



2004 IFRS June 21, 2005



IFRS: MAIN IMPACTS

2004 ADJUSTMENTS

- **The overall impact of the transition to IFRS on equity and profit is not material.**
- **Many income statement items have been reclassified, due mainly to:**
 - Use of the equity method to account for Transitions.
 - Reclassification of cash discounts and certain commissions as a deduction from net sales.
- **The new expenses recognized under IFRS are more than offset by the fact that goodwill is no longer amortized.**

IFRS ADJUSTMENTS TO THE 2004 INCOME STATEMENT

(in blue: reclassifications – in black: new entries) - (+) credit – (-) debit

- **Presentation**
- **Use of the equity method to account for Transitions**
 - The Transitions Group's contributions to the various balance sheet and income statement items have been reclassified under "Investments in companies accounted for by the equity method" and "Share of profit of companies accounted for by the equity method", respectively.
 - Sales between Essilor and Transitions have been eliminated from Essilor's sales and cost of sales
 - The cost of subcontracting services provided by Transitions on Essilor's behalf has been reallocated between cost of sales and Transitions brand marketing expenses.
- **Net sales**
 - (-) cash discounts, previously recognized in interest expense
 - (-) commissions, previously recognized in marketing costs or sales administration costs (mainly "*ducroire*" commissions), reclassified as a deduction from net sales
 - (-) complete elimination of Transitions' contribution to sales

IFRS ADJUSTMENTS TO THE 2004 INCOME STATEMENT

(in blue: reclassifications – in black: new entries) - (+) credit – (-) debit

- **Cost of sales:**
 - (+) reclassification of supplier cash discounts
 - (+) Transitions reclassification
- **Operating expenses:**
 - (+) commissions recorded as a deduction from net sales
 - (+) cancellation of amortization of cumulative actuarial gains and losses on pension and other post-retirement benefit obligations
 - (+) Transitions reclassifications
- **Net margin**
 - New indicator, included to permit comparisons with “operating income” as previously reported

IFRS ADJUSTMENTS TO THE 2004 INCOME STATEMENT

(in blue: reclassifications – in black: new entries) - (+) credit – (-) debit

- **Other revenues and expenses from operations**
 - (-) Reclassification of certain items previously classified as “non-operating” (€3.9m)
 - (-) Reclassification of impairment losses on goodwill (€2.5m)
 - (-) Amortization of fair value of employee stock options and discount on shares purchased under the Employee Stock Ownership Plan (€3.5m)
 - (-) Cancellation of Transitions exceptional income
- **Gains and losses on disposals of assets**
 - (-) Reclassification from “non-operating income and expense” (€2.5m)
 - (+) Cancellation of loss on disposal of Transitions assets
- **Profit from operations**

IFRS ADJUSTMENTS TO THE 2004 INCOME STATEMENT

(in blue: reclassifications – in black: new entries) - (+) credit – (-) debit

- **Financial income and expenses**
 - (+) Reclassification of cash discounts as a deduction from net sales
- **Income tax**
 - (+) Deferred taxes: cancellation of amortization of actuarial gains and losses
 - (-) Amortization of deferred tax liability on brands (temporary difference)
 - (+) Transitions reclassifications.
- **Share of profit of companies accounted for by the equity method**
 - (+) Reclassification of Transitions profit
 - (+) Bacou-Dalloz IFRS adjustments
- **Net profit**
 - (+) cancellation of goodwill amortization (€22.3m in 2004)

(€millions)	2004 published	2004 IFRS	
Sales	2,260.4	2,202.5	Net Sales
<i>Cost of sales</i>	-897.6	-960.4	<i>Cost of sales</i>
<i>Other operating expenses</i>	-958.8	-887.7	<i>Other operating expenses</i>
Operating income	403.9	354.4	Net margin
	17.9%	16.1%	
		-15.4	Other revenues and expenses from operations, net
		-2.2	Gains and losses on asset disposals
		336.8	Income from operations
		15.3%	
Net interest expense	-34.1	-13.6	Finance costs, net
Non-operating expense, net	-6.3		
Pre-tax income after non-operating items	363.5	323.2	Profit before tax
Corporate income tax	-101.8	-87.8	Income tax expense
Net income from consolidated companies	261.7	235.4	Net profit of consolidated companies
	11.6% #	10.7%	
Share of profit of companies accounted for by the equity method	-8.1	9.7	Share of profit of companies accounted for by the equity method
Amortization of goodwill	-25.9	0.0	
Net income bef. min. interests	227.7	245.1	Net profit
	10.1%	11.1%	
Minority interests	-0.7	-0.7	Minority interests
Net income	227.1	244.4	Net Income
	10.0% #	11.1%	

IFRS ADJUSTMENTS TO THE 2004 BALANCE SHEET

(in blue: reclassifications – in black: new entries)

- **Assets/Liabilities**
 - Use of the equity method to account for Transitions
- **Assets:**
 - Reclassification of market shares (€19m) as goodwill
 - Cancellation of “deferred actuarial gains and losses” from pension provisions (€10.3m)
- **Equity**
 - Cumulative translation adjustment reclassified as “Retained earnings” (-€192.7m)
 - Addition of a new line: “Share-based payments”
 - Adjustments:
 - Recognition of actuarial gains and losses on pension and other post-retirement benefit obligations (-€10.3m)
 - Deferred tax adjustments recognized in equity
- **Deferred taxes**
 - Deferred tax asset on cancelled actuarial gains and losses (€3.7m)
 - Deferred tax liability on brands recognized in balance sheet (€12.5m)

IFRS ADJUSTMENTS TO THE 2004 BALANCE SHEET

Impact on equity

▪ <u>Published equity at December 31, 2004</u>	<u>1,335.2</u>
▪ Cancelled actuarial gains and losses	-10.3
▪ Deferred taxes on actuarial gains and losses	3.7
▪ Deferred taxes on Omega-Nassau brands	-12.5
▪ Reclassification of investment grants	-1.0
▪ Cancellation of 2004 goodwill amortization	22.3
▪ Bacou Dalloz IFRS adjustments	1.9
▪ <u>IFRS equity at December 31, 2004 (before IAS 32 & 39)</u>	<u>1,339.5</u>

IFRS: EFFECTS OF APPLYING IAS 39 FROM 2005

INCOME STATEMENT

- **Net sales:** adjustment at average exchange rate of external sales in foreign currencies previously converted at the hedging rate + application of hedge accounting to financial instruments used to hedge revenues
- **Cost of sales:** adjustment at average exchange rate of external purchases in foreign currencies previously converted at the hedging rate + application of hedge accounting to financial instruments used to hedge purchases
- **Financial income and expense:** fair value adjustments to financial instruments

BALANCE SHEET

- **Assets/Liabilities:** remeasurement at fair value of cash flow hedges (hedge accounting)/Adjustment of receivables and payables previously converted at the hedging rate and remeasurement of related hedges at fair value
- **Equity:** gains and losses from remeasurement at fair value of financial instruments

IFRS: EFFECTS OF APPLYING IAS 32

2005 CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT

2003 convertible bonds:

- Equity component (corresponding to the value of the conversion option at the issue date), estimated at €41m, recognized in equity. Accumulated amortization for the period from the issue date to January 1, 2005 recognized as a deduction from retained earnings (€7.7m).
- Corresponding reduction in debt.
- Finance cost will be increased by amortization of the embedded option, estimated at €5.4m per year.

IFRS ADJUSTMENTS TO THE BALANCE SHEET

■ **Impact on equity**

■ <u>Published equity at December 31, 2004</u>	<u>1,335.2</u>
■ Cancelled actuarial gains and losses	- 10.3
■ Deferred taxes on actuarial gains and losses	3.7
■ Deferred taxes on Omega-Nassau brands	- 12.5
■ Reclassification of investment grants	- 1.0
■ Cancellation of 2004 goodwill amortization	22.3
■ Bacou Dalloz IFRS adjustments	1.9
■ <u>IFRS equity at December 31, 2004 (before IAS 32 & 39)</u>	<u>1,339.5</u>
■ Reclassification of equity component of 2003 convertible bonds	33.0
■ Reclassification of treasury stock held under liquidity contract	- 0.4
■ Remeasurement of financial instruments at fair value (e)	25.2
■ Conversion of opening balance sheet at actual rate	- 1.5
■ <u>IFRS equity at January 1, 2005 (e)</u>	<u>1,395.7</u>