2.2 CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

Reference Code: the AFEP-MEDEF Code

Pursuant to Article L.225-37 of the French Commercial Code and in accordance with the decision of the Board of Directors' Meeting of March 4, 2009, the Company declares that it adheres to the AFEP-MEDEF Corporate Governance Code for listed companies of November 2015.

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;
- the conditions governing the preparation and organization of the work of the Board of Directors during the fiscal year ended December 31, 2015;
- the internal control and risk management procedures implemented by the Company (see Section 2.2.3);
- the restrictions on the powers of the Chief Executive Officer decided by the Board of Directors;
- the specific procedures for shareholder participation in Shareholders' Meetings;
- the principles and rules applied by the Board of Directors to determine Executive Board Directors' compensation and benefits (see Chapter 2.3);
- the information that may have an impact in the event of a public offering is described in Chapter 5, Section 5.2.6.2.

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

This report was prepared following certain procedures, mostly performed by the Secretary 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 corporate level) of the various internal control sectors within the Group. It was presented to the Audit and Risk Committee during its meeting on February 16, 2016, before being submitted 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. The drafting of this report was also guided by the principles set out in the AMF's reference framework on the risk management and internal control mechanisms of listed companies. Finally, the content of this report was approved by the Board of Directors on February 18, 2016.

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

2.2.1 Composition of the Board of Directors

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

As of December 31, 2015, the Board of Directors of Essilor was composed of sixteen members, including three Directors representing employee shareholders and a Director representing employees whose term of office started on October 28, 2014. The composition of the Board and the committees is reviewed each year, under the authority of the Nominations Committee, as part of the Board of Directors' self-assessment.

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

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

It is in this context that changes in the composition of the Board of Directors will be submitted for approval by the Shareholders' Meeting of May 11, 2016.

Proposals submitted for approval by the Shareholders' Meeting of May 11, 2016:

The directorships of Mr. Yves Chevillotte, Mr. Xavier Fontanet, Mr. Maurice Marchand-Tonel and Mr. Michel Rose which will expire at the close of the Shareholders' Meeting of May 11, 2016 will not be renewed and the appointment of two new Directors, Ms. Henrietta Fore and Ms. Annette Messemer will be proposed:

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

Ms. Fore also holds positions in the following organizations:

- Chair: Middle East Investment Initiative;
- Global Co-Chair: Asia Society;
- Co-chair: the North Africa Partnership for Economic Opportunity In Partners for a New beginning;
- Former Co-Chair: WomenCorporateDirectors;
- Honorary Chair of WCD Institutes, the WCD Foundation;
- Trustee: Aspen Institute; Center for Strategic and International Studies;
- Member of the following Boards: Committee Encouraging Corporate Philanthropy, Diagnostics for All, Center for Global Development, Committee for Economic Development; Initiative for Global Development;
- Member of the following organizations: American Academy of Diplomacy; American Leadership for a WaterSecure World Campaign Cabinet; Economic Club of New York; Council on Foreign Relations, the committee of 200, the International Women's Forum, the Wellesley Business Leadership Council, the Young Presidents' Organization and World Presidents' Organization, and the Chief Executives Organization.

Ms. Annette Messemer is a divisional Director at the "Corporates & Markets" at Commerzbank AG in Frankfurt (Germany). She served on the Supervisory Board of WestLB AG in Düsseldorf (Germany) until 2011. She began her career as associate at JP Morgan before taking the position as Vice President in 1999 and then as Senior Banker at JP Morgan Chase in 2003. From 2006 to 2009, she served as Managing Director at Merrill Lynch.

Ms. Annette Messemer is also a member of the Supervisory Board of K+S Aktiengesellschaft (Germany) and of Commerz Real AG (Germany).

Subject to the approval of the Shareholders' Meeting of May 11, 2016, the Board of Directors would be composed of 14 members:

- seven Directors would be independent pursuant to the AFEP-MEDEF Corporate Governance Code to which Essilor refers and the Board's independence ratio would be 70% in accordance with the rules of that Code (see Section 2.2.1.5 below);
- five Directors would be women, *i.e.*, 38.5% in accordance with the rules of the Code (see Section 2.2.1.1 below);
- five nationalities would be represented (see Section 2.2.1.4 below).

These long-awaited changes form part of the management of the term and turnover of directorships (see Section 2.2.1.2 below).

The complete list of functions of Directors in office is given, as required by law, in Chapter 2 of the 2015 Registration Document, "Corporate Governance".

2.2.1.1 Representation of women on the Board of Directors

The Board of Directors, which currently includes three women among its 15 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. On the recommendation of the Nominations Committee, the Board of Directors submits the applications of two new Directors to the Shareholders' Meeting of May 11, 2016; subject to approval of these applications, the balance of men and women would be significantly improved with five female Directors, *i.e.*, 38.5% in accordance with the rules of the Code. In 2017, the composition of the Board will comply with the Law which requires balanced representation of men and women. This law provides for a minimum proportion of 40% of Directors of the same gender.

See also "Major accomplishments of the Nominations Committee in 2015" in Section 2.2.2.6.

2.2.1.2 Directors' term

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

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

At the close of the Shareholders' Meeting of May 11, 2016, the directorships of Mr. Yves Chevillotte, Mr. Xavier Fontanet, Mr. Maurice Marchand-Tonel and Mr. Michel Rose will expire and will not be renewed. The Board thanks them warmly for their very active contributions to the Board of Directors and the committees in recent years.

End dates of the current directorships:

Members of the Board of Directors	2015	2016	2017	2018
Hubert Sagnières			x	
Philippe Alfroid			x	
Benoît Bazin	x			x
Antoine Bernard de Saint-Affrique	x			x
Maureen Cavanagh		x		
Yves Chevillotte		(b)		
Juliette Favre *	(a)		x	
Xavier Fontanet		(b)		
Louise Fréchette	x			x
Yi He			x	
Franck Henrionnet			x	
Bernard Hours	x			x
Maurice Marchand-Tonel		(b)		
Marc Onetto	x			x
Olivier Pécoux	x			x
Michel Rose		(b)		
TOTAL RENEWALS	**6**	**5**	**5**	**6**

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

(b) Directors whose directorships are due to expire and will not be renewed.

2.2.1.3 Obligation of Directors appointed by Shareholders' Meetings to hold shares

In accordance with Article 13 of the bylaws in force on December 31, 2015, each Director appointed by Shareholders' Meetings must own at least 1,000 shares of the Company. As an exception, the Director representing employees is not required to hold shares, pursuant to Article L.225-25 of the French Commercial Code.

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

2.2.1.4 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' 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, which includes individuals of four different nationalities as of December 31, 2015 (French, Canadian, American and Chinese); this number would increase to five subject to the approval of the Shareholders' Meeting of May 11, 2016 of the appointment of two new Directors, who are of American and German nationality respectively.

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

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

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

2.2.1.5 Independence of the members of the Board of Directors

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

"A Board member is independent when 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) Corporate Director of the Company;
- such Board member is a customer, supplier, investment banker or financing banker – in each case – which is material for the Company or its Group, or for which the Company or its Group represents a material proportion of the entity's activity;
- such Board member has any close family ties with a corporate director;
- such Board member has been a Statutory Auditor of the Company over the 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 takes into account:

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

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

At its meeting of December 2, 2015, the Board of Directors, 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 out of the 16 Board members, eight could be considered independent, namely:

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

On December 31, 2015, the independence ratio of the Board was 66.6%, pursuant to the recommendations of the AFEP-MEDEF Code (*i.e.*, not including the three Directors representing employee shareholders and the Director representing employees).

The Board is of the opinion that none of these Directors who qualified as independent had any material business relationships with the Company and its Group. It is especially noteworthy that the Saint-Gobain group, where Benoît Bazin is an officer, 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 and whose term has exceeded 12 years;
- Olivier Pécoux, a Director whose term has exceeded 12 years. Mr. Alfroid and Mr. Pécoux, whose respective terms have exceeded 12 years, are not considered as Independent Directors, pursuant to the recommendations of the AFEP-MEDEF Code. That said, the individuals concerned have always demonstrated an independence of mind and the exercise of a mandate over time constitutes an assurance of the capacity to act freely;
- the three Directors representing the employee shareholders: Maureen Cavanagh, Juliette Favre, Yi He;
- the Director representing employees: Franck Henrionnet.

The proportion of Independent Directors at the close of the Shareholders' Meeting of May 11, 2016 would increase to 70% pursuant to the recommendations of the AFEP-MEDEF Code, subject to approval of the resolutions put to the vote. As part of the review of the two candidacies (see Section 2.2.1), the business dealings between Essilor International and Commerzbank AG, where Ms. Annette Messemer serves as a Director of the "Corporates & Markets" Division at Commerzbank AG in Frankfurt (Germany) were analyzed. The possibility for Essilor International of having access to a panel of banks, in a competitive environment, excludes any dependent relationship with regard to Commerzbank AG. The remuneration received by the bank accounts for an insignificant amount of its revenue and is not therefore liable to create a dependent relationship vis-à-vis Essilor International.

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

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".

	AFEP-MEDEF independence criteria						
	Employee or Executive Board Director						
Directors	of Essilor International or a Group company	of Essilor International during the previous five years	Cross-directorships	Is a client, supplier, business banker or financing banker (significant business relationships)	Has a close family tie with a corporate director	Has been a Statutory Auditor of Essilor International over the 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							
Juliette FAVRE	C						
Louise FRÉCHETTE							
Xavier FONTANET		C					
Yi HE	C						
Franck HENRIONNET	C						
Bernard HOURS							
Maurice MARCHAND-TONEL							
Marc ONETTO							
Olivier PÉCOUX							C
Michel ROSE							

Non-independent.

2.2.1.6 Directors' ethical awareness

No potential conflicts of interest

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

Participation of the 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 the completion of that transaction.

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

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

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

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

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

Insider dealing rules

During its meeting of December 2, 2015, the Board of Directors reviewed the applicable regulations regarding the prevention of insider misconduct, especially as regards periods during which transactions involving Essilor International securities are prohibited. Consequently, on December 2, 2015, the Board approved changes to the Directors' Charter, which, above all, included the obligation for anybody with privileged information to refrain from performing, having a third-party perform or allowing another party to perform transactions involving the Company's securities based on this information, during the period in which this information has not been made public (Articles 622-1 and 622-2 of the AMF General Regulation). The charter indicates that Directors must, in addition to the period preceding the publication of any privileged information of which they are aware, refrain from performing any transaction involving 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 performed by individuals with whom they are closely associated involving Essilor International securities on a yearly basis. These individual securities transaction reporting obligations are covered in the Directors' Charter, which is reviewed annually by the Board. The summary statement of transactions involving Essilor International securities carried out in 2015 by the corporate officers is included in Section 2.3.5.

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

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

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

The internal rules of the Board of Directors and the Directors' Charter, whose current versions were updated on December 2, 2015, describe (i) the operating methods for the Board and the committees and (ii) the rights and obligations of each Director of Essilor International respectively.

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

The main amendments made in 2015 to the internal rules of the Board and the charter mainly concerned the following points:

- updates in accordance with recommendations in the AFEP-MEDEF Code of November 2015;
- the composition of the Nominations Committee, of which at least half of the members must be appointed from among the Independent Directors;
- the abolition of the Strategy Committee's steering group;
- in terms of training, it is specified that, where necessary, training delivered to the Director representing employees must be undertaken in accordance with legal conditions, particularly with regard to the number of hours of training each year. This clarification refers to the obligations under the Decree of June 3, 2015 on which the Board of Directors of Essilor International deliberated at its meeting on July 29, 2015.
- insertion of a reference to the policy of reimbursing Directors' expenses.

2.2.2.2 Roles and responsibilities of the Board of Directors

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

- decide the criteria to be applied to determine whether Directors are independent and review these criteria each year;
- identify the Directors who meet the independence criteria;
- review and, if appropriate, approve major strategic choices;
- review (i) any acquisition or sale, as part of the new business / new country strategy, which exceeds €100 million and (ii) any acquisition or sale other than those referred to in (i) which exceeds €150 million. These transactions are subject to formal approval by the Board;

- approve material restructuring and investment projects that do not form part of the stated strategy;
- monitor the implementation of the Board's decisions;
- review and approve the financial statements;
- assess the performance of Board members (collectively and individually) and of members of Senior Management;
- ensure that the Company's tradition of managerial excellence is maintained;
- discuss and, if appropriate, approve the choice of candidates for election as corporate offices and their compensation on the recommendation of the Executive Officers and Compensation Committee;
- discuss and, if appropriate, approve the appointment of the members of the special Board committees on the recommendation of the Nominations Committee;
- discuss and if appropriate, approve Group Senior Management succession plans and major organizational changes;
- review the procedures for identifying, evaluating, auditing and monitoring the Group's commitments and risks;
- monitor the Group's financial reporting so as to ensure that investors receive relevant, balanced and strategic information on the Company's strategy, development model and long-term outlook.

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

2.2.2.3 Self-assessment of the operation of the Board

A formal assessment of the operation of the Board of Directors has been performed on an annual basis since 2004 and is included in two specific items on the agenda for meetings of the Board of Directors:

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

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 Corporate Governance Code (review the operating procedures of the Board, ensure that important issues are suitably prepared and discussed, and measure the contribution of each Director to the Board's accomplishments).

In 2015, a new formal 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.

The report on the questionnaires showed that the Directors have an overall positive assessment of the Board and the committees, whom they acknowledged in 2015 for the substantial improvements made in terms of the quality of documentation, the quality of presentations and the timeliness of communication; in particular, they noted the mutual respect shown during discussions and the constructive nature of such discussion that encourages the consideration of concerns and freedom of expression.

The Directors welcomed the follow-up given to the previous self-assessment in 2014 as regards the diversification of the composition of the Board of Directors: a key feature of 2015 was the appointment of new Directors Marc Onetto and Juliette Favre and in 2016, the candidacies of two new Directors will be submitted for approval by the Shareholders' Meeting on May 11, 2016. The Nominations Committee's long-standing commitment to this process is to be continued in 2016, in order to reach the 40% minimum threshold of Directors of the same gender in 2017.

Additional improvements could be made to further enhance 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 and further development of certain subject areas;
- shorter time frames for the publication of minutes of the meetings of the Board of Directors and committees;
- management of speaking time during meetings.

2.2.2.4 Information and training for the Board of Directors

Information

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

These documents may be sent 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 conduct of the work of the Board or the special Board committees. If any information is not made available or if a Director believes that information may have been withheld, 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 obliged to ensure that Board members are able to fulfill their duties.

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

As in prior years, Board members were informed of the blackout periods for 2016, 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.

Training

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

Upon their appointment, the members of the Audit and Risk Committee are provided with specific details about the Company's accounting, financial and operational practices. The internal rules of the Board and the Directors' Charter, updated on December 2, 2015, expressly provide that any new Director is given a welcome pack including all documents pertaining to the governance of Essilor International and the option of participating in an integration program.

In 2015, Franck Henrionnet, Director representing employees, followed internal and external training in finance and governance; and Juliette Favre, Director representing employee shareholders, was undertaking an external training program provided by the French Institute of Directors (Institut Français des Administrateurs – IFA) and Sciences Po, leading to the award of a company Director certification.

2.2.2.5 Meetings of the Board of Directors in 2015

The Board meets as often as necessary in the Company's interest, and at least five times per year. The dates of the Board Meetings for the following year are set by August 31 at the latest, except in the event of an extraordinary meeting. The Independent Directors meet 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 Works Council representatives on the Company's Board of Directors attended all Board Meetings held in 2015.

In 2015, the Board of Directors held five meetings on the dates set out in the schedule established in 2014, including one meeting held abroad devoted to the Group's strategy. The average duration of the meetings was 2 hours and 30 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 preparation of these meetings requires increased availability and commitment from Directors. Between meetings, Directors must spend even more time examining information and documents. More specifically, an Independent Director is appointed in order to supervise the progress of the Board's annual self-assessment and the members of the Nominations Committee are contacted periodically so that they can meet potential candidates for directorships. The Chairmen of the committees make an active contribution in preparing the schedule for the committees' work and in preparing agendas.

Attendance of the members of the Board of Directors

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

In 2015, none of the Directors used videoconferencing or other forms of telecommunications.

Furthermore, all the Directors were present at the Combined Shareholders' Meeting on May 5, 2015.

The table below shows the number of Board and committee meetings held during the 2015 fiscal year, as well as their members and the individual attendance at each of these meetings.

The average attendance of the Directors at Board Meetings was 96.73% for all meetings of the Board and the committees.

	Board of Directors	Audit and Risk Committee	Executive Officers and Compensation Committee	Nominations Committee	Strategy Committee	CSR Committee
NUMBER OF MEETINGS IN 2015	**5**	**4**	**3**	**6**	**4**	**3**
Participation (%)						
Hubert SAGNIÈRES	100%				100%	
Philippe ALFROID	100%	100%			100%	
Benoît BAZIN	80%	100%			75%	
Antoine BERNARD DESAINT-AFFRIQUE	80%	100%			75%	
Maureen CAVANAGH	100%				100%	
Yves CHEVILLOTTE	80%	75%		80%	75%	
Juliette FAVRE [(a)]	100%	100%	100%		100%	
Xavier FONTANET	80%			100%	100%	
Louise FRÉCHETTE	100%				100%	100%
Yi HE	100%				100%	
Franck HENRIONNET	100%					
Bernard HOURS	100%		100%		100%	100%
Maurice MARCHAND-TONEL	100%		100%	100%	100%	
Aicha MOKDAHI [(a)]	100%	100%			100%	100%
Marc ONETTO [(a)]	100%		100%			
Olivier PÉCOUX	100%				100%	
Michel ROSE	100%		100%	100%	100%	

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

Major accomplishments of the Board of Directors in 2015

The matters discussed by the Board in fiscal year 2015 and the decisions taken covered a wide range of areas, including:

- **business development:** at each meeting planned in the annual schedule (excluding exceptional meetings convened to deliberate on a strategic transaction), the Chairman and Chief Executive Officer presented the Company's general position for the previous period: changes in key financial indicators, "key events" in the commercial and technical fields, state of competition, consolidation of acquired businesses, etc.;
- **2015 budget:** reviewed at one meeting at the beginning of the fiscal year;
- **financial statements:** examination and/or closure of the 2014 annual financial statements and the half-yearly financial statements, and the provisional financial statements, having heard the reports from the Audit and Risk Committee and the Statutory Auditors. On this occasion, the financial position and cash flow statement were reviewed;
- **external growth:** during each planned meeting on the schedule, the Board receives information about and debates acquisition transactions which are underway or are being considered. Furthermore, the Board is informed beforehand of the Company's general external growth policy, based on the reports of the Strategy Committee; examination of the financing arrangements for external growth operations. A meeting devoted to strategy was held abroad in September 2015;
- **financial authorizations:** approval of the renewal of authorizations to issue European bonds (European medium term notes) and delegations of powers to the Chairman and Chief Executive Officer to issue said bonds; delegation of the implementation of the share buyback program authorized in the 12th resolution of the Shareholders' Meeting of May 5, 2015; authorization to issue sureties, endorsements and guarantees and to delegate to the Chairman and Chief Executive Officer, with the power to sub-delegate, their power to grant the Company's guarantee, within the overall annual limit of €400 million;
- **notice of Shareholders' Meeting:** examination, at two meetings, and approval of draft resolutions to be submitted to the Shareholders' Meetings of May 5, 2015 and May 11, 2016;
- **governance:** amendment of the composition of committees; updating of the internal rules of the Board of Directors and the Directors' Charter and approval of a policy of reimbursing Directors' expenses; information for Directors on the AMF recommendations regarding strategic acquisitions and disposals that gave rise to the update to the AFEP-MEDEF Code in November 2015; completion of the annual self-assessment and examination, based on the recommendations of the Nominations Committee, of its composition and anticipated changes (see Section 2.2.2.3) and annual review of the independence qualification of the members (see Section 2.2.1.5); with regard to the compensation of corporate officers, the Board has decided to change the distribution of

Directors' fees between members following approval by the Shareholders' Meeting of May 5, 2015 of the overall budget for Directors' fees, determining the compensation of the Chairman and Chief Executive Officer; pursuant to AMF recommendation No. 2012-05 of July 2, 2012, restated on February 11, 2015, regarding Shareholders' Meetings of listed companies, and in particular clause No. 20, the Company has adopted an Internal Charter regarding the certification of agreements uploaded to the Company's website; annual review of the related party agreements authorized during previous fiscal years, the implementation of which continued in 2015;

- **corporate social responsibility:** review of reports with regard to non-financial reporting; presentation of corporate mission activities as well as the sustainable development strategy roadmap and the key actions to be implemented;
- **employee-related issues:** information on Company developments in employee-related matters in 2014 (changes in the number of employees, major trade union negotiations, Company policy regarding equal employment opportunity and pay, etc.), review of Essilor International's principles and values, decision to award an additional incentive payment, award of capped performance-based stock subscription options and performance shares to employees in France and the major foreign subsidiaries pursuant to the 14th, 15th and 16th resolutions of the Shareholders' Meeting of May 5, 2015, completion of a capital increase reserved for employees who are members of a company savings plan pursuant to the 13th resolution of the Shareholders' Meeting of May 5, 2015 (see Section 5.2.1.4); examination of the opinion issued by the Central Works Council regarding strategic direction;
- **committees' reports:** the Board heard, for the preparation of its deliberations above in the areas that concern them respectively, reports from the Audit and Risk Committee (three reports), the Nominations Committee (four reports), the Executive Officers and Compensation Committee (three 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 of the next meeting.

2.2.2.6 Committees of the Board of Directors

On the recommendation of the Nominations Committee, the Board may create special committees and set the rules governing their remit and composition. The latest update to the composition of the committees was made during the meeting of the Board of Directors on December 2, 2015 and the Board's self-assessment of December 2, 2015 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 internal rules of the Board of Directors stipulate that the Audit and Risk Committee is to be comprised of at least three members, appointed by the Board of Directors from among the Directors of Essilor. At least two-thirds of the committee's members must be Independent Directors. The members of the Audit Committee cannot hold Senior Management positions, nor can they serve as Executive Board Directors of the Company. They should have specific expertise in accounting and financial matters.

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

The Audit and Risk Committee is chaired by Yves Chevillotte.

On December 31, 2015, the Audit Committee also included Philippe Alfroid (as of July 1, 2009), Antoine Bernard de Saint-Affrique, Benoît Bazin and Juliette Favre. 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 of Directors, follows up on issues related to the preparation and control of accounting and financial information.

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

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

It makes recommendations concerning the choice of Statutory Auditors to be appointed by the Shareholders' Meeting 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 strategic risks or to risks related to governance unless requested otherwise by the Board), assessment of the competence, availability and positioning of the organization in charge of monitoring the Company's risk control,
  - issuing recommendations, if necessary, for the (i) implementation of corrective actions in the event of 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 measures to prevent risks related to economic regulation (compliance),
  - compliance with securities regulations and the strict insider dealing rules in force within the Company;
- the performance, qualifications and independence of the Statutory Auditors:
  - recommendation regarding the appointment or renewal 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 Board Meeting, at least for meetings whose agenda involves the review of financial statements (annual and half-yearly financial statements).

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

Major accomplishments in 2015

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 2014 self-assessment, renewed in December 2015 as part of the Board of Directors' self-assessment.

The Audit and Risk Committee met four times (with a participation rate of 94% for the year) and heard the Group's Chief Financial Officer, the Secretary General, the Group Chief Legal Officer, the Group Internal Audit Director, the Information Systems Director and the Statutory Auditors.

The committee discussed the following topics at these meetings:

- financial statements: review of the financial statements for the fourth quarter of 2014, 2014 annual financial statements, provisional management documents, the financial statements for the first quarter of 2015, the first half of 2015 and the third quarter of 2015 (this examination was performed with sufficient time (at least two days) before the relevant meetings of the Board of Directors); this examination was accompanied by a presentation by the Chief Financial Officer regarding the Company's significant off-balance-sheet commitments;
- internal audits and internal control: internal audit plan for 2016 as part of the multi-year "roadmap" with monitoring of internal and external audit assignments, 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";
- finance: review of the share buyback policy, off-balance sheet commitments, financing and rating, asset mapping; post-acquisition review; presentation of the tax structuring and information on the draft regulation concerning the introduction of new country-by-country reporting on taxation;
- presentation and review of current regulations and in particular the draft European Regulation on data protection;
- risk control: presentation of information systems, information security systems, prevention of cybercrime, the legal compliance program and the 2016 action plan (particularly in respect of competition law and the prevention of corruption);

- litigation and fraud;
- preparation of the 2016 work schedule.

The Audit and Risk Committee also met with the Statutory Auditors with the Group executives not present.

On February 16, 2016, the 2015 consolidated financial statements were reviewed by the Audit and Risk Committee.

Nominations Committee

Composition

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

The Nominations Committee is chaired by Xavier Fontanet, and comprised of Yves Chevillotte, Maurice Marchand-Tonel and Michel Rose, all three of whom are Independent Directors. The Chairman and Chief Executive Officer and a Director representing employee shareholders are involved in the work of the committee.

Role

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

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

Major accomplishments in 2015

The committee met six times in 2015 (with a participation rate of 96% for the year), including two meetings held by means of telecommunications.

It reviewed the following matters:

- preparation of the appointment of the Director representing employees (training, distribution of Directors' fees, etc.);
- review of draft resolutions for submission to the Shareholders' Meeting regarding the composition of the Board of Directors;
- confirmation of the Independent Director classification given to certain Directors, following a review conducted by one of the Independent Directors (see Section 2.2.1.5);
- consideration of potential candidates for directorships and preparation of the reappointments over the next few years (especially in terms of improving the gender parity) and consideration of the composition of the committees;
- 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 Compensation Committee

Composition

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

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

The Executive Officers and Compensation Committee is comprised of Michel Rose (Chairman), Bernard Hours, Maurice Marchand-Tonel and Marc Onetto, all four of whom are Independent Directors.

Role

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

- make recommendations regarding the compensation of corporate officers (Executive Board Directors and Directors);
- make recommendations regarding the award of stock options and/or free "performance" shares for these Executive Board Directors and regarding the number of shares from options exercised or performance shares that Executive Board Directors must retain until their term is over;
- review the Company's general compensation policies;
- submit the draft report regarding compensation to the Board on an annual basis. The Shareholders' Meeting must make a decision regarding this report as part of an advisory vote;
- make recommendations to the Board regarding the selection of Executive 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 2015

The Executive Officers and Compensation Committee met three times in 2015 (with a participation rate of 100% for the year) to consider the following topics to submit recommendations to the Board:

- review the 2014 performance of the Chairman and Chief Executive Officer for the final calculation of his variable compensation for the previous fiscal year;
- rules for determining the variable compensation of the Chairman and Chief Executive Officer for fiscal year 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 5, 2015;
- the structure and components of the compensation of the Chairman and Chief Executive Officer for fiscal year 2015;
- 2015 plans for free award 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 at the Shareholders' Meeting of May 5, 2015.

Strategy Committee

Composition

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

Role

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

Major accomplishments in 2015

The Strategy Committee met four times in 2015 (with a participation rate of 96% for the year).

The committee reviewed the following matters:

- strategy in France and in Europe;
- Essilor of America's strategy as well as strategy in the AMERA region;
- changes made to the strategy during the last two years, particularly as regards online activity, as well as the key strategic options in the coming years;
- the Sunglasses & Readers business.

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

The Corporate Social Responsibility (CSR) Committee

Composition

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

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

The CSR Committee is comprised of Louise Fréchette (Chair, Independent Director), Juliette Favre, 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 our mission to "improve sight," which involves helping as many people as possible to see better, in order to live better. The Group strives to offer products customized to each individual within its entire global scope.

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

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

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

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

Major accomplishments in 2015

During 2015, the committee met three times (with a participation rate of 100% for the year) and discussed the following topics:

- review of the progress made in corporate mission activity and, in particular, the development of new, innovative, "inclusive" socio-economic models through the "2.5 New Vision Generation" Division;
- review of the sustainable development strategy roadmap and the main measures to be implemented;
- evaluation of the direct and indirect economic and societal impacts of corporate mission activity;
- the changing perception of Essilor's non-financial performance by recognized appraisers;
- the main CSR risks;
- review of the reports published regarding CSR and especially pursuant to regulatory obligations under the French Grenelle II law.

2.2.3 Internal control procedures implemented by Essilor

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

2.2.3.1 Company internal control objectives

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

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

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

More specifically, the purpose of internal control is to:

- ensuring that 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;
- verify the quality and accuracy of all accounting, financial, legal and management information reported to the Company's corporate bodies, the regulatory or supervisory authorities, shareholders or the public;
- 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, particularly of an economic, financial or legal nature, to which the Group may be exposed. However, no control system can provide an absolute guarantee that all such risks have been completely avoided, eliminated or entirely brought under control, or that the Group'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, for example.

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

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

2.2.3.2 Components of the internal control mechanism

Control environment and Group values

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

The "Essilor Principles" document, which was launched in 2011 and updated in 2014 by the Legal Affairs and Human Resources Departments and is the product of a broad consultation and gathering of proposals from around the world, forms the basis of this environment and makes it possible to share Essilor's mission, principles and values. The document is organized based on three major concepts which give Essilor's employees and partners the feeling of sharing the reputation and responsibilities of their Group in the broadest sense: a position as a world leader, rapid global expansion and a strong corporate culture. The document is currently available in 33 languages on the Group's intranet site and on its website.

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

Sharing and respecting our common principles and values 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 the Group of sound business practices and human resources management policies." The charter upholds the values of respect and trust among individuals. Members promise to uphold this charter as the foremost condition of their membership and, even though Essilor employees who are not Valoptec members do not sign this charter personally, its spirit infuses Group culture in a very real way. The members of Valoptec and other employee shareholders together hold 14% of Essilor International's voting rights. The association's bylaws are regularly updated and reviewed to ensure they are aligned with its development.

Organization of internal control

The internal control is based on:

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

2.2.3.3 Key control activities and key players

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

The departments with specific responsibility for monitoring activities are:

Internal audit and internal control

The ACS (Audit & Consulting Services) Department covers internal audits and the Group's internal control, with a total dedicated staff of 24 people as of December 31, 2015 (21 for internal audits, three for Group internal control, and its Director). Geographically, the ACS staff as of that date included employees located at the registered office in Charenton (eight people for Group internal control, Corporate, Europe and Africa operations), Dallas (six people for North America operations), Singapore (six people for Asia-Pacific and Middle East operations) and Rio de Janeiro (four 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 its activities to the Audit and Risk Committee.

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

ACS regularly compares itself to the good practices in place within Internal Audit Departments at other companies. The substantial progress made in several fields in recent years – regarding its operating methods and internal efficiency – allowed ACS to win the "Innovation Prize" organized by the IFACI (French Institute of Internal Control) and its partners in November 2013. This award, for which 59 participating organizations compete, was established with the aim of increasing familiarity with and distinguishing good practices in companies and public organizations, as regards innovation in the field of internal audit and internal control. In its area of work, ACS is thus part of Essilor's long tradition of innovation at all levels.

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

Consolidation

The Group's consolidated financial statements are prepared by the Group Consolidation and Reporting Department. The department is responsible for updating consolidation procedures that are first presented to the Audit and Risk Committee. With the support of Regional 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 financial statements and makes the adjustments required for the preparation of the consolidated financial statements. These are audited by the Statutory Auditors who apply the standards of the profession.

The reporting process ensures that the Group's interim and annual financial statements are reliable. To prepare for the fiscal period-ends on June 30 and December 31, a hard close procedure is performed 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 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 and 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. As such, it defines and coordinates the sustainable development policy and is responsible for the Group's non-financial reporting.

Environment, Health and Safety (EHS)

The Global Environment, Health and Safety (EHS) Department reports directly to 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 policy to protect individuals, facilities and assets, prevent industrial risks, preserve employees' health and protect the environment. The department coordinates the network of EHS representatives and sets up programs and systems to ensure regulatory compliance and continually improve the Group's EHS performance. It also provides technical expertise in the areas of REACH 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 Department advises and assists all departments of the Group and its subsidiaries in preventing risks and litigation. It is responsible for negotiating and drafting contracts, including those relating to external growth, in order to ensure that the warranties obtained are aligned with the related risks. It is located in North America, South America, China, France, India, Israel, Singapore, Switzerland and Thailand.

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

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

The Group's Legal Department has a contracts database that is constantly updated. It keeps an up-to-date list of claims and lawsuits filed by or against the Group (such as judicial disputes and industrial property disputes) 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 Group's many subsidiaries, the department has integrated a web-enabled intranet application to manage and update legal and governance information on these subsidiaries.

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

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

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

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

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

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

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

- updating of the legal audits for competition law. Legal audits were undertaken as a matter of priority across Europe in the main subsidiaries (notably in Germany and France). The results of the audits were presented to Senior Management and the management team for Europe together with an action plan. A plan for monitoring these areas for improvement has been implemented in conjunction with the Internal Audit Department and will be regularly reported on to the Audit Committee for Europe;
- 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. Roll-out has been entrusted, at the level of the subsidiaries, to the local legal teams. To this end, awareness sessions on local competition law were conducted with the Management Committees of the subsidiaries, including the partners and operations in Europe (in particular in France, Belgium and the Netherlands), the AMERA region (in particular in Australia, China, Taiwan, Turkey, Dubai, India, the Philippines and Thailand) and in Brazil. The compliance program has been rolled out to all participating managers. The annual seminar that brings together all of the country managers gave them the opportunity to attend an awareness session on best practices with regard to exchanging information across the Group and the provision of multimedia tools (quiz, specific e-learning module, Q&A session);
- roll-out of "made to measure" e-learning training modules in competition law and business practices that are adapted to the Group's needs and its activity. They have been translated into six languages (English, French, Spanish, Italian, German and Portuguese) and are available on the Essilor U platform. The results are regularly presented to the Audit and Risk Committee. The e-learning modules in European law and the "common principles" of European law have been submitted to the members of the Executive Committee, the Country managers, and all managers worldwide;
- dissemination to the top management of e-learning modules on the subject of the prevention of corruption and conflicts of interest for Group employees, and a "manager kit" for new managers worldwide;
- formalization of a good practice guide and guidelines at Group level to prevent corruption and fraud. This guide serves as the corpus of the Group's fundamental rules and common principles in this field and is applicable to all of its subsidiaries and partners. It will be rolled out to the Group's managers and employees with the Group's Human Resources Department and local HR teams;
- implementation of the Group "gifting" policy and conflicts of interest;
- updating, in collaboration with the Audit and Internal Control Department, of the conflict of interest declaration monitoring procedure with annual reporting on the status of signatures provided by local Human Resources Departments.

A Compliance Department was established within the Group's Legal Department under the authority of a Chief Compliance Officer, who reports to the Group Chief Legal Officer. This department ensures coordination and consistency of the Group legal risk prevention and management policy, supporting local teams who are responsible for applying this policy. It is responsible for the formalization and roll-out of policies in this area.

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

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

To provide regular information on developments in the legal environment that is targeted to compliance topics, a monthly newsletter has been established as a tool to prevent legal risks, intended mainly for legal experts and country managers. A legal book has been prepared which includes good legal practices and is widely accessible via a dedicated website, and was the subject of a communication by the Group Chief Legal Officer.

The action plan for 2016 for the roll-out of the legal compliance policy was presented by the Group Chief Legal Officer to the Audit and Risk Committee. A plan regarding communications, audits and raising the awareness of training in competition law for all Group employees, including partners, has been drawn up.

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 on these bodies.

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

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

Mergers and acquisitions

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

Group treasury

The Group Treasury Department is in charge of ensuring the funding, risk hedging and cash management of the Group. It also provides a general advisory and assistance role for the Group subsidiaries for these duties. It reports directly to the Group's 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 (mutual funds, bank deposits, negotiable debt securities), thus limiting the risk of capital loss and making them immediately available.

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

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

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

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

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

Group Standard Guide

The Group Standard Guide (GSG) sets out the mandatory policies and procedures to be followed by all Essilor units and departments in such areas as purchasing, acquisitions, communication, finance, 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, project benefit obligation procedures, insurance, human resources, legal affairs, consolidation and acquisition of companies, assets and businesses. It also includes ethical criteria that are applicable to the entire Group and focused around four themes: human rights, working conditions, the environment and the fight against corruption.

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

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

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

Unified reporting system

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

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

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

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

Other reporting systems

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

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

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

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

Indices of corporate social responsibility and adherence to international initiatives

Essilor is included in four "Social Responsibility" indexes, specialized in the evaluation of the Company's commitment to sustainable development: ECPI Ethical EMU Equity & Europe Equity, Ethibel Excellence, FTSE4Good and STOXX 50 ESG Leaders.

For the fourth consecutive year, Corporate Knights has included the Group in its Global 100 Index of the 100 most sustainable corporations in the world.

Essilor also features, for the fifth consecutive year, in Forbes magazine's list of the "World's Most Innovative Companies" and was selected as one of the 51 companies that are "doing well by doing good" in the first edition of Fortune magazine's "Change the World" list.

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

Attentive to and aware of the consequences of climate change, Essilor has supported the United Nations "Caring for Climate" initiative since its launch in 2007. The Group contributes to the work of the Carbon Disclosure Project (CDP) as part of the voluntary reporting of its carbon and water footprints. The ophthalmic lens mass production plants under the direct operational control of Essilor have ISO 9001-certified quality management systems, ISO 14001-certified environmental management systems and OHSAS 18001-certified occupational health and safety management systems. They guarantee the regular maintenance of these systems and the renewal of their certifications in subsequent accreditation audits.

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

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

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

The budgets are presented to Senior Management at budget review meetings held at the end of the year. The consolidation of all budgets ends in November or December and is formalized in December or January of the following year. The budget is then presented to the Board of Directors. The annual budget is subject to a new forecast in the middle of the year, based on the results for the first half of the year. This forecast is updated in October when the new budget is drawn up. This budgeting process, which concerns all Group entities, is led and monitored by the Group Business Analysis Unit, in order to ensure that all budgets are prepared on the same basis and are consistent with the overall strategic objectives of Senior Management. Actual performance is monitored and analyzed on a monthly basis via the "CARS" reporting system, which is used not only for business analysis but also for statutory consolidation. All entities are managed by the system to maintain strict control over accounting and financial information.

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

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

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

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

All procedures included in the GSG are applicable by consolidated Group companies and enforcement is firstly the responsibility of operational management ("first line of control" in the terminology of the French Audit and Internal Control Institute (IFACI)), then the functional departments responsible for areas of expertise (management control, human resources, internal control, etc. or "second line of control") and finally the Internal Audit Department ("third line of control"). Moreover, at each period-end, the financial information deemed most relevant is presented by the Corporate Finance Department to the Audit and Risk Committee. Such meetings, which are attended by the Statutory Auditors, discuss all material transactions and the main accounting options selected to address potential risks.

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

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

At its meeting of November 24, 2011, the Board of Directors decided to entrust its chairmanship, effective January 2, 2012, to Mr. Hubert Sagnières, Chief Executive Officer, and thus re-combine the offices of Chairman of the Board of Directors and Chief Executive Officer. This structure combining the two functions ensures great responsiveness and efficiency of operations in terms of the governance and strategic management of the Company. In addition, the presence on the Board of a high proportion of Independent Directors, three representatives of the employee shareholders and one employee representative (while the important role of employee shareholders is a key feature of the Group's identity) ensures that the Board fully exercises its oversight functions over the executive part of the organization.

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

In addition, the 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 paid up to the extent called.

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

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

2.2.5.1 Shareholders' right to information (Article 24)

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

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

2.2.5.2 Ordinary Shareholders' Meetings (Article 25)

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

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

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

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

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

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

2.2.5.3 Extraordinary Shareholders' Meetings (Article 26)

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

Subject to these restrictions, the Extraordinary Shareholders' Meeting may, for example, decide to increase or reduce the share capital, change the corporate purpose, change the Company's name, extend its term or agree on its early dissolution, or change its legal form. This list is not exhaustive.

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

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

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

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

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

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

Charenton, February 18, 2016

The Chairman of the Board of Directors