



PRESS RELEASE

Transition to IFRS

Charenton-le-Pont, France (April 21, 2005) – The main effects of the transition to IFRS on Essilor's consolidated financial statements are described in the accompanying note, which will be inserted in the 2004 Annual Report published at the time of the Annual Shareholders' Meeting.

The identified effects on equity and net income are fairly limited, in terms of both adjustments to 2004 data and application in 2005. However, IAS 32 and IAS 39 will not be applied as from the transition date (January 1, 2004), but only from January 1, 2005. With respect to IAS 39, it is difficult, at this point in time, to estimate the impact of this standard on the 2005 consolidated financial statements.

Opening equity at the IFRS transition date (January 1, 2004) will be slightly below the previously reported figure, due mainly to the cancellation of cumulative actuarial gains and losses on employee benefit plans and adjustments to deferred taxes. In the opening balance sheet at January 1, 2005, these adjustments will be offset by the reclassification in equity of the equity component of the 2003 convertible bonds, in accordance with IAS 32.

2004 net income will be around fifteen million euros higher than previously reported, due to the fact that goodwill is not amortized under IFRS. Cancellation of the 2004 amortization charge will more than offset the recognition of compensation costs related to share-based payments, stock options and the employee stock ownership plan.

Reclassifications between various income statement captions will have the effect of increasing or decreasing key balances, but will have no impact on net income.

In particular, 49%-owned Transitions will be accounted for by the equity method in the IFRS income statement.



Other changes include the reclassification as a deduction from sales of cash discounts granted to customers and certain sales commissions, and the inclusion in income from operations of items previously reported as non-operating income and expense.

Essilor will publish a full set of IFRS financial statements for 2004 as soon as all the necessary detailed information is available, including details of the IFRS adjustments to the accounts of Bacou-Dalloz which is accounted for by the equity method.

Essilor International is the world leader in ophthalmic optical products, offering a wide range of lenses under the flagship Varilux®, Crizal®, Airwear® and Essilor® brands to correct myopia, hyperopia, presbyopia and astigmatism. Essilor operates worldwide through 17 production sites, 183 lens finishing laboratories and local distribution networks. The Essilor share trades on the Euronext Paris market and is included in the CAC 40 index (ISIN: FR 0000121667; Reuters: ESSI.PA; Bloomberg: EF FP).

Investor Relations and Financial Communication

Véronique Gillet

Phone: +33 1 49 77 42 16

www.essilor.com

Essilor

Main effects of the transition to IAS/IFRS

1. Background

In accordance with European regulation N°1606/2002 dated July 19, 2002, Essilor will prepare its consolidated financial statements for the year ending December 31, 2005 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 2005 IFRS consolidated financial statements will include comparative 2004 data prepared in accordance with the same standards, except for IAS 32 and IAS 39, which will be applied by the Company effective from January 1, 2005.

In preparation for the publication of comparative IFRS financial statements for 2005, the Company has prepared preliminary financial information about the effects of the transition to IFRS on the following items of the 2004 financial statements:

- The opening IFRS balance sheet at the transition date (January 1, 2004), which will include in equity the effects of the changes of method arising from the transition to IFRS (except for the effects of applying IAS 32 and IAS 39 which will be recognized in equity in the opening balance sheet at January 1, 2005).
- The Company's consolidated financial position at December 31, 2004 and its results for 2004.

The information on the estimated impact of IFRS on the 2004 financial statements has been prepared by applying to 2004 financial data the IFRS and interpretations that the Company will be required to apply to prepare its 2005 consolidated financial statements under IFRS.

The 2004 financial information has therefore been prepared on the basis of:

- The IFRSs and related interpretations whose application is expected to be mandatory at December 31, 2005, based on current information.
- The options and exemptions that the Company expects to apply for the preparation of its first IFRS financial statements in 2005.

For these reasons, the effects of the transition to IFRS on the 2004 financial statements described below may be subsequently modified and other effects may arise.

2. Organization of the transition project

A work group led by the Consolidation Department and comprising representatives of Corporate Finance, Consolidation, Corporate Treasury, Corporate Financial Control and Internal Audit was tasked with adapting the Company's accounting policies to comply with IFRS and determining the effects of the transition on the consolidated financial statements. The transition principles and the determination of the related effects were discussed by the Audit Committee and reviewed by the Auditors.

Certain information concerning the effects of IFRS adjustments have not yet been received from companies that are accounted for by the equity method in the consolidated financial statements. The Company has therefore decided not to finalize the IFRS statements of shareholders' equity at January 1 and December 31, 2004 until the publication of the interim consolidated financial statements for the six months ending June 30, 2005.

3. Standards and interpretations applied to prepare the preliminary IFRS financial information

3.1 Description of the accounting options and exemptions selected for the first-time adoption of IFRS

As allowed under IFRS 1, the Company has opted:

- Not to restate business combinations carried out before January 1, 2004.
- To reclassify as retained earnings cumulative translation adjustments at January 1, 2004.
- To recognize in equity cumulative actuarial gains and losses on employee benefit plans.
- To apply the transitional provisions of IFRS 2 to grants of share options that were granted after November 7, 2002 and had not yet vested at January 1, 2005.
- To apply IAS 32 and IAS 39 effective from January 1, 2005.

3.2 Description of IFRS adjustments and differences between the Company's French GAAP and IFRS accounting policies

Goodwill (IFRS 1 and IFRS 3)

As explained in note 1.5 to the consolidated financial statements, goodwill corresponds to the excess of the cost of acquisition over Essilor International's share in the fair value of net assets of the acquired company at the date of acquisition.

As allowed under IFRS 1, Essilor has opted not to restate business combinations carried out before January 1, 2004. Therefore, in the opening IFRS balance sheet, the assets and liabilities acquired through these business combinations are considered as representing assets and liabilities of the first-time adopter and not of the acquired companies.

Effective from January 1, 2004, goodwill will no longer be amortized but will be tested for impairment by the method described in IAS 36 – Impairment of Assets.

Intangible assets

As explained in note 1.14 to the 2004 consolidated financial statements, intangible assets include market shares recognized on acquisitions made since January 1, 1995. Under French GAAP, these assets are not amortized.

Market shares do not fulfill the criteria laid down in IAS 38 for recognition as intangible assets and will be reclassified as goodwill in the opening IFRS balance sheet, in accordance with IAS 38 – Intangible Assets and IFRS 3 – Business Combinations.

Property, plant and equipment

Analyses are in the process of being finalized regarding the implementation of the components method and depreciation periods are being reviewed for the main categories of property, plant and equipment, in accordance with IAS 16 – Property, Plant and Equipment. The results of these analyses are not expected to lead to any material adjustments to the consolidated financial statements.

Pensions and other post-retirement benefit obligations (IFRS 1 and IAS 19)

As allowed under IFRS 1, cumulative actuarial gains and losses at January 1, 2004 will be recognized in equity in the opening IFRS balance sheet and provisions for pensions and other post-retirement benefit obligations will be increased by the same amount.

Actuarial gains and losses arising after January 1, 2004 will continue to be recognized by the corridor method, unless the Company elects for early adoption of the amendment to IAS 19 –

Employee Benefits, which is applicable as from January 1, 2006. This amendment, which has not yet been endorsed by the European Commission, allows companies to recognize all actuarial gains and losses in equity.

Stock options and new shares offered to employees at a discount (IFRS 2)

According to IFRS 2, stock options granted to employees after November 7, 2002 that had not yet vested at January 1, 2005 are measured at fair value at the grant date.

The fair value of stock options is recognized in personnel costs over the vesting period, with a corresponding increase in equity. Consequently, this adjustment will have no effect on equity in the opening IFRS balance sheet at January 1, 2004 but it will affect the 2004 IFRS income statement.

Employees of French entities are given the opportunity to purchase Essilor International shares at a 20% discount through the Company's Employee Stock Ownership Plan. The fair value of this benefit will be recognized as an expense, with a corresponding increase in equity.

Investment grants

Investment grants included in equity in the French GAAP balance sheet at December 31, 2003 will be reclassified as liabilities in the opening IFRS balance sheet at January 1, 2004.

Deferred taxes

Deferred tax assets and liabilities will be affected by the various adjustments described above.

Consolidation method

For several years, the Transitions sub-group has been proportionally consolidated in the Essilor consolidated financial statements, as this method was considered as best reflecting the way control is shared with Essilor's partner, PPG.

Based on an analysis of the contractual clauses, in the IFRS financial statements Transitions will be accounted for by the equity method in accordance with IAS 28 and IAS 31.

Consequently:

- Transitions' contributions to the various balance sheet items will be cancelled and recognized on a net basis under "Investments in companies accounted for by the equity method".
- Transitions' contributions to the various income statement items will be cancelled and recognized on a net basis under "Share of profit in companies accounted for by the equity method".

These reclassifications will have no effect on consolidated net assets or net income.

In addition, based on the economic analysis of purchases by Essilor from Transitions and by Transitions from Essilor, and of sales by Essilor to third parties of Transitions products, in Essilor's IFRS income statement:

- In accordance with IAS 18, sales by Essilor to Transitions and the corresponding cost of sales will be cancelled.
- The cost of subcontracting services provided by Transitions on Essilor's behalf will be reallocated between cost of sales and marketing costs for the Transitions brand.

Lastly, subject to the agreement of the French securities regulator (Autorité des Marchés Financiers), the summary financial information about the Transitions sub-group required by IAS 28 will not be disclosed, as this would breach the confidentiality agreement signed with PPG.

4. Effect of the main adjustments described above

4.1 Opening balance sheet at January 1, 2004

Intangible assets

Market shares, which do not qualify for recognition as intangible assets under IAS 38, will be reclassified as goodwill for an amount of €19 million.

Pensions and other post-retirement benefit obligations

The net cumulative actuarial loss at December 31, 2003 will be recognized in equity in the amount of €10.8 million, leading to a corresponding increase in provisions for pensions and other post-retirement benefit obligations.

Equity

- ◆ Cumulative translation adjustment

Cumulative translation adjustments at December 31, 2003 will be reset at zero, leading to a €192.7 million reduction in retained earnings.

- ◆ Investment grants

Investment grants carried in equity at December 31, 2003 in the amount of €0.6 million will be reclassified as liabilities.

Deferred taxes

The adjustments described above will affect deferred tax assets and liabilities. The effects on opening net assets will be as follows:

- Adjustment of market shares: recognition of a €14.4 million deferred tax liability
- Net cumulative actuarial loss recognized in equity: recognition of a deferred tax asset of €3.8 million
- Possible adjustments to the carrying value of property, plant and equipment due to a change in estimated useful lives could lead to the recognition of a deferred tax liability.

4.2 2004 IFRS income statement

Net sales

Net sales reported in the IFRS income statement will be approximately €59 million below published net sales. The adjustment is due to:

- Deduction from sales of cash discounts granted to customers (previously recognized in interest expense).
- Deduction from sales of certain commissions calculated as a percentage of sales (previously recognized in operating expenses).
- Change in the consolidation method applied to Transitions.

Cost of sales

Cost of sales reported in the IFRS income statement will be approximately €65 million higher, due to:

- Reclassification of cash discounts received from suppliers (recognized in interest income in the French GAAP accounts).
- Change in the consolidation method applied to Transitions.

Operating expenses

Operating expenses reported in the IFRS income statement will be around €73 million lower, due to:

- Reclassification of certain commissions, deducted from sales in the IFRS accounts and previously recorded in other expenses.
- Cancellation of the amortization of actuarial gains and losses on pensions and other post-retirement benefit obligations recognized in the 2004 published accounts.
- Change in the consolidation method applied to Transitions.

Net margin

Net margin, corresponding to net sales less cost of sales and operating expenses, as defined above, will be 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.

Net margin will be affected by the change in the consolidation method applied to the Transitions sub-group, whose income will now be recognized on the line "Share of profit of companies accounted for by the equity method". The amount of the reclassification will be close to €30 million.

Profit from ordinary activities

Expenses taken into account for the determination of profit from ordinary activities will also include:

- Amortization of the fair value of stock options granted to employees, estimated at around €5 million for 2004.
- Cost of the discount granted to employees in France who purchase shares through the Company's Employee Stock Ownership Plan; depending on the calculation method finally selected, this will be less than or equal to €3.9 million for 2004.

Profit from operations

IAS 1 – Presentation of Financial Statements does not recognize the concept of non-operating expense. Consequently, profit from operations will include a certain number of new items, as follows:

◆ Other revenues / expenses on operations

The majority of revenues and expenses classified as "non-operating" in the French GAAP accounts will be reported under this caption, representing a net expense of €6.3 million in 2004.

◆ Goodwill write-downs

- The €2.5 million impairment loss recognized in non-operating expense in the 2004 French GAAP accounts will be reclassified at this level.
- The goodwill amortization charge recognized in the 2004 published accounts in the amount of €23.3 million will be cancelled in the IFRS income statement.

Net financial expense

Net financial expense will no longer include cash discounts paid and received, which represented a net expense of €20.8 million.

Income tax

The income tax charge will be affected by the adjustments described above. In particular, the change in consolidation method applied to Transitions will reduce the tax charge by some €14 million, while cancellation of the amortization of actuarial gains and losses on employee benefit obligations will reduce the deferred tax charge by €0.2 million.

Share in profit of companies accounted for by the equity method

Adjustments to this item are in the process of being determined. They will include cancellation of the goodwill amortization recognized in these companies' income statements.

In addition, Essilor's 49% share in the profit of Transitions, after eliminating intercompany transactions between the two companies, will be added for an amount of approximately €17 million.

5. Application of IAS 32 and IAS 39 effective from January 1, 2005

IAS 39

In accordance with IAS 39, currency and interest rate hedging instruments will be recognized as follows:

- In the balance sheet, at fair value with recognition of the corresponding deferred tax effect.
- In the income statement, recognition of gains and losses arising from remeasurement of hedging instruments at fair value, on a symmetrical basis with the gains and losses arising from remeasurement of the hedged assets or liabilities.
- In equity, recognition of the effective portion of gains and losses on cash flow hedges, net of deferred taxes.

The effects of applying IAS 39 will depend to a significant extent on exchange rate changes in 2005. Consequently, it is currently impossible to reliably estimate the impact.

IAS 32

In 2003, Essilor issued bonds convertible into new shares or exchangeable for existing shares (oceanes). Under IAS 32, the portion of the issue price representing the value of the embedded conversion option at the issue date, estimated at around €41 million, will be added to equity in the opening balance sheet at January 1, 2005. Debt will be reduced by the same amount.

In addition, the bonds will be measured at amortized cost. Consequently:

- Finance costs will be increased by the amortization of the embedded option, estimated at €5.4 million for 2005.
- Amortization expense for the period from the issue date (June 2003) to December 31, 2004 will be recognized as an adjustment to equity in the opening balance sheet at January 1, 2005, for an amount of €7.7 million.