

**ESSILOR**

**2004 IFRS FINANCIAL STATEMENTS**

## **Background**

In accordance with European regulation N°1606/2002 dated July 19, 2002, Essilor will prepare, starting January 1<sup>st</sup> 2004, its consolidated financial statements in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations applicable at that date as endorsed by the European Union.

The detailed disclosures made in this document on the impact of the transition to IFRS on the 2004 financial statements have been prepared by adjusting reported 2004 data to comply with the IASs/IFRSs and related interpretations that Essilor expects to have to apply to prepare the IFRS consolidated financial statements for the year ending December 31, 2005. They include:

- The balance sheet at the transition date (January 1, 2004), in which the transition effects will be recognized at the time of publication of the 2005 consolidated financial statements (except for the effect of applying IAS 32 and IAS 39, which will be recognized in equity at January 1, 2005): schedule 1.
- A reconciliation of equity at June 30 and December 31, 2004: schedule 2.
- Income statements for the six months ended June 30, 2004 and the twelve months ended December 31, 2004: schedule 3.
- Quarterly net sales for 2004: schedule 4.

The transition to IFRS has a very limited overall impact on consolidated equity and a positive impact on consolidated net profit. However, application of the new standards results in numerous reclassifications among the various financial statement items.

A note giving details of the options and exemptions applied by the Company and the impact of each standard was published on April 21, 2005 and this information is also disclosed in the 2004 Annual Report, in section 5-1-7 "Main Effects of the Transition to IAS/IFRS".

The following notes mention the rationale for adjustments made to the various lines of the consolidated balance sheet and income statement.

**SCHEDULE 1**  
**CONSOLIDATED BALANCE SHEETS AT**  
**JANUARY 1, 2004, JUNE 30, 2004 AND DECEMBER 31, 2004**

**ASSETS (in € millions)**

	IFRS BALANCE SHEET *			Notes on the adjustments	PUBLISHED BALANCE SHEET		
	31/12	30/06	1/01		31/12	30/06	1/01
Intangible assets	88	93	93	(1) (2) (3)	110	117	116
Goodwill	349	348	325	(2) (3) (4)	310	318	308
Property, plant and equipment	520	517	490	(1)	543	541	513
<b>FIXED ASSETS, NET</b>	<b>957</b>	<b>958</b>	<b>909</b>		<b>963</b>	<b>976</b>	<b>937</b>
Investments in companies accounted for by the equity method	89	116	111	(1) (4)	57	64	69
Other long term financial investments	43	65	42	(1)	45	67	43
<b>OTHER NON-CURRENT ASSETS</b>	<b>132</b>	<b>182</b>	<b>153</b>		<b>102</b>	<b>131</b>	<b>113</b>
Inventories and work in progress	306	310	299	(1)	319	321	310
Advance payments to suppliers	8	7	7	(1)	8	7	7
Operating receivables	452	476	448	(1)	438	464	441
Deferred tax assets	38	37	30	(1) (9)	47	47	40
Other receivables	10	6	18	(1)	10	8	19
Own shares	1	0	0		0	0	0
Cash equivalents	573	502	517	(1)	573	502	517
Cash	98	88	90	(1)	107	101	95
Prepayments and other current assets	24	32	22	(1)	15	24	16
<b>CURRENT ASSETS</b>	<b>1,509</b>	<b>1,458</b>	<b>1,431</b>		<b>1,519</b>	<b>1,474</b>	<b>1,445</b>
Deferred charges	0	1	1		0	1	1
<b>TOTAL ASSETS</b>	<b>2,598</b>	<b>2,599</b>	<b>2,493</b>		<b>2,584</b>	<b>2,582</b>	<b>2,495</b>

**EQUITY AND LIABILITIES (in € millions)**

	IFRS BALANCE SHEET *			Notes on the adjustments	PUBLISHED BALANCE SHEET		
	31/12	30/06	1/01		31/12	30/06	1/01
Share capital	36	36	36		36	36	36
Additional paid-in capital	212	222	194		212	222	194
Retained earnings	940	941	802	(6)	1 155	1 155	1 016
Treasury stock	-63	-58	-47		-64	-58	-47
Share-based payments	9	4	0	(5)	0	0	0
Cumulative translation adjustment	-39	25	0	(6)	-232	-167	-193
Net profit attributable to equity holders of Essilor International	244	122	200		227	114	200
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF ESSILOR INTERNATIONAL</b>	<b>1,340</b>	<b>1,293</b>	<b>1,185</b>		<b>1,335</b>	<b>1,302</b>	<b>1,206</b>
Minority interests in equity	4	4	3		4	4	3
Minority interests in net profit	1	0	0		1	0	0
<b>TOTAL EQUITY</b>	<b>1,344</b>	<b>1,297</b>	<b>1,188</b>		<b>1,340</b>	<b>1,306</b>	<b>1,210</b>
Provisions for pensions and other post-retirement benefits	81	71	68	(7)	71	61	57
Other provisions	32	34	37	(1)	33	35	37
<b>TOTAL PROVISIONS</b>	<b>113</b>	<b>106</b>	<b>105</b>		<b>104</b>	<b>95</b>	<b>95</b>
Long and short-term borrowings	633	698	709	(1)	646	698	709
Advances and deposits received from customers	7	6	10	(1)	7	6	10
Trade and other payables	440	433	434	(1)	423	411	423
Other liabilities	54	53	42	(1)	59	59	45
Deferred income	6	6	5	(1) (8)	5	6	4
<b>TOTAL LIABILITIES</b>	<b>1,140</b>	<b>1,197</b>	<b>1,200</b>		<b>1,140</b>	<b>1,181</b>	<b>1,191</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,598</b>	<b>2,599</b>	<b>2,493</b>		<b>2,584</b>	<b>2,582</b>	<b>2,495</b>

\* Based on IFRS accounting and valuation methods

**SCHEDULE 2**  
**RECONCILIATION OF PUBLISHED AND IFRS EQUITY**  
**AT JAN. 1, 2004, JUNE 30, 2004 AND DECEMBER 31, 2004**

In € thousands	Share capital	Additional paid-in capital	Retained earnings	Translation adjustments	Treasury stock	Attributable net profit	Attributable equity
<b>At december 31, 2003 published</b>	<b>35,959</b>	<b>194,091</b>	<b>1,016,072</b>	<b>-192,700</b>	<b>-47,459</b>	<b>200,331</b>	<b>1,206,294</b>
Deferred taxes on trademarks			-13,603				-13,603
Recognition of cumulative actuarial gains and losses on pension and other post-retirement benefit obligations			-10,755				-10,755
Deferred taxes on recognized cumulative actuarial gains and losses			3,835				3,835
Reclassification of investment grants			-644				-644
Effect of IFRS adjustments to Bacou-Dalloz accounts			-228				-228
Cumulative translation adjustment reset to zero			-192,700	192,700			0
Other			12				12
<b>At january 1, 2004 IFRS</b>	<b>35,959</b>	<b>194,091</b>	<b>801,989</b>		<b>-47,459</b>	<b>200,331</b>	<b>1,184,911</b>
<b>At June 30, 2004 published</b>	<b>36,241</b>	<b>221,911</b>	<b>1,154,625</b>	<b>-166,754</b>	<b>-58,337</b>	<b>114,193</b>	<b>1,301,879</b>
Deferred taxes on trademarks			-13,603	-532			-14,135
Recognition of cumulative actuarial gains and losses on pension and other post-retirement benefit obligations			-10,755	-12			-10,767
Deferred taxes on recognized cumulative actuarial gains and losses			3,835	5			3,840
Reclassification of investment grants			-569				-569
Cumulative translation adjustment reset to zero			-192,700	192,700			0
Share-based payments			4,389			-4,389	0
Effect of IFRS adjustments to Bacou-Dalloz accounts			-174	-2		1,050	874
Cancellation of goodwill amortization			0	83		11,521	11,604
Other			15	-41		-13	-39
<b>At june 30, 2004 IFRS</b>	<b>36,241</b>	<b>221,911</b>	<b>945,063</b>	<b>25,447</b>	<b>-58,337</b>	<b>122,362</b>	<b>1,292,687</b>
<b>At december 31, 2004 published</b>	<b>36,159</b>	<b>212,449</b>	<b>1,154,741</b>	<b>-231,512</b>	<b>-63,695</b>	<b>227,107</b>	<b>1,335,249</b>
Deferred taxes on trademarks			-13,603	979		128	-12,496
Recognition of cumulative actuarial gains and losses on pension and other post-retirement benefit obligations			-10,755	20		483	-10,252
Deferred taxes on recognized cumulative actuarial gains and losses			3,835			-169	3,666
Reclassification of investment grants			-905				-905
Cumulative translation adjustment reset to zero			-192,700	192,700			0
Share-based payments			8,544			-8,544	0
Effect of IFRS adjustments to Bacou-Dalloz accounts			-67	-97		2,104	1,940
Cancellation of goodwill amortization				-1,021		23,342	22,321
Other			-10			-5	-15
<b>At december 31, 2004 IFRS</b>	<b>36,159</b>	<b>212,449</b>	<b>949,080</b>	<b>-38,931</b>	<b>-63,695</b>	<b>244,446</b>	<b>1,339,508</b>

**SCHEDULE 3****CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND THE YEAR ENDED DECEMBER 31, 2004**

in € millions, except per share data

	<b>IFRS</b>		<b>Notes on the adjustments</b>	<b>PUBLISHED</b>		
	<b>Full Year 2004</b>	<b>First-half 2004</b>		<b>Full year 2004</b>	<b>First-half 2004</b>	
Net sales	2,203	1,108	(1) (10)	2,260	1,134	Sales
Cost of sales	-960	-482	(1) (11)	-898	-447	Cost of sales
Other operating expenses	-888	-448	(1) (12)	-959	-484	Other operating expenses
<b>NET MARGIN</b>	<b>354</b>	<b>178</b>	(13)	<b>404</b>	<b>204</b>	<b>OPERATING INCOME</b>
Other revenues and expenses from operations, net	-15	-8	(14)			
Gains and losses on disposals of assets, net	-2	0	(15)			
<b>INCOME FROM OPERATIONS</b>	<b>337</b>	<b>170</b>	(16)			
Finance costs	-26	-14	(17)			
Income from cash and cash equivalents	18	9	(17)			
Other financial income and expenses, net	-5	-1	(17)			
			(1) (17)	-34	-16	Net interest expense
			(14) (15)	-6	-1	Non-operating expense, net
<b>PROFIT BEFORE TAX</b>	<b>323</b>	<b>165</b>		<b>363</b>	<b>187</b>	<b>PRE-TAX INCOME AFTER NON-OPERATING ITEMS</b>
Income tax expense	-88	-44	(1) (18)	-102	-51	Corporate income tax
<b>NET PROFIT OF CONSOLIDATED COMPANIES</b>	<b>235</b>	<b>121</b>		<b>262</b>	<b>136</b>	<b>NET INCOME FROM CONSOLIDATED COMPANIES</b>
Share of profit of companies accounted for by the equity method	10	2	(1) (19)	-8	-7	Share of profit of companies accounted for by the equity method
Minority interests	-1	0		-1	0	Minority interests
			(14)	-26	-14	Amortization of goodwill
<b>NET INCOME</b>	<b>244</b>	<b>122</b>		<b>227</b>	<b>114</b>	<b>NET INCOME</b>
Earnings per common share	2.41	1.21		2.24	1.13	Earnings per common share
Weighted average number of common shares	101,483	101,329		101,483	101,329	Weighted average number of common shares

SCHEDULE 42004 QUARTERLY NET SALES

	IFRS Net sales	Published Net sales
First quarter	557	569
Second quarter	551	565
<b>First half</b>	<b>1,108</b>	<b>1,134</b>
Third quarter	557	568
Fourth quarter	537	558
<b>Second half</b>	<b>1,094</b>	<b>1,126</b>
<b>Year 2004</b>	<b>2,203</b>	<b>2,260</b>

## **NOTES**

### **(1) Use of the equity method to account for Transitions**

- Transitions' 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 costs.

### **(2) Goodwill**

Goodwill on acquisition of companies accounted for by the equity method has been reclassified under "Investments in companies accounted for by the equity method".

### **(3) Intangible assets**

Market shares do not fulfill the criteria laid down in IAS 38 for recognition as intangible assets and have therefore been reclassified as goodwill.

### **(4) Investments in companies accounted for by the equity method**

- Essilor's share in the net assets of Bacou-Dalloz has been adjusted for the effect of IFRS adjustments to Bacou-Dalloz consolidated financial statements.
- Net goodwill related to companies accounted for by the equity method has been reclassified under this caption.

### **(5) Share-based payments – Also see note 14**

The costs of the Company's stock option and Company's Employee stock ownership plan are recorded in "Other operating expenses" and as an increase in equity. Consequently, this adjustment has no impact on total equity.

### **(6) Cumulative translation adjustment**

The cumulative translation adjustment at January 1, 2004 has been reclassified in "Retained earnings".

### **(7) Pension and other post-retirement benefit obligations (IFRS 1 and IAS 19)**

The net cumulative actuarial loss at January 1, 2004 has been recognized in equity, leading to a corresponding increase in provisions for pensions and other post-retirement benefit obligations.

### **(8) Investment grants**

Investment grants carried in equity at December 31, 2003 have been reclassified in liabilities at January 1, 2004.

**(9) Deferred taxes**

- The adjustments described above affect deferred tax assets and liabilities.
- A deferred tax liability has been recognized on the difference between the book value of brands and their tax basis.

**(10) Net sales**

- Cash discounts granted to customers, which were previously recognized in interest expense, have been recorded as a deduction from net sales.
- Certain commissions calculated as a percentage of sales, which were previously recognized in operating expenses, have also been recorded as a deduction from net sales.

**(11) Cost of sales**

Cash discounts received from suppliers, which were previously recognized in interest income, have been reclassified in cost of sales.

**(12) Operating expenses**

- Certain commissions calculated as a percentage of sales, which were previously included in operating expenses, are now recorded as a deduction from revenue.
- Operating expense no longer includes the amortization of the cumulative actuarial gains and losses that have been cancelled at January 1, 2004 (see note 7).

**(13) Net margin**

Net margin, corresponding to net revenue less cost of sales and operating expenses, is shown on a separate line in the IFRS income statement to make the Company's results easier to analyze and maintain consistency with "operating income" as previously reported.

**(14) Other revenues and expenses from operations**

- The majority of revenues and expenses previously classified as "non-operating", with the exception of gains and losses on asset disposals, have been reclassified under this caption.
- Amortization of the fair value of stock options granted to employees and the cost of the discount granted to employees in France who purchase shares through the Company's Employee Stock Ownership Plan are also recorded under this caption.
- Other expenses from operations also include impairment losses on goodwill.

**(15) Gains and losses on disposals of assets**

Gains and losses on disposals of assets, which were previously classified as "non-operating", are now taken into account to determine income from operations.

**(16) Income from operations**

Profit from operations is a new IFRS sub-total that corresponds to net margin plus or minus other revenues and expenses from operations and plus or minus gains and losses on disposals of assets.

**(17) Financial income and expenses**

Cash discounts paid and received are no longer reported at this level. In addition, interest costs are reported separately from income from cash and cash equivalents.

**(18) Income tax**

The income tax charge reflects the consequences of the deferred adjustments described above.

**(19) Share of profit of companies accounted for by the equity method**

Essilor's share of the profit of Bacou-Dalloz has been adjusted for the effect of IFRS adjustments Bacou-Dalloz consolidated financial statements, corresponding mainly to the cancellation of goodwill amortization.