Management review

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2001

FINANCIAL HIGHLIGHTS

(EUR million)	**2001**	2000	%
Sales	2,070.4	1,978.4	+4.6
Operating income	310.6	274.1	+13.3
Income before non-operating items and tax	233.3	223.3	+4.5
Net income	142.6	135.4	+5.3
Cash flow	286.4	273.4	+4.8
Earnings per share (EUR)	1.43	1.29	+10.9

Essilor's results for 2001 provide further evidence of the company's underlying strength and the ongoing buoyancy of the optical market. Despite difficult economic and political conditions in certain regions of the world, business grew at a steady rate throughout the year, with no loss of momentum in the second half.

These results testify to the effectiveness of the company's strategy of carving out a strong position in the high technology lens segment and steadily extending Essilor's geographic reach. In 2001, this strategy delivered further market share gains in all of Essilor's geographic markets.

Lastly, Essilor completed its strategic refocusing by divesting the contact lens business—representing around 4% of total sales—at the beginning of the year and selling its 44% minority interest in the Logo frame business at the end of the year.

Highlights of 2001 included:

• In the United States, strong growth in operating income, reflecting greater manufacturing and distribution efficiencies coupled with an improvement in the US laboratories' margins. During the year, a multi-annual reorganization and restructuring plan was launched.

• In Japan, better-than-forecast results from the Nikon Essilor joint venture which has gotten off to a very good start.

• In Europe, robust performances in line with the pattern established in prior years.

• In emerging markets, including China and India, further volume growth confirming the company's strong market positions.

Operating margin rose by 1.1 point to a record high 15%.

During the year, Essilor also demonstrated its ability to rapidly pay down debt, cutting its net debt-to-equity ratio to 27% at year-end 2001 from 44% one year earlier.

Overall, in its first year without Compagnie de Saint-Gobain as principal shareholder, Essilor turned in an excellent operating performance, testifying to the quality of its strategy.

ESSILOR'S POSITION IN THE OPHTHALMIC PRODUCTS MARKET

The global corrective lens market is expanding at a steady 4% per year. Factors that are driving the market include demographic growth, the graying of the population and the increasing number of people in developing countries who are now able to afford vision improvement.

Consumers are looking for increasingly attractive, light and comfortable lenses. As a result, demand for high-end lenses is growing at a faster rate than that for standard products, with sales rising by some 8% to 10% per year. The most buoyant segments are:

• High index and polycarbonate lenses.

• Progressive lenses.

• Anti-reflection coatings and photochromic lenses.

Essilor spends the equivalent of 4% of total sales on research and development. The R&D centers in Europe, the United States and Japan all work on global projects, thereby helping to drive progress by ensuring that advances made by one team are immediately shared with the others. In 2001, the R&D teams continued to focus on enhancing product performance for corrective-lens wearers. The main projects concerned:

• Materials, with the development of 1.67 index lens production processes and improved scratch-resistant coatings.

• Optical properties, with the development of improved progressive lens designs and a new anti-reflection coating.

The company's partners—Japan's Nikon in the area of high index lenses and US-based PPG in variable-tint lenses—have played a key role in building Essilor's technological advances.

PRODUCTS

Essilor specializes in ophthalmic lenses, which currently account for 95% of sales.

(EUR million)	**2001**	2000	1999
Corrective lenses and lens-related products	1,961.1	1,828.3	1,518.7
Other products (1)	109.3	150.1	143.1
Total	**2,070.4**	**1,978.4**	**1,661.8**

(1) 1999: other products = instruments, luxury frames and contact lenses.
(1) 2000: other products = instruments and contact lenses.
(1) 2001: other products = mainly instruments.

In 2000, Essilor launched the fifth-generation Varilux® Panamic® progressive lenses, which enhance peripheral vision and offer immediate comfort without any adaptation period.

In 2001, the company unveiled another family of progressive lenses for BBGR, Essilor's second largest network.

2001 also saw the European launch of an ultra-high 1.67 index lens. The new lens, which joins the Airwear® polycarbonate lenses at the high end of the market, has been very well received by both independent opticians and optical chains.

In addition, Transitions has developed Next Generation Transitions®, a new range of photochromic lenses which adapt even more rapidly to light changes. Next Generation Transitions® were launched at the beginning of 2002 in the US market.

THE NIKON ESSILOR JOINT VENTURE

Nikon Essilor, a 50/50 joint venture between Essilor and Japan's Nikon, went from strength to strength in 2001.

The joint venture operates primarily in Japan, where business growth outstripped that of the market as a whole. The strategy initiated in 2000 was successfully pursued in 2001. Several products were launched, including the Presio-i Nikon® 1.74 index progressive lens —the highest index organic lens available anywhere in the world—and the Varilux® Panamic® 1.67 index lens.

Nikon® brand products, which are now distributed in Europe, the United States and Asia, enjoyed strong international sales growth, helped by the success of the 1.67 and 1.74 index lenses.

Overall, Nikon Essilor's excellent sales performance in both the domestic and international markets delivered high earnings far more quickly than originally expected.

SALES PERFORMANCE IN THE COMPANY'S KEY MARKETS

Consolidated sales—based on a comparable company structure and at constant exchange rates—increased by 5.6%, outstripping the rate of growth in the global optical market. This performance is attributable to Essilor's strong position in the most buoyant market segments, in terms of both materials and surfacing (coatings and anti-reflection coatings).

In Europe (representing 43.3% of consolidated sales) Essilor achieved 6.2% like-for-like sales growth, thanks primarily to its solid market shares in countries where the company has a long-standing presence. Sales in Germany, the United Kingdom, Austria and Eastern Europe were particularly satisfactory. Essilor deepened its presence in the UK market by acquiring the Dollond & Aitchison (D&A) laboratories. This agreement provides a further demonstration of the strategic benefits derived from partnerships that allow lens manufacturers to share their increasingly advanced technological expertise with optical chains.

The company also took initiatives to reorganize its laboratory network, by closing two small laboratories in Ireland and Denmark, launching the construction of a new laboratory in Poland and extending the Portuguese unit in Lisbon, which is now the Essilor's most international laboratory.

In North America (representing 47.3% of consolidated sales), like-for-like sales expanded by 3.8%, exceeding market growth in both Canada and the United States. Despite the events of September 11, 2001 in the United States, sales rose strongly in the fourth quarter, providing further evidence of the momentum enjoyed by high technology products. This resilient performance was attributable to the quality of the company's products and services and its sharp competitive advantage in the anti-reflection coated lens segment.

Strong North American sales growth was accompanied by a marked improvement in profitability, reflecting the initial benefits of the productivity program spanning several years that was launched during 2001. The program is designed to achieve productivity gains throughout the organization, not only in production and distribution but also at the US laboratories. A major project has been launched to rationalize, automate and modernize the laboratories, paving the way for the introduction of new surfacing and anti-reflection coating technologies.

VisionWeb, the Internet platform set up by Essilor in the United States to serve all players in the optical industry, was launched on a trial basis at the end of 2001. The platform has attracted considerable industry interest, as evidenced by the fact that VisionWeb's founder shareholders, Essilor and Johnson & Johnson Vision Care, Inc., have already been joined by two new partners, Allergan and Jobson Publishing.

In Latin America (representing 3% of consolidated sales), Essilor is continuing to build market share, especially in Brazil, Mexico, Argentina and the Caribbean, where the company has a long-standing presence. Progressive lenses, polycarbonate lenses and anti-reflective lenses were in strong demand in these markets in 2001. Essilor's sales rose sharply in local currency, thanks in part to the strengthening of sales teams. In view of the size of the Argentina business, the economic crisis in this country did not have a significant adverse impact on Essilor's consolidated financial statements.

In the Asia-Pacific region (representing 6.1% of consolidated sales), the company is rapidly building on its fairly modest presence, achieving double-digit sales growth in countries such as China and India which represent the growth drivers of the future. In Australia, one of Essilor's key markets in the region, sales were boosted by the installation of new surfacing technologies in the prescription lens laboratories.

INVESTMENTS

(EUR million)	**2001**	2000	1999
Capital expenditure, net	120.1	158.2	148.5
Depreciation and amortization (excluding amortization of goodwill)	118.3	112.0	95.6
Financial investments	56.8	335.2 (1)	43.3
Cash flow	286.4	273.4	240.9

(1) Including EUR 205 million for the buyback of 7% of the company's shares.

In 2001, the company scaled down its investment program after two years of very high spending.

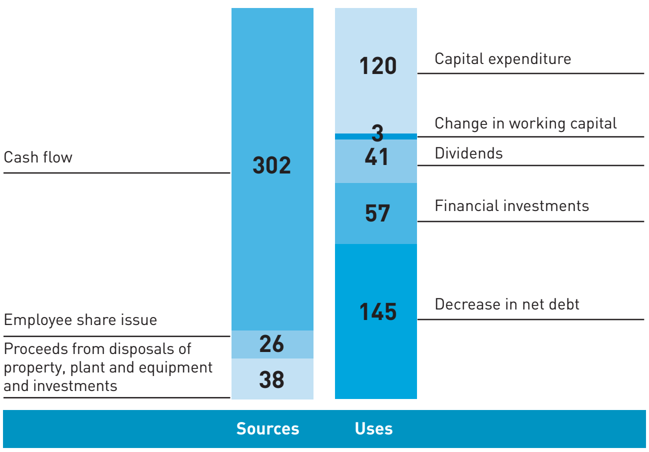
Capital expenditure projects included:

- Laboratory modernization projects in Europe and the United States, including the installation of new technologies and new information systems to boost productivity.
- Plant maintenance projects and capacity extensions, primarily in Asia, including an increase in polycarbonate lens production capacity in Thailand and the construction of a production line for 1.67 ultra-high index lenses in the Philippines.

Financial investments totaled EUR 56.8 million, including a EUR 19.8 million contribution to the share issue carried out by Christian Dalloz in connection with its merger with Bacou.

Last year's 4.8% growth in cash flow to EUR 286.4 million, coupled with tight control over working capital, paved the way for a EUR 145 million reduction in net debt to EUR 321 million, representing a net debt-to-equity ratio of 27% versus 44% at the 2000 year-end.

Sources and uses of funds (EUR million)



FINANCIAL INFORMATION

Operating income climbed 13.3% to EUR 310.6 million, lifting operating margin to a record high of 15%. This strong growth was fueled by:

• Productivity gains throughout the company's plants and distribution subsidiaries, and a shift in product mix towards higher value-added products.

• Improved margins in the United States, reflecting the initial benefits of the rationalization and reorganization program launched at the beginning of the year.

• The excellent performance of the Nikon Essilor joint venture, which is not yet a major contributor to company earnings but has gotten off to a very good start.

Net interest expense came to EUR 48.3 million, reflecting significant interest expense in the early part of the year when company borrowings were still high.

Non-operating expenses amounted to EUR 29 million:

• Divestment of Essilor's 44% interest in Logo generated a loss of EUR 11 million and the company also booked a EUR 3 million loss on the sale of its contact lens business.

• The reorganization measures to improve the profitability of company businesses in the United States and Europe generated costs of around EUR 7 million in 2001.

• Costs related to the development of VisionWeb in the United States amounted to EUR 8 million.

Income before exceptional items and tax rose 4.5% to EUR 233.3 million. The growth rate was lower than for operating income due to the increase in non-operating expenses compared with 2000 and the rise in interest expense fueled by the high level of borrowings in the early part of the year.

At year-end 2000, Essilor's net debt-to-equity ratio stood at 44% following the buyback of 7% of the company's shares in conjunction with Compagnie de Saint-Gobain's sale of its interest. In the space of one year, Essilor succeeded in bringing the ratio down to 27%, thanks to the high level of cash flow generated in 2001 and the company's selective approach to new investment.

Net income stood at EUR 142.6 million, an increase of 5.3% on 2000. Earnings per share rose at a faster rate of 10.9% to EUR 1.43, following cancellation of 6% of Essilor shares during 2001.

Shareholder information and information about the capital

CHANGES IN CAPITAL IN 2001

There were a number of changes in the company's capital during 2001:

• Following the 2000 buyback of 7% of the company's shares from Compagnie de Saint-Gobain, in 2001 the company canceled 6% of its shares (638,001 common shares and 3,026 preferred non-voting shares).

• In connection with the conversion of the capital into euros, on March 22, 2001, the capital was increased by EUR 4,522,262 to EUR 35,093,635.

• A total of 38,118 preferred non-voting shares were exchanged for the same number of common shares issued for this purpose, and a further 15,274 preferred non-voting shares not tendered to the Public Exchange Offer between July 16 and August 3 were bought back on the market. All of the 53,392 preferred non-voting shares held in treasury stock were canceled on September 12, 2001, leading to a EUR 186,872 reduction in capital.

• On September 17, 2001, a ten-for-one stock-split was carried out, leading to a reduction in the par value of the shares to EUR 0.35.

• During the year 508,241 new common shares were issued on exercise of stock options, leading to a EUR 177,884 increase in capital.

• Lastly, 452,860 shares were issued to the Essilor 5 and 7-year Corporate Mutual Funds. The issue price of the shares was set at 80% of the average of the opening prices quoted for Essilor common stock over the twenty trading days preceding the Board Meeting at which the share issue was decided.

OWNERSHIP STRUCTURE at December 31, 2001

At December 31, 2001, the company's capital stock amounted to EUR 35,376,561.85, divided into 101,075,891 common shares with a par value of EUR 0.35.

	Shares	%	Voting rights	%
Employee shareholders (in France and outside France)				
• Valoptec International corporate mutual fund	5,547,500	5.5	11,095,000	10.2
• Essilor 5 and 7-year corporate mutual funds	2,567,810	2.5	4,337,719	4.0
• US stock purchase plan	282,517	0.3	282,517	0.3
Subtotal	**8,397,827**	**8.3**	**15,715,236**	**14.5**
Public	91,678,064	90.7	92,835,849	85.5
Treasury stock	1,000,000	1.0	–	–
Total	**101,075,891**	**100**	**108,551,085**	**100**

To the best of the Board's knowledge, no shareholder other than the Valoptec International corporate mutual fund holds over 5% of the voting rights.

Stock subscription options at December 31, 2001

		Including in 2001
Options granted	3,962,360	180,660
Options canceled	140,390	103,760
Options exercised	837,191	508,241
Options outstanding	2,984,779	

Representing 2.95% of the company's capital stock at December 31, 2001.

Stock purchase options at December 31, 2001

		Including in 2001
Options granted	670,250	670,250
Options canceled	0	0
Options exercised	0	0
Options outstanding	670,250	

Representing 0.66% of the company's capital stock at December 31, 2001.

The option exercise price is based on the average of the opening prices quoted for the company's shares over the twenty trading days preceding the date on which the option grants are decided by the Board. No options are granted at a discount to this average market price.

TREASURY STOCK

At December 31, 2001, Essilor held 1,000,000 shares in treasury stock, representing 0.99% of the capital. Out of the total, 670,250 are being held for attribution on exercise of the same number of stock purchase options granted by the Board of Directors to company employees on November 14, 2001, using the shareholder authorization given at the Shareholders' Meeting of January 18, 2001.

Company accounts and appropriation of 2001 income

The parent company's summarized income statement for 2001 is presented below:

(EUR million)	2001	%
Sales	576	–2
Operating income	42	–38
Operating margin	7.2 %	–
Income before non-operating items and tax	96	–24
Net income	86	–19

The dip in the parent company's sales stems from the divestment of the contact lens business in February 2001. Excluding this business, sales edged up 0.2%, reflecting higher instrument sales in France and in export markets.

The sharp drop in operating income is primarily attributable to logistics platform operations. This activity generated high profits in 2000 with the launch of Varilux® Panamic® lenses, whereas in 2001 the strong dollar pushed up the cost of lens purchases from plants in Asia and the United States. 2001 operating income was also charged with costs related to the switch to the euro, the development of new technologies and the launch of the latest generation of IT products for customers.

Dividend income from subsidiaries more than offset interest expense, despite the high level of borrowings in the early part of the year following the buyback of 7% of the company's shares.

Net income for the year contracted by 19%, after taking into account the loss on divestment of the company's interest in Logo, which was partly offset by the gain on the sale of the contact lens business.

The Board of Directors will recommend an increase in the net dividend from EUR 0.39 to EUR 0.41 per common share. Including the avoir fiscal/tax credit, the total revenue will amount to EUR 0.61 per share.

The recommended dividend represents a payout rate of approximately 29% of consolidated net income, which is in line with the average among quoted companies. The increase of just over 5% in the net dividend per share is in line with the growth in earnings per share.

The dividend will be paid as from May 28, 2002, in cash only.

2001 INCOME APPROPRIATION

(EUR)			
Net income for the year		85,606,005.47	
Retained earnings brought forward from prior year		5,416,462.54	
Appropriation to the legal reserve		297,701.44	
Transfer from the long-term capital gains reserve		28,327,216.62	
Income available for distribution			**119,051,983.19**
Transfer to the long-term capital gains reserve		**12,037,169.98**	
Dividends			
First dividend	2,122,593.71		
Additional dividend	38,908,521.60		
Total dividend	**41,031,115.31**	**41,031,115.31**	
Dividend equalization tax		5,167,170.85	
Transfer to other reserves		55,000,000.00	
Unappropriated retained earnings		5,816,527.05	
			119,051,983.19

Dividends paid in the last five years are as follows:

(EUR)	2000	1999	1998	1997	1996
Common shares (1)					
Net dividend	3.90	3.40	3.20	2.59	2.21
Tax paid in advance	1.95	1.70	1.60	1.30	1.11
Total revenue	5.85	5.10	4.80	3.89	3.32
Preferred non-voting shares					
Net dividend	4.02	3.52	3.32	2.71	2.33
Tax paid in advance	2.01	1.76	1.66	1.36	1.17
Total revenue	6.03	5.28	4.98	4.07	3.50

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

Financial authorizations

At the Annual Shareholders' Meeting, the Board of Directors will be seeking renewal of an earlier authorization to use the authorizations given at the May 3, 2001 Shareholders' Meeting while a tender offer for the company's shares is in progress, as follows:

• Authorization to issue shares and share equivalents, with pre-emptive subscription rights (maximum: EUR 450 million);

• Authorization to issue shares and share equivalents, without pre-emptive subscription rights but with a priority subscription period (maximum: EUR 450 million);

• Authorization to issue bonus shares to be paid up by capitalizing income, additional paid-in capital, reserves or other amounts (maximum: EUR 80 million).

Shareholders' meetings

The Annual and Extraordinary Shareholders' Meeting will be held on :

Monday, May 13, 2002, at 4:00 p.m.,
at Pavillon Gabriel
5, avenue Gabriel – 75008 Paris

Outlook

Essilor is holding firm to its strategy and expects to achieve like-for-like sales growth of 5% to 6% in 2002, in an economic and competitive environment that looks set to remain unchanged compared with 2001.

Sales should be boosted by the launch of new products, including the Next Generation Transitions® lenses.

Having restored its financing capacity, Essilor will be on the look-out for expansion opportunities, through external growth or otherwise.

During 2002, the company will also pursue its program to boost productivity, in order to achieve further earnings growth.

Thanks to its strong fundamentals, high quality product strategy and global reach, Essilor is looking to the future with renewed confidence.

The Board of Directors would like to thank the Executive Committee and all of the company's employees for the quality of their work and their achievements over the past year.

The Board of Directors

Appendices: Information about Directors and Officers is provided in the section "Directors, Officers and Auditors".