

## 2.2 CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

### Reference Code: the AFEP-MEDEF Code

Pursuant to Article L.225-37 of the French Commercial Code and in accordance with the decision of the Board of Directors of March 4, 2009, the Company declares that it adheres to the AFEP-MEDEF Corporate Governance Code for listed companies of June 2013.

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

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

- the composition of the Board and the application of the principle of equal representation of men and women on it;
- the conditions for preparing and organizing the work of the Board of Directors during the fiscal year ended December 31, 2014;
- the Company's internal control and risk management procedures (see Section 2.2.3);
- any restrictions on the powers of the Chief Executive Officer decided by the Board of Directors;
- specific procedures for shareholder participation in Shareholders' Meetings;
- the principles and rules applied by the Board of Directors to determine Executive Board Directors' compensation and benefits (see Section 2.3);

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

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

This report was prepared following certain procedures, mostly performed by the Secretary General and, as regards part 2.2.3 of the report, in close collaboration with the Internal Audit Department, based on written consultation and discussion with the heads (at the corporate level) of the various internal control sectors within the Group. It was presented to the Audit and Risk Committee (on February 16, 2015) before being presented to the Board of Directors for approval. This makes it possible for priorities and works in progress to be validated and for awareness of the importance of internal controls to the Company to be raised. In order to draft this report, we also relied on the principles listed, for reference purposes, regarding the AMF systems for the risk management and internal control of listed companies. Finally, the contents of this report were approved by the Board of Directors on February 18, 2015.

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

### 2.2.1 Composition of the Board of Directors

Article 12 of Essilor's bylaws stipulates that the Company's affairs are to be managed by a Board of Directors of no less than three and no more than fifteen members, not including Board members representing employee shareholders (Article 24.4) and the Board member representing employees.

On December 31, 2014, the Essilor Board of Directors was comprised of fifteen members. Three of these Directors represent employee shareholders and one Director represents employees, who began this role on October 28, 2014. The composition of the Board and the committees is reviewed each year, under the guidance of the Nominations Committee and as part of the Board of Directors' self-assessment.

Below are the principles which guide the composition of the Board of Directors:

- diversity of backgrounds and skills. As part of this, the Nominations Committee, in 2014 and at the beginning of 2015, continued its selection work with a view to appointing an increased number of women, Independent Directors and people with an international background.

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

The Board of Directors, which currently includes three women out of fourteen Directors (*excluding the Director representing employees, who is not counted in accordance with the law and the AFEP-MEDEF Code*), complies with the provisions of law no. 2011-103 of January 27, 2011 regarding balanced representation of men and women, which has required 20% female representation since 2014. Suggestions will be made to the Board of Directors in the coming months, with a view to submitting candidates for directorships during the Shareholders' Meetings in 2016. The composition of the Board will, in 2017, comply with the law which requires balanced representation of men and women. This law provides a 40% minimum proportion of Directors of the same gender.

See also "Major accomplishments of the Nominations Committee in 2014" in Section 2.2.2.6.

### 2.2.1.2 Directors' term

Board members are currently appointed for a three-year term and may stand for renewal. The terms of one-third of the Directors expire at an Ordinary Shareholders' Meeting deliberating on the financial statements of the previous fiscal year, so that the

entire Board is re-elected over a rolling three-year period. The Shareholders' Meeting of May 7, 2014 approved a review of Article 14 of the Bylaws, which was intended to facilitate a harmonious renewal of the Board and to prepare for changes in the composition of the aforementioned Board of Directors.

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

#### End dates of the current directorships:

Members of the Board of Directors	2014	2015	2016	2017
Hubert Sagnières	x			x
Philippe Alfroid	x			x
Benoit Bazin		x		
Antoine Bernard de Saint-Affrique		x		
Maureen Cavanagh			x	
Yves Chevillotte			x	
Mireille Faugère	(a)			
Xavier Fontanet			x	
Louise Fréchette		x		
Yi He	x			x
Franck Henrionnet	(b)			x
Bernard Hours		x		
Maurice Marchand-Tonel			x	
Aïcha Mokdahi	x			x
Olivier Pécoux		x		
Michel Rose			x	
<b>TOTAL RENEWALS</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>

(a) Resignation March 27, 2014.

(b) Appointment October 28, 2014.

### 2.2.1.3 Obligation of Directors appointed in the Shareholders' Meetings to hold shares

In accordance with Article 13 of the Bylaws in force at December 31, 2014, each Director appointed by Shareholders' Meetings must own at least 1,000 shares in the Company. As an exception, the Director representing employees is not required to hold shares, pursuant to Article L.225-25 of the French Commercial Code.

The records regarding each Director (Section 2.1) mention the number of shares held by each of them.

### 2.2.1.4 Expertise and experience of Directors

Members of the Board of Directors contribute management expertise and/or experience to the Company in a variety of areas, including general and practical business knowledge, expertise in a specific Essilor International business segment or several years of experience in managing international companies, and thus contribute their management expertise and/or experience. This diversity and complementarity of backgrounds is also a result of the internationalization of the Board of Directors, on which people of four different nationalities serve. For more details, see the list of directorships and their respective nationalities in Section 2.1.1.2.

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

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

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

The criteria for determining the Board members' independence are set out in the Company's internal rules as adopted by the Board on November 18, 2003 and amended from time to time. These criteria, which comply with the AFEP-MEDEF Corporate Governance Code, are as follows:

"A Board member is independent when he or she has no relationship of any kind whatsoever with the Company, the Group or the management thereof which may color his or her judgment. In particular, a Board member does not qualify as an Independent Director if:

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

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

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

- the composition of the share capital of the Company;
- and whether there exists potential for any conflicts of interest."

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

The Board of Directors, at its meeting of November 25, 2014, on the recommendation of the Nominations Committee and after having examined the situation of each Director with regard to the independence criteria established by the AFEP-MEDEF Code, concluded that out of the fifteen Directors on the Board of Directors, seven were independent, namely:

Louise Fréchette, Benoit Bazin, Antoine Bernard de Saint-Affrique, Yves Chevillotte, Bernard Hours, Maurice Marchand-Tonel and Michel Rose.

On December 31, 2014, the independence rate of the Board reached 63.6%, pursuant to the recommendations of the AFEP-MEDEF Code (*i.e.* not including the 3 Directors representing employee shareholders and the Director representing employees).

The Board is of the opinion that none of these Directors who qualified as independent had any material business relationships with the Company and its group. It is especially noteworthy that the Saint-Gobain group, where Benoit Bazin is a Director, has no significant current business with the Company.

However, the following Directors did not qualify as independent:

- Hubert Sagnières, Chairman and Chief Executive Officer since January 2, 2012;
- Xavier Fontanet, Chairman of the Board of Directors until January 2, 2012;
- Philippe Alfroid, Chief Operating Officer until June 30, 2009, who remained a Director after his retirement on that date;
- Olivier Pécoux, a Director whose term has exceeded 12 years. Though the Board considers that independence is not correlated with the seniority of a Director and that, on the contrary, completion of a term is a gauge of a Director's capacity to act freely and completely independently, the Board nonetheless decided not to qualify Mr. Pécoux as independent, pursuant to recommendations in the AFEP-MEDEF Code;
- the 3 Directors representing the employee shareholders: Maureen Cavanagh; Yi He; Aïcha Mokdahi;
- the Director representing employees: Franck Henrionnet.

### Summary table detailing each Director's compliance or non-compliance with regard to the independence criteria of the AFEP-MEDEF Code

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

Directors	Criteria for AFEP-MEDEF independence						
	Employee or executive Board Director of Essilor International or a Group company	over the last five years	Cross-directorships	Is a client, supplier, business banker or financing banker (significant business relationships)	Has a close family link with a non-executive Board Director	Has been a statutory auditor of Essilor International over the last five years	Has been a Director of Essilor for more than 12 years
Hubert SAGNIÈRES	C						
Philippe ALFROID		C					
Benoît BAZIN							
Antoine BERNARD DE SAINT-AFFRIQUE							
Maureen CAVANAGH	C						
Yves CHEVILLOTTE							
Louise FRÉCHETTE							
Xavier FONTANET		C					
Yi HE	C						
Franck HENRIONNET	C						
Bernard HOURS							
Maurice MARCHAND-TONEL							
Aïcha MOKDAHI	C						
Olivier PÉCOUX							C
Michel ROSE							
<i>Non-independent.</i>							

#### 2.2.1.6 Ethical awareness of Directors

##### — No potential conflicts of interest

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

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

As part of an annual statement, the Director informs the Board of Directors of the terms and roles they perform in other companies and must request the opinion of the Board prior to accepting any new directorship.

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

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

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

- there are no family ties between the members of the Board of Directors.

#### — Insider dealing rules

During the session of August 27, 2014, the Board of Directors reviewed applicable regulations in terms of the prevention of insider misconduct, especially as regards periods during which transactions in the securities of Essilor International are prohibited. As a result, on November 25, 2014, the Board approved changes to the Directors' Charter, which, above all, included the obligation for anybody with privileged information to refrain from performing, having a third party perform or allowing another party to perform transactions in the Company's securities based on this information, during the period in which this information has not

been made public (Articles 622-1 and 622-2 of the AMF General Regulation). The charter indicates that Directors, in addition to the period preceding the publication of any privileged information of which they are aware, must refrain from performing any transaction in the securities during the abstention periods set in accordance with recommendation no. 2010-07 of the French Financial Markets Authority ("AMF") of July 8, 2013.

Finally, Directors inform the AMF of transactions they performed or transactions individuals with whom they are closely associated performed in Essilor International securities on a yearly basis. These individual securities transaction declaration obligations are covered in the Directors' Charter, which is reviewed annually by the Board. The summary statement of transactions in Essilor International securities carried out in 2014 by Corporate officers is included in Section 2.3.5.

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

The operations of the Board of Directors and the special Board Committees are governed by internal rules adopted by the Board at its meeting of November 18, 2003, and revised several times, and by a Directors' Charter. These documents are reviewed annually by the Board of Directors, as part of the self-assessment of the operations of the Board of Directors, in order to account, above all, for changes in regulations and in the AFEP-MEDEF Code. The main elements of these two documents are reproduced or summarized below. The complete version of these documents is also available, along with the Bylaws, on the Company's website, in the "governance" Section.

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

The internal rules of the Board of Directors and the Directors' Charter, whose current versions were updated on November 25, 2014, describe (i) the operating methods for the Board and the committees and (ii) the rights and obligations of each Director of Essilor International respectively.

The charter requires each Board member to commit to attending meetings of the Board of Directors and Shareholders' Meetings regularly, to inform the Board of Directors of any potential or actual conflict of interest, and to refrain from participating in the corresponding proceedings, including the work of special Board Committees. Board members must also keep the Board informed

of directorships held in other French and foreign companies and, in the case of Executive Board Directors, seek the advice of the Board before accepting a new corporate office. Directors must consider themselves subject to an obligation of professional secrecy – which goes further than the obligation to be discreet provided for in Article L.225-37-4 of the French Commercial Code – with regard to non-public information that comes into their possession in their capacity as a Board member.

The main amendments made in 2014 to the internal rules of the Board and the charter mainly concerned the following points:

- updates in accordance with recommendations in the AFEP-MEDEF Code of June 2013;
- updates following the appointment of the Director representing employees (no obligation to hold shares, etc.);
- the fact that any Director, and especially the Director representing employees, may benefit from training. Training may be given upon appointment or throughout the term of the directorship. The Company organizes and offers this training and the Company is responsible for the training. As part of the integration procedure, each new Director may benefit from a suitable training plan, as regards the skills, experience and knowledge of the field of business and the Company;
- Directors' fees: additional videoconference or telephone meetings do not require payment of Directors' fees, unless decided otherwise by the Board of Directors.

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

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

- decide the criteria to be applied to determine whether Directors are independent and review these criteria each year;
- identify the Directors who meet the independence criteria;
- review and if appropriate, approve major strategic choices;
- review (i) any acquisition or sale, as part of the new business / new country strategy, which exceeds €100 million and (ii) any acquisition or sale other than those referred to in (i) whose value exceeds €150 million. These transactions are subject to formal approval by the Board;
- approve material restructuring and investment projects that do not form part of the stated strategy;
- monitor implementation of the Board's decisions;
- review and approve the financial statements;
- assess the performance of Board members (collectively and individually) and of members of Senior Management;
- ensure that Essilor's tradition of managerial excellence is maintained;
- discuss and if appropriate, approve the choice of candidates for election as Non-Executive Board Directors and their compensation recommended by the Executive officers and Remuneration Committee;
- discuss and if appropriate, approve the appointment of the members of the special Board Committees on the recommendation of the Nominations Committee;
- discuss and if appropriate, approve Group Senior Management succession plans and major organizational changes;
- examine the procedures for identifying, evaluating, auditing and monitoring the Group's commitments and risks;
- monitor the Group's financial reporting so as to ensure that investors receive relevant, balanced and strategic information on the Company's strategy, development model and long-term outlook.

On the recommendation of the Nominations Committee and with the approval of the Chairman of the Board of Directors, the Board may create special committees and set the rules governing their remit and composition. These committees act on the authority delegated to them by the Board and make recommendations and proposals to the Board. The structure of the tasks attributed to each committee as well as their respective compositions are reviewed by the Board of Directors on an annual basis, as part of the self-assessment of the operations of the Board of Directors.

### 2.2.2.3 Self-assessment of the operations of the Board

A formalized assessment of the operation of the Board of Directors has been performed on an annual basis since 2004 and is included in a specific item on the agenda of the Board of Directors. Such assessments often lead to changes in the internal rules of the Board of Directors and the Directors' Charter. The results of the self-assessment are presented to shareholders in the Registration Document. The assessment covers the three objectives set out in Article 10.2 of the AFEP-MEDEF Code of Corporate Governance (review the operating procedures of the Board, ensure that important issues are suitably prepared and discussed, measure the contribution of each Director to the Board's accomplishments).

In 2014, a new formalized self-assessment was entrusted to an Independent Director, assisted by the Secretariat of the Board of Directors, under the authority of the Nominations Committee.

The Independent Directors meet at least once a year without the Executive Directors in attendance, to conduct the performance evaluation of the Chairman and Chief Executive Officer and prior to the return of the conclusions of the 2014 self-assessment.

The report on the questionnaires showed that the Directors have an overall positive assessment of the Board, which they consider to be "involved and committed". They also have a positive view of its relations with Senior Management, as regards consideration of its concerns and freedom of expression in Board and Committee Meetings. The improved quality of information, the quality of the presentations, the minutes of the Board Meetings and the reports of the committees, as well as the capacity of the Board to work in a team, have been recognized.

Proposals have also been made to review the composition of the Board of Directors in terms of greater diversity, internationalization and the male / female ratio, with a view to reaching the minimum threshold which provides that 40% of Directors must be of the same sex by 2017. The Nominations Committee has initiated a process in this regard. Some of the results of this process will be available in 2015, but most will be available in 2016.

As part of the review of the tasks attributed to each of the committees, the Board retained a proposal in favor of improved coordination of the committees, especially as regards the assessment and evaluation of extra-financial risks which are the responsibility of the Corporate Social Responsibility Committee. This committee is responsible for ensuring monitoring with the Audit and Risk Committee.

The members of the Board of Directors are also pleased with the progress made, especially with the progress of the self-assessment and the subsequent steps taken following the progress made in 2013.

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

- presentations that are more summary in nature, aimed at increasing the time spent in debate sessions;
- increased importance given to the Company's overall strategy, to new business and corresponding new requirements in terms of expertise and talent management;
- improved information on financial market trends (analysis briefs, roadshow summaries).

#### 2.2.2.4 Information from the Board of Directors

All necessary documents to inform the Board members about the agenda and any matters to be discussed by the Board are enclosed with the notice of meeting or sent, handed to or otherwise made available to them reasonably in advance of the meeting.

These documents may be communicated via a secure digital platform within a reasonable time frame prior to the meeting.

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

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

As in prior years, Board members were informed of the black-out periods for 2015, during which they may not trade in Essilor International shares or any instruments that have Essilor International shares as their underlying, either directly or through a third party. They were also given a copy of the ethics guidelines drawn up by the Company, which state that Board members are considered as permanent insiders because they regularly receive price-sensitive and other confidential information.

Directors may, if they deem it necessary, receive additional training in the specifics of the Company, its business and its industry. Upon their appointment, the members of the Audit and Risk Committee are provided with specific details about the Company's accounting, financial and operational practices. The internal rules of the Board and the Directors' Charter, updated on November 25, 2014, expressly provide that any new Director is given a welcome pack including all documents pertaining to the governance of Essilor International and the option of participating in an integration procedure.

#### 2.2.2.5 Meetings of the Board of Directors in 2014

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

In accordance with the internal rules of the Board, Directors are convened at least seven days prior to each meeting. The Statutory Auditors are invited to attend the Board Meetings called to review the interim and annual financial statements, as provided for in Article L.823-17 of the French Commercial Code. As in prior years, the Labor-Management Committee representatives on the Board attended all Board Meetings held in 2014.

In 2014, the Board of Directors held six meetings on the dates planned in 2014. The average duration of the meetings was two hours and thirty minutes.

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

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

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

The Company's bylaws state that Directors may participate in certain meetings by videoconference or other telecommunications link, with the exception of those cases explicitly stipulated, such as the approval of the financial statements and preparation of the Management Report. Under the Board's internal rules, Directors who participate in meetings in this way are included in the calculation of the quorum and voting majority for the meeting.

In 2014, none of the Directors used the videoconference or telephone resources.

All the Directors were, furthermore, present at the Combined Shareholders' Meeting on May 7, 2014.

The table below shows the number of Board and Committee Meetings held during 2014, as well as their members and the individual attendance at each of these meetings. The average

attendance of the Directors at the Board Meetings was 97%, and 99% for all the meetings of the Board and the committees.

	Board of Directors	Audit and Risk Committee	Executive officers and Remuneration Committee	Nominations Committee	Strategy Committee	CSR Committee
<b>Number of meetings in 2014</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>
<b>Participation (%)</b>						
Hubert SAGNIÈRES	100%				100%	
Philippe ALFROID	100%	100%			100%	
Benoît BAZIN	100%	100%			100%	
Antoine BERNARD DE SAINT-AFFRIQUE	83%	100%			100%	
Maureen CAVANAGH	100%				100%	
Yves CHEVILLOTTE	100%	100%		100%	100%	
Mireille FAUGÈRE <sup>(a)</sup>	33%		50%		50%	
Xavier FONTANET	100%			100%	100%	
Louise FRÉCHETTE	100%				100%	100%
Yi HE	100%				100%	
Franck HENRIONNET <sup>(a)</sup>	16%					
Bernard HOURS	100%		100%		100%	100%
Maurice MARCHAND-TONEL	100%		100%	100%	100%	
Aïcha MOKDAHI	100%	75%			100%	100%
Olivier PÉCOUX	66%				80%	
Michel ROSE	100%		100%	100%	100%	

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

### Major accomplishments of the Board of Directors in 2014

The matters discussed by the Board in fiscal year 2014 and the decisions taken covered a wide range of areas, including:

- **business developments:** at each meeting planned in the annual schedule (excluding exceptional meetings convened to deliberate on a strategic transaction), the Chairman and Chief Executive Officer presented the Company's general position for the previous period: changes in key financial indicators, "key events" in the commercial and technical fields, state of competition, consolidation of acquired businesses, etc.;
- **2014 budget:** examination, during two meetings, at the beginning of the fiscal year;
- **financial statements:** examination and/or closure of the 2013 annual financial statements and the half-yearly financial statements, the provisional financial statements, after having heard the reports of the Audit and Risk Committee and the Statutory Auditors. On this occasion, the financial and cash flow situation was reviewed;
- **external growth:** during each meeting planned on the schedule, the Board receives information about and debates acquisition transactions which are underway or are being considered. Furthermore, the Board is informed beforehand of the Company's general external growth policy, based on the reports of the Strategy Committee;
- **financial authorizations:** approval of renewals of authorization to issue European bonds (European medium term notes)

and delegation of powers to the Chairman and Chief Executive Officer for the issuance of ordinary bonds and the implementation of the share buyback program authorized in the 13<sup>th</sup> resolution of the Shareholders' Meeting of May 7, 2014; authorization to issue, sureties, endorsements and guarantees and to delegate, with the power to sub-delegate, their power to grant the Company's guarantee, within the overall annual limit of €400 million, to the Chairman and Chief Executive Officer;

- **notice of Shareholders' Meeting:** examination, during two meetings, and approval of draft resolutions to submit to the Shareholders' Meetings of May 7, 2014 and May 5, 2015;
- **governance:** information regarding new internal organization effective on September 1, 2014, according to whose terms Jean Carrier was appointed as Chief Operating Officer, alongside Paul du Saillant and Laurent Vacherot (this appointment involved a certain number of internal-mobility changes which affected the composition of the Executive Committee); updating of the internal rules of the Board of Directors and the Directors' Charter; completion of the annual self-assessment and, above all, examination, based on the proposals of the Nominations Committee, of its composition and predicted changes (see Section 2.2.2.3) and annual review of the independence qualification of the members (see Section 2.2.1.5); in terms of compensation for Non-Executive Board Directors, the Board has decided to change the distribution of Directors' fees between members and determined the compensation of the Chairman and Chief Executive Officer;



- **corporate social responsibility:** examination, based on the reports of the CSR Committee, of the project to create the endowment fund (see Section 4.4), review of reports in terms of extra-financial reporting; presentation of the activities of the corporate mission as well as the positioning of Essilor International in terms of extra-financial indexes;
- **employee-related issues:** information on Company developments in employee-related matters in 2013 (workforce developments, business combinations of entities and reorganization of the distribution of instruments in France, major trade union negotiations, Company policy regarding equal employment opportunity and pay, etc.), award of capped performance-based stock subscription options and performance shares to employees in France and the major foreign subsidiaries pursuant to the 12<sup>th</sup>, 13<sup>th</sup> and 14<sup>th</sup> resolutions of the Shareholders' Meeting of May 11, 2012 and a capital increase for employees as part of a company savings plan pursuant to the 15<sup>th</sup> resolution of the Shareholders' Meeting of May 7, 2014 (see Section 5.2.1.4); examination of the opinion issued by the Central Company Committee regarding strategic directions;
- **committee reports:** the Board heard, for the preparation of its deliberations above in the areas that concern them respectively, reports by the Audit and Risk Committee (four reports), the Nominations Committee (two reports), the Executive officers and Remuneration Committee (two reports), the Strategy Committee (four reports) and the Corporate Social Responsibility Committee (three reports).

#### Minutes

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

### 2.2.2.6 Committees of the Board of Directors

On the recommendation of the Nominations Committee, the Board may create special committees and set the rules governing their remit and composition. The latest update to the composition of the committees was performed during the meeting of the Board of Directors of May 7, 2014 and the Board's self-assessment of November 25, 2014 prompted no new changes. These committees act on the authority delegated to them by the Board and make recommendations and proposals to the Board. Indeed, the committees must not replace the Board, but are an offshoot which facilitates its work.

#### Audit and Risk Committee

##### Composition

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

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

The Audit and Risk Committee is chaired by Yves Chevillotte.

On December 31, 2014, the Audit Committee also included Philippe Alfroid (as of July 1, 2009), Antoine Bernard de Saint-Affrique, Benoît Bazin and Aïcha Mokdahi. All of these individuals have, during the course of their career, undertaken tasks which require financial and accounting skills.

##### Role

Under the Board of Directors' internal rules and in accordance with Article L.823-19 of the French Commercial Code and AMF recommendations issued in 2010, the Audit and Risk Committee, acting under the responsibility of the Board or Directors, examines issues related to the preparation and control of accounting and financial information.

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

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

The Audit and Risk Committee makes recommendations concerning the choice of Statutory Auditors to be appointed by the Shareholders' Meeting or the body exercising an equivalent function.

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

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

- the integrity of the financial statements:
  - presentation of the half-yearly and annual financial statements and elements of the associated Registration Document to the Audit and Risk Committee,
  - review of the key assumptions impacting the recognition and reporting of any material changes made to the accounting principles;
- the effectiveness of internal control and major risk management procedures:
  - understanding of how the Company identifies, evaluates, anticipates and manages its key financial, operational, compliance and reporting risks (on the contrary, the committee is not responsible for investigating issues related to the strategic risks and risks related to governance unless requested otherwise by the Board),

assessment of the competence, availability and positioning of the organization in charge of monitoring the Company's risk control,

- issuing recommendations, if necessary, for the (i) implementation of corrective actions in the event of weaknesses or significant deficiencies, (ii) improvement of existing procedures, and (iii), if required, the introduction of new procedures;
- the Audit and Risk Committee may also be consulted by the Board or by Senior Management about any issues concerning procedures to control non-recurring risks;
- compliance with legal and statutory requirements:
  - compliance with accounting regulations and proper application of the Company's accounting principles and policies,
  - cognizance of major disputes for the year,
  - review of actions to prevent risks related to economic regulation (compliance),
  - compliance with securities regulations and the strict insider dealing rules in force within the Company;
- the performance, qualifications and independence of the Statutory Auditors:
  - recommendation regarding the appointment of the Statutory Auditors,
  - resolution of potential disagreements between the positions of the Statutory Auditors and Senior Management,
  - review and evaluation of the qualifications, performance, fees, independence and compliance with the rules of professional incompatibility of the Statutory Auditors, including the main partner,
  - review of the rotation regulations applicable to the main partner and evaluation of the need for rotation among the Statutory Auditors,
  - review of the Statutory Auditors' Reports, information brought to the attention of the Board pursuant to Article L.823-16 of the French Commercial Code and the responses provided by Senior Management, including the quality of internal control procedures and the preparation process for financial information;
- the performance of internal audits:
  - review of the Internal Audit Charter, its role and scope of work,
  - review of the budget, resources and means available to the internal audit team,
  - review of the proposed audit plan for the year by the Internal Audit Director,
  - review of the main results presented by the Internal Audit Director,
  - review of the effectiveness of the Internal Audit Department,
  - opinion on the appointment and replacement of the Internal Audit Director.

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

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

#### Major accomplishments in 2014

The work of this committee is based on the recommendations of the AMF Audit Committee Working Group of June 14, 2010 and the committee's 2012 self-assessment, updated in August 2014.

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

The committee discussed the following topics at these meetings:

- financial statements: review of the financial statements for the third quarter of 2013, the year 2013, a summary of 2014 budget estimates, the financial statements for the first quarter and first half of 2014 (this examination was performed with sufficient time (at least two days) before the relevant meetings of the Board of Directors);
- internal audits and internal control: internal audit plan for 2014 as part of the multi-year "roadmap" with a monitoring of internal and external audits, Chairman's Report on corporate governance and internal control, performance indicators, budget and review of the activity (productivity measurement) of the internal audit and the internal control and associated Group risks self-assessment process, referred to as "iCare";
- presentation of changes in European Regulation in terms of external audits, planned for implementation in 2016;
- self-assessment of the operations of the Audit and Risk Committee performed by two members. The conclusions of this self-assessment were shared with the Board as part of their self-assessment;
- financing strategy;
- risk control: thematic reviews (innovation and intellectual property protection, litigation risks, supplier vulnerability, liquid assets, interest rates, trapped cash, subsidiary counterparties), continuity plan in some organizations, legal compliance program and 2015 action plan;
- examination of adjusted financial indicators;
- accounting and financial integration of strategic acquisitions in 2014;
- examination of the project and the process to reduce reporting deadlines;
- litigation and fraud;
- preparation of the 2015 work schedule.

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

On February 16, 2015, the 2014 consolidated financial statements were reviewed by the Audit and Risk Committee.

## Nominations Committee

### Composition

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

The Nominations Committee is comprised of Xavier Fontanet (Chairman), Yves Chevillotte, Maurice Marchand-Tonel and Michel Rose, all three of whom are Independent Directors. The Chairman and Chief Executive Officer and a Director elected on the proposal of Valoptec Association are involved in the work of the committee.

### Role

As described in the Board's internal rules, the principal role of the Nominations Committee, as part of the duties of the Board of Directors, is to:

- make recommendations to the Board concerning the choice of Directors;
- supervise the Board's self-assessment process;
- make proposals to improve the functioning of the Board;
- identify Independent Directors to be approved by the Board;
- evaluate Director performance;
- manage the Board's development process and Director performance;
- suggest people to the Board of Directors as members of the special committees;
- reflect on the composition of the Board of Directors and any possible developments;
- prepare for a change of Directors as needed.

### Major accomplishments in 2014

The committee met four times in 2014 (with a participation rate of 100% for the year).

It reviewed the following topics:

- preparation of the nomination of the Director representing employees;
- consideration of draft resolutions for submission to the Shareholders' Meeting for the reappointment of five Directors;
- confirmation of Independent Director classification attributed to certain Directors, after a review conducted by one of the Independent Directors (see Section 2.2.1.5);
- consideration of potential candidates for directorships and preparation of the reappointments over the next few years (especially in terms of improving male-female equality);
- project involving preparation of a succession plan for Executive Board Directors;
- review of the findings of the Board's self-assessment (see Section 2.2.2.3).

## Executive officers and Remuneration Committee

### Composition

The Board of Directors' internal rules stipulate that the Executive officers and Remuneration Committee is to have at least three members, all of whom must be Independent Directors.

There are no Executive Board Directors in the committee. The committee is chaired by a Director appointed by the Board who is an independent member.

The Executive officers and Remuneration Committee is chaired by Michel Rose and includes Bernard Hours and Maurice Marchand-Tonel: all three are Independent Directors.

### Role

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

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

### Major accomplishments in 2014

The Executive officers and Remuneration Committee met four times in 2014 (with a participation rate of 100% for the year for current members) to consider the following topics to submit as recommendations to the Board:

- review of the 2013 performance of the Chairman and Chief Executive Officer for the final calculation of his variable compensation for the fiscal year ended;
- rules for determining the variable compensation of the Chairman and Chief Executive Officer for 2014;
- review of a benchmark for the compensation of executives of comparable companies;
- review of the budget for Directors' fees, in preparation for the Shareholders' Meeting of May 7, 2014 and May 5, 2015;
- the structure and components of the compensation of the Chairman and Chief Executive Officer for fiscal year 2014;
- 2014 plans for free allocation of shares and stock subscription options and review of the conditions for future plans as part

of the preparation of draft resolutions to be submitted to the shareholders for voting during the Shareholders' Meeting of May 5, 2015.

## ■ Strategy Committee

### Composition

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

### Role

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

### Major accomplishments in 2014

The Strategy Committee met four times in 2014 (with a participation rate of 99% for the year).

The committee reviewed the following topics:

- sunwear strategy;
- the action and initiatives undertaken in terms of corporate social responsibility (especially in Brazil, China, India and France);
- research and innovation: presentation of innovation;
- overview of players and business in terms of equipment and instruments;
- human resources: presentation of three main action areas, namely talent management, the Principles and Values of Essilor International and the organization and operation of Human Resources;
- internet sales activities;
- lens and sunwear manufacturing activity.

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

## ■ Corporate Social Responsibility (CSR) Committee

### Composition

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

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

The CSR Committee is chaired by Louise Fréchette (Independent Director), and is composed of Aïcha Mokdahi, Bernard Hours (Independent Director) and Hubert Sagnières.

### Role

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

This covers all areas of corporate social responsibility relating to the Group's mission and operations.

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

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

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

### Major accomplishments in 2014

During 2014, the committee met three times (with a participation rate of 100% for the year) and discussed the following topics:

- creation of the "Essilor Social Impact" fund, whose purpose is to finance CSR initiatives;
- review of the activity of the "corporate mission";
- review of reports published in terms of CSR and especially pursuant to regulatory obligations in the French Grenelle II law;
- updating of non-financial reporting and positioning of Essilor International in terms of indexes;
- works of the Vision Impact Institute.

### 2.2.3 Internal control procedures implemented by Essilor

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

#### 2.2.3.1 Company internal control objectives

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

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

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

In practice, the purpose of internal control consists in:

- ensuring management actions or executions of transactions, and staff behavior, fall within the scope defined by the guidelines applicable to activities undertaken by the Company's corporate bodies. This includes compliance with applicable laws and regulations, as well as values, standards and rules internal to the Company;
- verifying the quality and accuracy of all accounting, financial, legal and management information reported to the Board of Directors, the regulatory authorities, shareholders or the public;
- covering all of the Company's implemented policies and procedures that provide reasonable assurance that business is managed efficiently and effectively.

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

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

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

#### 2.2.3.2 Components of the internal control mechanism

##### Control environment and Group values

The control environment that underlies the internal control mechanism plays an essential role at Essilor. It was built through a long history of commitment and a very strong entrepreneurial culture on the part of employees and executives. This foundation enables Essilor to welcome, both now and in the future, an ever-growing number of employees and partners, while at the same time preserving its corporate culture.

The "Essilor Principles" document, which was prepared in 2011 by the Legal and Human Resources Departments and is the product of a broad consultation and gathering of proposals from around the world, is the basis of this environment and makes it possible to share Essilor's mission, principles and values. This document is organized based on three major concepts which give Essilor employees and partners the feeling of sharing the reputation and responsibilities of their Group in the wider sense: a position as a world leader, rapid global expansion and a strong corporate culture. The document is currently available in 33 languages on the Group's intranet site and on its website.

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

Sharing and respecting our common principles and values helps us, in our day-to-day work, to live out the mission and spirit of our Company, which consists of offering everyone ways to "see the world better." Our mission mobilizes us in the sense that good sight is an essential asset to health and also to social and professional integration, child development and personal well-being in our day-to-day lives.

At the same time, part of the charter of Valoptec, an association comprised of active and retired Essilor employees, includes a Code of Values. The goal of this association is to "promote the adoption by Group companies of sound business practices and human resources management policies." The charter upholds the values of respect and trust among individuals. Members promise to uphold this charter as the foremost condition of their membership and, even though Essilor employees who are not Valoptec members do not sign this charter personally, its spirit infuses the Group culture in a very real way. The members of Valoptec and other employee shareholders together hold 14.2% of the Company's voting rights. The association's bylaws are regularly updated and reviewed to ensure they are aligned with its development.

### ■ Organization of internal control

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

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

#### 2.2.3.3 Key control activities and key players

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

The departments with specific responsibility for monitoring activities are:

### ■ Internal audit and internal control

The ACS Department (Audit & Consulting Services) covers the internal audits and the Group's internal control, with a total dedicated workforce of 21 people as of December 31, 2014 (18 for internal audits, 2 for Group internal control, and its Director). Geographically, the ACS workforce as of that date included employees located at the corporate headquarters in Charenton (6 people for Corporate, Europe and Africa operations), Dallas (6 people for North America operations), Singapore (6 people for Asia/Pacific and Middle East operations) and Rio de Janeiro (2 people for Central America and South America operations). The ACS Director reports to one of the Chief Operating Officers. This Director has no authority over nor responsibility for the operations they control. The internal audit team also reports on the department's activities to the Audit and Risk Committee.

The ongoing role of the internal audit team is, within the limits of the resources allocated to it, to evaluate operation of risk management and internal control mechanisms, carry out regular checks and make any recommendations for its improvement. Internal audits are carried out using the same methodology applied in all geographic areas. For each audit, a report is prepared and distributed to the management of the entity, the regional Director(s) of the audited entity, the Chairman and Chief Executive Officer, the Finance Department and, depending on the nature and impact of the issues raised, the Chief Operating Officers, the Legal Department of the Group and the operational or functional departments. This report summarizes the observations

and recommendations for improvement needed and the Audit and Risk Committee is informed of the most significant issues. Implementation of the recommendations is the responsibility of the audited entities. The internal audit function monitors the implementation of these recommendations by monitoring the implementation of action plans decided in agreement with them in accordance with the schedule set.

Since 2011, at the instigation of the Director, the Internal Audit Department deployed a five-year roadmap which was produced based on a study bringing together various benchmarks and good practices on the state of the art in the field of internal audits. This roadmap, which is updated regularly, is organized around the following themes: governance, risk management and internal control, terms of office, human resources, technology, performance, quality and value creation. Action plans aimed at advancing the function (despite issues inherent to a company experiencing rapid growth and decentralized operations) are reviewed and shared with the main internal audit partners and the management team. Substantial progress which has been made in several fields – regarding its operating methods and internal efficiency – allowed ACS to win the "Innovation Prize" organized by the IFACI (French Institute of internal control) and its partners in November 2013. This prize, for which 59 participating organizations compete, was aimed at increasing familiarity with and distinguishing good practices in companies and public organizations, as regards innovation in the internal audit and internal control field. In its area of work, ACS is thus part of the long tradition of innovation at all levels of Essilor.

### ■ Consolidation

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

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

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

### ■ Business Analysis

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

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

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

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

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

### — Sustainable Development

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

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

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

### — Legal Affairs

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

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

The department also advises the Group regarding good corporate governance practices. It regularly attends meetings of the Audit and Risk Committee, the Corporate Social Responsibility

Committee and the Strategy Committee. It ensures that executives throughout the organization are aware of potential liability risks and proposes legal solutions which contribute to strengthening the control environment. It provides answers to all legal questions raised by the various departments of the Group in a French and international legal and regulatory environment that is increasingly complex and burdensome and in an operating environment of increasing competitiveness.

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

The Insurance Department, which is part of Legal Affairs, also implements a policy that combines prevention, in the form of regular site visits and audits with our insurers and brokers, with protection, in the form of international insurance programs (see Section 1.6.5).

Our compliance policy for preventing legal risk is structured around major legal topics related to the Group's business activity, especially antitrust law, confidentiality management, and prevention of corruption. Its main purpose is to inform and educate executives and managers about legal risks, communicate and formalize good practices and guarantee that this policy is truly effective by gradually building a culture of compliance within the Group. The legal risk prevention and management system is aimed at raising awareness and informing, auditing, training, controlling and reporting with regard to legal action and risks.

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

Essilor Principles are one of the formal bases for the risk prevention policy and ensure its consistent application. These Principles were supplemented by the Principles governing relations with partners, as part of external growth, allowing for compliance with prevention policy when integrating new partners.

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

The results of these sensitizing actions and a report of identified legal risks and actions to implement (legal audits, implementation of compliance programs, good practices guide) are regularly presented to the Executive Committee by the Group Legal Director, who may also have topics or reports registered on the Executive Committee agenda in order to raise the appropriate level of awareness. At a local level, legal experts also regularly report compliance actions implemented alongside the improvement focus points at the Subsidiary Management Committees.

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

- updating of the legal audit campaign for competition law;
- formalization of the Group compliance program for competition law, which is presented and submitted to all members of the Executive Committee, country managers and members of the Audit and Risk Committee. Deployment was entrusted, at the level of the subsidiaries, to the local legal teams;
- deployment of e-learning training modules for the prevention of corruption and conflicts of interest for Group employees;
- pending formalization of the good practice guide at the level of the Group for corruption and fraud prevention;
- updating of the Group "gifting" policy and conflicts of interest;
- updating, in collaboration with the Audit and Internal Control Departments, of the conflict of interest declaration monitoring procedure with annual reporting of the status of signatures provided by local Human Resource Departments.

The legal "Compliance" center within the Group Legal Affairs Department ensures coordination and consistency of the Group legal risk prevention and management policy, supporting local teams who are responsible for applying this policy.

For the purposes of promoting insider dealing rules and preventing money laundering and corruption, a memorandum has been available to all Group employees for several years on the intranet for the Legal Affairs Department. This memorandum was supplemented by an audio kit popularizing the legal financial information obligations. More generally, a memorandum, also supplemented by an audio kit, is available containing full details of all the criminal risks to which the Company may be exposed and the consequences for the criminal liability of the Company, its Directors and its employees.

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

To provide regular information on developments in the legal environment that is targeted to compliance topics, a monthly newsletter, a tool to prevent legal risks mainly for legal experts and country managers has been established. A legal book which includes good legal practices and is fully accessible via a dedicated website has been established.

The action plan for 2015 for the deployment of the legal Compliance policy was presented by the new Legal Director to the Audit and Risk Committee and is part of the legal risk prevention and management policy implemented by their predecessor.

### Quality

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

- satisfy clients, in terms of products and services, taking into account the diversity and variation of expectations, in accordance with client segments;
- improve the efficiency and consistency of internal processes, aligning them with the overall strategic objectives and measuring their efficiency;
- control the factual nature of decision-making processes (results focus);
- represent the Essilor group in standardization bodies and promote the interests of consumers in these bodies.

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

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

### Mergers and Acquisitions

The Mergers and Acquisitions Department reports to the Financial Department and defines the Group's external growth policy and coordinates initiatives in subsidiaries to ensure consistency. With the support of local M&A Departments which report functionally to it, the department analyzes, monitors and validates the financial aspects of the Group's various planned business acquisitions and has the authority to approve the financial terms of such acquisitions or divestments. Group entities can never approve the acquisition of external companies, assets or business segments or the total or partial sale of Group companies, assets or business segments on their own. All external growth operations (including sales) are submitted to the Board of Directors prior to being implemented. Projects representing over €100 million in the case of strategic investments in new business segments or new geographic markets, or over €150 million for all other acquisitions, must be formally authorized in advance by the Board of Directors.

### Group Treasury

The Group Treasury Department is in charge of ensuring the funding, risk hedging and cash management of the Group. It also



provides a general advisory and assistance role for the Group subsidiaries for these duties. It reports directly to the Corporate Finance Department.

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

Cash investments are subject to a policy that encourages safety and liquidity on the return. Cash surpluses are invested only in short-term instruments (investment funds, bank deposits, negotiable debt securities), thus limiting the risk of capital loss and making them immediately available.

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

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

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

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

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

#### Group Standard Guide

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

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

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

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

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

#### Unified reporting system

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

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

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

Local and corporate finance managers are responsible for ensuring that the data reported in "CARS" comply with the Group accounting policies and procedures. The use of this tool guarantees consistent treatment of the information and enables us to exercise regular control over the preparation of the accounts of the various Group entities.

#### Other reporting systems

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

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

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

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

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

Essilor is included on five "Social Responsibility" indexes, specialized in the evaluation of the Company's commitment to sustainable development: ECPI® Ethical EMU Equity, ECPI® Ethical Europe Equity, Ethibel Excellence, FTSE4Good and STOXX 50 ESG Leaders. Essilor is a member of the Low Carbon 100 Europe index.

For the third consecutive year, Corporate Knights has classed Essilor International among the 100 global companies which have shown the most responsibility in 2015. Announced each year at the World Economic Forum in Davos since 2005, the Global 100 classification is considered as the most exhaustive evaluation of corporate sustainability documented in figures.

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

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

Attentive to and aware of the consequences of climate change, Essilor has supported the Carbon Disclosure Project (CDP) and Caring for Climate initiatives since their launch. The production of a pair of corrective lenses generates only a few hundred grams of CO<sub>2</sub> equivalents. Used for many months, these small, light, everyday objects do not consume any energy. Essilor has also been associated with the Water Disclosure Initiative since its creation by the CDP.

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

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

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

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

The budgets are presented to the Group's Senior Management at budget review meetings held at the end of the year. The consolidation of all budgets ends in November or December and is formalized in December or January of the following year. The budget is then presented to the Board of Directors. The annual budget is subject to a new forecast in the middle of the year, based on the results of the first half of the year. This forecast is updated in October upon establishment of the new budget.

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

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

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

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

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

All procedures included in the GSG are applicable by the Group companies, whether consolidated or not, and enforcement is the responsibility of operational management ("first line of control" in the terminology of French Audit and Internal Control Institute (IFACI)), functional departments responsible for areas of expertise (management control, human resources, internal control, etc. or "second line of control") and the Internal Audit Department ("third line of control"). Moreover, at each closing date, the financial

information deemed most relevant is presented by the Finance Department to the Audit and Risk Committee. Such meetings, which are also attended by the Statutory Auditors, discuss all material transactions and the main accounting options selected to address potential risks.

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

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

At its meeting of November 24, 2011, the Board of Directors decided to entrust its chairmanship, effective January 2, 2012, to Hubert Sagnières, Chief Executive Officer, and thus reunite the offices of Chairman of the Board and Chief Executive Officer. This structure combining the two functions, which has been adopted by most French corporations, ensures greater responsiveness and efficiency of operations in terms of the governance and strategic management of the Company. In addition, the presence on the Board of a high proportion of Independent Directors, three representatives of the Valoptec Association, and one employee representative (while the important role of employee shareholders is a key feature of the Group's identity) ensures that the Board

fully exercises its oversight functions over the executive part of the organization.

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

In addition, the Chief Executive Officer is assisted by three Chief Operating Officers.

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

All holders of ordinary shares are entitled to participate in Shareholders' Meetings, regardless of the number of shares they own, provided such shares have been fully paid up.

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

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

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

Under the terms and periods defined by law, all shareholders have the right to receive the documents needed to allow them to make informed decisions and to form an opinion concerning the management and control of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Extraordinary Shareholders' Meeting may also amend the rights 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 become final only after it has been ratified by a special meeting of the shareholders for the relevant class. Regarding the specific capital that it represents, said special meeting will be subject to the legal and regulatory provisions applicable to Extraordinary Shareholders' Meetings. If none of the Company's Directors holds shares in the class concerned, the special meeting elects its own Chairman.

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## 2.2.6 Principles and rules applied by the Board of Directors to determine compensation and benefits of its members

Information regarding compensation policy as well as the details of all the compensation information of Executive Board Directors is included in Section 2.3 of the Reference Document.

Charenton, February 18, 2015

**The Chairman of the Board of Directors**