

# 2001 Reference Document



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**No. 1** IN EUROPE, **No. 1** IN NORTH AMERICA, **No. 1** IN LATIN AMERICA, **No. 1**



**VARILUX®**  
Progressive lenses

**Transitions®**  
Variable-tint lenses

**Airwear®**  
Polycarbonate lenses

**Nikon**

**Crizal®**  
Multiple-treatment lenses

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Varilux®, Airwear®, Crizal® are registered trademarks of Essilor International.  
Transitions® is a registered trademark of Transitions Optical Inc.  
Nikon® is a registered trademark of Nikon Corporation.

# Essilor: the world leader in corrective lenses

IN ASIA, **No. 3** IN JAPAN, **22,000** EMPLOYEES, **25%** WORLD MARKET SHARE



**1972**

Creation of Essilor

**1975**

Expansion in Europe and North America with Orma<sup>®</sup> plastic lenses and Varilux<sup>®</sup> progressive lenses

**1979**

Shift of finished-lens production to Asia

**1987**

Expansion in the Brazilian market

**1991**

Joint venture with PPG Industries Inc. for development of Transitions<sup>®</sup> variable-tint plastic lenses

**1996**

Acquisition of laboratories in the U.S.

**1998**

Expansion in India, China and New Zealand

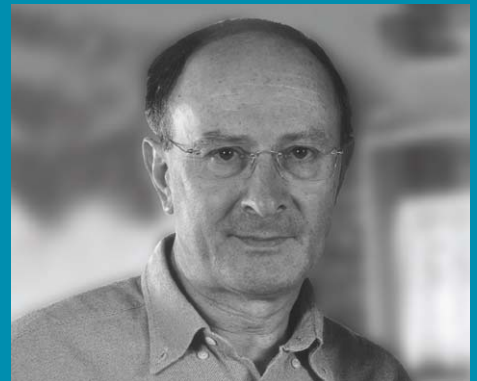
**2000**

Joint venture with Nikon for development of high-index lenses and conquest of the Japanese market

# 2001 was a superb year consistent with our average two-



Xavier Fontanet



Philippe Alfroid

## Message from the Chairman/Chief Executive Officer and the Chief Operating Officer

2001 was a superb year for Essilor: our operating margin reached an all-time high and our net earnings per share rose by twice as much as sales. These results are consistent with our average two-digit growth in sales and income over the past 25 years.

Even more significant than the absolute level of earnings is the fact that our latest performance fits into a long-term pattern and does not actually come as a surprise. The 2001 figures are the fruit of a very-long-term strategy and hard work by all our people across the globe and in all our areas of activity.

# digit growth over the past 25 years

## **Essilor has demonstrated, once again, that its growth rests on firm foundations**

Overall, 2001 was a challenging year, dominated by the world economic slowdown and the horrifying, historic events of September 11 in the United States, which were devastating for all of us.

Essilor's uniform growth in 2001, however, was comparable in all respects to the 5-6% annual rate recorded in the past ten years. The explanation is simple: our products—ophthalmic optical lenses—satisfy a basic need, benefit from continuous technological evolution, and are sold in every country worldwide.

The year 2001 also saw our refocusing on the lens business. In retrospect, this fully justified the decision to buy back 7% of our shares in 2000.

The sale of our 44% stake in Logo was consistent with our gradual withdrawal from the eyewear business since 1992.

The divestment of our contact-lens business swelled our already-substantial cash flow from operations in 2001. This enabled us to repay most of the debt incurred at end-2000 for the purchase of Compagnie de Saint-Gobain's 7% stake in our company.

The subsequent cancellation of 6% of our shares enabled us to lift earnings per share by nearly 11%.

In sum, Essilor has now divested all businesses unrelated to ophthalmic lenses and restored its financing capabilities: we have thus achieved an optimal capital restructuring for all parties involved.

## **Growth through value creation**

The ophthalmic-lens market has a long-term growth rate of about 4% a year, divided between volume growth and product-mix growth. We have good reason to expect this uptrend to last many years, given the gigantic potential in Asia and the success of thin lenses, protective lenses, and progressive lenses.

On the strength of the bright prospects offered by this stable market growth, Essilor has consistently invested in long-term research to add value to its products. Today, we have four research centers: two in the U.S., one in Europe, and one in Japan through our Nikon Essilor joint venture.

Each center handles a particular specialty on a worldwide basis. The centers are also responsible for maintaining a global watch—especially in the most developed countries—for all technological advances capable of improving our lenses.

In 2000-2001, we developed a wide range of new products and new, ultra-high-index materials for making even thinner, even lighter, and even more transparent lenses.

During the same period, we launched a new family of progressive lenses and the fourth generation of photochromic lenses in ten years!

Thanks to this continuous renewal—which is underpinned by the critical technological value of our joint ventures with PPG Industries and Nikon—we can be confident that our sales will continue to grow much faster than the total market.



**2001 was a superb year consistent with our average two-digit growth over the past 25 years**

## **A global network to support our products**

With our investment in laboratories in the U.S., our acquisition of laboratories in Australia and New Zealand, the launch of operations in China and India, and the Nikon Essilor joint venture, Essilor now has the largest, most localized, and most diversified sales network in the market.

This network is ideally suited for the distribution of our brands: Varilux®, Nikon®, Airwear®, and Crizal®. It is also a network of finishing shops operating in nearly all regions of the globe and providing a nearby presence and daily adjustment service to 400,000 opticians.

This highly innovative human and physical asset is enabling us to provide today what management books describe as the dream of “mass customization”.

A local business presence is decisive for optimizing costs and service. Last year, our business units—in a fine show of unanimity—improved their performances in almost all parts of the world.

## **We have three channels to cover our market**

- Our integrated laboratories, which supply opticians and optical chain stores that do not possess integrated logistics or surfacing capabilities.
- Our sales of semi-finished lenses to independent laboratories and wholesalers.
- Our sales teams selling to integrated optical chain stores.

Essilor adjusts the relative weights of the three channels to each country’s specific market structure, and has scored gains in all three channels with equal success.

The highlights of 2001 were the good overall resilience of the European market, re-engineering programs in our U.S. laboratories, the build-up of the Nikon Essilor joint venture, and, more generally, the good quality of our relationships with all our distributors.

## **Our people are our principal asset**

Firm markets and sound strategy would not amount to much without our dedicated, motivated teams.

Across the world, they form what we call the “Essilor Family”, which demonstrated a heartfelt unity in response to the events of September 11.

In all specialties, our teams contribute their personal talents and culture to Essilor’s strength and progress. It is from them that we draw our confidence in the future.

We are also happy to take this opportunity to thank our Board of Directors. We ask our directors for their time; they provide us with their experience and support.

It is thanks to them and to all our shareholders—large and small—that our company functions well, and we would like to assure them that we will continue to do our utmost to keep Essilor on a growth path in this exciting time.

**Xavier Fontanet**  
Chairman and Chief Executive Officer

**Philippe Alfroid**  
Chief Operating Officer

# Essilor Management

## Executive Committee

- **Xavier Fontanet**, Chairman and Chief Executive Officer
- **Philippe Alfroid**, Chief Operating Officer
- **Bertrand de Limé**, Executive Vice-President  
Vice-President, Europe
- **Patrick Bozec**, Vice-President, Science and Technology
- **Claude Brignon**, Vice-President, Operations
- **Patrick Cherrier**, Vice-President, Asia
- **Didier Lambert**, Vice-President, Information Systems
- **Olivier Mathieux**, Vice-President, South America
- **Thierry Robin**, Vice-President, Strategic Marketing
- **Hubert Sagnières**, President, Essilor of America
- **Jean-Luc Schuppiser**, Vice-President,  
Research and Development
- **Henri Vidal**, Vice-President, Human Resources
- **Jacques Stoerr**, Chairman, Essilor of America\*

\*Retiring year-end 2001

- **Fabienne Lecorvaisier**, Chief Financial Officer
- **Véronique Gillet**, Vice-President, Investor Relations  
and Communications

## Founding Chairmen

- **René Grandperret**
- **Anatole Temkine**

## Board of Directors

- **Xavier Fontanet**, Chairman and Chief Executive Officer
- **Philippe Alfroid**, Chief Operating Officer
- **Gérard Cottet**, former Chairman and Honorary Chairman

## Independent Directors

- **Alain Aspect**
- **Michel Besson**
- **Jean Burelle**
- **Philippe Germond**
- **Igor Landau**
- **Olivier Pécoux**
- **René Thomas**

## Directors representing employee shareholders

- **Robert M. Colucci** (U.S.)
- **Alain-Claude Mathieu** (France)
- **Bertrand Roy**, Chairman of Valoptec Association

In 2001, the Board of Directors met six times.

Directors' other functions and directorships are described in the chapter on "Directors, Officers and Auditors" of the Reference Document, page 122.



## Corporate governance

In 1997, Essilor set up several committees of the Board in order to comply with corporate governance rules.

**The Audit Committee**, chaired by *René Thomas*, examines with the Auditors the compliance of the financial statements with French and international accounting standards. The committee met twice in 2001.

**The Remunerations Committee**, chaired by *Jean Burelle*, issues recommendations on the appointment and compensation of corporate officers, and on the granting of stock options to members of senior management, in line with authorizations given by the Annual Meetings of Shareholders. The committee met twice in 2001.

Each committee reports regularly to the Board of Directors on its work and recommendations.

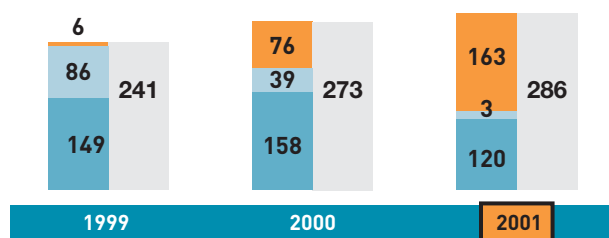
# Key figures 2001

(EUR million except per-share data)	2001	2000	1999
Sales	2,070.4	1,978.4	1,661.8
Operating income	310.6	274.1	228.9
Operating margin	15%	13.9%	13.8%
Income before non-operating items and tax	233.3	223.3	193.3
Net income	142.6	135.4	120.8
Net capital expenditures	120.1	158.2	148.5
Net financial investments	56.8	335.2	43.3
Cash flow	286.4	273.4	240.9
Net debt/equity*	27%	44%	14%
Earnings per share*	1.43	1.29	1.16
Net dividend per share*	0.41	0.39	0.34
Return on equity	11.8%	12.9%	10.5%
Return on capital invested	17.5%	16.6%	16.1%

\*Adjusted for 10-for-1 stock split, Sept. 17, 2001.

## Free cash flow

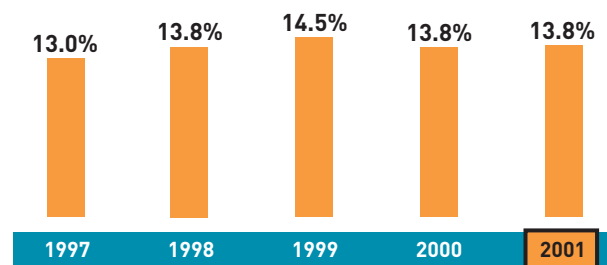
(EUR million)



- Capital expenditures
- Change in working-capital requirement and provisions
- Free cash flow
- Cash flow

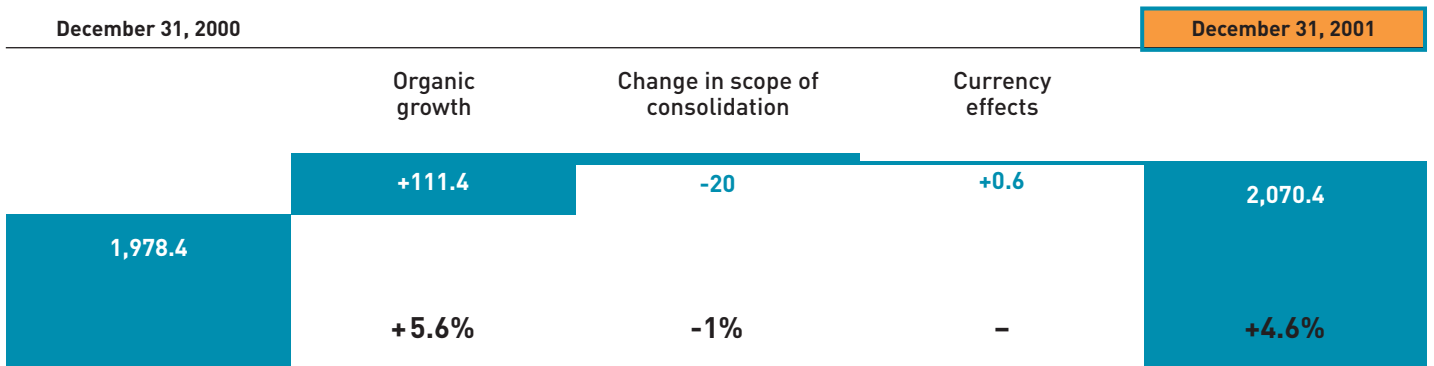
## Cash flow

(% of sales)



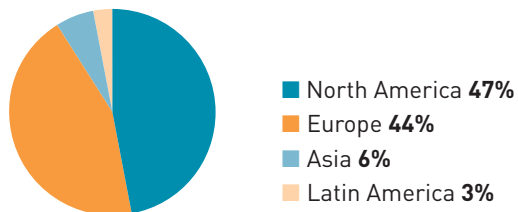
## Sales growth

(EUR million)



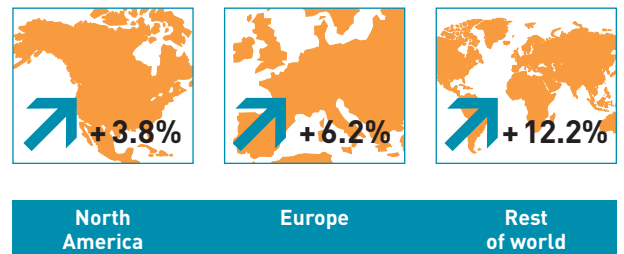
Our sales growth (+5.6% on a comparable scope of consolidation basis) outpaced that of the world optics market. Refocused on its core business—high-tech plastic lenses—Essilor has benefited from its positions in the most active market segments.

## 2001 sales by market



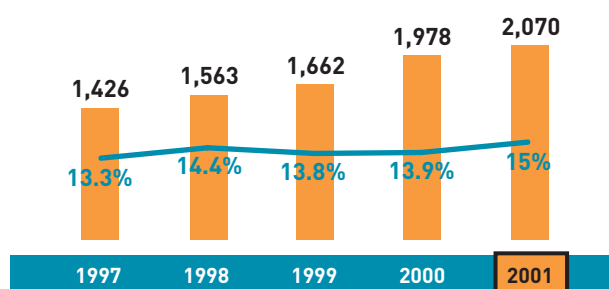
## 2001 sales growth by market

(like-for-like)



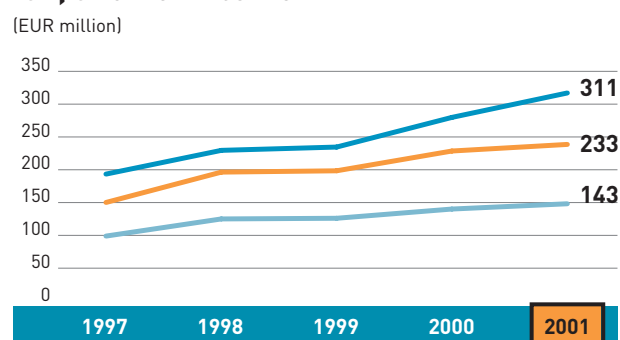
## Key figures 2001

### Change in sales and operating margin



- Sales (EUR million)
- Operating margin (% of sales)

### Comparative change in operating income, income before non-operating items and tax, and net income



- Operating income
- Income before non-operating items and tax
- Net income

### Balance-sheet highlights, 2001 and 2000

(EUR million)

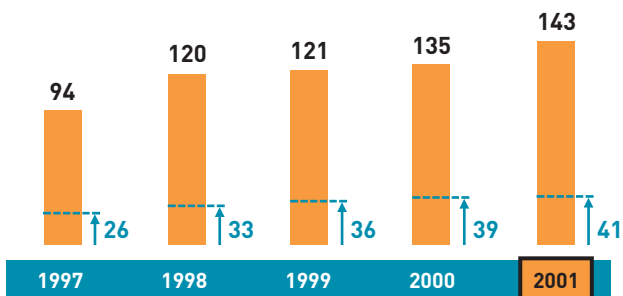
Assets	2001	2000
Fixed assets	1,199	1,204
Inventories and receivables	854	815
Cash	96	112
	<b>2,149</b>	<b>2,131</b>

Liabilities	2001	2000
Shareholders' equity	1,207	1,047
Minority interests	2	1
Provisions	79	77
Borrowings	417	578
Operating liabilities	444	428
	<b>2,149</b>	<b>2,131</b>

The strength of our balance sheet is the direct consequence of Essilor's development strategy and management policy, which emphasize long-term financial equilibrium. With its solid equity base and low debt, Essilor is in a position to seize opportunities that will enable the company to quicken the development of high-tech products, expand its global presence, and increase its market share.

## Net income and dividend payout

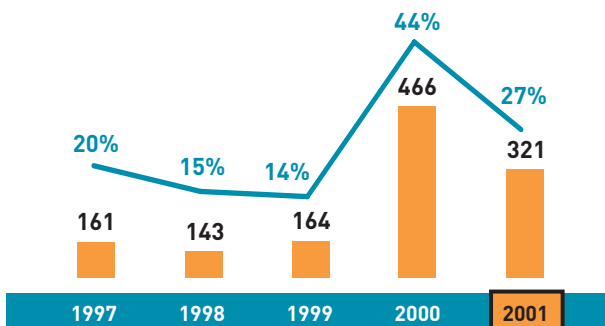
(EUR million)



■ Net income  
 ↑ Dividends paid

The global payout represented nearly 30% of net income.

## Net debt/equity

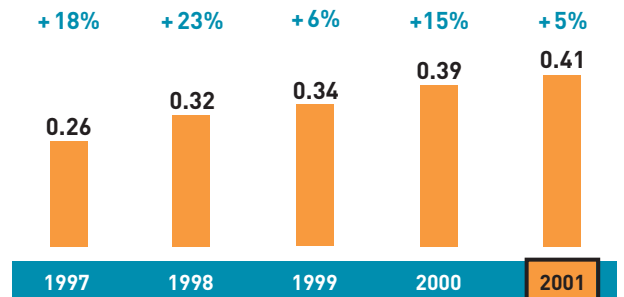


■ Net debt (EUR million)  
 ■ Net debt/equity (%)

After the substantial financial investment for the buy-back of 7% of Essilor stock from Compagnie de Saint-Gobain at year-end 2000, our abundant cash flow and selective investment policy enabled us to lower net debt to 27% of equity by 2001. This performance was achieved without slowing the implementation of future-building decisions.

## Net dividend per share\*

(in EUR and %)

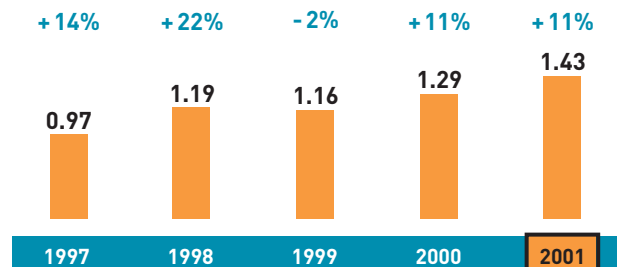


\*After 10-for-1 stock split

The net dividend rose 5.1% to EUR 0.41 excluding French dividend tax credit (*avoir fiscal*) and EUR 0.61 including the tax credit. Its growth rate nearly matched the 5.3% increase in net income.

## Earnings per share\*

(in EUR and %)

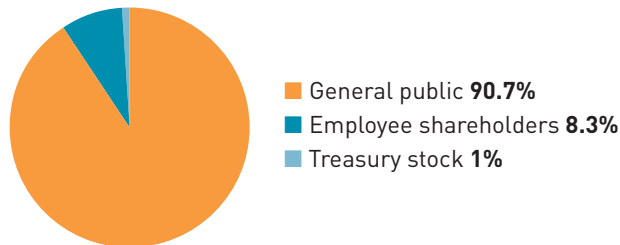


\*After 10-for-1 stock split

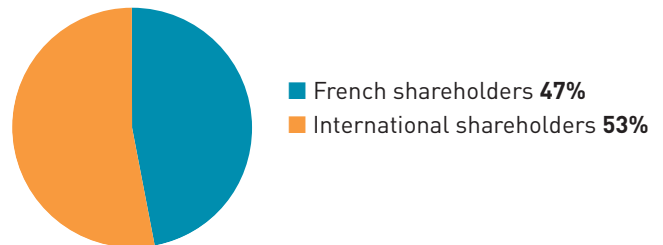
In 2001, Essilor canceled 6% of its shares. This initiative was highly beneficial to shareholders, as earnings per share (EUR 1.43) grew twice as fast as net income.

# Shareholder information

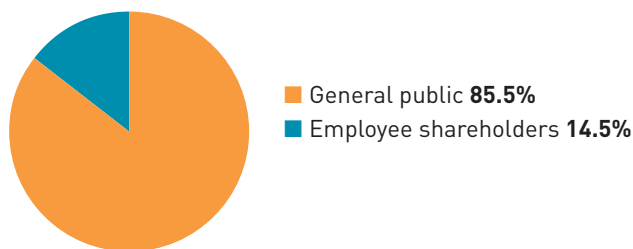
## Share ownership, at December 31, 2001



## Geographic breakdown of bearer share ownership



## Distribution of voting rights at December 31, 2001



Double voting rights are attributed to all fully paid-up shares registered in the name of the same holder for at least two years.

In February 2002, Essilor surveyed banks and brokerages holding at least 80,000 of the company's shares in the accounts they manage. The results improved our understanding of the ownership of 89% of issued capital and helped locate 99% of bearer shares.

According to the survey, French institutional investors hold 27.3% of Essilor's capital, including 17.9% held by mutual funds.

Non-French-resident shareholders own 47.4% of issued capital, including approximately 30% held by U.S. and U.K. shareholders.

The study enabled localization of 51,000 holders of bearer shares who have shown their confidence in the company's business model.

In 2001, Essilor's capital underwent a series of increases and reductions, most of which simplified and completed the restructuring of ownership undertaken in 2000 after Compagnie de Saint-Gobain announced its decision to sell its stake. As a result of these changes, Essilor now has a single category of stock, consisting of 101,075,891 common shares with a par value of EUR 0.35, Euroclear code 12166, eligible for the deferred settlement system on the Euronext Paris market.

### ■ Cancellation of 6% of shares

At December 31, 2000, Essilor held 741,027 of its own shares. The Combined Annual and Extraordinary Meeting of Shareholders of January 18, 2001, authorized the cancellation of 6% of the company's shares. This authorization was used on March 22, 2001, to cancel 638,001 common shares and 3,026 preferred non-voting shares. After the subsequent stock split, Essilor's treasury stock was reduced to one million common shares.

### ■ Capital increase at switchover to the euro

On March 22, 2001, Essilor increased its capital by EUR 4,522,262. The move, coinciding with the conversion to euros, raised the company's fully paid-up capital to EUR 35,093,635.

### ■ Swap of preferred non-voting shares for common shares, and reduction of capital through cancellation of preferred non-voting shares

Essilor swapped 38,118 preferred non-voting shares for 38,118 new common shares, and bought back 15,274 preferred non-voting shares that had not been contributed to the public share-exchange offer of July 16-August 3, 2001. All 53,392 preferred non-voting shares were canceled on September 12, 2001, reducing the company's capital by about EUR 186,872.

### ■ Issuance of new shares

508,241 new shares were issued on exercise of stock options, resulting in a capital increase of EUR 177,884.

### ■ Issuance of new shares for employees

Essilor issued 452,860 new shares for employees. They were subscribed by the Essilor Group 5-year and 7-year corporate mutual funds.

### ■ Ten-for-one stock split

On September 17, 2001, a ten-for-one stock split divided the par value of company shares by ten to EUR 0.35.

## INTERNAL SHAREHOLDERS

After the sale by Compagnie de Saint-Gobain of its stake in Essilor, the Valoptec International corporate mutual fund has become Essilor's largest shareholder. In May 2000, Valoptec Association was set up as a not-for-profit entity under the French statute of 1901. Its membership comprises nearly all internal shareholders (including current and former employees), and the association consolidates employees' direct and indirect individual voting rights in Essilor corporate mutual funds. Valoptec Association brings together a majority of Essilor managerial staff in France and the rest of the world. Its Board of Directors is composed of representatives of occupational categories (management, supervisory) and regional representatives for France, Northern Europe, Central and Southern Europe, Asia, Canada, and the United States. Its two annual meetings enable employee shareholders to play an active part in Essilor operations and decisions. Employees can become Essilor shareholders by acquiring shares in one of several dedicated funds: Valoptec International, Essilor Group 5-year fund, Essilor Group 7-year fund, and the U.S. Stock Purchase Plan. Amounts invested in the funds are matched by Essilor on the basis of the type of fund and the length of the vesting period.

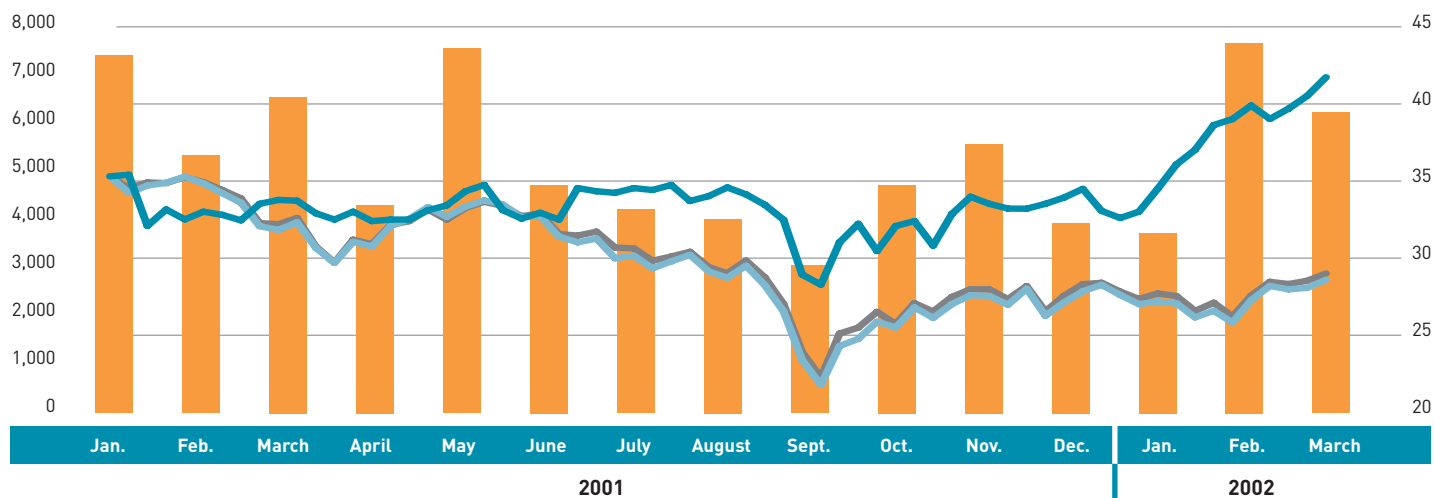
## Shareholder information

### Essilor share performance

Adjusted data – Source: IDE

Volume (thousand)

Share price (EUR)



■ Monthly transaction volume 
 ■ Essilor 
 ■ SBF 120 index\* 
 ■ Euronext 100 index\*

\*Indices based on Essilor adjusted share price.

### Transaction volume

Source: Euronext

2001	Total volume		Monthly trading range (adjusted)	
	Number of shares	EUR million	High EUR	Low EUR
January	737,915	244.52	35.80	30.50
February	533,459	174.93	33.85	31.02
March	650,527	209.85	33.58	30.91
April	426,353	136.04	33.00	30.70
May	752,050	249.64	34.40	31.35
June	471,684	155.97	34.50	31.50
July	419,868	142.10	34.70	32.62
August	400,595	134.70	34.50	32.31
September	3,037,470*	146.41	33.80	25.00
October	4,697,522	144.45	32.74	29.68
November	5,575,478	181.21	34.20	29.94
December	3,923,735	129.48	34.48	32.06
2002				
January	3,705,045	123.56	35.70	31.20
February	7,640,004	284.97	38.93	35.10
March	6,212,817	244.19	41.34	37.50

\*After 10-for-1 stock split.

Essilor common shares closed at EUR 33.95 on December 28, 2001, after reaching a high of EUR 35.80 on January 5 and a low of EUR 25.00 on September 12. The Essilor share fully demonstrated its resilience in an unusually adverse environment for equities: at year-end, its price was down slightly by 2.3%, compared with a 21% decline for the French SBF 120 index.

On December 31, 2001, Essilor's market capitalization stood at EUR 3.41 billion, ranking the company 57<sup>th</sup> in the SBF 120 index and 83<sup>rd</sup> in the Euronext 100 index.

## Share prices (adjusted)

(in EUR)	2001	2000	1999
High	35.80	34.78	39.40
Low	25.00	23.00	27.30
Close	33.95	34.75	30.80
Number of shares outstanding at December 31	101,075,891	106,113,620	105,213,290
Market capitalization (million)	3,417	3,667	3,233
Dividend per share	0.41	0.39	0.34
Total remuneration per share (dividend + French tax credit)	0.61	0.58	0.51
Dividend/net earnings (%)	0.29	0.30	0.29

## A WIDE-RANGING INFORMATION PROGRAM

Essilor's long tradition of extensive employee shareholding has led us to implement a wide-ranging investor-relations program that complies with the principle of equal information for all shareholder categories.

- The Annual Meeting of Shareholders is the key event in Essilor's direct communication with its shareholders.
- Since the purchase of Compagnie de Saint-Gobain's stake in the company, Essilor has expanded its contacts with major institutional investors in France and the rest of the world, whose shareholdings influence our stock-market performance.
- In addition, Essilor publishes and disseminates:
  - a **Reference Document (annual report)** filed with the Commission des Opérations de Bourse (the French securities and exchange commission);
  - **Financial information** notices in the press, to provide a reliable source of major news items about the company for the general public;
  - **Press releases** to all key media.

All our documents are available on request and are downloadable from our website, [www.essilor.com](http://www.essilor.com), under the heading "Essilor News."

The [www.essilor.com](http://www.essilor.com) website provides, among other information, real-time quotations of the Essilor share price and a comparison with the benchmark SBF 120 index. The site's French and English versions contain a user-friendly presentation of the company, its business, scheduled events, and forthcoming publications.

### 2002 PUBLICATION SCHEDULE

- Q1 2002 sales: Week 17
- H1 2002 sales: Week 29
- H1 2002 results: September 5
- Q3 2002 sales: Week 43