste management is also a crucial pillar of EssilorLuxottica's commitment to reducing its environmental footprint and encompasses several initiatives that are already in place at both Essilor and Luxottica to effectively reduce waste generation at their industrial operations and to contribute to a more circular economy. These include the reduction of raw materials loss, policies to recover residual parts and scraps during production activities and processes, discarded consumables, wasted chemicals throughout production processes and packaging.

Moreover, both companies have completed a waste generation specific analysis of their main manufacturing plants, distribution centers and laboratories to determine the type of waste generated and improve the identification and management of waste and its potential recycling or recovery.

(1) Target measured on water use per each "good" lens produced by a selection of the upstream plants with the highest environmental footprint.

At Essilor, waste reduction is mainly achieved through a strategy combining improvement of manufacturing yields (quality management, continuous improvement, eco-design, etc.) with the promotion of the “3Rs”. The 3Rs include 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 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;
- a pilot project to reduce the size of semi-finished lenses in order to reduce the swarf generated was launched in 2018 to assess the technical robustness, scalability and environmental impact of the slimmed semi-finished lenses;
- a reusable shuttle packaging, known as “Bulkpack”, between certain production plants and laboratories has helped the sites to significantly reduce their packaging waste.

Luxottica’s manufacturing flexibility and improved demand forecasting capabilities are key for the reduction of waste at its plants. Over the years, it has introduced a retro-planning approach to the creation and launch of each eyewear collection, allowing to better plan its production volumes and therefore avoiding the situation of manufacturing more units than needed. In more recent years, Luxottica has also invested in the continuous improvement of manufacturing processes in order to further reduce its environmental impact, such as the installment of evaporator systems and a wastewater treatment system. It also focuses on managing the most common forms of waste within its stores, such as cardboard, plastic and paper. However, challenges occur when a city or country does not have the necessary recycling systems available and, indeed, the share of stores that reported recycling practices for waste was also limited in 2019.

The table below shows the waste generation of EssilorLuxottica in 2019, and the evolution compared with 2018:

|  | 2019           | 2018          |
|--|----------------|---------------|
| <b>TOTAL WASTE GENERATION (tons)</b>         | <b>104,256</b> | <b>92,016</b> |
| <b>Total non-hazardous waste</b>             | <b>70,487</b>  | <b>62,570</b> |
| Sent to material recycling                   | 22,519         | 20,418        |
| Sent to incineration with energy recovery    | 10,762         | 9,012         |
| Sent to incineration without energy recovery | 3,281          | 4,239         |
| Sent to landfill                             | 33,925         | 28,901        |
| <b>Total hazardous waste</b>                 | <b>33,769</b>  | <b>29,446</b> |
| Sent to material recycling                   | 3,686          | 2,867         |
| Sent to incineration with energy recovery    | 3,354          | 2,635         |
| Sent to incineration without energy recovery | 2,324          | 2,141         |
| Sent to landfill                             | 24,405         | 21,803        |
| Waste recover/recycle rate                   | 39%            | 38%           |

Note: The figure for EssilorLuxottica is based on the combination of Essilor and Luxottica’s waste data collected through their respective reporting campaigns. 2019 waste generation data covers 56% of the Company’s headcount.

Reported waste generation has increased by 13% at EssilorLuxottica, with a similar increase at both Essilor and Luxottica’s standalone scope.

Within Essilor’s scope, total waste generation has increased mainly due to a significant increase of reporting coverage (82% of headcount covered, +9% compared to 2018) after the new waste breakdown was put in place for the second consecutive year. For Luxottica, the continuous improvement of reporting allowed further precision in measuring the quantity of waste generated.

39% of the Company’s total waste has been recycled or recovered, remaining at a similar level as last year.

For more information on the Company’s reporting scope, please refer to Section 4.5.

### 4.3.3 Society

Having a direct relationship with consumers around the world, EssilorLuxottica has a responsibility to lead by example. As every human being deserves to be able to see clearly, the Company is fiercely committed to serving the evolving vision correction and protection needs with innovative solutions. These include inclusive business models, awareness campaigns and philanthropic activities such as providing eye exams and eyeglasses to people who are most in need. The Company brings its stakeholders along in this social mission by ensuring that they respect a common set of working principles.

EssilorLuxottica bases 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 EssilorLuxottica sites provides access to meaningful jobs in a buoyant sector and generates significant direct and indirect income. The Company’s Code of Ethics is the foundation of all business relations and applies to all its stakeholders everywhere and in every circumstance, making it a solid base for fair and honest collaboration.

EssilorLuxottica refers to the United Nations Global Compact’s principles on human rights, labor standards, the environment and the fight against corruption. The Company also contributes to the United Nations Sustainable Development Goals.



#### 4.3.3.1 Supplier sustainability

For EssilorLuxottica, supply chain efficiency is fundamental for guaranteeing the high quality of its products and services and contributes to maintaining and enhancing the reputation of the Company. The supplier sustainability programs of Essilor and Luxottica are rooted in the principles stated in the Company's Code of Ethics and respect international regulation and local laws, including the International Labor Organization (ILO) Conventions, United Nations Global Compact Principles and specific selected criteria such as SA8000 certification.

EssilorLuxottica relies on the standards that Essilor and Luxottica have each defined and requests suppliers to respect and adhere to the Company's commitments in the areas of ethics, labor, health, safety and the environment.

At Essilor, a dedicated Supplier Sustainability Program (SSP) has been in place since 2016 to manage its supplier relations. The program is composed of two parts. The first is sustainable purchasing, intended to assess each supplier's CSR performance and compliance with the principles outlined in the Supplier Charter. The purpose of the Charter is to advance corporate sustainability standards and legal compliance for itself as well as with its suppliers in topics such as human rights and labour standards, environment, health and safety, business relationships and legal compliance.

The second element is responsible purchasing, conceived for the purpose of encouraging suppliers to embark on initiatives that will have a positive impact on people and the environment. The implementation of the various parts of the programme is guaranteed by a sustainable purchasing manager within the company's Sourcing and Procurement department. This function relies on regional purchasing managers and regional SSP Leaders to ensure the successful implementation and monitoring of the program.

In parallel with this, in 2013, Luxottica implemented the Luxottica Responsible Sourcing and Manufacturing program (LRSM), which applies to both its production and distribution sites and suppliers of mainly direct materials and finished products (including Oakley's Apparel, Footwear and Accessories business, AFA). The objective of this program is to guarantee the respect of the Code of Ethics, regulatory compliance with local laws and regulations and the full alignment with Luxottica's principles on ethics, labor, health and safety and the environment. At the same time, the program mitigates the reputational and business continuity risks of its supply chain, which is fundamental for guaranteeing the high quality of its products and services. Given its inter-departmental nature, the program brings together representatives of the Operations Sourcing, Internal Audit, Manufacturing, Quality, Risk Management, Compliance & Asset Protection departments in a Steering Committee which periodically evaluates the status of the program and discusses further steps to take.

#### Supplier performance assessment

Supplier performance and risk assessment are at the core of EssilorLuxottica's supplier sustainability actions. To ensure this, qualified third parties audit supplier's compliance with the Company's ethical working principles as well as environmental and social responsibilities. In this respect, two different mechanisms are being used at Essilor and Luxottica respectively.

Essilor's purchasing department assesses supplier's performance by means of a shared self-assessment platform run by EcoVadis. Based on the results of the supplier's self-assessment, Essilor gives a score to suppliers based on four different categories: opportunity, engaged, medium risk (25-44) and high risk (<25). When the results of their self-assessment are not satisfactory (25-44) or when a potential risk is identified, the suppliers must design and implement remedial actions to counter the identified weaknesses. For suppliers with low and unsatisfactory performance (<25), third party on-site audits will be conducted, followed by the request of implementing a progress plan and annual assessments to counteract the risk. To do so, they may call on Essilor's purchasing managers who are trained to support them in their improvement processes. Once the remedial actions have been implemented, suppliers must undergo a new assessment. In the event that a non-compliant supplier does not wish to implement remedial actions or commit to make progress, Essilor may have to terminate its business relationship with the said supplier. In 2019, Essilor conducted one follow-up audit to a high risk supplier.

For Luxottica, a third-party is in charge of monitoring suppliers' compliance with the company's standards and LRSM principles as well as to implement corrective actions in the event of non-compliance with the company's Code of Ethics and/or local regulations, specifically targeting suppliers of direct materials and finished products. As a result, the number of current and potential suppliers of direct materials for the eyewear business that were subject to audits increased from 45 in 2018 to 49 in 2019 as follows:

- four follow-up audits due to the unsatisfactory results of the audits of the previous year;
- two preventive audits, in order to establish a number of alternative suppliers in the event of particularly critical situations;
- 43 maintenance audits, in order to continue to be qualified as the company's suppliers.

Only one instance of non-compliance with LRSM requirements was identified and a follow-up audit has been deemed necessary.

The audit process on Oakley's AFA suppliers, which was introduced in 2017, continued in 2019, with 40 audits on production plants of suppliers located in Asia-Pacific, Latin America and Europe (21 audits in 2018).

### Risk prevention and mitigation mechanisms

In conjunction with the supplier assessment initiatives, risk prevention and mitigation mechanisms have been instrumental to guarantee the respect of the Company's principles and standards along its value chain. Purchasing teams from Essilor and Luxottica follow strict exclusion tools to ensure high risk or non-compliant suppliers are ruled out from the sourcing and procurement process.

In this regard, Essilor strengthened its mitigation mechanisms with the implementation of an "Exclusion Procedure". This procedure applies to suppliers who do not meet the company's requirements after an on-site social and environmental audit and refuse to implement the necessary corrective actions. For Luxottica, a "Zero tolerance" mechanism was implemented to prevent the risk of serious cases of non-compliance with sensitive topics, including child labor, use of forced labor and corruption actions, when selecting and monitoring suppliers. This mechanism requires immediate action from the supplier to comply with the rule and implies its phase out in the event of non-compliance.

### Strengthening EssilorLuxottica supplier sustainability programs

To support and strengthen the supplier sustainability programs and ensure alignment with the Company's standards, both Essilor and Luxottica have in place training initiatives targeting suppliers and the purchasing community.

For Essilor, initiatives include face-to-face workshops, classroom training, as well as online training tools launched in 2018. By the end of 2019, 72% of people directly involved in Sourcing and Procurement activities have been trained in the Supplier Sustainability Program. Meanwhile, 220 of Essilor's suppliers attended the Supplier Sustainability Program webinar training sessions. Additionally, in 2015, Essilor defined targets to be achieved by 2020. Two main targets were set: achieving 100% of strategic suppliers undertaking CSR assessment and 100% of preferred suppliers acknowledging Essilor's supplier charter. In 2019, 88% of Essilor's strategic suppliers have completed the CSR assessment and 95% of preferred suppliers have acknowledged the supplier charter.

For Luxottica, following the first successful edition in China in 2018, a second training workshop on responsible sourcing was organized in 2019 for 46 suppliers in Italy, including strategic logistics suppliers for the first time. In 2019, Luxottica introduced an informative initiative to make its suppliers from big multinational groups and its logistics suppliers aware of its sustainability approach and LRSM principles.

Moving forward, EssilorLuxottica will continue building up its global program to further align and strengthen the organization and management of supplier sustainability.

### 4.3.3.2 EssilorLuxottica human rights Vigilance Plan

This section aims to present EssilorLuxottica's approach to meeting the requirements of French Law no. 2017-399 on the duty of care for parent companies and subcontracting companies. This Vigilance Plan covers the scope of the EssilorLuxottica group represented by Essilor International and Luxottica Group and their subsidiaries within the scope of financial consolidation.

EssilorLuxottica attaches particular importance to identifying risks and preventing serious breaches of human rights and fundamental freedoms, health and safety at work (these are referred to below as "human rights"), as well as the environment. These risks can arise as a result of its activities, those of its subsidiaries, or those of its suppliers and subcontractors, regardless of their position in the value chain. Identifying those risks entails a commitment to make every reasonable effort and undertake the necessary vigilance measures to guarantee compliance in the context of the progressive integration between Essilor International and Luxottica Group.

As both operating companies (Essilor International and Luxottica Group) have a long history of responsibility towards their stakeholders, the requirements of the duty of care legislation have been undertaken to progressively clarify and strengthen the existing frameworks and will also be used to mainstream human rights into the Company's corporate policies and procedures as they are issued.

EssilorLuxottica hereby reports on the progress of the operational implementation of its commitment and vigilance approach for each of the corresponding key themes, and according to any changes in its activities and structure. For the sole purposes of clarity and readability of this Vigilance Plan, if necessary, readers will be referred back to sections of this Non-Financial Performance Disclosure for further details.

### The Company's commitment to promote human rights and protect the environment across the whole value chain

EssilorLuxottica has a combined two centuries of innovation and human endeavor behind it. The Company has placed particular importance on respect for human rights and the environment, along with the applicable laws and regulations (e.g. the United Kingdom "Modern Slavery Act" and the French "Duty of Care" law). This requirement was strengthened in recent years in the context of growth and expansion in new countries. Moreover, the development in recent years of international standards such as the United Nations Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises, has informed the Company's approach.

EssilorLuxottica is committed to respecting and promoting human rights across its entire value chain. The Company abides by the International Labor Organization (ILO) Conventions and the ten principles of the United Nations Global Compact relating to human rights, labor law, the environment and the fight against corruption.

Generally speaking, EssilorLuxottica endeavors to ensure that its activities comply with the International Bill of Human Rights and the principles on fundamental rights set out in the Declaration on Fundamental Principles and Rights at Work of the ILO. In all its businesses and across its supply chain, the Company has a duty to ensure that international standards and local employment laws are always adhered to, and that undeclared work, child labor, forced work, and any other inappropriate employment conditions are prevented.

In addition, EssilorLuxottica is committed to ensuring healthy and safe working conditions, protecting both its people and the environment in all of its locations. The Company complies with all applicable legislation and regulations and aims at continuously improving health and safety policies and procedures across countries through information, training and by fostering responsible behaviors of all workers in their application of company-wide security procedures and vigilant preventive actions.

Furthermore, in order to reduce its environmental risks and impacts and to have a process framework to guarantee regulatory compliance and meet stakeholder expectations, EssilorLuxottica applies environmental best practices that conform to ISO 14001 certification and facilitate management of the related impacts.

However, the Company operates in geographic regions where the application of human rights and environmental legislation may be limited, and fall below international standards. In such situations, EssilorLuxottica strives to perform its activities in accordance with international standards for the protection of human rights and the environment, and to implement actions designed to prevent any negative consequences in these areas, and to remedy them should they occur.

Consequently, suppliers are also embarked on supporting the Company's commitment to ensure the respect for human rights. EssilorLuxottica seeks suppliers whose operational practices comply with applicable laws and regulations and, more generally, that protect the dignity of human beings, the health and safety of workers and the environment at large.

This approach led to the development, in 2019, of the first EssilorLuxottica Code of Ethics, which complements the Codes of Ethics already in effect within Essilor and Luxottica respectively, establishing a unified standard of conduct for the entire Company. In addition to the Code of Ethics, EssilorLuxottica has a set of Anti-Bribery & Corruption principles and guidelines which provide more details regarding ethical business conduct and compliance.

EssilorLuxottica is committed to making continuous progress, and is aware that its human rights and environmental approach requires monitoring, review and regular improvement in terms of identifying the associated risks, updating policies and internal procedures and making commitments and implementing "on the ground" actions to mitigate risks. This allows the Company to prevent serious breaches and take corrective action where applicable, then remain vigilant about the consequences of its activities. This continuous progress approach includes its value chain.

### Organization and steering

EssilorLuxottica's commitment to human rights and fundamental freedoms, health, safety and the environment is supported at the highest level of the Company by the Board of Directors and its committees.

In particular, the CSR Committee met three times in 2019 with guests invited to update the Committee on specific topics including the CSR risk assessment and the management of sustainability issues at each subsidiary (including Human Rights risks). The CSR Committee also coordinates its works with the Audit and Risk Committee for all matters related to the CSR Committee's areas of intervention. For more details on EssilorLuxottica's CSR Committee, see Section 4.2.1 and Chapter 2 of this Universal Registration Document.

Operationally, the Sustainability department of each operating company coordinates the deployment of their respective sustainable development roadmap and oversees cross-functional issues including Human Rights. This is intended to support the operational functions (mainly HR, EHS, Risk Management and Compliance and Purchasing) at a regional or local level in applying the Company's policies and implementing reasonable vigilance measures.

In addition, the global Environment, Health and Safety departments of Essilor and Luxottica are responsible for the deployment of the environmental management systems aimed at reducing each company's environmental impact and ensuring the health and safety of all employees. These departments rely on a network of correspondents present locally on production and distribution sites to manage the operation of environment, health and safety management (see Section 4.3.1.3).

For EssilorLuxottica, the supply chain efficiency is fundamental for guaranteeing the high quality of its products and services and contributes to maintaining and enhancing its reputation. The Company relies on the standards that both Essilor and Luxottica have defined and requests suppliers to adhere in the areas of ethics, labor, health, safety and the environment. In each company, supplier compliance is audited by a qualified third party. By doing so, the Purchasing teams ensure that supplier activities respect human rights and fundamental freedoms (see Section 4.3.3.1).

Lastly, EssilorLuxottica aims to involve its stakeholders more and go beyond the actions already undertaken. This is reflected in its regular discussions with representatives from civil society, its support of NGOs and its participation in roundtable discussions. For example, Essilor is a member of the French association *Entreprises pour les Droits de l'Homme – EDH* (Companies for Human Rights), which aims to help international companies promote improved integration of human rights into business practices, and the BSR (Business for Social Responsibility) international network to share best practice and facilitate dialogue with stakeholders. Essilor also supports RHSF (*Ressources Humaines Sans Frontières*) whose mission is to promote decent working conditions, and act against forced labour and child labour.

**Risk mapping**

EssilorLuxottica carries out its activities in more than 150 countries in varied economic and sociocultural contexts, which may present risks relating to human rights and the environment. Identifying, assessing and managing these risks is an integral part of EssilorLuxottica’s corporate culture and is strengthened over time.

Essilor has developed a specific risk mapping in relation to human rights, while Luxottica assesses its human rights impact as part of its Responsible Sourcing and Manufacturing Program. Luxottica’s program applies to both its manufacturing sites and its suppliers globally, and is part of its commitment to international efforts to abolish all forms of modern slavery.

In 2019, in the context of the application of the law on the Duty of Care to the newly formed EssilorLuxottica, the Company’s risk assessment process (see Section 4.2.2) was applied to these areas: human rights and fundamental freedoms, individual health, safety and security and the environment. Human Rights risk was included in the

Company’s risk map already elaborated in Section 4.2.2 and was related to the fundamental rights of workers (e.g. health and safety at work, social dialogue), welfare policies, equal opportunities and compliance with local and international regulations on human rights (e.g. UK Modern Slavery Act, GDPR, etc.).

**Risk prevention and mitigation measures**

Risk mapping has helped to raise awareness among operational teams and to prioritize action plans at both the corporate and regional level. For each key risk family, the functions involved coordinate the most appropriate approach in a continuous improvement process. Regarding Tier 1 suppliers and subcontractors, EssilorLuxottica relies on the standards and programs that Essilor and Luxottica have put in place respectively (see Section 4.3.3.1).

For more details on the measures of prevention, mitigation and/or remediation implemented, as well as on progress made in 2019, please refer, for clarity and readability purposes only, to the following sections:

| Risk family  | Sections   |
|--|--|
| Challenges relating to human rights and fundamental freedoms | 4.3.1.2 Equal opportunities and people development<br>4.3.1.4 Employee shareholding<br>4.3.3.1 Supplier sustainability |
| Challenges relating to the health and safety of individuals  | 4.3.1.3 Health and safety<br>4.3.3.1 Supplier sustainability   |
| Environmental challenges                                     | 4.3.2.3 Water management<br>4.3.2.4 Waste management<br>4.3.3.1 Supplier sustainability                                |

Furthermore, regular awareness-raising and training initiatives delivered to employees on human rights and compliance-related topics (“Business and Human Rights”, Code of Ethics, GDPR, health and safety policies etc.) are organized via dedicated e-learning modules, and using face-to-face training. Many training courses were also dispensed in the various entities on key aspects of environmental management.

In addition, in 2018, Essilor’s Internal Audit department created a specific “human rights” audit program on risks relating to human rights, fundamental freedoms, health and safety at work and the environment, likely to be generated by the company’s business and its Tier 1 suppliers and subcontractors. In 2019, 21 entities were audited covering 19% of Essilor’s global headcount. For the human rights audits, the methodology was shared with Luxottica’s internal audit team who found it consistent with the audits performed by Luxottica’s Internal Audit and with the initiatives within the LRSM program. In 2020, EssilorLuxottica will continue to deploy this “human rights” audit plan across its entities most at risk and by covering the largest number of Company employees.

**Regular assessment of subsidiaries, suppliers and subcontractors**

The risk assessments as presented above are regularly updated on the basis of monitoring work carried out with third-party organizations specialized in human rights, internal audit reports, and/or audits conducted with Tier 1 suppliers and subcontractors. The development of new activities, the establishment of plants in new countries or the referencing of suppliers and subcontractors are also factors that contribute to the update of the risk mapping. Furthermore, all subsidiaries directly or indirectly controlled by the Company are subject to an annual report on sustainable development (see Section 4.2.3) in which key indicators related to human rights, the environment, and associated risks are monitored.



## Social, environmental and societal information

Fundamental sustainability pillars to support EssilorLuxottica Mission

### Alert mechanisms

EssilorLuxottica attaches particular importance to ensuring that all employees are given the means to be heard when they have a question or concern about ethics, compliance, human rights, and the environment. Various channels are made available to employees who witness or fall victim to a situation that could prove to be risky in order to bring it to the attention of the Company's teams. Any employee at either Essilor or Luxottica can send an alert via:

(i) internal channels: the direct manager, the HR manager or the legal department, the country manager, the regional manager or their business manager, a staff representative of the entity;

(ii) external channels: both Essilor and Luxottica have deployed a global whistleblowing system throughout the Company, allowing employees to report any concerns, including those about human rights and the environment.

### Monitoring system

In addition to the assessment and monitoring mechanisms (audits, reports, participation in regional and local committees, etc.) outlined above, EssilorLuxottica has developed an initial set of performance indicators related to human rights and the environment, inspired by those of the Global Reporting Initiative (GRI), which are published each year in the Universal Registration Document.

By monitoring these indicators, EssilorLuxottica evaluates the effectiveness of the initiatives implemented to prevent the related risks. Below is a summary of some key indicators:

| Theme   | KPI  | 2019                              |
|---|--|-----------------------------------|
| <b>Challenges relating to human rights and fundamental freedoms</b> | number of employees, temporary workers and contractors below age 16  | 2                                 |
|   | number & percentage of employees attending Code of Ethics trainings at Essilor and Luxottica                                 | 48,360,<br>32% of total employees |
|   | number & percentage of Essilor management completed "Business & Human Rights" training                                       | 5,161,<br>63% of management       |
|   | percentage of Essilor Strategic Suppliers who undertake CSR assessment   | 88%                               |
|   | percentage of Essilor Preferred Suppliers who acknowledge the Supplier Charter   | 95%                               |
|   | percentage of Luxottica direct materials spending covered by Luxottica Responsible Sourcing and Manufacturing (LRSM) program | 92%                               |
|   | • of which: percentage of Luxottica direct materials spending covered by LRSM on-site audits                                 | 75%                               |
|   | • of which: percentage of Luxottica direct materials spending covered by LRSM training and/or awareness initiatives          | 46%                               |
| <b>Environmental challenges</b>                                     | number of chemical spills  | 2                                 |
|   | percentage of Company's water withdrawals within water stress areas  | 5.6%                              |
| <b>Challenges relating to the health and safety of individuals</b>  | frequency rate of work-related injuries with absence   | 1.8                               |
|   | severity rate of work-related injuries with absence  | 0.05                              |

### 4.3.3.3 Business ethics

EssilorLuxottica's commitment to acting in a responsible and ethical manner goes hand in hand with a strong duty to combat all forms of corruption and fraud, in all the countries where the Company operates. Employees are called upon to act with integrity and professionalism inside and outside of work, following not only the laws and regulations of the regions where they operate, but also the high standards of conduct that both Essilor and Luxottica have developed over the years and that comprise the EssilorLuxottica Code of Ethics.

Risks such as tax evasion and money laundering, as well as associated fraudulent activities, are the subject of special attention for the Company. As an industry leader, EssilorLuxottica is highly vigilant with regard to compliance with competition rules and pays particular attention to the prevention of conflicts of interest. EssilorLuxottica strongly condemns the practices mentioned above and has consequently put in place procedures to prevent the risk of occurrence.

As part of these instruments, the EssilorLuxottica Code of Ethics, approved on July 30, 2019 by the Board of Directors, defines the principles that apply to all EssilorLuxottica employees, contractors, vendors and suppliers and represent the minimum set of standards that cannot be compromised. Consequently, the Company's business practices are based on transparency, integrity and respect of the standards defined within the Code of Ethics, and in accordance with international frameworks such as the United Nations Global Compact. In line with its Code of Ethics and with Essilor and Luxottica's memberships to Transparency International, the Company promotes the Anti-Bribery & Corruption Program and actively supports any action aimed at reinforcing the standards and principles that must guide the behavior of all its employees and third parties.

EssilorLuxottica's global dimension requires the constant alignment of the Company's processes, procedures, conduct and activities with the regulatory frameworks and the Code of Ethics. In May 2019, a Chief Compliance Officer was appointed at EssilorLuxottica level to further strengthen the Company's approach to business ethics. The Chief Compliance Officer is committed to ensuring consistency among the compliance programs already in place within the Company in order to develop and coordinate the rollout of cross-departmental initiatives in 2020. Operationally, the Compliance departments of Essilor and Luxottica have the responsibility to prevent, identify and manage risks connected with business ethics, in accordance with the law as well as applicable local and international regulations (see Chapter 2 of this Universal Registration Document).

### Prevention of corruption

In terms of anti-corruption, the Compliance departments of Essilor and Luxottica oversee the definition of guidelines to prevent, identify and manage risks connected with corruption in the Company's businesses, in accordance with the law as well as applicable local and international regulations. This commitment is outlined in both the Code of Ethics and the Anti-bribery & Corruption Principles and Guidelines and is further strengthened by the adoption of policies and procedures at Essilor and Luxottica level that regulate the areas that could possibly be exposed to corruption crimes.

Both Essilor and Luxottica have conducted a risk assessment involving all of the Company's legal entities around the world with the goal of evaluating exposure to the risk of corruption. Compliant with the provisions of the French law on transparency, the fight against corruption and the modernization of the economy (Sapin II), this process made it possible to assess and prioritize the risks considering both the legal entity and the potential risk scenario. For EssilorLuxottica, risk assessment is an essential tool that helps determine priority actions in this area, and has allowed the Company to adapt its internal prevention procedures.

Several awareness-raising activities have been set in place. In accordance with this, Executives and Managers in all regions at Essilor have received training in the prevention of corruption and conflicts of interest through e-learning modules or face-to-face sessions, contributing to raising awareness about this risk. Likewise, employees who, due to their role may find themselves in risky situations, have been trained in prevention of corruption. At Luxottica, a specific compliance program, named "Be transparent and keep it transparent", was launched in 2017 and is applied globally. The classroom training activity launched in China in 2018 for the legal entities most at risk continued in 2019 and involved business leaders and key managers in Brazil.

### Data protection

With the impact of digital technology on EssilorLuxottica's business (e.g. connected objects, machine learning, artificial intelligence), a growing presence in e-commerce and approximately 7,700 corporate stores around the world, data protection remains a key topic for the Company. EssilorLuxottica is committed to complying with the increasing number of applicable regulation across the world, including the General Data Protection Regulation (GDPR) in Europe, the California Consumer Privacy Act (CCPA) in the United States and the *Lei Geral de Proteção de Dados Pessoais* (General Data Privacy Law - LGPD) in Brazil. This helps to assure all of its stakeholders that the data they trusted the Company will be securely processed throughout every step in their relationship with EssilorLuxottica.

Both Essilor and Luxottica's Compliance departments have implemented the measures required to guarantee compliance with all the main applicable regulations. This includes the definition of a privacy process, creation of an organizational structure specifically dedicated to privacy (with the appointment of Data Protection Officers), review of multiple security policies, guidelines and directives and the deployment of awareness-training sessions (either online or in classroom) for employees.

### Competition law

As a major player in its market, EssilorLuxottica is committed to complying with the rules of competition law within its business practices. At Essilor a compliance program was established and a formal competition law compliance program was rolled out globally. In parallel, since 2015 Luxottica implemented an Antitrust program which defines the principles of conduct in the management of business practices and includes specific training activities.

### Alert system

In accordance with the guidelines set out in the Code of Ethics, EssilorLuxottica is working towards the definition of a common alert mechanism to ensure the proper monitoring of business ethics-related topics by its employees and stakeholders. Meanwhile, the alert systems and whistleblowing channels of both organizations remain active to ensure the prompt communication of actual or presumed violations of their anti-bribery and corruption programs or any other related illegal behaviors.

## Social, environmental and societal information

Fundamental sustainability pillars to support EssilorLuxottica Mission

### 4.3.3.4 Socio-economic contribution

The shared value approach common to Essilor and Luxottica allows the Company to reinforce its commitment to employees' well-being, as well as to the economic and social progress of the communities where it operates.

#### Social and economic development

As a global company, EssilorLuxottica contributes to the social and economic development of the different countries where it has a presence.

Locally, its manufacturing, distribution activities and retail presence foster local sourcing and business partnerships, create direct and indirect employment, develop local skills and expertise, and generate taxes and duties (see Section 4.3.3).

#### Proscribing tax evasion

EssilorLuxottica's tax department is in charge of ensuring compliance with applicable tax laws and regulations. It also advises subsidiaries on tax matters, gives guidance on the transfer pricing approach, defines Company tax policies and suggests adequate tax solutions to the Company's operational requirements (see Chapter 1 of this Universal Registration Document).

#### Access to quality eyecare and eyewear

A key contributor to the shared value creation are initiatives that help to improve the quality of life and the productivity of millions of individuals by offering access to sustainable eyecare and eyewear for less developed communities in the world (see *Mission*).

Examples include awareness-raising campaigns, screening events, donations of lenses and frames and funding for vision care programs led by Essilor's social impact fund Vision for Life, Essilor Vision Foundations (EVF) and OneSight, in collaboration with partner organizations from the public and private sectors and NGOs such as:

- the opening of 171 Sustainable Vision Centers by OneSight in Africa, China, India, Southeast Asia and the United States since 2013;
- innovation in inclusive business models and supply chains designed and deployed by Essilor's 2.5 New Vision Generation to provide sustainable vision care to low-income communities in Asia, Africa and Latin America;
- Essilor's support for the Government of Bhutan to make it the first country in the world to eliminate poor vision;
- Luxottica's support of the Sightsavers projects in rural areas of India, such as the Trucker's Eye Health Program, one of the country's biggest eye health programs for the truck drivers community;
- free eye exams organized by Essilor, Luxottica and OneSight every year in parallel with World Sight Day;
- the Our Children's Vision campaign, a unique coalition which aims to accelerate and expand access to eye health services for children all over the world and whose Global founders include Essilor's Vision For Life fund.

#### Other community purpose initiatives

Other initiatives involve issues of public health, the well-being of employees, their families and the local communities in which they live in, cultural heritage and the opportunity to make art accessible to people with visual disabilities.

## 4.4 Next steps of EssilorLuxottica sustainability program

This second non-financial statement of EssilorLuxottica demonstrates the progress made towards more harmonization between the sustainability approaches of the operating companies, with the aim to build the Company's Sustainability program. While implementing new fundamentals at EssilorLuxottica (e.g. CSR risks mapping and prioritization, a unique non-financial reporting protocol, more common KPIs, launch of first functional workstreams on main topics, issuance of the Code of Ethics), both Essilor and Luxottica have continued executing their sustainability roadmaps.

Following EssilorLuxottica's integration plan, with the intent to continue strengthening compliance (i.e. Decree no. 2017-1265 on non-financial disclosure, Duty of Care on Human Rights, Sapin II on anti-corruption and bribery, Energy transition with Climate Change) and build up on the

Company's sustainability approach, the corporate sustainability teams of Essilor and Luxottica will continue their harmonization journey, working together on the following priorities while executing their respective roadmaps:

- advance Company CSR risks management, particularly by defining policies and associated key performance indicators that will apply to EssilorLuxottica perimeter, in coordination with Risk Management and other departments involved in the Company's risk assessment;
- expand and strengthen sustainability reporting;
- further engage dialogue with stakeholders.

The result will be a progressive expansion in the disclosure of sustainability goals and achievements year after year.

## 4.5 Methodology note and correspondence table

### Main principles for sustainability data reporting

The first edition of EssilorLuxottica Sustainability Reporting Protocol defined the below reporting principles:

#### Reporting scope

All the entities within the Company's financial consolidation scope are required to report on sustainability data. The list of entities requested for sustainability reporting is updated annually according to the finance consolidation scope. For entities with more than one site, all sites should be included in the reporting.

In a continuous effort to increase reporting coverage over the past years, all the indicators have seen increased reporting coverage compared to 2018 at both Essilor and Luxottica.

#### Reporting period

Both Essilor and Luxottica require the sustainability information on an annual basis for 12 cumulated months. Specifically, the reporting period of Essilor is from October 1, 2018 to September 30, 2019; the reporting period of Luxottica is from January 1, 2019 to December 31, 2019.

#### Employee-related indicators

The workforce reported and related indicators (headcount and breakdown by gender, geography, category and age) correspond to the total number of Company employees at the end of the reporting period (data as of September 30, 2019 for Essilor and December 31, 2019 for Luxottica).

As defined in the EssilorLuxottica Reporting Protocol, employee refers to a person having an employment contract directly with any entity of Essilor International or Luxottica Group. Temporary workers, contractors and interns are therefore excluded.

Regarding the employees distribution by gender, the information was not available for approximately 1.3% of Luxottica employees as per the gender voluntary disclosure required by federal regulations in North America. For them, the company estimated the gender split to be in line with the rest of the organization and with previous years (60% women – 40% men).

Recent acquisitions, whose information systems have not yet been integrated into one or the other company's systems, are excluded from the 2019 reporting.

#### Health and safety indicators

The safety indicators relate to the Company's main manufacturing plants, lens laboratories, distribution centres, excluding the entities that were acquired by Essilor or Luxottica during 2019 and for which investments are needed to integrate the health and safety reporting systems.

The indicators applied reflect the results of Essilor and Luxottica's Environment, Health and Safety (EHS) policies.

As defined in the Company's Reporting Protocol:

- the frequency rate is calculated as:  $\text{Number of work-related injuries with lost days} \times 1,000,000 / \text{total number of worked hours during the reporting period}$ ;
- the severity rate is calculated as:  $\text{Total number of lost days (calendar days)} \times 1,000 / \text{total number of worked hours during the reporting period}$ ;
- the total number of worked hours is calculated as: actual worked hours from clock-in system where applicable and theoretical worked hours based on calculation of scheduled working days and average number of hours worked per day.

#### Environmental indicators

Essilor covers 94% of its total headcount for energy and GHG emissions (Scope 1 and Scope 2) reporting; 92% for water reporting and 82% for waste reporting.

For Luxottica, environmental indicators cover its main manufacturing plants, lens laboratories, distribution centres, headquarters and retail network. Fukui Megane, the Japanese eyewear manufacturer of which Luxottica acquired a 67% stake in 2018, and Barberini, whose acquisition was finalized in 2019, will be included once their environmental reporting processes are integrated.

In terms of employee coverage, Luxottica covers: i) 71% of its total employees for energy and GHG emissions (Scope 1 and Scope 2) reporting, or 97% of the employees in its Operations, 62% in its retail network and 93% in its headquarters; ii) 52% of its employees for water reporting, or 97% of the employees in its Operations and 34% in its retail network; iii) 31% of its employees for waste reporting, or 97% of the employees in its Operations. In fact, in the follow up to the process it launched during the 2018 financial year, the company continued the environmental performance review of its retail network with a store-by-store approach, covering 4,409 stores in 2019 (4,274 in 2018), equal to 62% of those directly-operated around the world, whose energy consumption, GHG emissions and water consumption have been analyzed.

However, water usage data by store owed to an insignificant proportion of the company's overall water consumption, being mainly water used in restrooms and reported by only 2,426 stores, equal to 34% of those directly-operated around the world. Waste management practices were investigated qualitatively, due to unavailability of quantitative information as explained in Section 4.3.2.4.

## Specific methodology 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.

Regarding conversion factors, the Company used the databases of the *Agence française de l'Environnement et de la Maîtrise de l'Énergie* – ADEME ([www.ademe.fr/](http://www.ademe.fr/)), which was updated in August 2019, and, for the Luxottica sites and stores located in the United States, of the US EPA (Environmental Protection Agency). Consistently with the EssilorLuxottica Sustainability Reporting Protocol, 2018 information has been restated following the application of the updated ADEME Database with the aim of providing comparative information. Reported 2018 data according to the previous GHG Protocol tools (for Luxottica) and outdated ADEME database (for Essilor) are available in the 2018 Essilor and Luxottica non-financial statements.

### Scope 1

This corresponds to direct emissions resulting from the on-site combustion of fossil fuels such as gas or liquid fuel. The GHG conversion factors were in accordance with the ADEME database:

- Gas: 244 gCO<sub>2</sub>e/kWh LCV;
- Liquid fuel: 324 gCO<sub>2</sub>e/kWh LCV.

### Scope 2

This relates to indirect emissions associated with the electricity consumption required for eyewear and lenses manufacturing and machining lenses. The Scope 2 emissions were calculated according to the location-based method of the GHG Protocol. The conversion factors for electricity were updated in 2019 based on figures provided by the ADEME database, and, for the Luxottica sites and stores located in the United States, by the US EPA (Environmental Protection Agency).

### Scope 3

For EssilorLuxottica, the Scope 3 reported in 2019 corresponds to other indirect emissions related to the transportation of products. These emissions are calculated on a Well-to-Wheel basis (WTW) in order to analyze the impact of using different energy vectors. The term Well-to-Wheel subsumes the underlying Tank-to-Wheel and Well-to-Tank analysis, defined as follows: i) Tank-to-Wheel (TTW) describes the use of fuel in the vehicle and emissions during driving; ii) Well-to-Tank (WTT) describes the sub-range of fuel supply, from production of the energy source (petrol, diesel, electricity, natural gas) to fuel supply (transport to the charging point or fuel pump).

For Essilor, the transportation and freight is reported in four categories, with a significant increase of reporting scope in 2019. It covered:

1. international flows between 40 plants, 18 distribution centers, 8 export labs and 154 subsidiaries;
2. international flows from the above 220 covered entities to customers;
3. domestic flows between 26 plants, 16 distribution centers, 6 export labs and 144 subsidiaries in Europe, North and Latin America, Asia-Pacific, Middle East and Africa;
4. domestic flows from these 192 above covered entities to customers or consumers (so-called “last miles”).

For Luxottica, the logistics emission reporting is categorized into three areas and covered:

1. the replenishment flows of eyewear among the primary distribution centers of Sedico, Atlanta, Dongguan and Jundiai (by air and road transport);
2. the replenishment flows of Oakley's Apparel, Footwear and Accessories (AFA) from the supplier to Luxottica's primary distribution centers (by sea and road transport);
3. the transportation flows of eyewear and Oakley's AFA products from the Sedico hub (the main logistics center in terms of overall volumes of shipped finished products) to the wholesale, retail and e-commerce customers' destinations in EMEA and some select destinations in the United States and in the rest of the world, including the GHG emissions generated by all the means of transport used along the route.

## Key Performance Indicators (KPIs) and targets

At the beginning stage of the integration, no targets for the combined EssilorLuxottica scope were defined as of December 31, 2019. However each company has identified targets on different topics.

## Social, environmental and societal information

Methodology note and correspondence table

### Essilor 2020 sustainability targets

| Aims                                      | Ambition   | Objectives for 2020   | 2019         | % of progress to target |
|---|--|---|--------------|-------------------------|
| <b>Creating wearers</b>                   | 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" <sup>(a)</sup> (cumulative, reference year 2013) | 33.5 million | 67%                     |
|   |  | 2 Create 25,000 primary vision care providers (cumulative, reference year 2013)   | 15,365       | 61%                     |
|   |  | 3 Invest €30 million in philanthropic visual health programs (reference year 2014)  | €49 million  | 163%                    |
| <b>Optimizing environmental footprint</b> | 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 <sup>(b)</sup>  | -26%         | 128%                    |
|   |  | 5 Reduce energy intensity by 15% compared to 2015 baseline  | -6%          | 42%                     |
| <b>Caring for and engaging our people</b> | Engage employees in the sustainable growth of our business and 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             | -10%         | 33%                     |
|   |  | 7 Give 100% of employees access to Essilor University online training platform  | 59%          | 59%                     |
|   |  | 8 35% of employees as shareholders, with a longer-term ambition of 50%  | 69%          | 197%                    |
| <b>Working with our society</b>           | Lead sustainable business practices in our industry through responsible sourcing and procurement                       | 9 100% of strategic suppliers receive 100% of strategic suppliers undertake CSR assessments                                 | 88%          | 88%                     |
|   |  | 10 100% of preferred suppliers acknowledge Essilor's Supplier Charter   | 95%          | 95%                     |

(a) "Base of the pyramid" refers to underprivileged and high-risk populations characterized by high rates of poverty, living on less than 2.50 USD a day.  
(b) Objectives measured on each "good" lens produced by a selection of the upstream plants with the highest environmental footprint.

## Correspondence table for priority CSR risks and mandatory topics

| <b>PRIORITY CSR RISK CATEGORIES</b>  | <b>REFERENCE</b> |
|--|------------------|
| Climate change   | 4.3.2.2          |
| Sustainable offering   | 4.1.3            |
| Talent management  | 4.3.1.2          |
| Supplier sustainability  | 4.3.3.1          |
| Business ethics  | 4.3.3.3          |
| Human Rights   | 4.3.3.2          |
| <b>RELEVANT TOPICS</b>   |                  |
| Energy management  | 4.3.2.1          |
| Water management   | 4.3.2.3          |
| Waste management   | 4.3.2.4          |
| Socio-economic impact  | 4.3.3.4          |
| <b>MANDATORY TOPICS</b>  |                  |
| Societal commitment to sustainable development                             | 4.1              |
| Societal commitment to the circular economy                                | 4.3.2.4          |
| Information on collective agreements                                       | 4.3.1            |
| Information on actions to combat discrimination and promote diversity      | 4.3.1.2          |
| Information on measures taken for the benefit of persons with disabilities | 4.3.1.2          |

## Social, environmental and societal information

Report by one of the Statutory Auditors, appointed as an independent third-party, on the non-financial statement included in the management report

# 4.6 Report by one of the Statutory Auditors, appointed as an independent third-party, on the non-financial statement included in the management report

*This is a free translation into English of the Statutory Auditor's 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, 2019

To the Annual General Meeting of EssilorLuxottica,

In our capacity as Statutory Auditor of EssilorLuxottica (hereinafter the "entity"), appointed as an independent third party and accredited by COFRAC under number 3-1060 rév.2 (whose scope is available at [www.cofrac.fr](http://www.cofrac.fr)), we

hereby report to you on the non-financial information statement for the year ended 31<sup>st</sup> December 2019 (hereinafter the "Statement"), included in the management report pursuant to the legal and regulatory provisions of articles L. 225102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code (*Code de commerce*).

## The entity's responsibility

Pursuant to legal and regulatory requirements, the Board of Directors is responsible for preparing the Statement, including a presentation of the business model, a description of the principal nonfinancial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators.

The Statement has been prepared in accordance with the entity's procedures (hereinafter the "Guidelines"), the main elements of which are presented in the Statement and which are available on request from the entity's head office.

## Independence and quality control

Our independence is defined by the provisions of article L. 822-11-3 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control

including documented policies and procedures regarding compliance with the ethical requirements, French professional guidance and applicable legal and regulatory requirements.

## Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a report expressing a limited assurance conclusion on:

- the compliance of the Statement with the provisions of article R. 225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article R. 225105 I, 3 and II of the French Commercial Code, i.e., the outcomes, including key performance indicators, and the measures implemented considering the principal risks (hereinafter the "Information").

However, it is not our responsibility to comment on:

- The entity's compliance with other applicable legal and regulatory provisions, in particular the French duty of care law and anti-corruption and tax evasion legislation;
- The compliance of products and services with the applicable regulations.

## Nature and scope of our work

The work described below was performed in accordance with the provisions of articles A. 225-1 *et seq.* of the French Commercial Code determining the conditions in which the independent third party performs its engagement and with the professional guidance of the French Institute of

Statutory Auditors ("CNCC") applicable to such engagements, as well as with ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information.

Report by one of the Statutory Auditors, appointed as an independent third-party, on the non-financial statement included in the management report

Our procedures allowed us to assess the compliance of the Statement with regulatory provisions and the fairness of the Information:

- we obtained an understanding of all the consolidated entities' activities, the description of the social and environmental risks associated with their activities and the impact of these activities on compliance with human rights and anticorruption and tax evasion legislation, as well as the resulting policies and their outcomes;
- we assessed the suitability of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- we verified that the Statement includes each category of social and environmental information set out in article L. 2251021 III, as well as information regarding compliance with human rights and anticorruption and tax evasion legislation;
- we verified that the Statement includes an explanation for the absence of the information required under article L. 225-102-1 III, 2;
- we verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with their business relationships and products or services, as well as their policies, measures and the outcomes thereof, including key performance indicators;
- we verified, where relevant with respect to the principal risks or the policies presented, that the Statement provides the information required under article R. 225-105 II;
- we assessed the process used to identify and confirm the principal risks;
- we asked what internal control and risk management procedures the entity has put in place;
- we assessed the consistency of the outcomes and the key performance indicators used with respect to the principal risks and the policies presented;
- we verified that the Statement covers the scope of consolidation, i.e., all the companies included in the scope of consolidation in accordance with article L. 233-16 within the limitations set out in the Statement;
- we assessed the data collection process implemented by the entity to ensure the completeness and fairness of the Information;
  - for the key performance indicators and other quantitative outcomes that we considered to be the most important (cf. Appendix), we implemented:
    - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data;
    - substantive tests, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with the supporting documents. This work was carried out on a selection of contributing entities, in Dongguan (China), Atlanta and Foothill Ranch (United States), Agordo, Sedico and Pederobba (Italy), ELOA Eco I and SOFI (Mexico), London (United Kingdom), EMTC and EOLT (Thailand) and covers between 19.6% and 100% of the consolidated data relating to the key performance indicators and outcomes selected for these tests;
- we referred to documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that we considered to be the most important (cf. Appendix);
- we assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

We believe that the work carried out, based on our professional judgement, is 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.



## Means and resources

Our work was carried out by a team of 13 people between September 2019 and March 2020 and took a total of 20 weeks. We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted about 40 interviews with the

people responsible for preparing the Statement, representing executive management, administration and finance, risk management, compliance, human resources, health and safety, environmental and purchasing departments.

## Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial information statement is not in accordance with the applicable

regulatory provisions and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

## Social, environmental and societal information

Report by one of the Statutory Auditors, appointed as an independent third-party, on the non-financial statement included in the management report

### Comments

Without qualifying our conclusion and in accordance with article A. 225-3 of the French Commercial Code, we have the following comments:

- The policies on climate change, sustainable offering and talent management are different for Essilor International and Luxottica Group entities and therefore do not cover the full scope of consolidation of EssilorLuxottica;
- The key performance indicators provided cover either the Essilor International or the Luxottica Group scope and therefore do not cover the full scope of consolidation of EssilorLuxottica;
- The outputs presented concerning business ethics and sustainable offering do not identify key performance indicators for the relevant policies.

Neuilly sur Seine, March 27, 2020

PricewaterhouseCoopers Audit

Cédric Le Gal  
Partner

Sylvain Lambert  
Sustainable Development Partner

### Appendix: List of the information we considered most important

Key performance indicators and other quantitative results:

- Total workforce and different breakdowns;
- Training hours;
- Reduction of energy intensity and linked consumptions;
- Greenhouse gas emissions (scope 1, scope 2, scope 3);
- Reduction of water intensity and linked consumptions;
- Waste amounts;
- Work-related injury frequency rate and severity rate, number of injuries, number of lost days;
- percentage of strategic suppliers receive external CSR audit;
- percentage of preferred suppliers acknowledge Essilor's Supplier Charter;
- percentage of Luxottica direct materials spending covered by Luxottica Responsible Sourcing and Manufacturing (LRSM) program;

- Number of audited suppliers on CSR subjects;
- Number of sites which are certified ISO 50 001 and ISO 14 001.

Qualitative information (actions and results):

- Identification of CSR risks;
- Main initiatives for HR;
- Main initiatives for H&S;
- Main initiatives for Environment;
- Training and the development of skills and talents;
- Employee integration and inclusion of all forms of diversity;
- Employee shareholding;
- The Group's commitment and vigilant approach to human rights.



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## CHAPTER 5

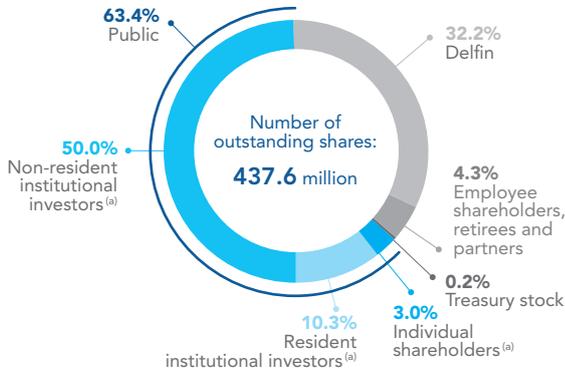
# INFORMATION ABOUT THE COMPANY, ITS SHARE CAPITAL AND STOCK OWNERSHIP

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|            |   |            |            |  |            |
|------------|---|------------|------------|--|------------|
| <b>5.1</b> | <b>THE COMPANY</b>  | <b>333</b> | <b>5.3</b> | <b>SHAREHOLDING</b>  | <b>341</b> |
| 5.1.1      | Company name and registered office                          | 333        | <b>5.4</b> | <b>EMPLOYEE SHAREHOLDING</b>   | <b>343</b> |
| 5.1.2      | Date of formation and term of the Company                   | 333        | 5.4.1      | Performance shares   | 343        |
| 5.1.3      | Registration of the Company                                 | 333        | 5.4.2      | Rights to restricted shares  | 346        |
| 5.1.4      | Legal form  | 333        | 5.4.3      | Stock options  | 347        |
| 5.1.5      | Corporate purpose   | 333        | 5.4.4      | Stock option awards and exercises during the year                                | 348        |
| 5.1.6      | Conditions governing changes in capital                     | 334        | <b>5.5</b> | <b>DIVIDEND DISTRIBUTION POLICY</b>  | <b>348</b> |
| 5.1.7      | Fiscal year   | 334        | <b>5.6</b> | <b>KEY STOCK MARKET DATA</b>   | <b>349</b> |
| 5.1.8      | Shareholders' Meetings                                      | 334        | 5.6.1      | EssilorLuxottica shares  | 349        |
| 5.1.9      | Disclosure of threshold provisions                          | 335        | 5.6.2      | Key stock market data over 10 years  | 350        |
| <b>5.2</b> | <b>SHARE CAPITAL</b>  | <b>336</b> | 5.6.3      | Share prices and trading volumes over the past 16 months                         | 350        |
| 5.2.1      | Change in the share capital                                 | 336        | <b>5.7</b> | <b>HISTORICAL DATA</b>   | <b>351</b> |
| 5.2.2      | Financial authorizations giving access to the share capital | 338        | 5.7.1      | Breakdown of the share capital in 2017 and 2018 :                                | 351        |
| 5.2.3      | Share buyback programs                                      | 339        | 5.7.2      | History of the share capital   | 352        |
| 5.2.4      | Share cancellations and capital reductions                  | 340        | 5.7.3      | History of awards of stock subscription options and rights to performance shares | 354        |

## IN BRIEF

### Breakdown of share capital as at December 31, 2019



64,187

INTERNAL SHAREHOLDERS<sup>(b)</sup>

In 78 countries

Representing:

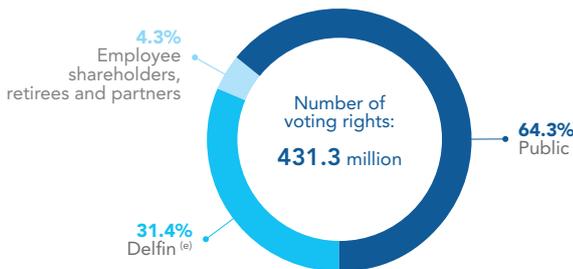
4.3%

OF THE SHARE CAPITAL

4.3%

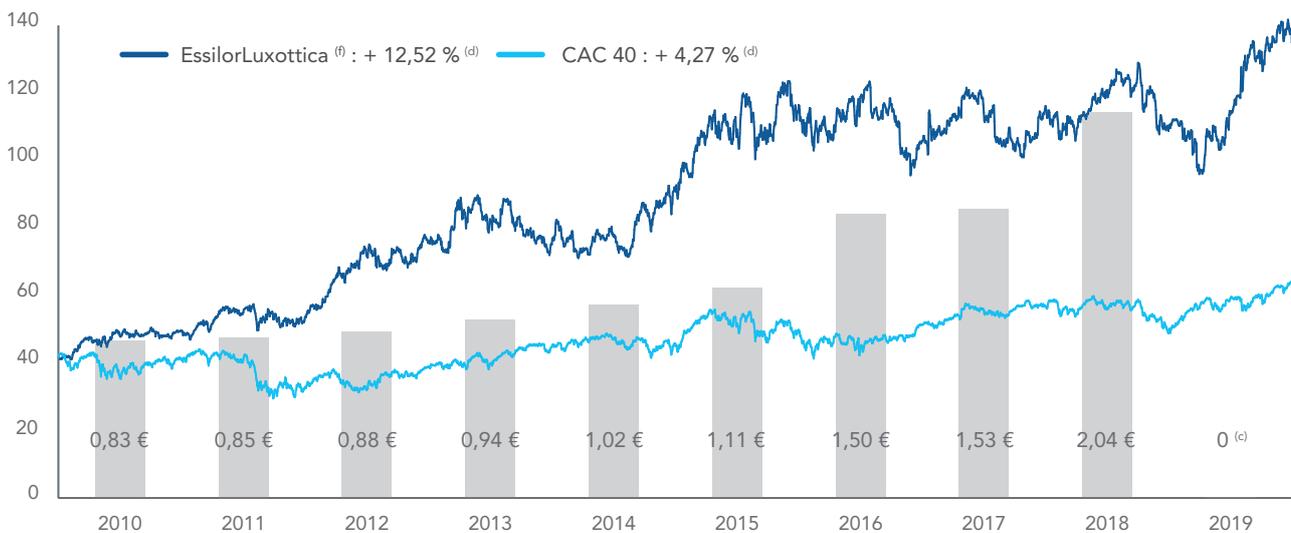
OF THE VOTING RIGHTS

### Distribution of voting rights as at December 31, 2019



### Share price and dividend

In € – The CAC 40 graph has been rebased at the EssilorLuxottica share price as at January 1, 2010



(a) Estimates as at December 31, 2019.

(b) Current, former and retired employees.

(c) On April 18, 2020, in light of the current COVID-19 outbreak, the Board of Directors decided not to submit a dividend for 2019 to the Annual Shareholders' Meeting of June 25, 2020.

(d) Average annualized growth rate.

(e) Please refer to Section 5.1.8, paragraph *Voting rights* for information on restrictions applying to Delfin.

(f) Essilor until October 1<sup>st</sup>, 2018.

## 5.1 The Company

### 5.1.1 Company name and registered office

The name of the Company is EssilorLuxottica, hereinafter the "Company" or the "Group".

The registered office of the Company is located at 147, rue de Paris – 94220 Charenton-le-Pont – France.

The phone number of the Company is +33 (0)1 49 77 42 24 and its website is [www.essilorluxottica.com](http://www.essilorluxottica.com) (the information included in this website are not part of this Universal Registration Document).

The General Management of the Company is domiciled at 1-5, rue Paul-Cézanne – 75008 Paris – France.

### 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.

### 5.1.3 Registration of the Company

The Company is registered in the Créteil Trade and Companies Register under No. 712 049 618. The trade sector codes are 3250B (EssilorLuxottica) and 7010Z (registered office). The Legal Entity Identifier (LEI) of the Company is: 549300M3VH1A3ER1TB49.

### 5.1.4 Legal form

EssilorLuxottica is a joint stock company (*société anonyme*) with a Board of Directors. It is subject to French law and is governed by the provisions of Book II of the French Commercial Code.

### 5.1.5 Corporate purpose

The Company's purpose in all countries is to:

- the design, manufacture, purchase, sale and trade, in general, in everything concerning spectacles and optical instruments, without exception, and, in particular, the manufacture, purchase and sale of eyeglass frames, sunglasses and eyeglasses and other protective equipment, lenses and contact lenses;
  - the design and/or manufacture, purchase, sale and/or marketing of all instruments or equipment relating to ophthalmic optics, as well as all equipment or devices for monitoring, screening, diagnosing, measuring or correcting physiological handicaps, whether or not it be used by professionals;
  - the design and/or development, purchase and/or marketing of related computer software packages, software applications, programs and services;
  - research, clinical experiments, wearing tests, training, technical assistance and engineering corresponding to the above activities;
  - all services or assistance associated with the aforementioned activities, and, in particular, advisory services, bookkeeping, auditing, logistics and treasury services;
  - the acquisition, holding and management of all shares or securities of French or foreign companies; and more generally all financial, commercial, industrial, civil, personal property or real property transactions directly or indirectly related to the foregoing corporate purpose, or to any similar or related corporate purposes, or likely to facilitate the application and development thereof or to make the same more profitable.
- All, directly or indirectly, on its own account or on the account of third parties, either alone or with third parties, in any form, in particular by means of creation of companies, subscriptions, acquisition of equity interests or holdings, limited partnerships, mergers or absorptions, advances, purchases, contribution, exchange, lease of property or sale of securities or equity interests, sale or lease of all or part of its real or personal properties, and rights, and alliances or joint ventures or by any other means.

#### 5.1.6 Conditions governing changes in capital

Pursuant to Article 7 of the bylaws, share capital may be reduced or increased by decision of the Extraordinary Shareholders' Meeting under the conditions set by law and regulations. However, the Extraordinary Shareholders' Meeting may delegate to the Board of Directors, under

terms and conditions authorized by law and regulations, the necessary powers to decide on or carry out a capital increase or any other issue of securities or any capital reduction.

#### 5.1.7 Fiscal year

The Company's fiscal year runs from January 1 to December 31 of each year.

#### 5.1.8 Shareholders' Meetings

##### Notice of meeting

Shareholders' Meetings are convened in accordance with the conditions laid down by law. They are held either at the registered office or in a department in the Paris region.

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.

"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

Shareholders have the right to attend or be represented at Shareholders' Meetings by registering their shares in an account under the conditions and on the date provided for by the regulations in force (the "**Shareholding Listing Date**").

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 the 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 held and represented, directly or by proxy, without limitation.

Shareholders who have sent a postal or proxy voting form or requested an attendance card via their custodian institution can nevertheless sell some or all 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 authorized custodian institution will not be required to notify the Company 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, notwithstanding any agreement to the contrary.

##### Voting rights

**A 31% cap has been established on voting rights, applicable to all shareholders based on a formula described in Article 23 of the Company's bylaws.**

Consequently, no shareholder may express, whether personally or through a proxy holder, with respect to the voting rights attached to the shares he or she directly or indirectly holds, more than 31% of the total number of voting rights of the Company, computed as indicated below.

Given the share capital structure, this cap is applicable to Delfin (see Section 5.2.1).

**Reminder of the statutory calculation formula (Article 23 of the prevailing bylaws)**

“When no more than one natural person or legal entity, acting alone or in concert with one or more natural persons or corporate entities, directly or indirectly holds more than ten percent (10%) of the share capital or voting rights of the Company as of the Shareholding Listing Date for the relevant General Shareholders’ Meeting or exercises more than ten percent (10%) of the voting rights of the Company for itself or as a proxy holder, the number of voting rights that any shareholder may express, personally or through a proxy holder, with respect to the voting rights attached to the shares or to the divisions of share ownership (for the rights he or she is authorized to exercise, as the case may be) that he or she holds, directly or indirectly, alone or in concert, cannot exceed the number resulting from the following formula:

$$31 * (N - P - D) / 100$$

where

- (N) the total number of voting rights of the Company existing on the Shareholding Listing Date for the relevant General Shareholders’ Meeting and reported to the shareholders on the date of the General Shareholders’ Meeting;
- (P) the total number of voting rights attached to the treasury shares within the limits of a maximum amount of treasury shares corresponding to 1% of the Company’s share capital;
- (D) the total number of voting rights of the concerned shareholders which are neutralized by this statutory clause limiting voting rights for the fraction of voting rights attached to the shares that he or she holds exceeding 34% of the Company’s share capital.

If at least two natural persons or corporate entities, each acting alone or in concert with one or more natural persons or corporate entities, each hold more than ten percent (10%) of the share capital or voting rights of the Company on the Shareholding Listing Date for the relevant General Shareholders’ Meeting or each exercise more than ten percent (10%) of the voting rights of the Company for themselves or as proxy holder on the Shareholding Listing Date for the relevant General Shareholders’ Meeting, the above-mentioned voting rights limitation shall apply with the exception of elements (P) and (D), which will not be deducted.”

**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* (French Financial Markets Authority – 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: [ir@essilorluxottica.com](mailto:ir@essilorluxottica.com).

Any undisclosed shares held in the context of one of the temporary transactions detailed 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 June 25, 2020.

**5.1.9 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 acquires 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 crossing of any subsequent 2% increment must be brought to the attention of the Company under the same conditions.

Disclosure is also required, within the same maximum period, when the percentage of voting rights held drops 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 Change in the share capital

#### Breakdown of share capital in 2019

| As at December 31, 2019   | Number of shares                 | %            | Number of voting rights | %                          |
|---|----------------------------------|--------------|-------------------------|----------------------------|
| <b>Delfin</b>   | <b>140,836,426</b>               | <b>32.2%</b> | <b>135,400,908</b>      | <b>31.4%<sup>(b)</sup></b> |
| • Valoptec International FCPE   | 3,703,428                        | 0.8%         | 3,703,428               | 0.9%                       |
| • Essilor Group five-year and seven-year FCPE (mutual fund)   | 4,462,313                        | 1.0%         | 4,462,313               | 0.9%                       |
| • Funds reserved for employees outside France   | 1,392,094                        | 0.3%         | 1,392,094               | 0.3%                       |
| • Pure registered shares or administered shares held by employees   | 8,798,843                        | 2.0%         | 8,798,843               | 2.0%                       |
| • Pure registered shares or administered shares held by partners  | 344,240                          | 0.1%         | 344,240                 | 0.1%                       |
| <b>Internal shareholding (Current, former and retired employees) and partner shareholding<sup>(a)</sup></b> | <b>18,700,918</b>                | <b>4.3%</b>  | <b>18,700,918</b>       | <b>4.3%</b>                |
| <b>Treasury shares</b>  | <b>787,310</b>                   | <b>0.2%</b>  |                         |                            |
| <b>Free-float</b>   | <b>277,239,777</b>               | <b>63.4%</b> | <b>277,239,777</b>      | <b>64.3%</b>               |
| <b>TOTAL</b>  | <b>437,564,431<sup>(c)</sup></b> | <b>100%</b>  | <b>431,341,603</b>      | <b>100%</b>                |

(a) The partner shareholding designates the portion of EssilorLuxottica shares held by employees, directors, and any former employees and former managers of the companies in which EssilorLuxottica held an interest that was thereafter fully divested.

(b) Exercise of the Delfin voting rights is capped according to the formula described in Sections 5.1 and 5.3.

(c) Corresponding to 437,533,516 shares delivered and registered and 30,915 shares delivered but not registered.

**Share capital as at December 31, 2019:** share capital amounted to €78,756,032.88 as at December 31, divided into 437,533,516<sup>(1)</sup> fully paid-up ordinary shares, each with a par value of €0.18. On January 8, 2020, 30,915 new shares were issued, each with a par value of € 0.18 resulting from the exercise of stock options (shares delivered but not registered as at December 31, 2019). Since January 8, 2020, the new share capital is €78,761,597.58.

#### Exercisable voting right:

Notwithstanding the provisions of the last paragraph of Article L. 225-123 of the French Commercial Code, as of October 1, 2018, the Company's shares no longer carry double voting rights. Ahead of the combination between Essilor and Luxottica (the "Combination"), changes to Essilor's bylaws were adopted on May 11, 2017 by (i) a special meeting of Essilor shareholders with double voting rights; and (ii) the Essilor's Shareholders' Meeting. Those changes affect the voting rights attached to EssilorLuxottica shares. EssilorLuxottica's bylaws, effective as from the Combination Date (October 1, 2018), do not grant shareholders a benefit such as this, even if those

shareholders have held registered shares for at least two years or for any other length of time.

Furthermore, the bylaws provide for a limit on voting rights of 31% for any shareholder, based on a formula disclosed in the bylaws (see Section 5.1, paragraph *Voting rights*). Consequently, no shareholder may exercise voting rights of shares that they hold, either personally or through a proxy holder, directly or indirectly, representing more than 31% of the total number of voting rights of EssilorLuxottica, calculated as indicated in Section 5.1 above.

Taking into account these restrictions in the bylaws and the absence of voting rights attached to treasury shares, the total number of exercisable voting rights attached to the Company's share capital as at December 31, 2019 was 431,341,603.

#### Changes in share capital in 2019:

Share capital underwent a series of changes during the fiscal year to take into account the successive issuances of new shares related to the completion of the Combination and to the continued roll-out of the employee shareholding program.

(1) Not including 30,915 shares delivered but not yet registered at December 31, 2019.

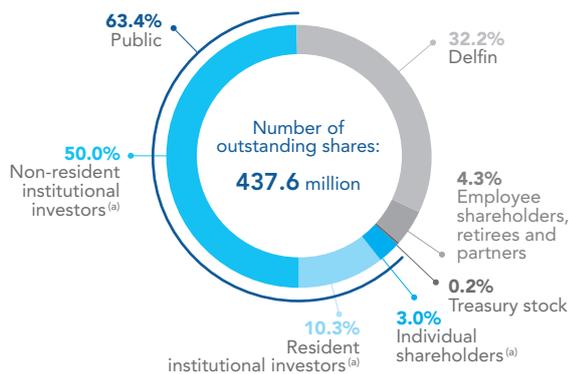
These transactions are described in the table below:

**CAPITAL INCREASES**

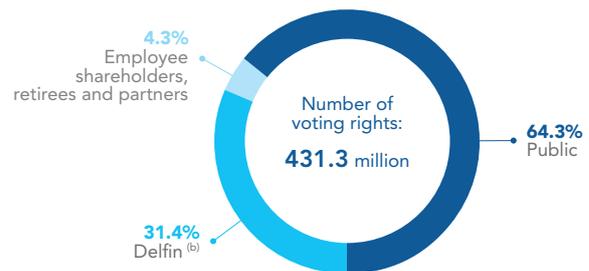
| COMPLETION OF COMBINATION   | DEVELOPMENT OF THE EMPLOYEE SHAREHOLDING PROGRAM  |
|---|---|
| "Sell-out" procedure (obligation to purchase under art. 108, par. 2, of the Italian TUF): issue of 6,602,682 new shares with a par value of €0.18, excluding issue premium. | Issue of 40,930 <sup>(a)</sup> new shares with a par value of €0.18 resulting from the share subscription options exercised, i.e. an increase in the share capital of €7,367.40 excluding issue premium.        |
| "Squeeze-out" procedure (mandatory buyback of the shares held by minority shareholders): issue of 2,656,542 new shares with a par value of €0.18, excluding issue premium.  | Issue of 1,206,509 new shares with a par value of €0.18 resulting from the delivery of performance shares, i.e. an increase in the share capital of €217,171.62 excluding issue premium.                        |
|   | Issue of 249,635 new shares with a par value of €0.18 subscribed by the Essilor group five-year and seven-year mutual funds (FCP), i.e. an increase in the share capital of €44,934.30 excluding issue premium. |
| <b>Total new shares issued</b>  |   |
| 9,259,224 new shares  | 1,497,074 new shares  |

(a) Does not include 30,915 shares delivered but not yet registered at December 31, 2019 for a nominal value amounts to €5,564.70 and issue premium amounts to €3,106,323.05.

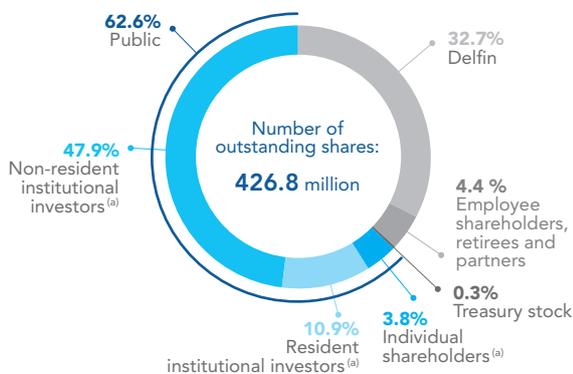
Breakdown of share capital as at December 31, 2019



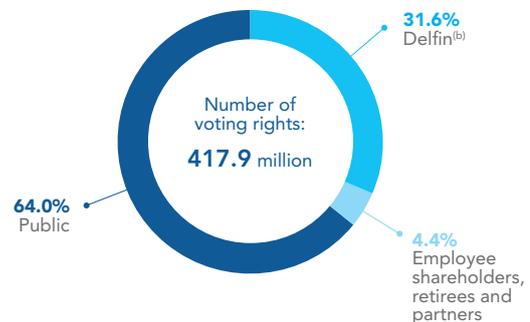
Distribution of voting rights as at December 31, 2019



Breakdown of share capital as at December 31, 2018



Distribution of voting rights as at December 31, 2018



(a) Estimates as at December 31 of the year.

(b) Please refer to Section 5.1.8, paragraph *Voting rights* for information on restrictions applying to Delfin.



### Maximum dilution at year-end

Taking into account all the shares that will potentially give access to capital after December 31, 2019, regardless of

the exercise price of the underlying option, the maximum dilution of the share capital would be as follows:

| <b>As at December 31, 2019</b>                     | <b>In number of shares</b> | <b>%</b>    | <b>In number of voting rights</b> | <b>%</b>    |
|--|----------------------------|-------------|-----------------------------------|-------------|
| Share capital position at the end of the year      | 437,564,431                |             | 431,341,603                       |             |
| Options for subscription of existing shares        | 509,989                    | 0.1%        | 509,989                           | 0.1%        |
| Outstanding rights to performance shares           | 6,241,727                  | 1.4%        | 6,241,727                         | 1.4%        |
| Rights to shares subject to conditions             | 783,600                    | 0.2%        | 783,600                           | 0.2%        |
| <b>TOTAL POTENTIAL DILUTION</b>                    | <b>7,535,316</b>           | <b>1.7%</b> | <b>7,535,316</b>                  | <b>1.7%</b> |
| Total diluted share capital at the end of the year | 445,099,747                |             | 438,876,919                       |             |

The breakdown of changes in share capital in 2019 is presented in Note 11 to the Financial statements of EssilorLuxottica (Section 3.10 of this Universal Registration Document).

The 2018 and 2017 breakdown of share capital and changes in share capital over the last five years are described in Section 5.7.1.

## 5.2.2 Financial authorizations giving access to the share capital

The purposes of the financial authorizations in force granted to the Board of Directors which are detailed in the table of the currently valid delegations (see Section 2.2.3 of this Universal Registration Document) are the following:

### Associate employees with the performance of the Company

The Company Shareholders' Meeting of November 29, 2018 delegated its authority, for a period of 38 months, to the Board of Directors to award existing performance shares and to grant stock options to Group employees and Executive Corporate Officers to increase the latter's engagement in the Company's performance. The engagement of employees through multiple mechanisms, especially the capital increase reserved for members of a company savings plan, along with the allocation, transfer or sale of treasury shares acquired by EssilorLuxottica under the share buyback program authorized by the Shareholders' Meeting of November 29, 2018 to deliver bonus shares (seventh and ninth resolutions approved by the Extraordinary Shareholders' Meeting of November 29, 2018) and, to a lesser extent, stock options (eighth resolution approved by the aforementioned Shareholders' Meeting), is a key component of EssilorLuxottica's governance structure. The resolutions approved by the Shareholders' Meeting of November 29, 2018, decided that the treasury shares would essentially be used for the employee share ownership plans to be set up as from the Combination Date. See Section 5.3.

To this end, the Shareholders' Meeting of November 29, 2018 also renewed the delegations of authority granted to the Board of Directors to:

- buy back treasury shares for a 18-month period (i.e., until May 28, 2020). See Section 5.2.3 regarding the description of the share buyback program approved by the Shareholders' Meeting of November 29, 2018;

- cancel shares acquired by the Company under Article L. 225-209 of the French Commercial Code for a 26-month period (i.e., until January 28, 2021). See Section 5.2.4.

The Company Shareholders' Meeting of May 16, 2019 renewed its delegation of authority to the Board of Directors for the purpose of deciding capital increases reserved for members of a Company Savings Plan (*French plans d'épargne d'entreprise* or PEE) without preferential rights in the limit of 0.5% of the share capital, for a period of 26 months.

### Allow the Board of Directors to decide upon certain capital increases

The Company Shareholders' Meeting of May 16, 2019 delegated its authority to the Board of Directors to:

- issue shares and securities entailing a capital increase with preferential subscription rights of the shareholders, within the limit of 5% of the Company's share capital, for a period of 26 months i.e. until July 2021;
- proceed with share capital increase by capitalization of reserves, profits or premiums within a limit of €500 million.

The Company's Shareholders' Meeting of June 25, 2020 will also be asked to renew and grant the following financial authorizations to the Board of Directors:

- to proceed with the purchase of the Company's own ordinary shares for a new 18-month period within the limit of 10% of the share capital (buyback program), i.e. until December 24, 2021;
- to reduce the share capital by cancelling Company shares under Article L. 225-209 of the French commercial Code for a new 26-month period, i.e. until August 24, 2022.

### 5.2.3 Share buyback programs

On November 29, 2018, the Shareholders' Meeting renewed the Board of Directors' authorization to buy back its own treasury 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 May 28, 2020.

In application of the provisions of Article L. 225-211 of the French Commercial Code, the Board of Directors indicates that, during the 2019 fiscal year, it did not use the authorization granted by the Combined Shareholders' Meeting of May 11, 2017, the main objectives of which were to cover the employee share ownership programs.

In keeping with the previous authorization, the main objectives of the program as approved by the Shareholders' Meeting of November 29, 2018 are as follows:

- to award or transfer shares to employees and Corporate Directors of the Company and affiliated companies, under the terms and conditions stipulated by French or foreign law, especially in the context of profit-sharing plans, bonus and performance share awards, stock option plans, and any employee share ownership plan (employee stock ownership plan or any similar plan governed by foreign regulations);
- to cancel shares by reducing share capital (particularly to offset the dilution created by the free awarding of performance shares, by the exercise of stock options by the Group's employees and senior managers, and by capital increases reserved for employees);
- to potentially hedge debt securities that can be converted into or exchanged for Company shares, by buying shares for delivery (when existing shares are delivered when the conversion right is exercised) or by buying shares for cancellation (when new shares are issued when the conversion right is exercised);
- to ensure the liquidity of the Company's shares under a liquidity contract in accordance with Commission Delegated Regulation (EU) 2016/1052 of March 8, 2016 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 buyback 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 permitted market practice that may be acknowledged by regulations or the AMF or any other objective allowed by the Law.

The Shareholders' Meeting decided to set the maximum purchase price per common share at €175 (excluding transaction costs), and specified that the price and number of shares will be adjusted as necessary in the event of capital transactions.

The Shareholders' Meeting decided that the purchase, sale or transfer of the shares may be paid for and carried out by any appropriate method, and in particular on any regulated, free or OTC market, or on any multilateral trading facility (including through straight purchases, or the use of financial instruments or derivatives or the implementation of options strategies). The entire share buyback program may be carried out through a block purchase.

This authorization is valid for a maximum period of eighteen (18) months from November 29, 2018 up to May 28, 2020. It may not be used, in whole or in part, during public offers periods for the Company's stock.

Consequently, full authority has been granted to the Board of Directors, with the option to sub-delegate such powers to the Chairman & Chief Executive Officer or Executive Vice-Chairman, as the case may be, within the limits set by law and the bylaws, to carry out this transaction and/or to approve all programs, place all stock market orders, enter into any agreement, carry out all declarations and formalities with the AMF and all bodies of their choice and, more generally, take any measures considered necessary.

On March 17, 2020 with a view to implementing its share buyback program, EssilorLuxottica announced that a mandate had been granted to an investment service provider for the purchase of up to 3,000,000 EssilorLuxottica shares, depending on market conditions, over a period starting on March 17, 2020 up until May 27, 2020.

On March 27, 2020, the Company has decided to stop the implementation of the share buyback program announced on March 17, 2020. Since March 17, 2020, 1.55 million shares for an average price of €102.54 have been repurchased. All information relating to the shares repurchased from March 17, 2020 to March 26, 2020 is available on EssilorLuxottica's website.

It is proposed to the Shareholders' Meeting of June 25, 2020 to renew this authorization for a new maximum period of 18 months, *i.e.* until December 24, 2021.

#### Reminder:

The shares held under the buyback program may not represent more than 10% of the Company's share capital at any given time. As at December 31, 2019, EssilorLuxottica held 787,310 treasury shares, representing 0.2% of share capital. The par value of these shares was €141,715.80 and their book value was €67.8 million (*i.e.*, an average net cost of €86.08 per share).

#### Liquidity contract

The Company was not a party to any liquidity contracts in 2019.

#### Share buyback transactions

In accordance with the provisions of Article L. 225-211 of the French Commercial Code, no shares were reallocated in 2019.

|  | <b>2019</b>            |
|--|------------------------|
|  | <b>Treasury shares</b> |
| <b>NUMBER OF SHARES AT START OF PERIOD – JANUARY 1</b> | <b>1 099 757</b>       |
| Purchase options exercised                             |                        |
| Delivery of performance shares                         |                        |
| Sale of shares to employees (Boost plan)               | (312 447)              |
| Conversions of convertible bonds with delivery         |                        |
| Cancellation of treasury shares                        |                        |
| Purchase of treasury shares                            |                        |
| <b>NUMBER OF SHARES AT END OF PERIOD – DECEMBER 31</b> | <b>787 310</b>         |
| <b>Position as at January 31, 2020</b>                 |                        |
| Percentage of capital held directly or indirectly      | 0.18%                  |
| Number of shares canceled in the preceding 24 months   | 0                      |
| Number of shares held in the portfolio                 | 787 310                |
| Book value of the portfolio (in €)                     | 67 769 957             |
| Market value of the portfolio <sup>(a)</sup> (in €)    | 105 696 367            |

(a) Based on the closing price at January 31, 2020.

There were no share buybacks or cancellations during 2019.

## 5.2.4 Share cancellations and capital reductions

The Company's Combined Shareholders' Meeting of **November 29, 2018** authorized the Board of Directors to reduce the share capital by cancelling some or all 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 at the date

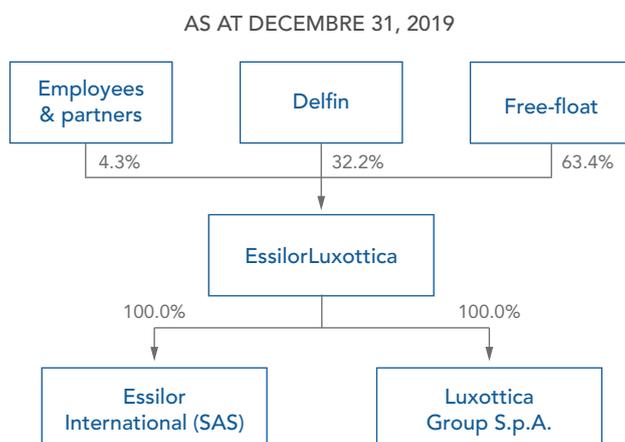
of cancellation. The Company did not cancel any shares under this authorization in 2019. This authorization is valid for a period of 26 months, *i.e.* until January 28, 2021.

It is proposed to the Shareholders' Meeting of June 25, 2020 to renew this authorization for a new maximum period of 26 months, *i.e.* until August 24, 2022.

## 5.3 Shareholding

As a result of the completion of the Combination effective October 1, 2018, Delfin, the holding company of the family of Leonardo Del Vecchio, has become the main shareholder with more than 30% of the share capital and voting rights.

### Group structure as at December 31, 2019



Treasury stock accounted for 0.2% of capital.

- **Standstill Undertaking:** pursuant to the terms of the Combination Agreement, Delfin has agreed not to file a public offer for EssilorLuxottica shares for a period of ten (10) years from the date of the signature of 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 public offer for EssilorLuxottica shares (the “Standstill Undertaking”).

Notwithstanding the provisions of the last paragraph of Article L. 225-123 of the French Commercial Code, as of October 1, 2018, EssilorLuxottica bylaws provide for the exclusion of double voting rights to protect the rights of minority shareholders. The bylaws also exclude the casting vote of the Chairman of the Board of Directors, and place a 31% limit on voting rights for any shareholder, based on a formula described in the EssilorLuxottica bylaws and reproduced in Section 5.1, paragraph *Summary of the key provisions of EssilorLuxottica’s bylaws* below.

### Summary of the key provisions of EssilorLuxottica’s bylaws

The bylaws of EssilorLuxottica include the following key provisions:

1. the exclusion of double voting rights.  
As an exemption to the provisions of the last paragraph of Article L. 225-123 of the French commercial code, no double voting rights are conferred on the shares of the EssilorLuxottica.
2. a 31% limit on voting rights for any shareholder, based on a formula described in the EssilorLuxottica bylaws and reproduced below:

The EssilorLuxottica bylaws provide for a 31% limit on voting rights for any shareholder, based on a formula contained in the bylaws (see Section 5.1, paragraph *Voting rights*). Consequently, no shareholder may express, whether personally or through a proxy holder, with respect to the voting rights attached to the shares he or she directly or indirectly holds, more than 31% of the total number of EssilorLuxottica voting rights, computed as indicated in the aforementioned Section 5.1.

Theoretical calculation of Delfin voting rights as at December 31, 2019

|                 |   |             |             |                       |
|-----------------|---|-------------|-------------|-----------------------|
| a               | Total number of shares                    | [N]         | 437,564,431 | Shares held by Delfin |
| b               | Treasury shares                           | [P]         | 787,310     | 140,836,426 = 32.2%   |
| c               | Shares exceeding 34% of the share capital | [D]         | -           | 437,564,431           |
| d               | Shares held by Delfin                     |             | 140,836,426 |                       |
| e = 31% (a-b-c) | Cap on voting rights                      | 31% (N-P-D) | 135,400,908 | Delfin voting rights  |
| f = d-e         | Non-exercisable voting rights             |             | 5,435,518   | 135,400,908 = 31.4%   |
| g = a-b-f       | Total number of voting rights             |             | 431,341,603 | 431,341,603           |

For the purposes of this statutory clause limiting voting rights, it is specified that all current or former employees of EssilorLuxottica or of its subsidiaries or interests and/or the assigns of these persons and/or the asset management companies whose entire capital is exclusively held by the latter (the "Employees and Employee Entities"), acting alone or in concert with other Employees and Employee Entities or with an entity (including any mutual funds) the entire capital or units of which are held by Employees and Employee Entities (an "Authorized Entity") will not be taken into account for the calculation of the number of natural persons or corporate entities holding more than 10% of the capital or voting rights of EssilorLuxottica provided that (i) these Employees and Employee Entities and/or Authorized Entities do not act in concert with any third party other than the Employees and Employee Entities and/or Authorized Entities, (ii) the Employees and Employee Entities and/or Authorized Entities are not represented by a third party not appointed from among the Employees and Employee Entities; it being however specified that this exclusion will only apply insofar as the Employees and Employee Entities and/or any Authorized Entity hold less than 15% of the share capital or voting rights of EssilorLuxottica.

The limit provided for in the above paragraphs has no effect on the calculation of the total number of voting rights that are attached to EssilorLuxottica's shares that must be taken into account for the application of legal, regulatory or statutory provisions that impose particular obligations by reference to the number of existing voting rights in EssilorLuxottica or the number of shares bearing voting rights.

The limit provided for in the above paragraphs automatically lapses, without the necessity for a new decision of the Extraordinary Shareholders' Meeting, whenever a natural person or corporate entity, acting alone or in concert with one or more natural persons or corporate entities, holds at least two thirds of the total number of shares and voting rights of EssilorLuxottica following a takeover bid targeting all the shares of EssilorLuxottica. The Board of Directors notes that the lapse has occurred and carries out the corresponding statutory amendment formalities.

For more information, please refer to Section 5.1.

**Crossing of legal and statutory thresholds in 2019**

In 2019, EssilorLuxottica received the following notifications:

- from BlackRock (notification dated September 13, 2019): "As of September 12, 2019, BlackRock, Inc.'s holding in EssilorLuxottica on a voting basis is 3.45% (15,032,605 shares) and a capital basis is 3.45% (15,032,605 shares)";
- from Third Point (notifications dated August 26 and November 22, 2019):

On August 26, Third Point LLC notified the Company that "funds managed by Third Point LLC hold in derivative form, 1.02% in reportable holdings".

On November 22, Third Point LLC notified the Company that "Further to the notification provided on August 26, 2019, Third Point LLC hold in derivative form, 1.04% in reportable holdings. Additionally we understand, Bluebell Partners Ltd (who act as Third Point advisor and as such may be deemed as a concert party) and its affiliates hold 0.005%."

## 5.4 Employee shareholding

Throughout its history, the Company has been committed to making all employees partners in its development by allowing them to become Group shareholders. This policy is fundamental to the Company's culture and has been a key factor in its performance since the very beginning. This employee shareholding culture continues to be a key feature of the newly combined Group. Employee shareholding is regarded as a key inviolable principle and was deployed throughout the EssilorLuxottica group from 2019 onwards through the first international plan.

The significant level of employee shareholding boosts the Company's competitiveness and is a source of pride among all EssilorLuxottica employees. This atypical form of governance, built on trusted dialog with the Company's management team, aims to encourage the involvement of almost 152,000 employees in defining the Company's strategy. It means that Group employees have the opportunity to be fully engaged in creating value and achieving success for the Group as a result of their substantial stake in its share capital.

In addition to aligning the interests of employee shareholders with those of other shareholders, the Company's governance structure strengthens employees' sense of belonging to the Group as well as their commitment to its strategy.

In keeping with EssilorLuxottica's employee shareholding culture and governance model, Valoptec Association, a French non-profit association representing current and former EssilorLuxottica employees, is the single body that represents all of the new Group's employee shareholders on EssilorLuxottica's Board of Directors.

In April 2019, the Company won the "Best Use of Technology" award at the 2019 edition of the "GEO Awards" held by the Global Equity Organization, an international not-for-profit body. This honor recognizes the 100% digital solutions developed by the Group to

make it easier for all employees to access information and to provide them with everything they need to take a well-informed decision about employee shareholding: the creation of an online subscription site, the launch of a management platform as a central hub for the data of all international plan participants in real time or automated registration of subscription forms using QR codes are all innovative long-term solutions designed by the Company to help promote employee shareholding.

Following the success of the international employee shareholding plan in 2018, offered to Essilor International employees in more than 40 countries, EssilorLuxottica launched the new Group's first employee shareholding initiative in 2019. The new international plan has had record take-up rates of over 67%, paving the way for a global roll-out of these programs at EssilorLuxottica. Aimed at 64,000 employees in over 78 countries, this employee shareholding plan has enabled Luxottica employees in Italy to join more than 48,000 Essilor colleagues throughout the world who have decided over these past few years to take a financial stake in the Company by buying Group shares on advantageous terms. The success of this plan, known as "Boost 2019", represents a new phase in the process of integrating and building EssilorLuxottica, by confirming the Group's long-term commitment to employee shareholding.

The Group also makes an employer contribution to encourage employee investment on a regular, long-term basis.

These investment plans are subject to a lock-up period.

In return for their investment, employees are granted bonus shares annually.

As a result of these mechanisms, 64,187 employees of the Group are EssilorLuxottica internal shareholders as at the end of 2019. They represent 4.3% of the share capital and 4.3% of the voting rights.

### 5.4.1 Performance shares

Rights to performance shares are presented below:

|  | Before the Combination <sup>(a)</sup> |                  |                 |
|--|---------------------------------------|------------------|-----------------|
|  | As at December 31, 2019               | Of which in 2019 | In January 2020 |
| Rights granted <sup>(a)</sup>              | 4,143,628                             |                  |                 |
| Rights canceled <sup>(a)</sup>             | 561,239                               | 276,836          | 4,284           |
| Rights exercised <sup>(a)</sup>            | 1,205,371                             |                  |                 |
| • Shares issued through a capital increase |                                       | 1,197,489        |                 |
| • Treasury share account                   |                                       | 0                |                 |
| Rights outstanding <sup>(a) (b)</sup>      | 2,377,018                             |                  | 2,372,734       |

(a) Plans from December 2, 2015 NR to May 23, 2018 NR: prior to Combination.

(b) i.e. 0.54% of the share capital as at December 31, 2019.

|  | After Combination <sup>(a)</sup> |                                  |
|--|----------------------------------|----------------------------------|
|  | As at December 31, 2019          | Of which in 2019 In January 2020 |
| Rights granted <sup>(a)</sup>              | 3,982,008                        |                                  |
| Rights canceled <sup>(a)</sup>             | 117,299                          | 5,136                            |
| Rights exercised <sup>(a)</sup> :          |                                  |                                  |
| • Shares issued through a capital increase |                                  |                                  |
| • Treasury share account                   |                                  |                                  |
| Rights outstanding <sup>(a) (b)</sup>      | 3,864,709                        | 3,850,153                        |

(a) Plans from November 29, 2018: after Combination.

(b) i.e. 0.88% of the share capital as at December 31, 2019.

If the rights to performance shares are exercised, grantees will be granted either existing or new ordinary EssilorLuxottica shares.

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 granted is less than half that of stock subscription options offering an equivalent potential gain;
- the grant system makes it easier for grantees to keep their shares, unlike stock subscription options (or purchase) options, the financing of which by the holders results in almost all cases to a partial or total transfer;
- 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. Lastly, 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.

#### 5.4.1.1 Vesting conditions and lock-up period

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

Performance shares granted between 2006 and 2019 inclusive are governed by performance share plan regulations, the conditions of which have changed since 2006.

The vesting of performance shares is dependent on:

- a performance condition based on the progress of the trading price of the share, in accordance with the seventh resolution approved by the Shareholders' Meeting of November 29, 2018;
- an employment condition in order to guarantee the long-term commitment of the grantees and their loyalty to the Company;
- a lock-up period for vested shares, subject to a decision by the Board of Directors, to strengthen the convergence between the interests of employee shareholders and those of external shareholders;
- stricter conditions for corporate officers.

#### Performance condition

Shares under plans up to 2015 for non-residents and 2016 for French residents have been fully delivered.

For the 2015 and 2016 plans, the performance condition is no longer applicable to employee grantees. A new performance condition was applied for Executive Corporate Officers (see Chapter 2 of this Universal Registration Document, Table 9, *History of performance shares*).

Starting from the 2017 plan: 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.

The Initial Reference Share Price (corresponding to the average of the 20 opening prices preceding the award date) is determined at the time they are granted.

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 date of the third anniversary of the award.

If the increase between the Average Share Price and the Initial Reference Share Price is:

- **22.5% or more** (i.e. annualized growth of 7%), all shares initially granted will vest provided that the employment condition is met (see details in paragraph *Employment condition*).

Starting from the 2015 plans: Calculation formula:  $(\text{Average Price}/\text{Initial Price})^{(1/N)} - 1$  where N is the number of years between the award and the performance measurement date. N = 3 then, if the performance condition is not achieved, 3.25 and so on up to a maximum of six;

- **6.1% or more, but less than 22.5%** (corresponding to annualized growth<sup>(1)</sup> of 2% or more but less than 7%), some of the shares initially granted will vest provided that the employment condition is also met (see details in paragraph *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 award date (N+6).

(1) For the 2012 to 2014 plans: Calculation formula:  $(\text{Average Price}/\text{Initial Price})^{(1/N)} - 1$  where N is the number of years between the award and the performance measurement date. N = 2 then, if the performance condition is not achieved, 2.25 and so on up to a maximum of 6; for 2015 and 2016 plans, this condition does not apply. Starting from the 2017 plan: Calculation formula:  $(\text{Average Price}/\text{Initial Price})^{(1/N)} - 1$  where N is the number of years between the award and the performance measurement date. N = 3 then, if the performance condition is not achieved, 3.25 and so on up to a maximum of six.

The first time that the annualized increase between the Average Share Price and the Initial Reference Share Price crosses the 2% threshold (as annualized growth) is when the number of shares vested is determined, even if the annualized increase subsequently rises. The more time that passes, the greater the minimum threshold (increase in the trading price) that must be achieved to receive a minimum number of EssilorLuxottica shares: 6.1% in N+3, +8.2% in N+4 etc. and +12.6% in N+6.

If, at the end of N+6, the minimum threshold of a 12.6% increase in the trading price has not been achieved, the plan becomes null and void and the employees will not receive any EssilorLuxottica shares.

#### Employment condition

For the plans from 2015 to May 2018, for French tax residents, the vesting of shares is contingent on the grantee still being employed in the Group on the date that the performance condition is met, which may occur between the third and the sixth anniversary of the award.

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, redundancy or retirement.

Starting from the November 2018 plan, the vesting of shares is contingent on the grantee still being employed in the Group on the date that the performance condition is met, which may occur between the third and the sixth anniversary of the award.

This employment condition is waived in the event of the grantee's death, disability, redundancy or retirement.

#### Lock-up period

For the previous plans in effect as at the Combination Date, the Board of Directors established a lock-up period once the performance condition is met. 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.

For the plans introduced after the Combination Date, in accordance with the seventh resolution approved by the Shareholders' Meeting of November 29, 2018, the Board of Directors may impose a share lock-up period on grantees, it being specified that Executive Corporate Officers are required to hold a certain number of shares for the duration of their term of office.

For the November 2018 and October 2019 plans, the Board of Directors decided not to impose a lock-up period.

For more information, please also see Note 24 to the Consolidated Group Financial Statements (Section 3.4 of this Universal Registration Document).

#### 5.4.1.2 Rights to performance shares outstanding

| Grant date                   | Number of rights granted | Of which corporate officers | Initial reference share price (useful for evaluating performance)<br>(in €) | Number of rights outstanding as at December 31, 2019 | Number of rights outstanding as at January 31, 2020 |
|------------------------------|--------------------------|-----------------------------|---|--|---|
| December 2, 2015             | 1,251,533                | 35,000                      | 121.32  |  |   |
| December 18, 2015            | 91,620                   |                             | 121.32  |  |   |
| September 22, 2016           | 1,372,233                | 35,000                      | 114.88  | 720,117  | 719,292   |
| December 19, 2016            | 67,830                   |                             | 99.97   |  |   |
| October 3, 2017              | 1,481,219                | 50,000                      | 105.80  | 1,312,402  | 1,309,910   |
| December 21, 2017            | 91,200                   |                             | 107.14  | 79,500   | 79,100  |
| May 23, 2018 <sup>(a)</sup>  | 316,638                  |                             | 114.62  | 264,999  | 264,432   |
| November 29, 2018 R+NR       | 1,565,862                | 100,000                     | 116.74  | 1,453,926  | 1,451,790   |
| November 29, 2018 Collective | 93,180                   |                             | 116.74  | 87,880   | 87,400  |
| October 3, 2019 R+NR         | 2,228,446                | 80,000                      | 131.52  | 2,228,383  | 2,225,863   |
| November 28, 2019 Collective | 94,520                   |                             | 137.63  | 94,520   | 94,520  |
| <b>TOTAL</b>                 | <b>8,654,281</b>         | <b>300,000</b>              |   | <b>6,241,727</b>                                     | <b>6,232,307</b>                                    |

(a) Exceptional award for employee shareholders with the Company at May 23, 2018.

### 5.4.1.3 Board of Directors members' rights to shares

Position as at December 31, 2019

|                              | Employee members and corporate officers of the Board of Directors |                  |                  |                   |                         |                |                   |
|------------------------------|---|------------------|------------------|-------------------|-------------------------|----------------|-------------------|
|                              | Leonardo Del Vecchio  | Hubert Sagnières | Laurent Vacherot | Francesco Milleri | Leonel Pereira Ascencao | Juliette Favre | Delphine Zablocki |
| Shares                       |   |                  |                  |                   |                         |                |                   |
| Rights to performance shares |   |                  |                  |                   |                         |                |                   |
| • September 22, 2016         |   | 35,000           | 32,005           |                   | 42                      | 770            | 28                |
| • December 19, 2016          |   |                  |                  |                   | 15                      | 15             | 15                |
| • October 3, 2017            |   | 50,000           | 32,045           |                   | 45                      | 1,025          | 31                |
| • December 21, 2017          |   |                  |                  |                   | 20                      | 20             | 20                |
| • May 23, 2018               |   |                  |                  |                   | 9                       | 9              | 9                 |
| • November 29, 2018          | 50,000  | 50,000           | 35,000           |                   | 45                      | 1,025          | 32                |
| • November 29, 2018          |   |                  | 20               |                   | 20                      | 20             | 20                |
| • March 7, 2019              |   |                  |                  | 37,150            |                         |                |                   |
| • October 3, 2019            | 40,000  | 40,000           | 35,000           | 35,000            | 45                      | 1,025          | 34                |
| • November 28, 2019          |   |                  | 20               |                   | 20                      | 20             | 20                |

### 5.4.2 Rights to restricted shares

Rights to restricted shares are presented below:

|  | After Combination <sup>(a)</sup> |                  |                 |
|--|----------------------------------|------------------|-----------------|
|  | As at December 31, 2019          | Of which in 2019 | In January 2020 |
| Rights granted <sup>(a)</sup>              | 801,400                          |                  |                 |
| Rights canceled <sup>(a)</sup>             | 17,800                           | 17,800           |                 |
| Rights exercised <sup>(a)</sup> :          |                                  |                  |                 |
| • Shares issued through a capital increase |                                  |                  |                 |
| • Treasury share account                   |                                  |                  |                 |
| Rights outstanding <sup>(a) (b)</sup>      | 783,600                          |                  | 783,600         |

(a) Plan from March 7, 2019: after Combination.

(b) i.e. 0.18% of the share capital as at December 31, 2019.

At the end of December 2017, Luxottica Board of Directors approved a long-term cash retention plan (LongTerm Incentive plan or LTI) vesting on March 30, 2021. The term of the arrangement provided Luxottica with the choice of whether to settle in cash or by issuing Luxottica or EssilorLuxottica shares, subject to the approval of the relevant governance bodies.

EssilorLuxottica Shareholders' Meeting held on November 29, 2018, authorized EssilorLuxottica Board of Directors to

proceed with the award of free existing shares (without any performance condition) to Luxottica group's employees, replacing cash retention bonuses.

On March 7, 2019, EssilorLuxottica Board of Directors proceeded with the awards of such shares to Luxottica group's employees. The vesting of shares is dependent on a presence condition in the Group on March 7, 2021.

After vesting, the shares will not be subject to any lock-up obligation.

### 5.4.3 Stock options

The position regarding stock options is presented below.

Information is provided only for those award plans for which options are currently outstanding.

|  | Before the Combination <sup>(a)</sup> |                  |                 |
|--|---------------------------------------|------------------|-----------------|
|  | As at December 31, 2019               | Of which in 2019 | In January 2020 |
| Options granted <sup>(a)</sup>         | 642,576                               |                  |                 |
| Options canceled                       | 139,475                               | 23,790           |                 |
| Options exercised <sup>(a)</sup>       | 241,021                               | 71,845           | 15,959          |
| Options outstanding <sup>(a) (b)</sup> | 262,080 <sup>(1)</sup>                |                  | 246,169         |

(a) Plans from November 27, 2012 to October 3, 2017: before Combination.

(b) i.e. 0.060% of the share capital as at December 31, 2019.

|  | After Combination <sup>(a)</sup> |                  |                 |
|--|----------------------------------|------------------|-----------------|
|  | As at December 31, 2019          | Of which in 2019 | In January 2020 |
| Options granted <sup>(a)</sup>         | 260,320                          | 127,117          |                 |
| Options canceled <sup>(a)</sup>        | 12,411                           | 12,411           | 144             |
| Options exercised <sup>(a)</sup>       |                                  |                  |                 |
| Options outstanding <sup>(a) (b)</sup> | 247,909 <sup>(1)</sup>           |                  | 247,765         |

(a) Plans from November 29, 2018: after Combination.

(b) i.e. 0.057% of the share capital as at December 31, 2019.

Stock options exercisable on the Combination Date, if exercised, trigger the issue of new ordinary Company shares.

As at December 31, 2019, the total number of shares likely to be issued by exercising stock options was 509,989 <sup>(1)</sup>.

Stock options granted after the Combination Date will be delivered through treasury shares.

The subscription/purchase price is equal to the average of the opening prices quoted for the Company's shares over the 20 trading days preceding the Board of Directors' decision to grant the options.

Under capped plans, the maximum profit that can be made by each grantee is capped at 100% of the value of the options granted.

Capped performance plans are, in addition, subject to the share price reaching a certain level (in the same way as the performance shares described in Section 5.2.5) and can be canceled if the target is not met.

| Grant date <sup>(a)</sup> | Number of options granted | Subscription/<br>purchase price <sup>(b)</sup><br>(in €) | Number of options<br>outstanding as at<br>December 31, 2019 | Number of options<br>outstanding as at<br>January 31, 2020 |
|---------------------------|---------------------------|--|---|--|
| November 27, 2012         | 81,760                    | 71.35  | 0   | 0  |
| November 25, 2013         | 87,880                    | 77.29  | 13,368  | 13,298   |
| November 25, 2014         | 121,505                   | 87.16  | 28,670  | 23,245   |
| December 2, 2015          | 100,023                   | 121.32   | 64,355  | 55,730   |
| September 22, 2016        | 119,392                   | 114.88   | 59,603  | 57,764   |
| October 3, 2017           | 132,016                   | 105.80   | 96,084  | 96,132   |
| November 29, 2018         | 133,203                   | 116.74   | 120,792   | 120,762  |
| October 3, 2019           | 127,117                   | 131.52   | 127,117   | 127,003  |
| <b>TOTAL</b>              | <b>902,896</b>            |  | <b>509,989</b>  | <b>493,934</b>   |

(a) Plans prior to that of November 27, 2012 no longer have share subscription options outstanding.

(b) Starting from the November 29, 2018 plan, delivery of treasury shares.

(1) Remaining options as at December 31, 2019 corresponding to 262,080 shares before the Combination and 247,909 shares after the Combination.

5

#### 5.4.4 Stock option awards and exercises during the year

**Award and exercise:**

- stock subscription options;
- share purchase options;
- rights to performance shares;
- granted to Non-Corporate Directors and Officers.

|   | <b>Total<br/>number</b> | <b>Average<br/>weighted<br/>price (in €)</b> | <b>Maturity<br/>date</b> | <b>Related<br/>plans</b>   |
|---|-------------------------|--|--------------------------|--|
| <b>Options granted during the 2019 fiscal year</b> by the issuer and by any company included in the scope of options granted, 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 (general information)                      | 29,129                  | 131.52                                       | 10/03/2026               | 10/03/2019   |
| <b>Rights to performance shares granted during the 2019 fiscal year</b> by the issuer and by any company included within the scope options granted, to the ten employees of the issuer and of any company included in this scope, of which the number of rights thus granted is the highest (general information) | 190,229                 | 131.52<br>137.63                             | 10/03/2025<br>11/28/2025 | 10/03/2019<br>11/28/2019   |
| <b>Options held</b> on the issuer and the companies referred to above, <b>exercised during the 2019 fiscal year</b> by the ten employees of the issuer and of these companies, of which the number of purchase or subscription options thus exercised is the highest (general information)                        | 13,602                  | 87.39  |                          | 11/24/2011<br>11/27/2012<br>11/25/2013<br>11/25/2014<br>12/02/2015<br>09/22/2016 |

## 5.5 Dividend distribution 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. 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.

It is recalled that in accordance with Board of Directors' Internal Rules, the distribution of dividends, interim dividends, bonuses, reserves and/or any other distributions made by the Company, Luxottica or Essilor International, is decided in accordance with the financial forecasts and to the Company's business strategies, it being specified that, unless otherwise decided by the Board of Directors, the pay-out ratio on consolidated net income adjusted for purchase price allocation items (PPA) and, as the case may be, other items to be determined by the Board of Directors, should not exceed 50%.

### 2020 dividend in respect of fiscal year 2019

On April 18, 2020, in light of the current COVID-19 outbreak, the Board of Directors decided not to submit a dividend for 2019 to the Annual Shareholders' Meeting of June 25, 2020.

## History of the overall dividend distribution and growth

Total dividends for 2019 and the previous six years were as follows:

| € million | Net income Group share | Amount distributed | Pay out ratio      | Net dividend (€) | Pay out date     |
|-----------|------------------------|--------------------|--------------------|------------------|------------------|
| 2019      | 1,938 <sup>(a)</sup>   | 0 <sup>(b)</sup>   | 0 <sup>(b)</sup>   | 0 <sup>(b)</sup> | 0 <sup>(b)</sup> |
| 2018      | 1,871 <sup>(c)</sup>   | 887                | 50% <sup>(d)</sup> | 2.04             | 05/23/2019       |
| 2017      | 833                    | 333                | 40%                | 1.53             | 04/30/2018       |
| 2016      | 813                    | 325                | 40%                | 1.50             | 05/19/2017       |
| 2015      | 757                    | 237                | 31%                | 1.11             | 06/08/2016       |
| 2014      | 642 <sup>(e)</sup>     | 216                | 34%                | 1.02             | 05/21/2015       |
| 2013      | 593                    | 198                | 33%                | 0.94             | 05/27/2014       |

(a) Corresponding to the adjusted Net profit attributable to the owners of the parent as presented in Section 3.1.1, paragraph *EssilorLuxottica consolidated statement of profit or loss: reconciliation with adjusted figures*.

(b) On April 18, 2020, in light of the current COVID-19 outbreak, the Board of Directors decided not to submit a dividend for 2019 to the Annual Shareholders' Meeting of June 25, 2020.

(c) Corresponding to the *pro forma* adjusted Net profit as presented in Section 3.6 of 2018 Registration Document.

(d) Pay-out ratio applied on *pro forma* adjusted Net profit attributable to the owners of the parent.

(e) 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

BNP Paribas Securities, Grands Moulins de Pantin, 9 Rue du Débarcadère, 93761 Pantin Cedex France. Tél : 01.42.98.10.00

## 5.6 Key stock market data

### 5.6.1 EssilorLuxottica shares

The EssilorLuxottica 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 EssilorLuxottica 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 et MSCI Europe.

In 2019, EssilorLuxottica share was also included in the following indices: ECPI and Ethibel Sustainability Index Excellence Europe and Excellence Global.

Finally, EssilorLuxottica is included in the Euronext FAS IAS Index launched by Euronext and the *Fédération Française des Associations d'Actionnaires Salariés et d'Anciens Salariés* (French Federation of Employee Shareholders – FAS). This index is composed of all stocks in the CAC All-Tradable Index with a significant employee shareholding: at least 3% of the share capital held by more than one-quarter of the employees in France. For more information about employee share ownership, please refer to Section 5.4.

The shares are freely transferable and cannot be jointly owned.

## 5.6.2 Key stock market data over 10 years

(Source: Reuters, Bloomberg and Euronext)

|             | Share price (€) |             | Closing price | Number of outstanding shares at December 31 | Market capitalization at December 31 <sup>(a)</sup><br>(€ million) |
|-------------|-----------------|-------------|---------------|---|--|
|             | Session High    | Session Low |               |   |  |
| <b>2019</b> | <b>142,7</b>    | <b>95,5</b> | <b>135,8</b>  | <b>437,564,431</b>                          | <b>41,453</b>  |
| 2018        | 129.55          | 105.35      | 110.45        | 426,777,218                                 | 32,996   |
| 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  |

(a) Euronext definition used for the weighting of the CAC 40 index (source: Euronext).

## 5.6.3 Share prices and trading volumes over the past 16 months

(Sources: Bloomberg, Reuters and Euronext Paris)

Stock markets: Euronext Paris, Turquoise, Bats Europe, Chi-x, Equiduct, London Stock Exchange, Acquis Exchange, XMIL, XWBO.

|             | Volume of transactions<br>(millions of shares) | Volume of transactions,<br>incapital<br>(€ millions) | Market price (€)     |                     |
|-------------|--|--|----------------------|---------------------|
|             |  |  | In session<br>Higher | In session<br>Lower |
| <b>2018</b> |  |  |                      |                     |
| October     | 23.42  | 2,813  | 129.55               | 113.30              |
| November    | 26.10  | 2,981  | 123.20               | 107.15              |
| December    | 30.51  | 3,372  | 114.55               | 108.05              |
| <b>2019</b> |  |  |                      |                     |
| January     | 25.64  | 2,856  | 112.85               | 108.95              |
| February    | 20.86  | 2,259  | 111.70               | 104.50              |
| March       | 20.77  | 2,445  | 109.45               | 95.50               |
| April       | 25.13  | 3,222  | 110.20               | 95.68               |
| May         | 28.00  | 2,999  | 115.80               | 100.00              |
| June        | 22.97  | 2,499  | 115.05               | 101.95              |
| July        | 20.77  | 2,445  | 124.30               | 111.95              |
| August      | 25.13  | 3,222  | 135.40               | 119.90              |
| September   | 23.32  | 3,068  | 136.70               | 126.20              |
| October     | 19.71  | 2,611  | 137.90               | 125.95              |
| November    | 14.09  | 1,944  | 141.50               | 134.25              |
| December    | 13.54  | 1,863  | 142.70               | 133.30              |
| <b>2020</b> |  |  |                      |                     |
| January     | 20.83  | 2,892  | 145.00               | 134.25              |

## 5.7 Historical data

### 5.7.1 Breakdown of the share capital in 2017 and 2018 :

| <b>As at December 31, 2018</b>  |        | <b>Number of shares</b> | <b>%</b>     | <b>Number of voting rights</b> | <b>%</b>             |
|---|--------|-------------------------|--------------|--------------------------------|----------------------|
|   | Delfin | 139,738,506             | 32.7%        | 131,960,013                    | 31.6% <sup>(b)</sup> |
| • Valoptec International FCPE   |        | 4,030,132               | 0.9%         | 4,030,132                      | 1.0%                 |
| • Essilor group five-year and seven-year FCPE (mutual fund)   |        | 4,620,089               | 1.1%         | 4,620,089                      | 1.1%                 |
| • Funds reserved for employees outside France   |        | 1,218,674               | 0.3%         | 1,218,674                      | 0.3%                 |
| • Pure registered shares or administered shares held by employees   |        | 8,473,690               | 2.0%         | 8,473,690                      | 2.0%                 |
| • Pure registered shares or administered shares held by partners  |        | 344,240                 | 0.1%         | 344,240                        | 0.1%                 |
| <b>Internal shareholding (Current, former and retired employees) and partner shareholding<sup>(a)</sup></b> |        | <b>18,686,825</b>       | <b>4.4%</b>  | <b>18,686,825</b>              | <b>4.4%</b>          |
| <b>Treasury shares</b>  |        | <b>1,099,757</b>        | <b>0.3%</b>  |                                |                      |
| <b>Free-float</b>   |        | <b>267,252,130</b>      | <b>62.6%</b> | <b>267,252,130</b>             | <b>64.0%</b>         |
| <b>TOTAL</b>  |        | <b>426,777,218</b>      | <b>100%</b>  | <b>417,898,968</b>             | <b>100%</b>          |

(a) The partner shareholding designates the portion of Essilor International shares held by employees, directors and, if appropriate, any former employees and former managers of the companies in which Essilor International held an interest that was thereafter fully divested.

(b) Exercise of the Delfin voting rights is capped according to the formula described in Sections 5.1 and 5.3.

| <b>As at December 31, 2017</b>  |  | <b>Number of shares</b> | <b>%</b>     | <b>Number of voting rights</b> | <b>%</b>     |
|---|--|-------------------------|--------------|--------------------------------|--------------|
| • Valoptec International FCPE   |  | 4,297,507               | 2.0%         | 8,586,552                      | 3.7%         |
| • Essilor group five-year and seven-year FCPE (mutual fund)   |  | 4,646,379               | 2.1%         | 8,916,891                      | 3.8%         |
| • Funds reserved for employees outside France   |  | 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%         |
| • Pure registered shares or administered shares held by partners  |  | 344,240                 | 0.2%         | 687,480                        | 0.3%         |
| <b>Internal shareholding (Current, former and retired employees) and partner shareholding<sup>(a)</sup></b> |  | <b>18,302,379</b>       | <b>8.4%</b>  | <b>33,765,434</b>              | <b>14.4%</b> |
| <b>Treasury shares</b>  |  | <b>1,344,427</b>        | <b>0.6%</b>  |                                |              |
| <b>Free-float</b>   |  | <b>199,478,633</b>      | <b>91.0%</b> | <b>200,934,319</b>             | <b>85.6%</b> |
| <b>TOTAL</b>  |  | <b>219,125,439</b>      | <b>100%</b>  | <b>234,699,753</b>             | <b>100%</b>  |

(a) The partner shareholding designates the portion of Essilor International shares held by employees, directors and, if appropriate, any former employees and former managers of the companies in which Essilor International held an interest that was thereafter fully divested.

(b) Exercise of the Delfin voting rights is capped according to the formula described in Sections 5.1 and 5.3.

## 5.7.2 History of the share capital

| <b>Change in the share capital over the last five years</b><br><i>€ thousands</i>     | <b>Number of shares</b> |        | <b>Issue premium</b>     | <b>Successive amounts of nominal share capital</b> | <b>Cumulative number of shares of the Company</b> |
|---|-------------------------|--------|--------------------------|--|---|
|   | <b>Nominal</b>          |        |                          |  |   |
| <b>SHARE CAPITAL AS AT DECEMBER 31, 2014</b>  |                         |        |                          | <b>38,861</b>                                      | <b>215,892,528</b>                                |
| Share subscription reserved for the Essilor group mutual funds                        | 257,057                 | 46     | 24,901                   | 38,907   | 216,149,585                                       |
| Exercise of stock subscription option   | 306,855                 | 55     | 14,531                   | 38,962   | 216,456,440                                       |
| Cancellation of treasury shares   |                         |        |                          | 38,962   | 216,456,440                                       |
| Incorporation of reserves for capital increase  |                         |        |                          | 38,962   | 216,456,440                                       |
| <b>SHARE CAPITAL AS AT DECEMBER 31, 2015</b>  |                         |        |                          | <b>38,962</b>                                      | <b>216,456,440</b>                                |
| Dividend payment in shares  | 1,578,804               | 284    | 157,722                  | 39,246   | 218,035,244                                       |
| Share subscription reserved for the Essilor group mutual funds                        | 331,945                 | 60     | 26,489                   | 39,306   | 218,367,189                                       |
| Exercise of stock subscription option   | 140,512                 | 25     | 6,944                    | 39,331   | 218,507,701                                       |
| Cancellation of treasury shares   |                         |        |                          | 39,331   | 218,507,701                                       |
| Incorporation of reserves for capital increase  |                         |        |                          | 39,331   | 218,507,701                                       |
| <b>SHARE CAPITAL AS AT DECEMBER 31, 2016</b>  |                         |        |                          | <b>39,331</b>                                      | <b>218,507,701</b>                                |
| Essilor group's International Employee Shareholding Plan or any equivalent local plan | 173,629                 | 31     | 8,947                    | 39,363   | 218,681,330                                       |
| Share subscription reserved for the Essilor group mutual funds                        | 313,561                 | 56     | 26,819                   | 39,419   | 218,994,891                                       |
| Exercise of stock subscription option   | 130,548                 | 24     | 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                                       |
| <b>SHARE CAPITAL AS AT DECEMBER 31, 2017</b>  |                         |        |                          | <b>39,443</b>                                      | <b>219,125,439</b>                                |
| Delfin contribution   | 139,703,301             | 25,147 | 13,148,696               | 64,590   | 358,828,740                                       |
| Recognition of completion of the mandatory exchange offer                             | 66,329,548              | 11,939 | 7,166,725 <sup>(a)</sup> | 76,529   | 425,158,288                                       |
| Delivery of performance share plans   | 1,308,339               | 236    |                          | 76,764   | 426,466,627                                       |
| Share subscription reserved for the Essilor group mutual funds                        | 277,926                 | 50     | 25,906                   | 76,814   | 426,744,553                                       |
| Exercise of stock subscription option   | 32,665                  | 6      | 2,515                    | 76,820   | 426,777,218                                       |
| Cancellation of treasury shares   |                         |        |                          | 76,820   | 426,777,218                                       |
| Incorporation of reserves for capital increase  |                         |        |                          | 76,820   | 426,777,218                                       |
| <b>SHARE CAPITAL AS AT DECEMBER 31, 2018</b>  |                         |        |                          | <b>76,820</b>                                      | <b>426,777,218</b>                                |

| <b>Change in the share capital over the last five years</b><br><i>€ thousands</i> | <b>Number of shares</b> | <b>Nominal</b> | <b>Issue premium</b>     | <b>Successive amounts of nominal share capital</b> | <b>Cumulative number of shares of the Company</b> |
|---|-------------------------|----------------|--------------------------|--|---|
| Recognition of completion of the mandatory exchange offer                         | 9,259,224               | 1,667          | 1,016,466 <sup>(b)</sup> | 78,487   | 436,036,442                                       |
| Delivery of performance share plans   | 1,206,509               | 217            |                          | 78,704   | 437,242,951                                       |
| Share subscription reserved for the Essilor group mutual funds                    | 249,635                 | 45             | 27,322,551               | 78,749   | 437,492,586                                       |
| Exercise of stock subscription option   | 40,930 <sup>(c)</sup>   | 7              | 3,508,219                | 78,756   | 437,533,516                                       |
| Cancellation of treasury shares   |                         |                |                          | 78,756   | 437,533,516                                       |
| Incorporation of reserves for capital increase                                    |                         |                |                          | 78,756   | 437,533,516                                       |
| <b>SHARE CAPITAL AS AT DECEMBER 31, 2019</b>                                      |                         |                |                          | <b>78,756</b>                                      | <b>437,533,516</b>                                |

(a) The gross amount of the issue premium related to the completion of the mandatory exchange offer amounts to €7,188,133 thousand before deduction of €22 million corresponding to the total amount of transaction costs associated with this operation (see Section 3.10 of 2018 Registration Document).

(b) The gross amount of the issue premium related to the completion of the public tender offer and mandatory squeeze-out procedure amounts to €1,017 million before deduction of €0.7 million corresponding to the total net amount of transaction costs associated to these operations (see Section 3.10 of this Universal Registration Document).

(c) Does not include 30,915 shares delivered but not yet registered at December 31, 2019 for a nominal value amounting to €6 thousand and issue premium amounting to €3,106 thousand.

### 5.7.3 History of awards of stock subscription options and rights to performance shares

With regard to performance shares, please also see Section 5.2.5.

| Plan   | 11/27/2012  | 11/25/2013  |
|--|---|---|
| Date of Shareholders' Meeting  | May 11, 2012  | May 11, 2012  |
| Date of Board of Directors' Meeting                                  | November 27, 2012   | November 25, 2013   |
| Type of plan   | Capped performance stock subscription option plan <sup>(a)</sup>  | Capped performance stock subscription option plan <sup>(a)</sup>  |
| Total number of shares that can be subscribed or purchased           | Maximum 81,760  | Maximum 87,880  |
| By corporate officers  |   |   |
| • Hubert Sagnières   |   |   |
| • Laurent Vacherot   |   |   |
| By the top 10 employee beneficiaries                                 | 32,900  | 34,350  |
| Starting point for exercising options                                | November 27, 2014 <sup>(c)</sup>  | November 25, 2015 <sup>(d)</sup>  |
| Date plan ends   | November 27, 2019   | November 25, 2020   |
| Subscription price or purchase price (in €)                          | 71.35   | 77.29   |
| Number of grantees   | 216   | 248   |
| Exercise conditions <sup>(b)</sup>                                   | Non-residents and residents: cannot exercise until performance is achieved. Then 50% in the third year and the balance in the following years. Cancellation possible. | Non-residents and residents: cannot exercise until performance is achieved. Then 50% in the third year and the balance in the following years. Cancellation possible. |
| Number of shares subscribed as at December 31, 2019                  | 74,275  | 69,069  |
| Stock subscription options or rights to performance shares canceled  | 7,485   | 5,443   |
| Stock subscription options or rights to performance shares remaining | 0   | 13,368  |

(a) Capped performance plan. The capped performance plans are in addition subject to an additional market performance condition (like performance shares) and may be canceled if the condition is not reached.

(b) The vesting of stock subscription options is subject to a performance condition based on the annualized growth of Essilor's share price. A second performance condition applies specifically to executive corporate officers: the number of vested options may be reduced if the average rate of accomplishment of their variable compensation targets is less than 100%.

(c) Shares may be granted to residents when the calculated annualized average is 2% higher than the price of €71.35. For non-residents, the shares may be granted no earlier than November 27, 2016.

(d) Shares may be granted to residents when the calculated annualized average is 2% higher than the price of €77.29. For non-residents, the shares may be granted no earlier than November 25, 2017.

| Plan   | 11/25/2014  | 11/25/2014   | 12/19/2014   |
|--|---|--|--|
| Date of Shareholders' Meeting  | May 11, 2012  | May 11, 2012   | May 11, 2012   |
| Date of Board of Directors' Meeting                                  | November 25, 2014   | November 25, 2014  | November 25, 2014  |
| Type of plan   | Capped performance stock subscription option plan <sup>(a)</sup>  | Rights to performance shares   | Rights to performance shares (France Collective Plan)  |
| Total number of shares that can be subscribed or purchased           | Maximum 121,505   | Maximum 1,448,464  | Maximum 96,440   |
| By corporate officers  |   | 40,000   |  |
| • Hubert Sagnières   |   | 40,000   |  |
| • Laurent Vacherot   |   |  |  |
| By the top 10 employee beneficiaries                                 | 59,900  | 238,600  | 200  |
| Starting point for exercising options                                | November 25, 2016 <sup>(c)</sup>  | November 25, 2016 <sup>(d)</sup>   | December 19, 2016 <sup>(e)</sup>   |
| Date plan ends   | November 25, 2021   | November 25, 2020 or 2022  | December 19, 2020 or 2022  |
| Subscription price or purchase price (in €)                          | 87.16   | NS <sup>(b)</sup>  | NS <sup>(b)</sup>  |
| Number of grantees   | 256   | 6,410  | 4,822  |
| Exercise conditions  | Non-residents and residents: cannot exercise until performance is achieved. 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. Sellable 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 Saturday, December 19, 2020 or 2022 depending on the vesting date of award. Residents: award subject to performance. Cancellation possible. Sellable starting Saturday, December 19, 2020 or 2022 depending on the vesting date of award. |
| Number of shares subscribed as at December 31, 2019                  | 76,807  | 1,337,985  | 85,720   |
| Stock subscription options or rights to performance shares canceled  | 16,028  | 110,479  | 10,720   |
| Stock subscription options or rights to performance shares remaining | 28,670  |  |  |

(a) Capped performance plan. The capped performance plans are in addition subject to an additional stock market performance condition (like performance shares) and may be canceled if the condition is not reached.

(b) If the performance shares are granted, they will be produced and taken from the treasury shares held by the Company.

(c) Options may be granted when the calculated annualized average is 2% higher than the price of €87.16.

(d) Shares may be granted to residents when the calculated annualized average is 2% higher than the price of €87.16. For non-residents, the shares may be granted no earlier than November 25, 2018.

(e) Shares may be granted to residents when the calculated annualized average is 2% higher than the price of €87.16. For non-residents, shares may be granted no earlier than December 19, 2018.

## Information about the Company, its share capital and stock ownership

### Historical data

| 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 stock subscription option plan <sup>(a)</sup>  | Rights to performance shares  | Rights to performance shares (France Collective Plan)   |
| Total number of shares that can be subscribed or purchased           | Maximum 100,023   | Maximum 1,251,533   | Maximum 91,620  |
| By corporate officers  |   | 35,000  |   |
| • Hubert Sagnières   |   | 35,000  |   |
| • Laurent Vacherot   |   |   |   |
| By the top 10 employee beneficiaries                                 | 43,459  | 181,170   | 100   |
| Starting point for exercising options                                | December 2, 2018  | December 2, 2018  | December 18, 2018   |
| Date plan ends   | December 2, 2022  | December 2, 2020 or 2023  | December 18, 2020 or 2023   |
| Subscription price or purchase price (in €)                          | 121.32  | NS <sup>(b)</sup>   | NS <sup>(b)</sup>   |
| Number of grantees   | 283   | 6,744   | 4,581   |
| Exercise conditions  | No residents on this plan. Non-residents: subject to employment conditions: 100% after three years. Then, maximum 100% in the fourth year. Cancellation possible. | Non-residents: Award subject only to employment condition. 100% saleable on award at December 2, 2019. Residents: 100% saleable as from December 2, 2020. | No non-residents on this plan. Residents: award subject only to employment condition. 100% saleable for registered shares as from December 18, 2020, and for the company savings plan (PEE) as from December 18, 2023 or 2025 |
| Number of shares subscribed as at December 31, 2019                  | 7,485   | 1,110,580   | 1,020   |
| Stock subscription options or rights to performance shares canceled  | 28,183  | 140,953   | (1,020)   |
| Stock subscription options or rights to performance shares remaining | 64,355  | 0   | 0   |

(a) Capped performance plan. The 2015 capped performance plans are no longer subject to performance conditions.

(b) If performance shares are granted, they will be issued through a capital increase

| 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 stock subscription option plan <sup>(a)</sup>  | Rights to performance shares  | Rights to performance shares (France Collective Plan)  |
| Total number of shares that can be subscribed or purchased           | Maximum 119,392   | Maximum 1,372,233   | Maximum 67,830   |
| By corporate 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 exercising options                                | September 22, 2019  | September 22, 2019  | December 19, 2019  |
| Date plan ends   | September 22, 2023  | September 22, 2022  | December 19, 2022  |
| Subscription price or purchase price (in €)                          | 114.88  | NS <sup>(b)</sup>   | NS <sup>(b)</sup>  |
| Number of grantees   | 810   | 11,227  | 4,523  |
| Exercise conditions  | No residents on this plan. Non-residents: subject to employment conditions: 100% after three years. Then, maximum 100% in the fourth year. Cancellation possible. | Non-residents: award subject only to employment condition. 100% saleable on award at September 22, 2020. Residents: 100% saleable as from September 22, 2021. | No non-residents on this plan. Residents: award subject only to employment condition. 100% saleable for registered shares starting Sunday, December 19, 2021, and for the company savings plan (PEE) as from December 19, 2024 or 2026 |
| Number of shares subscribed as at December 31, 2019                  | 13,385  | 426,958 <sup>(c)</sup>  | 58,170 <sup>(c)</sup>  |
| Stock subscription options or rights to performance shares canceled  | 46,404  | 225,158   | 2,295  |
| Stock subscription options or rights to performance shares remaining | 59,603  | 720,117   | 0  |

(a) Capped performance plan. The 2016 capped performance plans are no longer subject to performance conditions.

(b) If performance shares are granted, they will be issued through a capital increase.

(c) Shares become fully vested in the event of death or disability and are issued through a capital increase.

## Information about the Company, its share capital and stock ownership

### Historical data

| Plan   | 10/3/2017   | 10/3/2017   | 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 stock subscription option plan <sup>(a)</sup>  | Rights to performance shares  | Rights to performance shares (France Collective Plan)   |
| Total number of shares that can be subscribed or purchased           | Maximum 132,016   | Maximum 1,481,219   | Maximum 91,200  |
| By corporate 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 exercising options                                | October 3, 2020 <sup>(c)</sup>  | October 3, 2020 <sup>(d)</sup>  | December 21, 2020 <sup>(e)</sup>  |
| Date plan ends   | October 3, 2024   | October 3, 2023   | December 21, 2023   |
| Subscription price or purchase price (in €)                          | 105.8   | NS <sup>(b)</sup>   | NS <sup>(b)</sup>   |
| Number of grantees   | 786   | 12,112  | 4,560   |
| Exercise conditions  | No residents on this plan. Non-residents: subject to employment conditions: 100% after three years. Then, maximum 100% in the fourth year. Cancellation possible. | Non-residents: award subject to the employment and performance conditions. Cancellation possible. 100% saleable on award at October 3, 2021. Residents: award subject to performance. Cancellation possible. 100% saleable as from October 3, 2022 depending on the final award date. | No non-residents on this plan. Residents: award subject to employment and performance conditions. Cancellation possible. 100% saleable for registered shares as from December 21, 2022, and for the company savings plan (PEE) as from December 21, 2025 or 2027 depending on the final award date. |
| Number of shares subscribed as at December 31, 2019                  |   | 2,486 <sup>(f)</sup>  | 1,040 <sup>(f)</sup>  |
| Stock subscription options or rights to performance shares canceled  | 35,932  | 166,331   | 10,660  |
| Stock subscription options or rights to performance shares remaining | 96,084  | 1,312,402   | 79,500  |

(a) Capped performance plan. The capped performance plans are in addition subject to an additional stock market performance condition (like performance shares) and may be canceled if the condition is not reached.

(b) If performance shares are granted, they will be issued through a capital increase.

(c) Options may be granted when the calculated annualized average is 2% higher than the price of €105.80.

(d) Shares may be granted to residents when the calculated annualized average is 2% higher than the price of €105.80.

For non-residents, shares may be granted no earlier than Saturday, October 3, 2020.

(e) Shares may be granted to residents when the calculated annualized average is 2% higher than the price of €107.14.

(f) Shares become fully vested in the event of death or disability and are issued through a capital increase.

| Plan   | 5/23/2018  | 11/29/2018   | 11/29/2018   | 11/29/2018   |
|--|--|--|--|--|
| Date of Shareholders' Meeting  | May 5, 2015  | November 29, 2018  | November 29, 2018  | November 29, 2018  |
| Date of Board of Directors' Meeting                                  | May 23, 2018   | November 29, 2018  | November 29, 2018  | November 29, 2018  |
| Type of plan   | Rights to exceptional performance shares   | Capped performance stock subscription option plan <sup>(a)</sup>   | Rights to performance shares   | Rights to performance shares (France Collective Plan)  |
| Total number of shares that can be subscribed or purchased           | Maximum 316,638  | Maximum 133,203  | Maximum 1,565,862  | Maximum 93,180   |
| By corporate officers  |  |  | 100,000  |  |
| • Hubert Sagnières   |  |  | 50,000   |  |
| • Leonardo Del Vecchio   |  |  | 50,000   |  |
| By the top 10 employee beneficiaries                                 | 72   | 12,896   | 166,580  | 100  |
| Starting point for exercising options                                | May 23, 2021 <sup>(f)</sup>  | November 29, 2021 <sup>(d)</sup>   | November 29, 2021 <sup>(e)</sup>   | November 29, 2021 <sup>(e)</sup>   |
| Date plan ends   | May 23, 2024   | November 29, 2025  | November 29, 2024  | November 29, 2024  |
| Subscription price or purchase price (in €)                          | NS <sup>(b)</sup>  | 116.74   | NS <sup>(c)</sup>  | NS <sup>(c)</sup>  |
| Number of grantees   | 35,182   | 789  | 13,379   | 4,659  |
| Exercise conditions  | Non-residents: award subject to the employment and performance conditions. Cancellation possible. 100% saleable on award at May 23, 2021.<br>Residents: Award subject to performance. Cancellation possible. 100% saleable starting May 23, 2022 depending on the final date of award. | Non-residents and residents: subject to employment conditions: maximum 100% in the fourth year. Cancellation possible. | Non-residents and residents: award subject to employment and performance conditions. Cancellation possible. 100% saleable on award at November 29, 2021. | No non-residents on this plan. Residents: award subject to employment and performance conditions. Cancellation possible. 100% saleable for registered shares as from November 29, 2021, and for the company savings plan (PEE) as from November 29, 2026 or 2028 depending on the final date of award. |
| Number of shares subscribed as at December 31, 2019                  | 387 <sup>(g)</sup>   |  |  |  |
| Stock subscription options or rights to performance shares canceled  | 51,252   | 12,411   | 111,936  | 5,300  |
| Stock subscription options or rights to performance shares remaining | 264,999  | 120,792  | 1,453,926  | 87,880   |

(a) Capped performance plan. The capped performance plans are in addition subject to an additional stock market performance condition (like performance shares) and may be canceled if the condition is not reached.

(b) If performance shares are granted, they will be issued through a capital increase.

(c) If the performance shares are granted, they will be produced and taken from the treasury shares held by the Company.

(d) Options will be granted provided that the estimated annualized average price is 2% higher than €116.74.

(e) The shares may be granted to residents when the calculated annualized average is 2% higher than the price of €116.74.

(f) The shares will be granted to residents provided that the estimated annualized average price is 2% higher than €114.62.

(g) Shares become fully vested in the event of death or disability and are issued through a capital increase.

## Information about the Company, its share capital and stock ownership

Historical data

| Plan   | 07/03/2019   | 10/03/2019   | 10/03/2019   | 11/28/2019   |
|--|--|--|--|--|
| Date of Shareholders' Meeting  | November 29, 2018  | November 29, 2018  | November 29, 2018  | November 29, 2018  |
| Date of Board of Directors' Meeting                                  | March 7, 2019  | October 3, 2019  | October 3, 2019  | November 28, 2019  |
| Type of plan   | Rights to restricted shares (f)  | Capped performance stock subscription option plan <sup>(a)</sup>   | Rights to performance shares   | Rights to performance shares (France Collective Plan)  |
| Total number of shares that can be subscribed or purchased           | Maximum 801,400  | Maximum 127,117  | Maximum 2,228,446  | Maximum 94,520   |
| By corporate officers  |  |  | 80,000   |  |
| • Hubert Sagnières   |  |  | 40,000   |  |
| • Leonardo Del Vecchio   |  |  | 40,000   |  |
| By the top 10 employee beneficiaries                                 | 287,800  | 29,129   | 190,109  | 120  |
| Starting point for exercising options                                | March 7, 2021  | October 3, 2022 <sup>(c)</sup>   | October 3, 2022 <sup>(d)</sup>   | November 28, 2022 <sup>(e)</sup>   |
| Date plan ends   | March 7, 2021  | October 3, 2026  | According to vesting date  | According to vesting date  |
| Subscription price or purchase price <i>(in €)</i>                   | NS   | 131.52   | NS <sup>(b)</sup>  | NS <sup>(b)</sup>  |
| Number of grantees   | 111  | 775  | 14,087   | 4,726  |
| Exercise conditions  | Non-residents and residents: award subject to employment condition. Cancellation possible. 100% saleable on award at March 7, 2021 | Non-residents and residents: subject to employment conditions: maximum 100% in the fourth year. Cancellation possible. | Non-residents and residents: award subject to employment and performance conditions. Cancellation possible. 100% saleable on award at October 3, 2022. | No non-residents on this plan. Residents: award subject to employment and performance conditions. Cancellation possible. 100% saleable for registered shares as from November 28, 2022, and for the company savings plan (PEE) as from November 28, 2027 or 2029 depending on the final date of award. |
| Number of shares subscribed as at December 31, 2019                  |  |  |  |  |
| Stock subscription options or rights to performance shares canceled  | 17,800   |  | 63   |  |
| Stock subscription options or rights to performance shares remaining | 783,600  | 127,117  | 2,228,383  | 94,520   |

(a) Capped performance plan. The capped performance plans are in addition subject to an additional stock market performance condition (like performance shares) and may be canceled if the condition is not reached.

(b) If the performance shares are granted, they will be produced and taken from the treasury shares held by the Company.

(c) Options will be granted provided that the estimated annualized average price is 2% higher than €131.52.

(d) Shares will be granted to residents provided that the estimated annualized average price is 2% higher than €131.52.

(e) Shares will be granted to residents provided that the estimated annualized average price is 2% higher than €137.63.

(f) Award of free existing shares (without any performance condition) to Luxottica group's employees, replacing cash retention bonuses approved by Luxottica Board of Directors at the end of December 2017.





**OLIVER PEOPLES**

LOS ANGELES

NEVER A TREND, ALWAYS IN STYLE.

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CHAPTER

6

**ADDITIONAL INFORMATION  
ON THE UNIVERSAL REGISTRATION  
DOCUMENT**

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|            |  |            |            |   |            |
|------------|--|------------|------------|---|------------|
| <b>6.1</b> | <b>PERSONS RESPONSIBLE</b>   | <b>365</b> | <b>6.2</b> | <b>STATUTORY AUDITORS</b>                           | <b>366</b> |
| 6.1.1      | Persons responsible for the Universal Registration Document                  | 365        | 6.2.1      | Incumbent and alternate Statutory Auditors          | 366        |
| 6.1.2      | Statement by the persons responsible for the Universal Registration Document | 365        | 6.2.2      | Resignation or non-renewal                          | 366        |
|            |  |            | <b>6.3</b> | <b>PUBLICLY AVAILABLE DOCUMENTS</b>                 | <b>366</b> |
|            |  |            | <b>6.4</b> | <b>CROSS-REFERENCE TABLES</b>                       | <b>367</b> |
|            |  |            | 6.4.1      | Universal Registration Document                     | 367        |
|            |  |            | 6.4.2      | Annual Financial Report                             | 371        |
|            |  |            | 6.4.3      | Cross-reference table for the registry of the Court | 372        |

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## IN BRIEF

### Company name

The Company's name is EssilorLuxottica, hereinafter 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 EssilorLuxottica's positions comes from EssilorLuxottica 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.

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Dockers® is a trademark of the company Levi Strauss & Co. French Connection™ is a trademark of the company French Connection Limited. Hello Kitty® is a trademark of the company Sanrio, Inc. Ironman® is a trademark of the company World Triathlon Corporation. Karen Millen® is a trademark of the company Karen Millen Fashion Limited. Nine West® is a trademark of the company Nine West Development LLC. Reebok® is a trademark of the company Reebok International Limited. Disney® is a trademark of the company Disney Consumer Products, Inc.

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### Persons responsible

Leonardo Del Vecchio

Executive Chairman

Hubert Sagnières

Executive Vice-Chairman and Chief Executive Officer

### Statutory Auditors

PricewaterhouseCoopers Audit

63, rue de Villiers

92208 Neuilly-sur-Seine

Mazars

61, rue Henri-Regnault

92075 Paris-La Défense Cedex

## 6.1 Persons responsible

### 6.1.1 Persons responsible for the Universal Registration Document

Leonardo Del Vecchio, Executive Chairman and Hubert Sagnières, Executive Vice-Chairman are the persons responsible for the information given in the Universal Registration Document.

### 6.1.2 Statement by the persons responsible for the Universal Registration Document

We declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Universal Registration Document is, to our knowledge, in accordance with the facts and contains no omission that might affect its significance.

We declare that, to our 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) and that the information presented in the Management Report, which is detailed in the concordance table in Section 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.

Paris, April 20, 2020

**Leonardo Del Vecchio**

**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: June 14, 1983.

Reappointed by the Shareholders' Meeting of May 16, 2019 for a legal period 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 Patrice Morot (registered member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*), appointed by the Shareholders' Meeting of May 16, 2019 for a legal period of six years.

##### Mazars

61, rue Henri-Regnault

92075 Paris-La Défense Cedex

First appointed: May 11, 2007.

Reappointed by the Shareholders' Meeting of May 16, 2019 for a legal period of six years.

Mazars is represented by Jean-Luc Barlet and Guillaume Devaux (registered members of the *Compagnie Régionale des Commissaires aux comptes de Versailles*).

The Alternate Auditor for Mazars is Gilles Magnan (registered member of the *Compagnie Régionale des Commissaires aux comptes de Versailles*), appointed by the Shareholders' Meeting of May 16, 2019 for a legal period of six years.

### 6.2.2 Resignation or non-renewal

No auditors resigned in 2019.

## 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 Universal Registration Document

and the 2019 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 June 25, 2020.

EssilorLuxottica 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.essilorluxottica.com](http://www.essilorluxottica.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 Universal 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 Statutory Auditors' fees;
- the description of the share buyback program.

The cross-reference table below identifies the main information provided for in Annex 2 of the Commission Delegated Regulation (EU) 2019/980 of March 14, 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004.

|          |  |                   |                                  |
|----------|--|-------------------|----------------------------------|
| <b>1</b> | <b>Persons responsible</b>   |                   |                                  |
| 1.1      | Persons responsible for the information given in the Universal Registration Document         | p. 365            | Section 6.1.1                    |
| 1.2      | Declaration by those responsible for the Universal Registration Document                     | p. 365            | Section 6.1.2                    |
| 1.3      | Name, business address, qualifications and material interest of person acting as expert      | N/A               | N/A                              |
| 1.4      | Confirmation regarding information sourced from a third party                                | N/A               | N/A                              |
| 1.5      | Statement without the prior approval of the competent authority                              | p.1               | N/A                              |
| <b>2</b> | <b>Statutory Auditors</b>  |                   |                                  |
| 2.1      | Identity of the Statutory Auditors   | p. 366            | Section 6.2.1                    |
| 2.2      | Change of Statutory Auditors   | p. 366            | Section 6.2.2                    |
| <b>3</b> | <b>Risk factors</b>  |                   |                                  |
| 3.1      | Description of material risks  | p. 49             | Section 1.8.2                    |
| <b>4</b> | <b>Information about the issuer</b>  |                   |                                  |
| 4.1      | Legal and commercial name of the issuer  | p. 333            | Section 5.1.1                    |
| 4.2      | Place of registration of the issuer, registration number and legal entity identifier ("LEI") | p. 333            | Section 5.1.3                    |
| 4.3      | Date of incorporation and the length of life of the issuer                                   | p. 333            | Section 5.1.2                    |
| 4.4      | The domicile and legal form of the issuer and telephone number of its registered office      | p. 333            | Section 5.1.1                    |
| <b>5</b> | <b>Business overview</b>   |                   |                                  |
| 5.1      | Principal activities   |                   |                                  |
| 5.1.1    | Description of the nature of the operations and principal activities                         | p.19              | Section 1.5                      |
| 5.1.2    | New products and important services  | p. 22, 26, 31, 32 | Sections 1.5.1.3.3 and 1.5.2.2.2 |
| 5.2      | Principal markets  | p. 19             | Section 1.5                      |
| 5.3      | Important events in the development of the issuer's business                                 | p. 7, 16          | Sections 1.1 and 1.3             |
| 5.4      | Strategy and objectives  | p. 18, 175        | Sections 1.4 and 3.2.3           |
| 5.5      | Dependency of the issuer on patents, licenses, contracts and manufacturing process           | p. 30, 35         | Sections 1.5.1.6 and 1.5.2.4     |
| 5.6      | Statement of competitive position  | p. 21, 56, 57     | Sections 1.5.1.3.1 and 1.8.2     |
| 5.7      | Investments  |                   |                                  |
| 5.7.1    | Description of material investments  | p. 48             | Section 1.7.5                    |

|           |  |                |   |
|-----------|--|----------------|---|
| 5.7.2     | Description of any material investments of the issuer that are in progress or for which firm commitments have already been made  | p. 48          | Section 1.7.5                               |
| 5.7.3     | Joint ventures and undertakings in which the issuer holds a proportion of the capital  | p. 247         | Section 3.4<br>Appendix 2                   |
| 5.7.4     | Description of any environmental issues that may affect the issuer's utilization of the tangible fixed assets  | p. 293         | Chapter 4                                   |
| <b>6</b>  | <b>Organisational structure</b>  |                |   |
| 6.1       | Description of the Group and the issuer's position within the Group  | p. 39          | Section 1.6                                 |
| 6.2       | Issuer's significant subsidiaries  | p. 247         | Section 3.4<br>Appendix 2                   |
| <b>7</b>  | <b>Operating and financial review</b>  |                |   |
| 7.1       | Financial condition  |                |   |
| 7.1.1     | Development and performance of the issuer business including key performance indicators and, where appropriate, non-financial  | p. 165         | Section 3.1                                 |
| 7.1.2     | Indication of the future development and activities in the fields of research and development  | p. 26, 31, 173 | Sections<br>1.5.1.3.3,<br>1.5.2.2.2 and 3.2 |
| 7.2       | Operating results  |                |   |
| 7.2.1     | Significant factors materially affecting the income from operations  | p. 165         | Section 3.1.1                               |
| 7.2.2     | Reasons for material changes in net sales or revenues  | p. 165         | Section 3.1.1                               |
| <b>8</b>  | <b>Capital resources</b>   |                |   |
| 8.1       | Information of the issuer's capital resources (both short term and long term)  | p. 171         | Section 3.1.2                               |
| 8.2       | Source and amounts of the issuer's cash flows  | p. 171         | Section 3.1.2                               |
| 8.3       | Information on the borrowing requirement and funding structure of the issuer   | p. 171         | Section 3.1.2                               |
| 8.4       | Restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly the issuer's operations   | N/A            | N/A   |
| 8.5       | Anticipated source of financing  | N/A            | N/A   |
| <b>9</b>  | <b>Regulatory environment</b>  |                |   |
| 9.1       | Description of the regulatory environment  | p. 64          | Section 1.8.2                               |
| <b>10</b> | <b>Trend information</b>   |                |   |
| 10.1      | Description of the most significant trends and of significant changes in the financial performance of the group since the end of the last financial year   | p. 173         | Section 3.2                                 |
| 10.2      | Known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects   | p. 173         | Section 3.2                                 |
| <b>11</b> | <b>Profit forecasts or estimates</b>   |                |   |
| 11.1      | Published profit forecast or estimate  | p. 175         | Section 3.2.3                               |
| 11.2      | New profit forecast or estimate, or forecast or estimation of the profit previously published pursuant to item 11.1  | N/A            | N/A   |
| 11.3      | Statement that the profit forecast or estimate has been compiled and prepared on a basis which is comparable with the historical financial information; consistent with the issuer's accounting policies | N/A            | N/A   |
| <b>12</b> | <b>Administrative, management and supervisory bodies and senior management</b>   |                |   |
| 12.1      | Name, business address and functions or the members of the Board of Directors  | p. 74          | Section 2.1.1.1                             |
|           | Principal activities performed by the administrative and managing outside of the issuers   | p. 141         | Section 2.5                                 |
|           | Family relationships   | N/A            | N/A   |
|           | Functions and positions occupied in the previous five years  | p. 141         | Section 2.5                                 |
|           | Absence convictions in relation to fraudulent offences for the last five years   | p. 82          | Section 2.1.1.4                             |
|           | Bankruptcies, receiverships, liquidations or companies put in administration   | p. 82          | Section 2.1.1.4                             |
|           | Official public incrimination and/or sanctions   | p. 82          | Section 2.1.1.4                             |

|           |   |                  |  |
|-----------|---|------------------|--|
| 12.2      | Conflicts of interest   | p. 82            | Section 2.1.1.4  |
| <b>13</b> | <b>Remuneration and benefits</b>  |                  |  |
| 13.1      | Remuneration and benefits in kind   | p. 113           | Section 2.3.2  |
| 13.2      | Pensions, retirement or similar benefits  | p. 113           | Section 2.3.2  |
| <b>14</b> | <b>Board practices</b>  |                  |  |
| 14.1      | Date of expiration of the current term of office  | p. 76            | Section 2.1.1.2  |
| 14.2      | Service contracts   | p. 82            | Section 2.1.1.4  |
| 14.3      | Information on the audit committee and the remuneration committee   | p. 90            | Section 2.1.2.6  |
| 14.4      | Statement on the corporate governance   | p. 138           | Section 2.4  |
| 14.5      | Potential material impacts on the corporate governance  | p. 72, 73        | In Brief<br>Chapter 2<br>and Section 2.1.1                               |
| <b>15</b> | <b>Employees</b>  |                  |  |
| 15.1      | Number of employees   | p. 304           | Section 4.3.1.1  |
| 15.2      | Shareholdings and stock options   | p. 343           | Section 5.4  |
| 15.3      | Arrangements for involving the employees in the capital of the issuer   | p. 343           | Section 5.4  |
| <b>16</b> | <b>Major shareholders</b>   |                  |  |
| 16.1      | Crossing of thresholds declared on amount of the shareholdings owned at the date of the Universal Registration Document | p. 341           | Section 5.3  |
| 16.2      | Voting rights held by major shareholders  | p. 341           | Section 5.3  |
| 16.3      | Direct and indirect controls  | p. 341           | Section 5.3  |
| 16.4      | Arrangement which may result in a change of control of the issuer   | p. 102           | Section 2.2.4.7  |
| <b>17</b> | <b>Related party transactions</b>   |                  |  |
| 17.1      | Detail of the related party transactions  | p. 243           | Section 3.4<br>Note 31.2   |
| <b>18</b> | <b>Financial information concerning the issuer's assets and liabilities, financial position and profits and losses</b>  |                  |  |
| 18.1      | Historical financial information  |                  |  |
| 18.1.1    | Audited historical information covering the latest three financial years and the audit report                           | p. 176, 183, 251 | Sections 3.3, 3.4,<br>3.5,<br>2018 and 2017<br>Registration<br>Documents |
| 18.1.2    | Change of accounting reference date   | N/A              | N/A  |
| 18.1.3    | Accounting standards  | p. 186           | Section 3.4<br>Note 1  |
| 18.1.4    | Change of accounting framework  | N/A              | N/A  |
| 18.1.5    | Financial information according to French accounting standards  | p. 266, 269      | Sections 3.9<br>and 3.10   |
| 18.1.6    | Consolidated financial statements   | p. 176, 183      | Sections 3.3<br>and 3.4  |
| 18.1.7    | Age of financial information  | p. 164           | In Brief<br>Chapter 3  |
| 18.2      | Interim and other financial information   | N/A              | N/A  |
| 18.3      | Auditing of historical annual financial information   |                  |  |
| 18.3.1    | Independent auditing of the historical annual information   | p. 164           | In Brief<br>Chapter 3  |
| 18.3.2    | Other information audited   | N/A              | N/A  |
| 18.3.3    | Sources and reasons for which information has not been audited  | N/A              | N/A  |
| 18.4      | <i>Pro forma</i> financial information  | p. 256           | Section 3.6  |
| 18.5      | Dividend policy   |                  |  |

|           |   |                          |  |
|-----------|---|--------------------------|--|
| 18.5.1    | Description of the policy on dividend distribution and any restriction thereon  | p. 348                   | Section 5.5  |
| 18.5.2    | Amount of dividend per share  | p. 348                   | Section 5.5  |
| 18.6      | Legal and arbitration proceedings   |                          |  |
| 18.6.1    | Information on any governmental, legal or arbitration proceedings which may have, or have had in the recent past significant effects on the issuer and/or group's financial position or profitability, or provide an appropriate negative statement | p. 242                   | Section 3.4<br>Note 30.2                                     |
| 18.7      | Significant change in the issuer's financial position   |                          |  |
| 18.7.1    | Description of any significant change in the financial position of the group which has occurred since the end of the last financial period  | p. 174, 175              | Sections 3.2.1<br>and 3.2.2                                  |
| <b>19</b> | <b>Additional information</b>   |                          |  |
| 19.1      | Share capital   |                          |  |
| 19.1.1    | Amount of issued capital, total of shares issued and fully paid, par value per share, total of authorized shares  | p. 336                   | Section 5.2.1  |
| 19.1.2    | Information on shares not representing capital, number and main characteristics   | N/A                      | N/A  |
| 19.1.3    | Number, book value and face value of shares in the issuer held by or on behalf of the issuer itself or by subsidiaries of the issuer  | p. 346                   | Section 5.4.1.3  |
| 19.1.4    | Amount of any convertible securities, exchangeable securities or securities with warrants   | N/A                      | N/A  |
| 19.1.5    | Information about and terms of any acquisition rights and or obligations over authorised but unissued capital or an undertaking to increase the capital   | p. 338                   | Section 5.2.2  |
| 19.1.6    | Information about any capital of any member of the group which is under option or agreed conditionally or unconditionally to be put under option and details of such options including those persons to whom such options relate                    | N/A                      | N/A  |
| 19.1.7    | History of share capital  | p. 352                   | Section 5.7.2  |
| 19.2      | Memorandum and articles of association  |                          |  |
| 19.2.1    | Register and corporate purpose  | p. 333                   | Section 5.1.5  |
| 19.2.2    | Description of the rights, preferences and restrictions attaching to each class   | N/A                      | N/A  |
| 19.2.3    | Absence of provisions of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control of the issuer   | p. 102                   | Section 2.2.4.7  |
| <b>20</b> | <b>Material contracts</b>   |                          |  |
| 20.1      | Summary of materials contracts  | p. 26, 30,<br>36, 49, 73 | Sections<br>1.5.1.3.3, 1.5.2.1,<br>1.5.2.5, 1.8.2 and<br>2.1 |
| <b>21</b> | <b>Documents available</b>  |                          |  |
| 21.1      | Statement on the documents available  | p. 366                   | Section 6.3  |

## 6.4.2 Annual Financial Report

|  |               |                       |
|--|---------------|-----------------------|
| <b>Statement by the persons responsible for the document</b>                                       | <b>p. 365</b> | <b>Section 6.1</b>    |
| <b>Management Report</b>   |               |                       |
| Operating and financial analysis   | p. 165        | Section 3.1           |
| Risk factors   | p. 49         | Section 1.8           |
| Information about internal control procedures  | p. 67         | Section 1.9           |
| Information relating to share buybacks (Art. L.225-211, paragraph 2 of the French Commercial Code) | p. 339        | Section 5.2.3         |
| <b>Financial statements</b>  |               |                       |
| Annual financial statements  | p. 266, 269   | Sections 3.9 and 3.10 |
| Statutory Auditors' report on the annual financial statements                                      | p. 288        | Section 3.12          |
| Consolidated financial statements  | p. 176, 183   | Sections 3.3 and 3.4  |
| Statutory Auditors' report on the consolidated financial statements                                | p. 251        | Section 3.5           |
| Statutory Auditors' fees   | p. 265        | Section 3.8           |
| Appendix to the management report : Report on the Corporate Governance                             | p. 71         | Chapter 2             |

### 6.4.3 Cross-reference table for the registry of the Court <sup>(1)</sup>

| <b>Management Report</b>   |             |                                  |
|--|-------------|----------------------------------|
| Activity report  | p. 40       | Sections 1.7                     |
| Status and activity of the Company during the year   | p. 40, 165  | Sections 1.7 and 3.1             |
| Research and development   | p. 26, 31   | Sections 1.5.1.3.3 and 1.5.2.2.2 |
| Operations   | p. 40       | Section 1.7                      |
| Acquisitions and partnerships  | p. 47       | Section 1.7.4                    |
| Financial information for the year and profit allocation                                       | p. 40, 165  | Sections 1.7 and 3.1             |
| Description of principal risks and uncertainties   | p. 49       | Section 1.8.2                    |
| Subsequent events  | p. 173      | Section 3.2.2                    |
| Evolution and future prospects   | p. 175      | Section 3.2.3                    |
| Information relating to Share Capital, its evolution, employee shareholding and shares buyback | p. 336      | Section 5.2                      |
| Non-Financial Statements, including the vigilance plan   | p. 293      | Chapter 4                        |
| <b>Appendix to the Management Report</b>   |             |                                  |
| Report on the Corporate Governance   | p. 71       | Chapter 2                        |
| Profit (and other characteristic items) of the last five fiscal years                          | p. 286      | Section 3.11.3                   |
| <b>Financial statements</b>  |             |                                  |
| Annual financial statements  | p. 266, 269 | Sections 3.9 and 3.10            |
| Statutory Auditors' Report on the annual financial statements                                  | p. 288      | Section 3.12                     |
| Consolidated financial statements  | p. 176, 183 | Sections 3.3 and 3.4             |
| Statutory Auditors' Report on the consolidated financial statements <sup>(2)</sup>             | p. 351      | Section 3.5                      |

(1) As per Article L.232-23 of the Code of Commerce.

(2) The paragraphs of the Management Report, reviewed by the Board of Directors on March 5, 2020, included as references in the Statutory Auditors' report on the consolidated financial statements are included in Sections 1.7.1 and 3.2.2 of this Universal Registration Document.

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