

Company accounts

Key figures

year ended December 31, 2001

(EUR thousand, except for per share data)

	2001	2000	1999
Income statement			
Sales	576,495	589,808	539,810
Operating income	41,521	66,609	60,653
Income before non-operating items and tax	95,549	125,354	104,036
Net income	85,606	105,588	89,528

Balance sheet

Capital stock	35,377	32,399	32,251
Shareholders' equity	813,165	922,795	848,042
Net debt	306,009	446,710	161,166
Fixed assets, net	1,068,437	1,288,411	909,717
Total assets	1,393,354	1,638,275	1,209,279
Dividend per common share	0.41 ⁽¹⁾	3.90	3.40
Dividend per preferred non-voting share	0	4.02	3.52

(1) After 10-for-1 stock-split carried out in 2001.

Income statement

year ended December 31, 2001

(EUR thousand)

	Note	2001	2000	1999
Sales	2	576,495	589,808	539,810
Production transferred to inventory		3,918	252	-1,597
Production of assets for own use		1,457	2,698	6,480
Production		581,870	592,758	544,693
Purchases of materials and change in inventory		242,357	228,814	213,380
Other purchases		141,050	135,901	125,531
Added value		198,463	228,042	205,782
Taxes, other than income tax		18,326	16,478	15,698
Personnel expenses	15	165,912	162,640	158,013
Gross operating income		14,225	48,923	32,071
Depreciation, amortization and provisions, net	11	-6,387	-9,494	5,539
Other income (expenses), net		33,683	27,179	23,043
Operating income		41,521	66,609	60,653
Net interest income	3	54,028	58,745	43,382
Income before non-operating items and tax		95,549	125,354	104,036
Net exceptional (expense)	4	-7,169	-5,288	-6,594
Corporate income tax	5	2,773	14,479	7,914
Net income	15	85,606	105,588	89,528

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Balance sheet

as at December 31, 2001

Assets (EUR thousand)

	Note	Cost	2001 Depreciation/ amortization provisions	Net	2000 Net	1999 Net
Intangible assets	6	39,912	19,230	20,682	22,020	18,963
Property, plant and equipment	7	197,452	140,025	57,427	57,506	54,077
Investments and other non-current assets	8	1,036,831	46,503	990,328	1,208,885	836,678
Fixed assets, net		1,274,195	205,759	1,068,437	1,288,411	909,717
Inventories and work in progress	9	93,963	12,052	81,912	77,183	77,289
Advance payments to suppliers		6,172	8	6,164	5,326	3,705
Trade receivables	9	147,397	2,752	144,644	149,947	133,576
Other operating receivables	9	14,235	0	14,235	15,233	11,277
Other receivables	9	40,204	0	40,204	45,850	41,837
Marketable securities		17,713	0	17,713	39,715	16,078
Cash	9	16,730	0	16,730	9,244	12,509
Prepayments and other assets	9	1,326	0	1,326	5,395	2,698
Current assets		337,740	14,812	322,927	347,892	298,970
Deferred charges	9	1,990	0	1,990	1,972	592
Conversion losses	9	0	0	0	0	0
Total assets		1,613,925	220,571	1,393,354	1,638,275	1,209,279

Liabilities and shareholders' equity (before income appropriation) (EUR thousand)

	Note	2001	2000	1999
Capital stock	10	35,377	32,399	32,251
Additional paid-in capital		149,887	308,118	297,838
Legal reserve		3,240	3,227	3,118
Untaxed reserves		17,725	17,303	28,819
Other reserves		502,172	438,143	377,926
Retained earnings		5,416	5,472	5,171
Net income		85,606	105,588	89,528
Investment subsidies		30	44	55
Untaxed provisions		7,768	8,055	10,016
Cumulative translation adjustment		5,944	4,448	3,320
Shareholders' equity	10	813,165	922,795	848,042
Provisions for contingencies and charges	11	16,286	12,627	10,385
Convertible bonds	12	0	0	0
Other bonds		127,696	126,941	126,260
Bank borrowings		212,411	368,195	63,070
Other borrowings		345	532	422
Total borrowings	12	340,452	495,669	189,753
Advances and deposits from customers		0	0	0
Trade payables	12	80,408	84,710	76,825
Accrued taxes and personnel expenses	12	36,773	36,794	34,518
Other operating liabilities	12	45,721	43,424	29,391
Miscellaneous liabilities	12	60,047	41,880	18,018
Deferred income		502	376	2,346
Total liabilities		223,451	207,183	161,098
Conversion gains	9	0	0	0
Total liabilities and shareholders' equity		1,393,354	1,638,275	1,209,279

Statement of cash flows

(EUR thousand)

	2001	2000	1999
Cash flow	101,167	127,021	109,841
Change in working capital ⁽¹⁾	31,879	14,930	-29,951
Net cash provided by operations	133,046	141,951	79,891
Capital expenditures	-17,662	-21,842	-25,045
Deferred charges	-1,083	-2,323	-735
Acquisitions of shareholdings and new loans extended	-1,076,836	-1,756,355	-697,125
Disposals of assets	1,523	309	4,198
Repayments of loans	1,115,443	1,384,009	532,791
Net cash used by investment activities	21,385	-396,203	-185,916
Issuance of shares	2,978	147	1,073
Increase in reserves	24,506	6,949	47,463
Dividends paid	-41,138	-35,957	-32,744
Repayment of borrowings	-662,811	-651,631	-32,335
New borrowings raised	512,542	951,753	60,001
Net cash provided by financing activities	-163,923	271,261	43,457
Change in cash and cash equivalents	-9,492	17,009	-62,568
Cash and cash equivalents at beginning of year	42,974	25,965	88,533
Cash and cash equivalents at end of year	33,481	42,974	25,965

Cash and cash equivalents correspond to cash and short-term deposits, less short-term bank loans and overdrafts.

⁽¹⁾ Analysis of change in working capital	2001	2000	Variation
Advance payments to suppliers	6,164	5,326	-838
Inventories and work in progress	81,912	77,183	-4,729
Operating receivables	158,879	165,180	6,301
Other receivables	40,204	45,850	5,646
Accrued interest on loans and dividends receivable	322	5,494	5,172
Advances and deposits from customers	0	0	0
Operating liabilities	-162,903	-164,928	-2,025
Miscellaneous liabilities	-60,047	-41,880	18,167
Accrued interest	-7,321	-7,331	-10
Deferred income, deferred charges and translation adjustment	824	5,019	4,195
	58,034	89,913	31,879

Notes to the 2001 parent company financial statements

The balance sheet at December 31, 2001 shows total assets of EUR 1,393,354 thousand and the statement of income for the year then ended shows net income of EUR 85,606 thousand.

The financial statements cover the 12-month period from January 1 to December 31, 2001.

The parent company is Essilor International ("Essilor").

In the following notes, all amounts are stated in thousands of euros.

Significant events of the year

On February 1, 2001, Essilor sold its contact lens business to Ocular Sciences. On September 6, 2001, the company subscribed to a share issue carried out in connection with the merger between Financière Dalloz, Christian Dalloz and the Bacou Group, raising its interest in the merged Bacou-Dalloz Group to 18.61%. The new shares were acquired at a cost of EUR 19.8 million. In October 2001, Essilor sold its 44% interest in Logo.

Various transactions affecting the company's capital also took place during 2001:

- In March 2001, shares representing 6% of the capital were cancelled;
- On March 22, 2001, the capital was converted into euros;
- In July 2001, the company made a public offer to exchange its preferred non-voting shares for common shares issued for this purpose. The preferred non-voting shares not tendered to this offer were bought back and cancelled on September 12, 2001;
- During the year, new shares were issued on exercise of stock options and in connection with employee contributions to the company corporate mutual fund.

Note 1: accounting policies

GENERAL

The financial statements of the company have been prepared in accordance with the French 1999 General Accounting Plan approved by government order of June 22, 1999, the law of April 30, 1983 and the decree of November 29, 1983.

INTANGIBLE ASSETS

Intangible assets correspond primarily to purchased goodwill, concessions, patents, licenses and software. They are stated at cost and amortized by the straight-line method over 3 to 10 years. Legally-protected purchased goodwill is not amortized.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition or production cost. Assets acquired prior to December 31, 1976 which were included in the 1978 legal revaluation are stated at revalued cost.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings	20 to 33 years
Building improvements	7 to 10 years
Industrial machinery, equipment and tools	3 to 10 years
Other property, plant and equipment	3 to 10 years

Differences between straight-line depreciation and reducing balance depreciation charged for tax purposes are included in untaxed provisions on the liabilities side of the balance sheet.

INVESTMENTS

Shares in subsidiaries and affiliates are stated at the lower of cost and fair value, based on estimated future cash flows. The cost of investments acquired prior to December 31, 1976 which were included in the 1978 legal revaluation corresponds to revalued cost. The revaluation difference originally credited to reserves was transferred to the capital account in 1980.

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INVENTORIES AND WORK IN PROGRESS

Raw materials and goods inventories are valued at weighted average cost. Finished products, semi-finished products and work in progress are valued at standard production cost. Provisions are recorded against inventories, taking into account market prices, sales prospects and the risk of obsolescence.

RECEIVABLES AND PAYABLES

Receivables and payables are stated at their nominal value. Foreign currency receivables and payables are converted into euros at the year-end exchange rate or the hedging rate. Provisions are recorded to cover any risk of non-recovery, based on the age of receivables.

MARKETABLE SECURITIES

Marketable securities, consisting primarily of *Sicav* and *FCP* mutual funds and certificates of deposit, are stated at cost. Accrued interest on units in with-profits mutual funds is credited to interest income. A provision is recorded if the net asset value of the units represents less than their cost.

FINANCIAL INSTRUMENTS

Financial instruments are used only to hedge risks on commercial transactions and identified foreign currency receivables and payables. They include forward exchange contracts and currency options.

The company uses financial instruments solely for hedging purposes. All currency transactions are subject to pre-determined position limits which are designed to optimize the protection afforded by the hedges.

The company's interest rate risk management policy consists of hedging interest rate risks.

Exchange gains and losses on financial instruments are recognized in the year in which they arise. They are based on contractual forward rates at maturity.

FOREIGN CURRENCY TRANSACTIONS

Substantially all foreign currency transactions are hedged and are converted into euros at the hedging rate.

Foreign currency receivables and payables are converted at the hedging rate, with the exception of foreign currency bank balances which are converted at the month-end exchange rate.

RETIREMENT BENEFITS

The company's obligations for the payment of retirement indemnities are funded under an insured plan. The difference between the projected benefit obligation and the fair value of plan assets is covered by provisions.

The related provisions take into account years of service, mortality and staff turnover rates, future salary levels and an appropriate discount rate.

The company's obligations for the payment of supplementary pensions to management and employees are funded under an insured plan (note 13).

TRANSLATION OF THE FINANCIAL STATEMENTS OF THE FOREIGN BRANCH

The financial statements of the foreign branch, Essilor Industries—which is considered as representing an independent entity—are translated into euros as follows.

Income statement items are translated at the average hedging rate for the year.

Balance sheet items are translated at the exchange rate ruling on December 31, except for:

- Reserves, which are translated at the historical rate;
- Net income, which is translated at the hedging rate.

The difference arising on translation is recorded in shareholders' equity under "Cumulative translation adjustment".

CORPORATE INCOME TAX (group relief)

Essilor files a consolidated tax return with BBGR, Optim, VIP, Invoptic, Varilux University, Novisia and Essidev and pays the corporate income tax due by the tax group.

Each company in the tax company records the income tax charge or benefit that would apply if it were not a member of the tax group.

In 2001, the corporate income tax due by the tax group amounted to EUR 6,710 thousand.

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Note 2: sales

2001 sales by business segment	France	Export	Total	% change
Corrective lenses	224,971	220,776	445,747	1.93
Contact lenses	981	1,085	2,066	-90.33
Optical instruments	22,532	43,696	66,227	10.48
Industrial equipment	6,434	32,893	39,327	-26.75
Other	10,564	12,564	23,128	32.10
Total	265,482	311,014	576,496	-2.26

2000 sales by business segment	France	Export	Total	% change
Corrective lenses	220,031	217,265	437,296	9.83
Contact lenses	10,755	10,615	21,370	0.40
Optical instruments	21,716	38,230	59,946	17.91
Industrial equipment	9,010	44,678	53,688	7.25
Other	1,175	16,332	17,508	-10.15
Total	262,687	327,121	589,808	9.26

1999 sales by business segment	France	Export	Total	% change
Corrective lenses	201,193	196,950	398,143	4.28
Contact lenses	10,640	10,645	21,284	3.66
Optical instruments	20,033	30,806	50,840	13.16
Industrial equipment	9,933	40,124	50,057	21.85
Other	5,567	13,918	19,485	34.42
Total	247,366	292,444	539,810	4.31

Breakdown between intercompany and external sales France and export	2001	2000	1999	% change
France				
Intercompany	30,687	31,591	30,888	-2.86
External	234,795	231,095	216,478	1.60
Subtotal	265,482	262,687	247,366	1.06
Export				
Intercompany	266,850	283,989	262,244	-6.04
External	44,164	43,132	30,200	2.39
Subtotal	311,014	327,121	292,444	-4.92
Total	576,496	589,808	539,810	-2.26

Note 3: net interest income

INTEREST INCOME

	2001	2000	1999
Interest expense	-26,853	-15,491	-9,269
Dividend and interest income	81,001	84,752	63,329
Net discounts	-2,676	-3,850	-3,275
Provisions for losses on subsidiaries	2,589	-5,343	-7,152
Exchange gains and losses	-592	-982	-1,081
Other	559	-342	831
Total	54,027	58,744	43,382

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RELATED PARTY TRANSACTIONS

Other information	Net amounts concerning			Total
	Related parties	Other companies with which the company has capital ties	Other	
Income statement				
Interest expense	5,564	0	37,617	43,181
Interest income	67,701	21,421	8,087	97,209

Note 4: non-operating income and expense

	2001	2000	1999
Revenue transactions	-1,191	-7,334	-1,864
Other income and expenses from revenue transactions	1,589	-6,739	-1,182
Restructuring costs	-2,780	-595	-683
Capital transactions	-4,660	2,445	-6,222
Disposals of investments	-10,738	-419	-6,359
Other income from capital transactions	6,078	2,864	137
Provision movements	-1,318	-399	1,492
Tax provisions	-3,315	1,961	-994
Restructuring provisions	2,160	-2,888	1,083
Provisions for impairment in value	0	0	0
Other	-163	528	1,403
Total	-7,169	-5,288	-6,594

Note 5: corporate income tax

INCOME BEFORE ENTRIES RECORDED FOR TAX PURPOSES

	2001	2000	1999
Net income	85,606	105,588	89,528
Corporate income tax	2,773	14,479	7,914
Pre-tax income	88,379	120,066	97,442
Change in untaxed provisions	-287	-1,961	994
Income before tax and entries recorded for tax purposes	88,092	118,105	98,435

Income for 2001 includes EUR 58 million worth of dividends and EUR 25 million worth of royalties which are taxed at a reduced rate.

CORPORATE INCOME TAX ANALYSIS

The corporate income tax charge breaks down as follows between operating and non-operating items:

	Before tax	Tax	After tax
2001			
Operating income after interest	95,549	-2,825	92,723
Non-operating expense	-7,169	52	-7,117
Net income			85,606
2000			
Operating income after interest	125,354	-16,386	108,968
Non-operating expense	-5,288	1,907	-3,381
Net income			105,588
1999			
Operating income after interest	104,036	-11,224	92,812
Non-operating expense	-6,594	3,310	-3,284
Net income			89,528

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DEFERRED TAXES

Assets

The future tax saving arising from non-deductible provisions breaks down as follows:

	2001	2000	1999
Provisions for vacation pay ⁽¹⁾	8,926	8,638	8,023
CSS surtax	785	805	671
Total	9,711	9,443	8,694
Unrecognized deferred tax asset (35.44% tax rate)	3,442	3,441	3,283

(1) The company has elected to apply the provisions of article 8 of the 1987 Finance Act, allowing the deduction of vacation pay on a cash basis. The provision is therefore not deductible, giving rise to a future tax saving.

Liabilities

No deferred taxes are recognized in the balance sheet. Recognition of deferred taxes on timing differences would have the effect of increasing the corporate income tax charge by EUR 2,753 thousand as follows:

	At Dec. 31 1999	Increase 2000	Decrease 2000	At Dec. 31 2000	Increase 2001	Decrease 2001	At Dec. 31 2001
Provisions for:							
Foreign investment	690		647	43	0	43	0
Excess tax depreciation	9,326	2,327	3,642	8,011	2,612	2,855	7,768
Total	10,016	2,327	4,289	8,054	2,612	2,898	7,768
Unrecognized deferred tax liability (35.44% tax rate)	3,782			2,935			2,753

Note 6: intangible assets

	At January 1	Acquisitions	Disposals	Other movements	Amortization and provisions	At December 31
2001						
Concessions	31,403	1,839	436	3,009		35,815
Purchased goodwill	459		24			435
Other intangibles	4,756	1,862	11	-2,944		3,663
At cost	36,618	3,701	471	65		39,912
Amortization and provisions	14,598				4,632	19,230
Net	22,020					20,682
2000						
Concessions	25,150	3,855	104	2,502		31,403
Purchased goodwill	459					459
Other intangibles	3,647	3,529		-2,420		4,756
At cost	29,256	7,384	104	82		36,618
Amortization and provisions	10,293				4,305	14,598
Net	18,963					22,020
1999						
Concessions	13,524	10,915	145	856		25,150
Purchased goodwill	459					459
Other intangibles	965	2,670		11		3,647
At cost	14,948	13,585	145	868		29,256
Amortization and provisions	7,956				2,337	10,293
Net	6,992					18,963

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Note 7: property, plant and equipment

	At January 1	Acquisitions	Disposals	Other movements	Depreciation and provisions	At December 31
2001						
Land	6,757	249	4	0		7,002
Buildings	69,771	2,217	2,168	1,821		71,640
Industrial machinery and equipment	70,984	4,081	4,351	2,114		72,828
Other	39,638	2,605	3,103	971		40,111
Assets under construction	4,443	3,776	93	-3,137		4,989
Advance payments to suppliers	1,058	615	2	-789		882
Cost	192,651	13,542	9,721	980		197,452
Depreciation	135,145				4,880	140,025
Net	57,506					57,427
2000						
Land	6,709	77	28	0		6,757
Buildings	69,121	1,770	2,017	896		69,771
Industrial machinery and equipment	67,224	4,225	2,331	1,866		70,984
Other	35,532	3,605	1,279	1,780		39,638
Assets under construction	4,516	3,114		-3,187		4,443
Advance payments to suppliers	148	1,050		-139		1,058
Cost	183,250	13,840	5,654	1,216		192,651
Depreciation	129,173				5,972	135,145
Net	54,077					57,506
1999						
Land	6,532	86		91		6,709
Buildings	65,760	2,135	327	1,554		69,121
Industrial machinery and equipment	63,518	2,081	1,631	3,257		67,224
Other	29,330	3,838	528	2,892		35,532
Assets under construction	7,728	3,266		-6,478		4,516
Advance payments to suppliers	291	148		-291		148
Cost	173,159	11,553	2,487	1,025		183,250
Depreciation	116,269				12,904	129,173
Net	56,890					54,077

Note 8: investments and other non-current assets

	At January 1	Acquisitions ⁽¹⁾	Disposals	Other movements	Provisions	At December 31
2001						
Shares in subsidiaries and affiliates	887,678	32,213	200,211	3,504		723,184
Loans to subsidiaries and affiliates	390,112	1,065,349	1,142,409	-2,351		310,702
Other long-term investments	1,168	0	0	0		1,168
Loans	1,237	0	5	0		1,232
Other non-current assets	511	110	79	3		545
Cost	1,280,706	1,097,672	1,342,704	1,156		1,036,831
Provisions	71,820				-25,318	46,502
Net	1,208,886					990,328
2000						
Shares in subsidiaries and affiliates	592,650	234,647	368	60,750		887,678
Loans to subsidiaries and affiliates	308,224	1,487,274	1,345,010	-60,376		390,112
Other long-term investments	1,372		204			1,168
Loans	1,238	60,001	60,002			1,237
Other non-current assets	380	273	146	4		511
Cost	903,864	1,782,194	1,405,730	377		1,280,706
Provisions	67,186				4,635	71,820
Net	836,678					1,208,886
1999						
Shares in subsidiaries and affiliates	517,159	55,805	9,993	29,678		592,649
Loans to subsidiaries and affiliates	231,280	655,471	547,965	-30,562		308,224
Other long-term investments	1,372					1,372
Loans	1,238	2	2			1,238
Other non-current assets	412	23	23	-31		380
Cost	751,461	711,301	557,984	-915		903,863
Provisions	57,348				9,838	67,186
Net	694,113					836,678

(1) The 2000 figure includes the acquisition of Essilor shares by the company, in connection with the sale of Compagnie de Saint-Gobain's interest, for EUR 202 million.

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SUBSIDIARIES AND AFFILIATES

Investments with a gross carrying value representing	Capital stock	Reserves	Book value		Loans and advances made by the company	Guarantees given by the company	Last published sales	Last published net income/loss	Dividends received during the year
			Cost	Net					
More than 1% of the company's capital									
French companies	53,359	477,930	121,869	120,055	1,829	1,097	144,932	20,901	6,179
International subsidiaries	194,920	482,146	571,871	529,439	300,796	99,040	1,695,007	97,730	51,440
Less than 1% of the company's capital									
French companies	545	-493	88	88	0	457	6,344	-2,076	0
International subsidiaries	9,689	10,610	1,857	1,857	2,217	11,121	103,686	11,955	134

N.B. As allowed under paragraph 11 of article 24 of decree No. 83.1020 of November 29, 1983, detailed information by subsidiary is not provided as its disclosure would be prejudicial to the company's interests. Additional information is provided in the consolidated financial statements, by geographic area.

RELATED PARTY TRANSACTIONS

Other information	Net amounts concerning			Total
	Related parties	Other companies with which the company has capital ties	Other	
Investments (net)				
Shares in subsidiaries and affiliates	540,908	138,031		678,939 ⁽¹⁾
Loans to subsidiaries and affiliates	308,304	1,914	484	310,702
Total investments (net)	849,212	139,945	484	989,641

(1) Including Essilor shares for EUR 27 million.

ANALYSIS OF LONG-TERM LOANS AND RECEIVABLES BY MATURITY

	2001	2000	1999
More than one year	124,119	124,092	123,959
Less than one year	188,360	267,768	185,883
Total	312,479	391,861	309,842

Note 9: current assets

INVENTORIES

	2001	2000	1999
Raw materials and other supplies	37,182	36,031	36,247
Traded goods	8,494	9,692	9,669
Finished and semi-finished products and work in progress	48,287	44,334	43,973
Subtotal	93,963	90,058	89,889
Provisions	-12,052	-12,875	-12,599
Total	81,911	77,182	77,289

ANALYSIS OF RECEIVABLES BY MATURITY

	2001	2000	1999
More than one year	0	0	0
Less than one year	208,008	219,422	193,663
Total	208,008	219,422	193,663

MARKETABLE SECURITIES

	2001		2000		1999	
	Cost	Net	Cost	Net	Cost	Net
<i>Sicav</i> mutual funds	17,557	17,557	39,155	39,155	10,816	10,816
<i>FCP</i> mutual funds and money market securities	156	156	156	156	4,811	4,811
Quoted securities	0	0	0	0	0	0
Currency options	0	0	405	405	451	451
Total	17,713	17,713	39,715	39,715	16,078	16,078

Market values of marketable securities are as follows:

	2001	2000	1999
Book value	17,713	39,715	16,078
Market value	17,713	39,765	16,087
Unrealized gain	0	50	9

Company accounts

ACCRUALS

Prepaid expenses

	2001	2000	1999
Operating expenses	971	1,091	1,532
Interest expense	355	4,304	1,165
Total	1,326	5,395	2,697

Deferred charges

Deferred charges are amortized over 3 to 5 years, including EUR 1,274 thousand to be charged to 2002 income, EUR 542 thousand to be charged to 2003 income, EUR 161 thousand to be charged to 2004 income and EUR 13 thousand to be charged to 2005 income.

	2001	2000	1999
Net at January 1	1,972	592	71
Additions	1,083	2,323	735
Amortization	1,065	942	214
Net at December 31	1,990	1,972	592

RELATED PARTY TRANSACTIONS

Other information	Net amounts concerning			Total
	Related parties	Other companies with which the company has capital ties	Other	
Current assets (net)				
Trade receivables	58,138	1,956	87,302	147,397
Other receivables	18,804	618	35,017	54,439
Total current assets (net)	76,942	2,574	122,319	201,836

ACCRUED INCOME

	2001	2000	1999
Investments			
Loans to subsidiaries and affiliates	98	5,201	366
Receivables			
Trade receivables	7,155	2,029	8,137
Other receivables	1,369	1,305	518
Total	8,622	8,535	9,021

Note 10: shareholders' equity**CAPITAL STOCK**

	At January 1	After 10-for-1 stock-split	Number of shares			At December 31	Par value in EUR
			Issued	Cancelled	Exchanged		
Common stock	10,569,681	105,696,810	1,377,911	-6,380,010	381,180	101,075,891	0.35
Preferred, non-voting stock	56,418	564,180		-183,000	-381,180	0	0.35
Total	10,626,099	106,260,990	1,377,911	-6,563,010	0	101,075,891	0.35

Company accounts

CHANGES IN SHAREHOLDERS' EQUITY

Before appropriation of income

	2001	2000	1999
Due to changes in structure			
Capital stock	2,978	147	1,073
Additional paid-in capital	-158,231	10,281	44,323
Reserves and cumulative translation adjustment	1,455	1,130	3,140
Dividends paid ⁽¹⁾	-41,138	-40,420	-32,744
Other			
Net income for the year	85,606	105,588	89,528
Untaxed provisions	-286	-1,961	993
Revaluation difference	0	0	0
Investment subsidies	-14	-12	25
Total	-109,631	74,754	106,338

(1) Including "précompte" equalization tax of EUR 2.4 million.

2001

In the above table, the 10-for-1 stock-split is shown as having taken place at the beginning of the year to make the table clearer. In March 2001, Essilor reduced its capital by canceling 6,380,010 common shares and 30,260 preferred non-voting shares. On March 22, 2001, the capital was converted into euros and the par value of the shares was rounded up to EUR 0.35. The resulting capital increase was paid up by capitalizing reserves. In August 2001, Essilor exchanged 381,180 preferred non-voting shares for the same number of common shares. In September 2001, the company cancelled the remaining 152,740 preferred non-voting shares.

During the year, the capital was increased to EUR 35,377 thousand through the issuance of 1,377,911 common shares, including 452,860 shares issued to the Essilor corporate mutual funds and 925,051 shares issued on exercise of stock subscription options.

The new shares carried dividend and voting rights as from January 1, 2001.

2000

The capital was increased to EUR 32,399 thousand through the issuance of 48,352 common shares to the Essilor corporate mutual funds.

The new shares carried dividend and voting rights as from January 1, 2000.

1999

The capital was increased to EUR 32,251 thousand through the issuance of 351,858 common shares in connection with the exercise of stock options, the conversion of bonds and the issuance of shares to the Essilor corporate mutual funds.

The new shares carried dividend and voting rights as from January 1, 1999.

Note 11: provisions

PROVISIONS FOR CONTINGENCIES AND CHARGES

(EUR thousand)	At January 1	Increases	Releases	At December 31
2001				
Provisions for pensions	6,761	351	653	6,459
Provisions for losses in subsidiaries and affiliates	571	0	68	503
Provisions for restructuring	3,224	620	2,780	1,064
Other	2,071	8,021	1,832	8,260
Total	12,627	8,992	5,333	16,286
2000				
Provisions for pensions	7,196		435	6,761
Provisions for losses in subsidiaries and affiliates	68	503		571
Provisions for restructuring	336	3,483	595	3,224
Other	2,785	2,151	2,865	2,071
Total	10,385	6,136	3,895	12,627
1999				
Provisions for pensions	9,065		1,869	7,196
Provisions for the euro and Year-2000 compliance program costs	6,717		6,717	0
Provisions for losses in subsidiaries and affiliates	2,754		2,686	68
Provisions for restructuring	1,419	19	1,102	336
Other	4,027	2,712	3,953	2,785
Total	23,982	2,731	16,327	10,385

The difference between the sum of the movements shown in the above table and the amount recorded in the income statement for depreciation, amortization and provisions corresponds to movements in depreciation, amortization and provisions charged against assets.

Company accounts

UNTAXED PROVISIONS

(EUR thousand)	At January 1	Increases	Releases	At December 31
2001				
Untaxed provisions	8,055	2,612	2,898	7,768
Excess tax depreciation	8,012	2,612	2,855	7,768
Foreign investment	43	0	43	0
2000				
Untaxed provisions	10,016	2,327	4,289	8,054
Excess tax depreciation	9,326	2,327	3,642	8,011
Foreign investment	690	0	647	43
1999				
Untaxed provisions	9,022	4,192	3,199	10,016
Excess tax depreciation	7,686	4,192	2,552	9,326
Foreign investment	1,337	0	647	690

PROVISIONS FOR IMPAIRMENT IN VALUE

(EUR thousand)	At January 1	Increases	Releases	At December 31
2001				
Provisions for impairment in value	87,771	17,710	44 166	61 315
Inventories	12,875	12,052	12,875	12,052
Receivables	3,066	0	314	2,752
Shares in subsidiaries and affiliates	52,816	7,059	15,630	44,245
Other investments	19,006	-1,401	15,347	2,258
Other	8	0	0	8
2000				
Provisions for impairment in value	83,053	25,046	20,329	87,771
Inventories	12,599	12,875	12,599	12,875
Receivables	3,260	420	614	3,066
Shares in subsidiaries and affiliates	50,139	9,588	6,911	52,816
Other investments	17,047	2,163	204	19,006
Other	8	0	0	8
1999				
Provisions for impairment in value	81,298	31,413	29,658	83,053
Inventories	20,755	12,599	20,755	12,599
Receivables	3,186	207	134	3,260
Shares in subsidiaries and affiliates	46,767	9,485	6,113	50,139
Other investments	10,582	9,122	2,657	17,047
Other	8	0	0	8

Note 12: debt

MATURITIES OF DEBT

(EUR thousand)	2001	2000	1999
Due in less than one year	232,649	370,499	226,529
Borrowings	8,483	163,691	67,762
Operating liabilities	164,119	164,928	140,750
Other liabilities	60,047	41,880	18,018
Due in one to five years	60,010	60,019	32
Borrowings	60,010	60,019	32
Operating liabilities			
Other liabilities			
Due beyond five years	271,959	271,959	121,959
Borrowings	271,959	271,959	121,959
Operating liabilities			
Other liabilities			
Total	564,618	702,477	348,521

Analysis by maturity	2001	2000	1999
2000			226,529
2001		370,499	14
2002	232,649	9	9
2003	10	10	10
2004	60,000	60,000	
2005			
2006	121,959	121,959	121,959
2007	150,000	150,000	
Analysis by currency			
CHF		260	
EUR	218,493	361,615	
FRF		11,834	67,794
USD	121,959	121,959	121,959

CONVERTIBLE BONDS

The convertible bonds were issued on April 6, 1989. The total amount of the issue was FRF 799,999 thousand and the yield to maturity (assuming the bonds were not converted) was 7.12%.

	2001	2000	1999
Number of bonds issued	210,526	210,526	210,526
Number of bonds converted	0	0	55,499
Face value (EUR thousand)	0.58	0.58	0.58
Net annual interest (EUR thousand)	0.00	0.00	0.00

All unconverted bonds were redeemed in 1999.

RELATED PARTY TRANSACTIONS

Other information	Net amounts concerning			Total
	Related parties	Other companies with which the company has capital ties	Other	
Liabilities				
Trade payables	16,555	4,483	59,370	80,408
Other operating liabilities	3,625	28	78,842	82,495
Other liabilities	55,059		4,988	60,047
Total liabilities	75,239	4,511	143,200	222,950

ACCRUED CHARGES

	2001	2000	1999
Accrued interest	7,320	7,331	4,886
Advances and deposits from customers			
Trade payables (goods received but not yet invoiced)	34,454	39,398	22,018
Accrued taxes and personnel costs			
– Vacation pay	17,633	16,008	13,952
– Incentive bonuses	1,525	1,994	1,653
– Other	5,808	5,984	5,755
Other debts	45,286	43,287	29,240
Total	112,026	114,002	77,505

Note 13: off-balance sheet commitments

FINANCIAL COMMITMENTS

	2001	2000	1999
Commitments given			
Guarantees	129,698	101,328	94,162
Commitments received			
Guarantees	18,894	2,846	2,939

FORWARD EXCHANGE CONTRACTS

At December 31, 2001, forward sales of foreign currencies totaled EUR 435,299 thousand and forward purchases amounted to EUR 15,833 thousand.

CURRENCY OPTIONS

At December 31, 2001, the company did not have any currency options acquired as hedges of business transactions.

INTEREST RATE SWAPS

The floating rate of interest on the EUR 122 million 1996 bonds was swapped for a fixed rate through January 3, 2002. A new swap was negotiated on January 3, 2002 through July 3, 2006.

The floating rate on a EUR 60 million borrowing set up in 2000 has been swapped for a fixed rate through October 29, 2004.

COMMITMENTS UNDER FINANCE LEASES

2001

Assets acquired under finance leases	Cost at inception of the lease	Depreciation		Net
		For the year	Accumulated	
Land	779			779
Buildings	20,720	1,036	7,187	13,533
Other				0
Total	21,499	1,036	7,187	14,312

Lease commitments	Lease payments		Future minimum lease payments				Residual value
	For the year	Cumulative	1 year	1 to 5 years	Beyond 5 years	Total	
Land	35	1,307	11	25		36	
Buildings	2,354	16,696	1,386	9,561		10,947	5,148
Other						0	
Total	2,389	18,003	1,396	9,586	0	10,983	5,148

2000

Assets acquired under finance leases	Cost at inception of the lease	Depreciation		Net
		For the year	Accumulated	
Land	779			779
Buildings	8,744	448	6,151	2,593
Other				0
Total	9,523	448	6,151	3,372

Lease commitments	Lease payments		Future minimum lease payments			
	For the year	Cumulative	1 year	1 to 5 years	Beyond 5 years	Total
Land	50	1,273	31	36		67
Buildings	528	14,341	319	210		529
Other						0
Total	578	15,614	350	246	0	596

Company accounts

1999

Assets acquired under finance leases	Cost at inception of the lease	Depreciation		Net
		For the year	Accumulated	
Land	849			849
Buildings	9,184	459	6,046	3,139
Other				0
Total	10,033	459	6,046	3,988

Lease commitments	Lease payments		Future minimum lease payments			
	For the year	Cumulative	1 year	1 to 5 years	Beyond 5 years	Total
Land	59	1,373	33	67		101
Buildings	596	14,759	351	529		879
Other						0
Total	655	16,132	384	596	0	980

EMPLOYEE BENEFIT COMMITMENTS

Supplementary pensions

The company's obligations under supplementary pension plans in favor of management and certain other long-serving employees were adjusted on January 1, 2001, using the projected benefit method, based on a rate of salary increases corresponding to inflation plus 2.5% and a discount rate corresponding to inflation plus 4.5%.

This adjustment had the effect of significantly reducing the company's obligations.

The total obligation at December 31, 2001 stood at EUR 9,673 thousand. The amount funded under insured plans at December 31, 2001 was EUR 12,937 thousand.

	2001	2000	1999
Application of a discount rate	Yes	Yes	Yes
Projected benefit obligation	9,673	29,907	28,406
Fair value of plan assets	12,937	12,840	12,531
Unfunded obligation	-3,264	17,067	15,875
Amortization period		9 to 21 years	10 to 22 years

Long-service awards

The company's obligation for the payment of statutory long-service awards, in application of French labor laws, collective bargaining agreements and trade union agreements, was estimated at EUR 2,103 thousand at

December 31, 2001. This amount corresponds to the discounted present value of the obligation, determined by applying a discount rate equal to the inflation rate plus 4.5%. It is not covered by a provision.

Note 14: employee data

AVERAGE NUMBER OF EMPLOYEES

Breakdown of average number of employees	2001	2000	1999
Management	662	652	617
Supervisory and administrative	1,297	1,308	1,292
Production	1,516	1,615	1,624
Total	3,475	3,575	3,533

MANAGEMENT REMUNERATION

In accordance with article 24-18 of the decree of November 29, 1983 no loans or advances have been paid to management.

Total remuneration and benefits paid to directors and senior management amounted to:

EUR 1,219 thousand in 2001;

EUR 1,146 thousand in 2000;

EUR 1,047 thousand in 1999.

Company accounts

Note 15: five-year financial summary

	2001	2000	1999	1998	1997
Capital at year-end					
Capital stock	35,377	32,399	32,251	31,179	29,993
Number of common shares outstanding ⁽¹⁾ o/w treasury stock ⁽¹⁾	101,075,891 1,000,000	10,569,681 741,027	10,521,329	10,169,471	9,780,674
Number of preferred, non voting shares outstanding		56,418	56,418	56,418	56,418
Results of operations					
Net sales	576,496	589,808	539,810	517,503	483,128
Income before tax, depreciation, amortization and provisions	83,039	139,985	102,734	137,701	114,245
Corporate income tax	2,773	14,479	7,914	15,106	6,905
Employee profit-sharing	0	0	0	0	0
Net income	85,606	105,588	89,528	100,102	79,055
Total dividends	41,031	38,721	35,971	32,744	25,501
Per share data					
Income after tax and employee profit sharing, before depreciation, amortization and provisions, excluding treasury stock ⁽¹⁾	0.80	12.70	8.96	11.99	10.91
Net income, excluding treasury stock ⁽¹⁾	0.86	10.68	8.46	9.79	8.04
Net dividend per common share	0.41	3.90	3.40	3.20	2.59
Net dividend per preferred, non-voting share	0	4.02	3.52	3.32	2.71
Employee data					
Average number of employees	3,475	3,575	3,533	3,574	3,710
Total payroll	111,050	107,619	104,415	101,103	101,847
Total benefits	48,671	49,470	47,589	46,403	45,948

(1) In 2001, the number of shares increased tenfold following the 10-for-1 stock-split.

Statutory Auditors' report

on the financial statements

FOR THE YEAR ENDED DECEMBER 31, 2001

In accordance with the terms of our appointment at the Annual Shareholders' Meetings, we hereby submit our report for the year ended December 31, 2001 on:

- Our audit of the financial statements of Essilor International, presented in thousands of euros, as attached to this report;
- The specific procedures and information required by law.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

1. Opinion on the financial statements

We conducted our audit in accordance with French generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made in the preparation of the financial statements, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and financial position of the company at December 31, 2001 and the results of operations for the year then ended.

2. Specific procedures and information

We have also performed the specific procedures required by law, in accordance with professional standards applied in France.

We are satisfied that the information given in the report of the Board of Directors and the documents sent to shareholders on the financial position and financial statements is fairly stated and agrees with those financial statements.

In accordance with the requirements of the Companies Act of July 24, 1966, we have also verified that details of controlling and other interests acquired during the year and the identity of shareholders are disclosed in the report of the Board of Directors.

Paris, March 14, 2002

The Statutory Auditors

Cabinet Dauge et Associés

Ph. Tissier G. Dauge

Befec-Price Waterhouse

Member of PricewaterhouseCoopers

L. Tellier

Members of Compagnie Régionale de Paris

Statutory Auditors' special report

on agreements involving Directors

FOR THE YEAR ENDED DECEMBER 31, 2001

In our capacity as Statutory Auditors of Essilor International, we present below our report on agreements involving directors.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of article 92 of the March 23, 1967 decree, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

We have not been advised of any new agreements governed by section 225-38 of the Commercial Code entered into during the year.

In application of the decree of March 23, 1967, we were advised of the following agreements entered into in prior years, which remained in force during the year.

With Bacou/Dalloz SA

Directors concerned: Philippe Alfroid and Gérard Cottet.

Essilor International supplied accounting, legal and financial communication services to Christian Dalloz in exchange for an annual fee of EUR 19,882.39 excluding tax.

We conducted our review in accordance with the standards of our profession. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source documents.

Paris, March 14, 2002

The Statutory Auditors

Befec-Price Waterhouse

Member of PricewaterhouseCoopers

L. Tellier

Cabinet Dauge et Associés

G. Dauge Ph. Tissier

Members of Compagnie Régionale de Paris