2003 Reference Document

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Management Review
Board Meeting of March 3, 2004

2003 Overview

(€ millions)	2003	2002	
Sales	**2,116.4**	2,138.3	-1,0%
Operating income	**364.9**	340.6	7,1%
Pre-tax income after non-operating items	**316.4**	277.7	13,9%
Net income	**200.3**	182.4	9,8%
Earnings per share (in €)	**1.98**	1.82	8,8%
Cash flow	**354.0**	335.4	5,5%

In 2003, the geopolitical and economic environment was shaped by the war in Iraq, the SARS epidemic in Asia and the sharp fall in the dollar. Essilor adapted swiftly to this difficult environment, turning in an excellent performance. This testified to the quality of Essilor's innovation-driven product strategy and led to additional market share gains. The Company also embarked on a new period of sustained external growth, acquiring 14 new subsidiaries operating in its core business. Despite the high level of investment, Essilor also continued to pay down debt, ending 2003 with a stronger balance sheet.

Essilor's position in the optical markets

Essilor is the world leader in ophthalmic optical products, ahead of its two main competitors, Hoya (Japan) and Sola Inc. (United States). Its global market share tops 20% in volume and 25% in value.

In 2003, volumes in the global ophthalmic optical products market remained flat; however, the value of the market continued to rise, reflecting the gradual shift in the sales mix towards high technology lenses. In general, the market remained shaped by the broad trends observed in previous years:

- The substitution of plastic lenses for glass lenses. Glass lenses are on the verge of disappearing in developed countries and their sales are declining rapidly in emerging countries. For example, their market share has fallen to below 50% in China, a market like India where glass lenses still dominate.
- In the plastic lens market, the substitution of high performance materials, such as high index and polycarbonate lenses, for the traditional CR39 1.5-index lenses.
- The growing market share of anti-reflective lenses, which is expected to reach 100% in the future. In Japan, nearly all lenses are sold with anti-reflective coating and anti-reflective lenses will soon dominate the market in Western Europe.
- The substitution of progressive lenses for bifocals. Bifocals now account for only a very small proportion of the global market. However in the United States and India, they still have a significant but declining market share.
- The growing demand for photochromic (variable-tint) lenses, which adjust to the intensity of light.

One of the driving forces behind the trend towards value-added products has been Essilor's innovation strategy, which continued to pay benefits in 2003. This strategy lead to a more than 10% increase in unit sales of high index and polycarbonate lenses, as well as of anti-reflective and photochromic lenses. The Company also consolidated its strong positions in the progressive lens market. Sales of CR39 1.5-index lenses were slightly down on 2002, reflecting market erosion worldwide. Glass lens sales also fell, a trend that had been largely anticipated. All in all, in 2003, despite a generally challenging business environment, Essilor's focus on the fastest growing segments enabled it to increase market share.

The Company has solid positions in all high value-added segments of the lens market, with strong brands:

- Varilux® and its product range, in progressive lenses.
- Airwear®, in polycarbonate lenses.
- Stylis®, in 1.67 high index lenses.
- Crizal® and Crizal® Alizé™, in anti-reflective, smudge-proof and other treatments.
- Transitions® in photochromic (variable-tint) lenses. The latest generation Transitions® lenses, launched in 2002, remained highly popular in 2003.

By combining different materials, different optical surfaces and different treatments, year after year Essilor creates new products - for example, Crizal® Alizé™ high-index corrective lenses or polycarbonate Varilux® lenses - that enhance the product mix and meet the increasingly sophisticated needs of eye care professionals and consumers alike. Essilor has the largest product portfolio in the global ophthalmic optical market.

New products

New product launches concerned ophthalmic lenses, which currently account for nearly 95% of sales.

(€ millions)	2003(3)	2002(1)	2001(1)
Corrective lenses and lens-related products	**1,984.9**	2,010.0	1,951.2
Instruments(2) and other products	**131.5**	128.3	119.2
Total	**2,116.4**	2,138.3	2,070.4

(1) 2002 and 2001 figures have been restated based on the 2003 presentation.
(2) Lens preparation instruments.
(3) Including an 8.8% negative currency effect, explained on page 4.

2003 was a particularly fertile year, with 30 new products brought to market:

- Varilux® Ipseo™, the first personalized progressive lens that adapts to the specific head and eye movements of individual wearers. Personalization begins with the optician, who measures the customer's visual imprint. The measurements are sent to the laboratory where they are processed to create a unique lens design, which is then made specifically for the customer using a digital surfacing machine. Varilux® Ipseo™ is the first of a new generation of progressive lenses. After Japan, Germany and Austria in 2003 and France in January 2004, worldwide rollout will continue in 2004.

• Crizal® Alizé™, an anti-reflective lens with a highly effective anti-smudge coating developed using nanotechnology. The treatment successfully addresses the main complaint of anti-reflective lens users by reducing dirt build-up and making the lens much easier to clean. Crizal® Alizé™ was introduced in the second half of 2003 in several countries of Europe and North America, and will be rolled out to the rest of the world in 2004.
• Fusio™, the world's thinnest lens (1.74 index), which was launched in Italy at the end of 2003.

A new focus on sunlenses

In 2003, Essilor set up a new "Sunlens" department to respond more effectively to the strong global demand for corrective and/or protective sunglass lenses. Several initiatives have been launched to grow this business, based on:
• The development of new ranges of corrective sunlenses, led by:
- the introduction of polarized lenses.
- the partnership with US-based Oakley and the launch of an exclusive sunglass lens, the Oakley® Varilux® Panamic®.
- the acquisition of Specialty Lens Corp (SLC) based in the United States (see "Acquisitions").
• The expansion of the Company's presence in premium non-corrective (afocal) sunlenses, by acquiring BNL in France (see "Acquisitions").

Consolidated sales

Sales growth

	Like-for-like	Scope of consolidation	Currency effect
2003	**4.3%**	**3.5%**	**-8.8%**
First half	2.3%	0.8%	-10.8%
Second half	6.5%	6.4%	-6.6%

Consolidated sales dipped 1% to €2,116 million. This was due to a significant 8.8% negative currency effect, related to the Brazilian real, the Japanese yen, the British pound and, above all, the US dollar, which fell by nearly 17% against the euro.

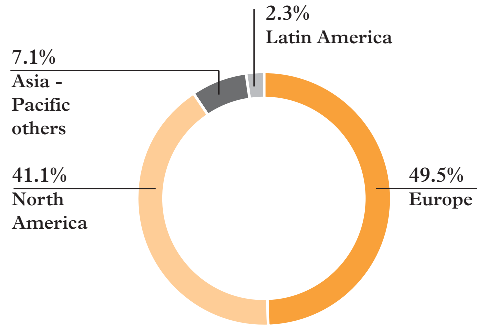
In the first half of the year, like-for-like sales were held back by difficult conditions in North America and Asia. Momentum was restored in the second half, with a good third quarter followed by an even better fourth quarter, led by Germany and the United States.

The product mix improved in both the first and second halves, confirming once again the quality of the Company's innovation-driven product policy.

The 3.5-point impact of acquisitions was attributable to the consolidation of the 14 companies acquired in 2003, and was focused mainly on the second half. Spread across all continents, these new businesses contributed €74.5 million worth of sales in 2003.

Sales performance by geographic market

Sales by market



(€ millions)	**2003 sales**	2002 sales	**Like-for-like growth**
Europe	**1,048.0**	973.4	7.3%
North America	**869.3**	970.4	1%
Asia-Pacific and other	**149.7**	143.3	2%
Latin America	**49.4**	51.2	17%

Europe: robust growth

In Europe, like-for-like sales rose 7.3%. Excluding Germany, which enjoyed an exceptional surge in sales in the final part of the year, like-for-like growth came to 5.6%.
In a challenging year when euro zone GDP grew by a scant 0.5% and some countries slipped into recession, Essilor increased its sales and won additional market share. These gains were accompanied by an improvement in profitability, testifying to the Company's ability to achieve a good performance in Europe year after year. The multi-network distribution policy (Essilor, BBGR and Nikon) was rolled out to new countries, providing deep coverage of the market with different products and brands. BBGR, which made a significant contribution to sales growth, established a foothold in Germany through the acquisition of Rupp und Hubrach and opened a subsidiary in Spain at the end of the year.

In France, like-for-like sales were 5.8% higher. The Company further strengthened its positions among independent opticians and optical chains and groupings, while improving productivity, service quality and margins. Strong anti-reflectives sales were further boosted by the launch of Crizal® Alizé™. Demand was also stimulated by Transitions® photochromic lenses and 1.67 Stylis® high index lenses. Polycarbonate lenses remained in demand, due to their robustness. Good results were also achieved in the corrective sunglass lens market.
2003 was a very good year in the United Kingdom, Ireland, Spain and Northern Europe, but market conditions were more challenging in other countries such as Italy, Portugal, Belgium, Switzerland and Austria.

Some of the highest growth was in Germany, where sales rose sharply following the announcement that substantially all optical products would no longer qualify for social security reimbursements as from January 1, 2004. After a lackluster first half, sales skyrocketed from September onwards. Demand was such that organizational changes had to be made to maintain the same standards of product quality and service efficiency. During the year, Essilor rose to the No. 1 position in Germany – Europe's largest market – through BBGR's acquisition of Rupp und Hubrach (see "Acquisitions"). Rupp und Hubrach also benefited from the surge in demand, turning in a very good performance.

In the United Kingdom and Ireland, Essilor outperformed the market thanks to an improved product mix. The partnership between BBGR and Dollond & Aitchison (D&A) is an unqualified success. D&A was acquired by BBGR in 2001 and after two years of reorganization, is offering a service in line with the optical chain's ambitions. Growth in D&A's sales has been driven by product quality and a determined marketing strategy supported by very popular anti-reflective and polycarbonate lenses.

In Eastern Europe, sales growth topped 20% and margins were good, particularly in Hungary, the Czech Republic and Poland. The Warsaw laboratory steadily expanded its presence in the local market and strengthened its role as the hub for several European countries.

Novisia increased its sales of Nikon® lenses in Europe, achieving particularly good results in France.

North America: an uneven year

Like-for-like sales in North America grew 1%.

United States

In the first half of the year, the US optical market was weakened by the climate of uncertainty created by the war in Iraq, although optical chains were less badly hit than independent opticians. Sales started to pick up in August-September and the growth rate accelerated in the fourth quarter. In all the US market contracted by an estimated 2% in volume over the full year.
Against this difficult background, the Company registered an improvement in product mix. Anti-reflectives drove growth in high value-added lens sales, in the market as a whole and for Essilor.
Over the year, the US market share of anti-reflective lenses climbed from 17% to 19%. Essilor's Crizal® brand lenses were the biggest selling anti-reflectives in the market, attesting to their excellent technical properties and the use of this treatment by a growing number of laboratories. Increased demand for anti-reflective lenses also strengthened strategic alliances with independent laboratories which are licensed to use Essilor's anti-reflective technology in exchange for purchasing lenses and services from the Company.

Partnerships were also expanded with several major optical chains, including LensCrafters and Wal-Mart, giving them access to more advanced technologies and enabling them to diversify their offer of high value-added products. These partners are served by dedicated laboratories with specific products.
The new generation Transitions® lenses went from strength to strength, building on a very good year in 2002. Sales of Crizal® Alizé™ and 1.67 high index lenses got off to a good start and look set to achieve their full market potential in 2004.

Canada

In a generally flat market, Essilor increased both unit sales and revenues with all market participants by developing specific services for each one. The Transitions® and 1.67 high index lens offerings were expanded. Polarized sunlenses were launched and the new Crizal® Alizé™ anti-reflective lens was an instant success. Several laboratories were acquired during the year (see "Acquisitions").

VisionWeb

During 2003, the American Optometric Association (AOA) and Transitions Optical, Inc. became VisionWeb shareholders, reducing Essilor's interest to less than 45.6%. VisionWeb is the Internet platform set up by Essilor in the United States to serve the entire optical industry. Its other shareholders are Johnson & Johnson Vision Care Inc., AMO (a subsidiary of Allergan), Jobson Publishing and Marchon, an eyewear manufacturer.
VisionWeb's sales were still fairly low in 2003, but the network continued to extend its reach; several thousand opticians already log onto the site and the number is growing steadily. Optical chains have also started using the service, which represents a highly efficient order management solution. In Canada too, the volume of online orders is growing. During 2003, VisionWeb launched a solution providing instant connectivity to healthcare management organizations, enabling opticians and optometrists to automate key business functions throughout the reimbursement cycle. This is just the latest example of the increasingly essential services offered by VisionWeb to optical practitioners.

Asia - Pacific region: a checkered picture

Sales by the distribution subsidiaries rose 7.6%, but the method used to consolidate the sales of local plants adversely impacted the region's total contribution, which only increased by 2% like-for-like.
The SARS epidemic weighed heavily on sales in several parts of the region until mid-summer. Growth was nevertheless satisfactory, helped by the strong increase in sales of Nikon® and Transitions® lenses.

Nikon-Essilor in Japan

The Company is represented in Japan by Nikon-Essilor. In 2003, market volumes declined and the market share of local companies came under heavy attack from low-cost imports. Nikon-Essilor's domestic sales contracted by 6.1% in local currency. This resilient performance in a difficult environment was attributable to the company's positioning among opticians and regional optical chains, which were less affected than the major national chains.
Products such as the very high index (1.74) lens launched in Japan at the end of 2002, the new Easy Clean treatment and Varilux® Ipseo™ helped to shore up volumes.
Outside Japan, Nikon-Essilor's subsidiaries in Canada and the United Kingdom posted robust sales figures, reflecting the Nikon® brand's strong image in these markets.
All told, Nikon-Essilor increased global sales in local currency and improved earnings, despite unfavorable conditions in Japan. Nikon-Essilor is consolidated on a 50% basis. After conversion into euros, its contribution to Essilor 2003 sales was unchanged compared with 2002.

In China, the SARS epidemic weakened sales in the first half of the year and although volumes picked up in the second half, full-year sales growth was fairly limited. As the leading company in the premium segment, Essilor's profitability held up well. Factors underlying this performance included the success of polycarbonate lenses and the launch of progressive lenses. Also in China, a new plant, built by a subsidiary of 50%-owned Essilor Korea, came on stream during the year to support expansion in the low-cost segment.

In South Korea, the alliance set up in 2002 with Samyung Trading Co. Ltd got underway in January and met the sales and income targets set for the first year of operation. South Korea is now Essilor's third largest market in the Asia-Pacific region, behind Japan and Australia.

Among the other Asian markets, sales growth in Malaysia, Indonesia and the Philippines remained in the double digits, reaching 20% in some cases. In Hong Kong, sales were weakened to some extent by SARS in the first part of the year, but recovered in the second half. In India, sales rose strongly, helped by significant market share gains in the organic lens segment, which is expanding steadily and reducing the dominance of glass lenses. In Singapore, where economic conditions were more challenging, Essilor deepened its presence by setting up a company to acquire the assets of an existing laboratory. Lastly, in Australia and New Zealand, sales and earnings continued to rise at a brisk pace.

Latin America: strong momentum

Sales in Latin America rose 17% in local currency. The region's economies remained fragile and consumer purchasing power contracted in several countries. Competition heated up at the low end of the market, due to growing imports from Asia. Again, despite these difficult conditions, Essilor outperformed the market.

In Brazil, sales increased in both volume and value. In Argentina, the Company emerged from the economic crisis with its marketing potential intact and highly-motivated teams. Essilor staged an outstanding recovery, despite a shift in product mix towards the lower end of the market due to the population's restrained financial circumstances. In the other countries of Latin America, with the exception of Chile, markets were weakened by lackluster economic conditions and competition from low-cost products. Essilor nevertheless succeeded in holding onto its position.

Rest of the world

Sales rose by nearly 20% in South Africa, where Essilor is ranked second and is actively strengthening its position. In 2004, for example, an anti-reflective coating unit will be set up to serve the local market. Essilor is also present in many other countries, mainly in Africa and the Middle East, through distributors.

INSTRUMENTS

Essilor is the world leader in lens edging and vision screening instruments. 2003 was a generally good year, although at 2.7% like-for-like sales growth was slower than in 2002, when exceptionally large instrument deliveries were made to major US optical chains.
In 2003, the impact of the non recurrence of these sales was only partially offset; however, increased sales to independent opticians led to further market share gains. Overall, the product segmentation strategy continues to drive growth with firm margins.

For vision screening instruments, 2003 was a transition year shaped by the integration of US-based Stereo Optical. Sales in the United States were adversely affected by state budget restrictions, but profitability held up well.

PRODUCTION AND CAPITAL EXPENDITURE

In 2003, total production volume held firm at around 180 million lenses. The production rationalization program was pursued, with a small reduction in CR39 output and robust growth in high index and polycarbonate lens production.

Further moves were made to transfer production away from the Park Street plant in Florida, which is scheduled to close in 2004, leaving only engineering and R&D on the site.

2003 was another year of productivity gains and improved return on manufacturing assets. Production of 1.67 index lenses in Thailand got off to a strong start in late 2002-early 2003 and performance levels improved at a faster-than-expected pace over the year. New surfaces were added, notably in Thailand to cope with increased polycarbonate lens volumes, and new 1.67-index lens capacity came on stream during the year.

PRESCRIPTION LABORATORIES

The prescription laboratories surface, coat, edge and mount lenses.

In the United States, where information systems were extensively reorganized in 2003, the laboratories are continuing to improve performance and profitability. A new organizational structure based on eight regions was set up to offer customers a better, more local service.

In Europe, the program to build computer links between laboratories and with the sales outlets was pursued. This provided scope to organize production on an international basis, reduce average costs and establish more flexible order management systems. Modeling their activities on those of the North American laboratories, a growing number of prescription lens centers are offering lens edging and mounting services, in order to deliver complete eyeglasses to opticians. This service responds effectively to the needs of the major retail chains, as can be seen from Dollond & Aitchison's successful experience in the United Kingdom.

RESEARCH AND DEVELOPMENT

Innovation is one of Essilor's hallmarks and R&D budgets generally represent around 5% of sales. Reflecting this commitment, 30% to 35% of sales are generated by products that are less than three years old.

The Company's latest two products, the Crizal® Alizé™ lens and the new Varilux® Ipseo™ progressive lens, illustrate the results of the R&D effort. Both products represent technological breakthroughs – the Varilux® Ipseo™ lens in the area of micromachining and the Crizal® Alizé™ lens in the application of nanotechnologies.

Highlights of the year included the September inauguration of a new research center in Singapore. The center will actively monitor technological developments and will work with the Singapore laboratory to develop new prescription lens production processes.

In France, a framework agreement was signed with the National Center for Scientific Research (CNRS), building on a partnership that has existed for five years. One of the outcomes of the agreement will be the creation of a joint Essilor-CNRS laboratory in 2004. Lastly, in 2003 the R&D skill set was bolstered by the recent acquisition of companies with their own R&D departments. Examples include Rupp und Hubrach, which has proprietary lens treatment and surfacing techniques, BNL, a recognized expert in sunglass lenses, and Specialty Lens Corp., which has contributed its expertise in polarized lenses. Essilor's South Korean partner also has its own R&D capability. All of these high performance teams will remain in their original units while actively developing synergies with their counterparts in other units.

ACQUISITIONS

A number of acquisitions were made in 2003. The new companies, which represent annual sales of more than €160 million, contributed €74.5 million to consolidated sales for 2003. Most of them are prescription laboratories or have enabled the Company to acquire new technologies.

In the United States, the Company acquired:

- Nassau Lens Company (2002 sales: $62 million – 400 employees), America's leading distributor of finished lenses to opticians and optometrists. The New Jersey-based company has 12 distribution sites serving the entire country and three prescription laboratories. Direct distribution of finished lenses has grown rapidly in the United States in recent years and the acquisition extends Essilor's range of local distribution channels. Nassau was consolidated as from July 1, 2003.
- Omni Optical Lab (2002 sales: $11 million – 80 employees), based in Beaumont, Texas. Formerly a member of the Consolidated Vision group, which owns one of America's ten largest optical chains. The company delivers a wide range of products to optical stores in six southern states.
- Optical Suppliers Inc. (2002 sales: $5 million – 50 employees), Hawaii's largest prescription lens laboratory.

In Canada, the Company acquired five laboratories representing combined sales of some €4 million:

- Morrison Optical, based in Saskatoon, Saskatchewan.
- Custom Surface, based in Winnipeg, Manitoba.
- Optique de l'Estrie, based in Sherbrooke, Quebec.
- OPSG based in London, Ontario.
- Metro Optical Ltd, based in Edmonton, Alberta.

In India, Essilor acquired the assets of Vision Express, a prescription lens laboratory.

In Germany, subsidiary BBGR acquired its local distributor, Rupp und Hubrach (2002 sales: €54 million – 600 employees). Rupp und Hubrach, which is ranked fifth in the German corrective lens market, owns two prescription laboratories, one in Germany and the other in Ireland. Rupp und Hubrach was consolidated as from October 1, 2003.

Two sunlens companies were also acquired:
- Specialty Lens Corp (2002 sales: $4 million – 40 employees) based in Salt Lake City, Utah, USA. SLC specializes in polarized corrective sunlenses that eliminate glare from reflective surfaces, such as water, snow and road surfaces, and reduce transmission of harmful sunlight. The polarized lens market is rapidly extending from the United States to Europe and Japan.
- BNL (2002 sales: €11 million – 60 employees) in France. BNL is a manufacturer of high-end non-corrective (afocal) sunglass lenses at the forefront of innovation. Its products also include polarized polycarbonate lenses.

Lastly, Essilor Korea, a 50/50 joint venture with South Korea's Samyung Trading Co. Ltd, was consolidated as from February 1, 2003. Essilor Korea reported sales of approximately €32 million in 2003.

2003 Financial Review

Projects launched in 2003

Several major projects were launched in the finance area in 2003.
Reporting and consolidation systems were replaced by a single integrated management and statutory reporting system. Following this change, the 2003 income statement is presented on a cost-of-sales basis, providing a clearer basis for analyzing results.
Preparations for the switch to IFRS, effective January 1, 2005, moved forward swiftly. Essilor had already been applying the majority of these standards for a number of years, and work therefore focused on:
- The standards not currently applied. The main impact of adopting these standards will be the reclassification of market shares in goodwill (see note 1 to the consolidated financial statements for a discussion of applicable IAS that have not yet been adopted).
- Future or revised standards that will be applicable in 2005, including IAS 36 and 38, according to which goodwill will no longer be amortized but will be subject to an annual impairment test, IAS 39 dealing with financial instruments and hedge accounting, and the new standard on share-based payments.
- Analyzing required changes in the presentation of the income statement.

An IFRS project team was set up at the beginning of 2003 and the number of employees in the consolidation department was increased to cope with the additional workload. Working closely with the external auditors, the project team reviewed all of the new and revised standards and identified all of the differences compared with current accounting policies. An action plan was then drawn up with a view to producing a full set of IFRS accounts at December 31, 2004.
Concerning IAS 36 (Impairment of assets), impairment tests have already been performed on all goodwill recorded in the accounts and the Company does not expect any material differences to arise between carrying values and fair values. In preparation for the adoption of IAS 39 (Financial instruments), all financial instruments have been identified and the impact on the financial statements of valuing these instruments at fair value has been measured.
The necessary procedures to ensure that the majority of these instruments qualify for hedge accounting are being implemented progressively, in order to limit the impact on the income statement of valuing cash flow hedges.

Lastly, the internal audit department continued its work on the drafting of formal rules and procedures, based on the provisions of the Financial Security Act (see the Chairman's Special Report).

Results

Cost of sales – operating expenses

Gross margin (sales less cost of sales) increased in each of the last three years, rising by 0.9 points in 2003 to 60.6% from 59.7% the previous year. The steady rise was directly attributable to an improvement in product mix. At the same time, operating expenses (as a percentage of sales) contracted by 0.4 points.

Operating income and operating margin

Operating income grew 7.1% in 2003 to €364.9 million. Operating margin was 1.3 points higher, at 17.2%, a rate well in excess of the 16% target set for 2003. This was attributable to:
- Increased gross margin and tight control over operating costs.
- Improved profitability, in local currency, in all of the Company's operating regions including the United States, where profitability improvement targets were met despite difficult market conditions.
- A significant improvement in the results generated by Transitions.
- An exceptional surge in profits of the German subsidiaries (Essilor Germany and Rupp und Hubrach) at the end of the year.

Net interest expense

Net interest expense contracted by 8.6% to €33.5 million, primarily reflecting a significant reduction in net debt. Interest on the convertible bonds issued in June 2003 was largely offset by the interest earned by investing the issue proceeds.

Non-operating expenses

Non-operating expenses amounted to €14.9 million versus €26.2 million in 2002. The change of consolidation method applied to VisionWeb – representing €5.1 million in losses accounted for by the equity method in 2003 – had a favorable impact. Based on a comparable scope of consolidation, non-operating expenses were down by 47.3%.

(€ millions)	**2003**	2002	Change
Non-operating expenses - reported	**(14.9)**	(26.2)	-
O/w dilution gain*	**-**	8.2	-
O/w VisionWeb	**-**	(6.1)	-
Non-operating expenses – like-for-like	**(14.9)**	(28.3)	-47.3%

** On the May 2002 share issue by minority-owned Bacou-Dalloz.*

The main components of non-operating expense are:
- Provisions for the cost of closing the Florida plant in the United States in 2004 (€9.6 million).
- Restructuring and reorganization costs to improve operating efficiency in Europe and the United States (€2.4 million).

These costs were partly offset by a €4.5 million gain on the sale of an office building in the Paris area.

Pre-tax income after non-operating items

Pre-tax income after non-operating income came to €316.4 million, an increase of 13.9% over 2002.

Corporate income tax

The effective tax rate paid by the Company was 28.5% in 2003 versus 28.2% in 2002. The modest increase was due to higher taxes in the United States and the Company's good performance in Germany where the corporate tax rate is at the high end of European rates.

Net income of companies accounted for by the equity method

In 2003, this item included Essilor's €5.1 million equity in the losses of VisionWeb, which was previously fully consolidated. The inclusion of VisionWeb and the lower profits of Bacou-Dalloz explain the swing to a negative contribution of €2.9 million in 2003 from a €6.6 million positive contribution in 2002.

Amortization of goodwill

Amortization of goodwill amounted to €22.5 million. Despite the large number of acquisitions carried out during the year, the 4.9% decrease compared with 2002 was due to the fact that the majority of goodwill concerns US companies and is therefore denominated in dollars.

Net income and earnings per share

Net income before minority interests rose 10% to €200.6 million, representing 9.5% of sales compared with 8.5% in 2002. Net income came to €200.3 million, an increase of 9.8% over 2002. Earnings per share were 8.8% higher at €1.98.

Balance Sheet

Inventories and working capital

Inventories fell to €309.6 million from €325.2 million in 2002, reflecting strong logistics and efficient information systems. Tight control over inventories drove a further reduction in working capital.

Capital expenditure and financial investments

(€ millions)	**2003**	2002	2001
Capital expenditure net of the proceeds from asset sales	**139.9**	140.0	120.1
Depreciation and amortization (excluding amortization of goodwill)	**122.8**	127.4	118.3
Financial investments	**150.2**	37.2	56.8
Cash flow	**354.0**	335.4	286.4

Gross capital expenditure, before deducting the proceeds from asset sales, totaled €149.4 million, representing 7% of consolidated sales. The proportion of the budget earmarked for the prescription laboratories rose sharply, to meet the growing need for anti-reflective coating equipment.

Financial investments amounted to €150.2 million. Of the total, €124.2 million concerned the acquisitions carried out during the year (see "Acquisitions") and the balance related to purchases of treasury stock.

Debt

(€ millions)

Operating cash flow	**348**	Capital expenditure	**150**
Proceeds from employee employee share issue	**26**	Change in working capital, currency effect, provisions	**(41)**
Proceeds from disposals of property, plant and equipment and investments	**10**	Dividends	**59**
		Financial investments	**150**
		Reduction in net debt	**66**

Improved profitability, the Company's robust performance, particularly in the second half, and the reduction in working capital all contributed to a €65.7 million reduction in debt despite higher total investment. At December 31, 2003, net debt stood at €97.4 million. The total proceeds from the July 2003 convertible bond issue were invested in marketable securities and the issue therefore had no impact on net debt.

The net debt-to-equity ratio stood at 8% versus 13% at end-2002. The improvement would have been even greater, had it not been for the substantial negative translation adjustment that limited the rise in shareholders' equity.

Ratios

- Return on equity (ROE)

Return on equity (defined as the ratio of net income to shareholders' equity) climbed to 16.6% in 2003 from 15% the previous year. The ratio has risen steadily over the last three years, reflecting the Company's improved profitability.

- Return on assets (ROA)

Return on assets (defined as the ratio of EBIT to fixed assets and working capital) increased in each of the last four years, thanks to disciplined management of inventories and capital expenditure budgets. The ratio stood at 24.1% in 2003 versus 21.2% the previous year.

Capital Stock

Changes in capital stock in 2003

Changes in capital stock in 2003 were as follows:
- €280,000 reduction, through the cancellation of 800,000 shares held in treasury.
- €146,216.70 increase, excluding premiums, corresponding to the issue of 417,762 new shares on exercise of stock options.
- €153,556.55 increase, excluding premiums, corresponding to the issue of 438,733 new shares to the Essilor 5 and 7-year employee stock ownership plans (FCPE Groupe Essilor). The shares were issued at a price of €28.21 and €32.59, respectively, representing a 20% discount to the average of the opening prices quoted for Essilor common stock over the twenty trading days preceding the date of the Board decisions, on June 11 and November 18 respectively.

Ownership structure at December 31, 2003

At December 31, 2003, the Company's capital stock amounted to €35,959,037.80, represented by 102,740,108 shares of common stock each with a par value of €0.35.

	Number of shares	**%**	**Number of voting rights**	**%**
Employees (in France and abroad)				
- FCPE Valoptec International	5,026,774	4.9	10,053,548	9.1
- FCPE Groupe Essilor 5 and 7 years	2,632,000	2.6	4,678,974	4.3
- Essilor Shareholding Plan	328,874	0.3	328,874	0.3
- Registered shares held directly by employees	1,224,181	1.2	2,219,684	2.0
Subtotal	**9,211,829**	**9.0**	**17,281,080**	**15.7**
Public	92,258,442	89.8	92,622,262	84.3
Treasury stock	1,269,837	1.2	-	-
Total	**102,740,108**	**100**	**109,903,342**	**100**

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

Stock options at December 31, 2003 (options on new shares)

		O/w in 2003
Options granted	5,579,510	804,570
Options canceled	159,334	6,757
Options exercised	2,488,113	417,762
Options outstanding*	2,932,063	

** Representing the equivalent of 2.85% of common stock outstanding at December 31, 2003.*

Stock options at December 31, 2003 (options on existing shares)

		O/w in 2003
Options granted	670,250	
Options canceled	12,336	7,086
Options exercised	17,855	15,358
Options outstanding*	640,059	

** Representing the equivalent of 0.62% of common stock outstanding at December 31, 2003.*

The exercise price of both categories of options is equal to the average of the opening prices quoted for the Company's shares over the twenty trading days that precede the Board meeting when the option grants are decided, without any discount.

Treasury stock

At December 31, 2002, Essilor held 1,450,645 shares in treasury. During 2003, 635,008 shares were purchased at an average price of €38.87; 800,000 shares were cancelled; 15,358 shares were sold on exercise of stock options at a price of €31.24; and 458 OCEANE bonds were exchanged for shares held in treasury. Following these movements, at December 31, 2003, Essilor held 1,269,837 shares in treasury, representing 1.2% of capital stock.

July 2003 OCEANE issue

In July 2003, Essilor carried out a €309 million 7-year OCEANE issue. The OCEANE bonds are convertible into or exchangeable for Essilor shares and may be redeemed in advance, at the holders' option, after five years. The purpose of the issue was to take advantage of the rock-bottom long-term interest rates to:
- Refinance the lines of credit expiring in 2004 and 2005.
- Reduce average borrowing costs by raising five-to-seven year financing at a very low cost (the bonds' yield to maturity is 2.125%).

The issue was welcomed by investors and was heavily over-subscribed. The OCEANEs have been traded on Euronext Paris since July 2, 2003.

COMPANY ACCOUNTS AND APPROPRIATION OF 2003 INCOME

Key figures from the parent company's 2003 accounts are as follows:

(€ millions)	2003	Change
Sales	**650**	2%
Operating income	**62**	12%
Operating margin	**9.5%**	-
Income before non-operating items and tax	**156**	-7%
Net income	**144**	-3%

Parent company sales rose 2%, helped by a modest increase in lens sales in the French market, high delivery volumes to European subsidiaries, notably in Germany, and strong growth in instrument sales. Sales by the Porto Rican plant contracted sharply, however, due to lower 1.5-index lens sales in North America.

The strong growth in operating income reflects tight control over operating expenses and increased revenues from subsidiaries, including royalties for the use of production processes owned by Essilor International and fees for the use of computer applications developed by the parent company for the entire group. The higher revenues offset the additional costs generated by the move from a major site in France.

Net interest income declined in 2003. Dividend income from subsidiaries was slightly lower and the Company also recorded provisions for impairment in value of investments and provisions to write down Essilor International shares purchased for allocation on exercise of stock options granted in 2000.

As explained in note 13-4 to the financial statements, in 2003 the parent company changed the method of accounting for pensions and other post-retirement benefit obligations, as well as for obligations related to long-service awards.

The structure of Essilor International's income statement in 2003 led to an increase in the income tax charge. This had a negative impact on net income which declined 3% compared with 2002.

The Board of Directors is recommending an increase in the net dividend from €0.50 for 2002 to €0.56 for 2003, representing a total revenue of €0.84 per share including the *avoir fiscal* tax credit. The recommended dividend represents a payout rate of nearly 28.4% of consolidated net income, which is in line with the average among quoted companies. The 12% increase in the net dividend per share reflects the Company's very good performance in 2003.

The dividend will be paid as from May 18, 2004, in cash only.

Dividends paid in the last five years were as follows:

(in €)	2002	2001	2000	1999	1998
COMMON SHARES					
Net dividend	0.50	0.41*	3.90	3.40	3.20
Tax paid in advance	0.25	0.20*	1.95	1.70	1.60
Total revenue	0.75	0.61*	5.85	5.10	4.80
PREFERRED NON-VOTING SHARES					
Net dividend	-	-	4.02	3.52	3.32
Tax paid in advance	-	-	2.01	1.76	1.66
Total revenue	-	-	6.03	5.28	4.98

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

2003 INCOME APPROPRIATION

(in €)

Net income for the year		143,803,062.46	
Deficit brought forward from prior year		(12,329,773.90)	
Appropriation to the legal reserve		(1,977.32)	
Transfer from the long-term capital gains reserve		28,353,390.26	
INCOME AVAILABLE FOR DISTRIBUTION			**159,824,701.50**
TRANSFER TO THE LONG-TERM CAPITAL GAINS RESERVE		**29,198,324.82**	
First dividend	2,157,542.27		
Additional dividend	54,665,809.49		
TOTAL DIVIDEND	**56,823,351.76**	**56,823,351.76**	
Précompte dividend equalization tax		6,848,478.00	
Transfer to other reserves		62,000,000.00	
Unappropriated retained earnings		4,954,546.92	
			159,824,701.50

Financial Authorizations

Renewal of the authorization to buy back the Company's shares

In May 2003, the Annual Shareholders' Meeting authorized the Board of Directors to buy back Essilor International shares representing up to 10% of the Company's capital stock on the date of the purchase, as allowed under Articles L.225-209 *et seq.* of the Commercial Code. The authorization was given for a period of 18 months expiring on November 16, 2004. At this year's Annual Shareholders' Meeting, to be held on May 14, 2004, the Board of Directors will be seeking renewal of this authorization on the following terms:

- The authorization may be used for any purpose, including to stabilize the share price, to buy and sell Essilor International shares based on the market situation, as well as to buy shares for delivery in payment or exchange for other assets, in connection with an external growth operation or otherwise, or for allocation on exercise of employee or management stock options, or in connection with asset and liability or financial management policies, including for the purpose of canceling them.
- The shares may not be bought back at a price in excess of €70 and may not be resold at a price of less than €30, as adjusted if necessary to take into account the effects of any corporate actions.
- Share purchases must comply with the rules laid down in Commission des Opérations de Bourse regulation 90-04, concerning the conditions and timing of transactions in a Company's own shares.
- The shares may be purchased, sold or transferred and paid for by any appropriate method, on the organized market or over-the-counter (including through straight purchases, or the use of financial instruments or derivatives or the implementation of options strategies).

The entire share buyback program may be implemented through a block purchase.

The authorization is being sought for a period of eighteen months.

Annual Shareholders' Meeting

This year, the Annual Shareholders' Meeting will be an ordinary meeting, since no resolutions are being presented for the granting or renewal of authorizations that can only be approved by an extraordinary meeting. The Annual Shareholders' Meeting will be called for the first time on May 5, 2004 and will be held on second call on:

Friday, May 14, 2004
at 10:30 a.m.
at Palais de la Bourse
Place de la Bourse - 75002 Paris

2004 Outlook

In 2004, Essilor will continue to extend its product ranges and focus on its most recent products. Plans concern:

- The worldwide development of Varilux® Ipseo™ and Crizal® Alizé™ lenses.
- Extension of the range of 1.67 very high-index lenses.
- Rollout of the 1.74 ultra-high index lenses to the entire European network.
- Launch of a new progressive lens for small frames.

The Company will also pursue its initiatives in the sunlens segment, with the development of corrective sunglass lenses for all shapes of frames.

Sales in Germany are expected to be down on 2003, following the abolition of social security reimbursements for lenses, effective January 1, 2004. However, total consolidated sales should grow by around 5% like-for-like, and reported sales will be further boosted by the full-year contribution of the 14 companies acquired in 2003.

The Company intends to continue its targeted acquisition strategy, and also to pursue the productivity drive underway in each business and geographic region.

SOCIAL AND ENVIRONMENTAL POLICY

(Disclosures made in application of the "NRE" Act in France)

The following information mainly concerns Essilor International, the parent company.

EMPLOYEE INFORMATION

Essilor has made five basic commitments to employees:

- To contribute to their personal growth and fulfillment by offering them career opportunities in a global, multi-cultural, decentralized organization.
- To provide a working environment that respects their physical and moral integrity, whatever their origins.
- To treat all employees fairly, in all circumstances.
- To enhance their employability, inside and outside the organization, by facilitating their access to training throughout their career, as well as by increasing their empowerment and responsibilities in order to deepen their experience.
- To help them become shareholders of the Company, by implementing a responsible employee stock ownership policy.

Article 1 a

Number of employees of the parent company: 3,200 permanent employees + 149 employees under fixed-term contracts = 3,349 (total France) + 234 (Essilor Industries) = 3,583. Out of the 149 employees hired under fixed-term contracts, 110 (74%) were students taken on under work-study schemes with qualifications ranging from vocational diplomas to post-graduate degrees.

Number of new hires: 149 permanent employees + 86 employees under fixed-term contracts = 235.

Terminations: no lay-off plans involving more than 9 employees in France were implemented in 2003. 3 employees were laid off following the elimination of their job or because they chose not to accept a change in their employment contract. 25 employees were terminated for disciplinary reasons (poor performance or medical inaptitude).

Overtime: in 2003, employees in France worked a total of 8,116 hours overtime.

Temporary staff and use of subcontractors: in France, 270 temporary employees worked full-time for the Company. Two-thirds of these employees replaced permanent employees on leave of absence and one-third were taken on to cope with surges in the order flow. 52 temporary employees were subsequently hired under permanent contracts.

In addition, 325 employees of subcontractors worked for the Company in 2003. They included 88 facilities maintenance employees, 133 IT engineers, 36 security guards, 20 company restaurant staff, 6 security staff and 42 persons performing other functions.

Article 1 b

Information about lay-off plans and measures to protect jobs, transfer employees to other positions, take back staff previously laid off and support employees who are being terminated: no lay-off plans involving more than 9 employees were carried out in France in 2003. Consequently, it was not necessary to implement any job protection measures.

Article 2

Organization of working hours: the "35-hour week" agreement of March 30, 2000, which came into effect on September 1, 2000, defines the organization of working hours at Essilor.

Working hours: the 1,421 monthly-paid employees work a 36-hour week, the 893 shift-workers work a 33.5-hour week and the 219 hourly-paid employees work a 38.5-hour week (in all cases not including rest periods). Employees in all three categories are also entitled to 6 "RTT" time-off days per year and their average working week, determined on an annual basis, is therefore 35 hours, 32.5 hours and 37.5 hours respectively. The 680 employees whose working time is determined on the basis of days rather than hours work 216 days per year and are entitled to between 9 and 13 "RTT" days off, depending on the year. Senior executives and sales representatives – representing 136 people in total – are not covered by working hours legislation but are entitled to 10 days off per year in addition to their paid vacation. Lastly, 146 employees work part time.

Absenteeism: in 2003, the absenteeism rate was 5.8%. The causes, in declining order of importance, were sick-leave of less than 6 months (75.8%); maternity leave (12%), authorized leaves of absence (5.2%), leaves of absence for personal reasons (2.7%), workplace accidents (2.3%), accidents on the way to or from work (2.0%). Absences for non-work-related obligations were not material.

Article 3

Compensation: the total payroll in 2003 amounted to €118,660,352.

Payroll taxes (other than on profit-related incentive bonuses): €51,320,566.

Compensation increases: average compensation increases – all employee categories combined – stood at 3.5% in 2002 and 2003.

Employee incentive plans: a profit-related incentive bonus plan *(plan d'intéressement des salariés aux résultats de l'entreprise)* and employee stock ownership plans *(plans d'épargne entreprise)* have been set up in France in accordance with the requirements of *Titre IV, Livre IV* of the Labor Code.

Equal treatment of men and women: each year, a report on equal treatment of men and women is prepared by each facility and submitted to the facility's employee representatives *(comité d'établissement)* at the same time as the social report *(bilan social)*. Effective from 2003, in accordance with the new legislation, a report comparing the situations of men and women will be drawn up and presented to employee representatives.

Article 4

Labor relations: in France, the following five trade unions are represented at Essilor: C.F.D.T., C.F.E.-C.G.C., C.F.T.C., C.G.T. and C.G.T.-F.O.

Corporate agreements: in 2003, an addendum to the profit-related incentive bonus scheme agreement was signed.

Article 5

Workplace health and safety: in 2003, Essilor restated its commitment to health and safety at its sites. External audits of workplace health and safety management were performed during the year. In addition, a project was launched to develop, implement and regularly improve workplace health and safety management systems at all production facilities in France and worldwide. The project was kicked off with the issue of a workplace health and safety policy which has as its objective to obtain OHSAS 18001 certification of all sites. One site in France was certified in 2003. During the year, an ergonomics expert joined the corporate health, safety and environment department.

Workplace accidents: in 2003, 40 lost-time accidents and 32 accidents without lost time were reported involving Essilor employees, together with 13 lost-time accidents and 5 accidents without lost time involving temporary staff.

Occupational illnesses: 10 cases of occupational illnesses were reported in France in 2003, all corresponding to musculoskeletal illness ("Table 57" illnesses).

Article 6

Training: : the 2003 training policy focused on group and individual training in skills required by the Company, job-related training, training in new technologies, seminars on organizational changes, and training to maintain employability or to facilitate job mobility.

The 2003 training budget for all French units represented 4.2% of the total payroll. 1,905 Essilor employees in France (57% of the total) participated in at least one training session. Over 3,500 training sessions were organized, representing around 57,000 hours' training. The main training topics were Environmental Protection/Quality/Workplace Health and Safety (11% of training hours, 25% of trainees), Information Technology and Office Systems (15% of training hours, 20% of trainees), Communication/Management Skills (15% of training hours, 15% of trainees), Job-Related Technology and Techniques (15% of training hours, 15% of trainees), Language Skills (15% of training hours, 14% of trainees), and Administration/Sales/Management (7% of training hours, 7% of trainees).

34 trainees attended work-study courses and received certification (16% of training hours).

Article 7

Disabled workers: in 2003, Essilor had 127 disabled employees in France, including 96 administrative and production workers, 25 supervisors and 6 managers.

Article 8

Employee welfare programs: in France in 2003, Essilor paid €4,364,951 to employee benefit plans (health insurance, death/disability insurance) and €2,543,343 to supplementary pension plans.

The Company's statutory contribution to employee travel costs amounted to €1,769,336 and the cost of meal vouchers issued to employees was €876,574.

The total budget awarded to the various Work Councils to finance employee leisure activities was €1,179,663, representing 1.15% of the total payroll, and a further €210,939 were paid to cover the Work Councils' administrative costs. Match-funding payments to the Vacation Vouchers plan covering 691 employees amounted to €430,649. The 0.45% government housing levy came to €435,764. The cost of employee medical check-ups was €246,528. Essilor also supplies optical equipment to employees, according to specific rules, and pays the cost of long-service awards and optical industry long-service awards, adding a further bonus determined according to a set scale. Lastly, the Company pays days off granted to fathers or mothers to take care of a sick child, according to specific rules.

Article 9

Impact on regional employment and development, use of subcontractors, compliance by subsidiaries with the fundamental conventions of the International Labour Organization (ILO): in 2003, Essilor pledged support for the Global Compact initiative launched by the UN Secretary General after the Johannesburg Summit in 2002, confirming its long-standing commitment to the Compact's underlying principles. As a responsible employer, Essilor participates in the development of the regions where its facilities are located, contributing directly to enhancing the skills and quality of life of the men and women employed by the Company, and indirectly to those of their families. More generally, the Company also contributes to the advancement of the people working and living in its host communities.

In 2003, payments to sub-contractors represented 11% of purchases. During the year, the Company revised its general purchasing conditions to include social and environmental considerations.

Essilor and its subsidiaries comply with the fundamental conventions of the International Labor Organization. Compliance is guaranteed through formal procedures, international coordination of human resources on a top-down basis from the highest level in the organization (the Executive Committee) to the regions and individual businesses, and also through various compliance structures.

Essilor's European Dialogue and Information Committee includes representatives from each subsidiary in the European Union countries where the Company conducts direct operations. Lastly, all production facilities manage human resources information according to the same structure as the social report *(bilan social)* in France.

ENVIRONMENTAL INFORMATION

Although Essilor's activities have only a limited effect on the environment, the Company has long taken voluntary action to accurately measure the impact, however small, of its operations, based on ISO 14000.

Article 1

Consumption of natural resources, waste, discharges and nuisances:

Water: 319,288 cubic meters.

Raw materials: the main raw materials used by Essilor in France in 2003 were CR39 monomers, including 700 metric tons for standard-index ophthalmic lenses and 210 metric tons for other-index lenses. The Company also used 425 metric tons of polycarbonate pellets for light, recyclable ophthalmic lenses with high mechanical resistance.

Energy : 64.7 GWh. (Electricity 48.0 GWh, Gas 16.25 GWh, Fuel oil 0.45 GWh).

Selective waste disposal: 80% of Essilor's facilities in France have selective waste disposal systems, in addition to compulsory systems to separate ordinary industrial waste from potentially harmful waste.

Wastewater treatment: all the plants in France treat wastewater before it is released into the environment. Treatment processes range from simple neutralization, decantation, de-oiling, or a combination of these processes, to complete purification stations.

Toxic matter retention: all chemicals are stored in a manner to prevent polluting products from leaking into the soil or the aquatic environment in case of an accident.

Noise: in 2003, Essilor transferred certain departments housed in the Creteil building to Vincennes. A complaint was lodged with the Vincennes city hall by a few people living close to the new building who claimed to be disturbed by the noise generated by the start-up of the air conditioning system during the night. Essilor is closely monitoring the action currently being taken by the building's owner to resolve this problem.

Odors: no complaints concerning odors were received in France in 2003.

Article 2

Biological balance, natural environment, protected species: Essilor's environmental management systems include measures to avoid upsetting the biological balance, or harming the natural environment or protected animal and plant species.

Article 3

Certifications: the three plants in France are ISO 14001-certified (See other ISO 14001 certifications below, under "Article 9").

Article 4

Compliance: Essilor's environmental management systems include measures to guarantee compliance with all applicable environmental laws and regulations.

Article 5

Environmental expenditures: expenditures made in 2003 to prevent any damage to the environment totaled €639,875. This amount concerns the three plants, the research and development center and two prescription lens units, representing a total of six facilities in France.

Article 6

Environmental organization and management systems: the corporate health, safety and environment department provides assistance to the network of local correspondents by telephone, fax and via its intranet site. The objectives of the environmental policies set up at each site in connection with Essilor's ISO 14001 program include communicating actively with employees and educating them in environmental issues. In 2003, implementation of the environmental management system at one of the French sites was filmed and the video was distributed by the human resources network during the "Sustainable Development Week". Annual target-based action plans are drawn up to help prevent and reduce environmental risks. Lastly, despite the very low risk, each site has set up a structure to deal with pollution incidents that could have consequences, however small, on the environment beyond the site perimeter.

Article 7

Provisions and guarantees: Essilor was not required to record any provisions for environmental risks in 2003 or to set up any related guarantees.

Article 8

Indemnities: Essilor has not been required to pay any court-ordered indemnities for environmental damage and is not required to conduct any rehabilitation work.

Article 9

Objectives set for foreign subsidiaries: the main objective for foreign subsidiaries is to comply fully with the applicable regulations. Based on this fundamental principle, Essilor has begun setting up environmental management systems at all its production facilities outside France. Of the eight plants that have obtained ISO 14001 certification, five are located outside France (Brazil, United States, Ireland, Philippines and Thailand) and certification programs are underway at the other sites. All told, four additional facilities worldwide obtained ISO 14001 certification of their environmental management systems in 2003.

A program has been launched to establish workplace health and safety management systems at production facilities outside France. The plant in China, the two sites in the Philippines and the one in Thailand have all earned OHSAS 18001 certification (representing four certified sites outside France and five in total). All told, four facilities worldwide obtained OHSAS 18001 certification of their workplace health and safety management systems in 2003.

In the area of employee stock ownership, employees in the United States and Porto Rico have the opportunity to invest in the Essilor Shareholding Plan and employees in other countries can invest in the Valoptec International Fund. Through these systems, a total of some 6,000 employees worldwide hold Essilor shares.

Chairman's Report on Internal Control

To the shareholders

In application of Article 117 of the "Financial Security Act" (Act no. 2003-706) and Article L.225-37, paragraph 6, of the Commercial Code, I present below my report describing:
- The preparation and organization of the work of the Board of Directors during the year ended December 31, 2003,
- The Company's internal control procedures, and
- Any restrictions on the powers of the Chief Executive Officer decided by the Board of Directors,

in order to help shareholders understand our Company's working processes and methods.

Preparation and organization of the work of the Board of Directors

At its meeting on November 18, 2003, the Board of Directors adopted a set of internal rules governing its operation and incorporating most of the recommendations on corporate governance, together with a Director's Charter.

Frequency of Board meetings

In 2003, the Board of Directors met five times at the Company's headquarters, on the dates set in the timetable drawn up in 2002 (January 30, March 12, June 11, September 10 and November 18, 2003).

Calls to meeting

In accordance with the Board's internal rules, calls to meeting were sent to the directors by mail, at least seven days before each meeting. The Auditors were invited to attend the Board meetings called to review the interim and annual financial statements, as provided for in Article L.225-238 of the Commercial Code.

Information given to directors

For each Board meeting, all the documents needed to inform the directors about the agenda and the matters to be reviewed by the Board were either enclosed with the call to meeting or sent or given to the directors a reasonable period of time before the meeting.

Minutes of Board meetings

The draft minutes of Board meetings were sent to all directors at the latest with the call to the next meeting.

Committees of the Board

In 1997, Essilor set up three Committees of the Board: the Audit Committee, Remunerations Committee and Strategy Committee. The rules governing these Committees' membership and terms of reference are set out in the internal rules adopted on November 18, 2003.

The Audit Committee met on September 8, 2003 to review the interim consolidated financial statements and on March 1, 2004 to review the annual consolidated financial statements. The Chief Financial Officer, the head of Internal Audit and the external Auditors attended both of these meetings, to present the accounts and answer the Committee's questions.

The Remunerations Committee met twice during 2003 and made recommendations concerning the election to the Board and the compensation of executive directors, as well as the granting of management stock options, based on the authorizations given at the Shareholders' Meeting.

The Strategy Committee met three times in 2003, to discuss the budget, the 2003 forecasts, the 5-year business plan and the Company's external growth strategy. In addition, during its meetings, the Committee was informed in detail about the quarterly consolidated results (not published) and discussed business performance and strategies in the United States and Europe with the executives in charge of these regions.

Each Committee reported to the Board on its activities and recommendations.

Matters submitted to the Board and related decisions

The matters examined by the Board during 2003 and the decisions taken covered a wide range of areas, including:
- The Company's business performance.
- Strategic choices.
- The interim and annual financial statements, financial forecasts and projections.
- Employee-related issues.
- Acquisitions and other strategic projects.
- Routine agreements involving directors.
- The amount of guarantees given by the Company.
- Employee share issues and matching payments by the Company.
- Stock option grants.
- The share buyback program.
- Management compensation.
- Allocation of directors' fees.
- Cancellation of 800,000 shares held in treasury stock.
- Issuance of 6,040,212 OCEANE bonds convertible into or exchangeable for new shares.
- Adoption of the Board's internal rules and a Director's Charter.

Additional information is provided in the Corporate Governance section of this reference document.

REPORT ON ESSILOR INTERNATIONAL S.A. INTERNAL CONTROL PROCEDURES

Internal control objectives:

- Ensure that all acts of management, all transactions, and the behavior of all Company employees, comply with the general strategic guidelines established by the Board of Directors, the applicable laws and regulations, and the Company's corporate values, standards and internal rules.
- Ensure that all accounting, financial and management information reported to the Company's Board of Directors, the regulatory authorities, shareholders or the public gives a true and fair view of the Company's business and position.

One of the objectives of a system of internal control is to prevent and manage business, financial and legal risks, including the risk of errors and fraud, to which the Company and its subsidiaries are exposed in France and abroad. However, no system of controls can provide an absolute guarantee that all such risks have been completely eliminated or entirely brought under control.

At Essilor, the system of internal control is underpinned by a culture of frank discussion and integrity, as well as by the Company's core values of trust, a sense of co-destiny, responsiveness, teamwork and consistent encouragement of ethical behavior. These values are instrumental in guaranteeing high standards of internal control.

The charter of the Valoptec association, which is made up of active and retired employees of Essilor, states that the association's purpose is to "promote the adoption by group companies of sound business practices and human resources management policies." The charter upholds the values of respect and trust among individuals. Employees are not asked to sign the charter when they join Essilor, because what it describes is an overall state of mind. The members of Valoptec and other Essilor employees who have invested in the Company together hold around 15% of the voting rights.

Continuous adherence to these values is guaranteed by the stability of the management team and low staff turnover rates throughout the organization.

The Board of Directors and senior management consider that an effective system of internal control is of critical importance. Senior management defines the general principles and ensures that they are fully implemented within the Company. Support is provided by the various staff and line executives who are members of the Executive Committee, based on their respective areas of competence and according to an organization structure by country, by region and by technical area. The Chief Financial Officer and the Vice-President, Legal Affairs, are also members of the Executive Committee.

Overall organization of internal control:

The departments with specific responsibility for internal control are as follows:

- **Internal Audit :** the Internal Audit department reports to the Chairman and Chief Executive Officer. It is organized on a regional basis, with teams covering the Americas, Europe and Asia.
The internal auditors monitor application of Company rules based on an annual program approved by senior management and the Chairman of the Audit Committee, and make recommendations to improve the level of compliance or the effectiveness of internal control systems in the audited units. Their findings and recommendations are presented to the Chairman, the Vice-President responsible for the region concerned, the Chief Financial Officer, the Vice-President, Legal Affairs and the management of the audited unit. The internal auditors are also responsible for ensuring that their recommendations are implemented. The Chairman of the Audit Committee meets periodically with the head of Internal Audit to review the department's activities and obtain an overview of the internal auditors' findings and recommendations.

- **Consolidation :** the Consolidation Department is responsible for preparing quarterly consolidated income statements and balance sheets in accordance with the Company's general policies, based on the accounts of the various subsidiaries as adjusted to comply with Essilor accounting policies. The department also analyzes quarterly accounting flows and balance sheets for each legal entity. Regular reconciliations of statutory and management reporting data help to guarantee the consistency of financial information and also to swiftly identify and resolve any errors or inconsistencies.

- **Management Accounting:** this department is responsible for producing information to support management decisions and for monitoring the monthly results of each entity and business unit. It produces the monthly consolidated management accounts, as well as the consolidated budget, performs monthly variance analyses and checks the consistency of transfer prices. The management accountants report to both line and staff management.

- **Sustainable Development:** this department has been set up to anticipate and warn management about foreseeable changes in the business and the economic, human and environmental consequences of the Company's various initiatives, in order to devise appropriate responses. The department also publishes non-financial information.

- **Workplace Health and Safety:** reporting to Human Resources, this department is responsible for setting up an appropriate organization structure to implement and improve Company-wide policies to prevent risks and achieve high standards of workplace health and safety, as well as high environmental standards.

• **Legal Affairs:** the Legal Affairs department offers advice and assistance to all departments of the Company and its subsidiaries, including help in negotiating and drafting contracts and other legal documents, tracking legal and regulatory changes and managing trademarks and patents. It provides answers to legal questions raised by corporate departments in an international legal and regulatory environment that is both complex and burdensome. It ensures that the Company fulfils its contractual obligations. The insurance department, which is part of Legal Affairs, implements a policy that combines prevention, in the form of regular site visits and audits, with protection, in the form of international insurance programs.

• **Quality:** this department is responsible for establishing and regularly upgrading a consistent and coherent quality system designed to ensure that the products delivered to customers are satisfactory in all respects (product quality, lead time, service and cost).

• **Cash Management:** this department manages the Company's cash position, currency and interest rate hedging programs, financing and liquidity programs, and banking relations. It also provides advice and assistance to subsidiaries on all matters related to cash management and changes in their cash position.

Internal control standards and procedures

The Group Finance Manual (GFM) sets out all the mandatory policies and procedures to be following by all Essilor units and departments such as purchasing, communication, finance, legal affairs, operations, R&D and human resources. The procedures are organized by process, including fixed assets, inventories, sales/receivables, treasury, purchasing, provisions recorded under liabilities/off-balance sheet commitments, tax, R&D and start-up costs, production accounting, commitments, insurance, personnel and human resources, legal affairs and consolidation. The manual is updated annually.

The "Figures" statutory reporting and consolidation system includes a glossary stipulating for each module the information to be input in accordance with Company rules (income statement, balance sheet, notes, treasury, inventory, capital expenditure, definition of flows, definition of business segments).

The Company has numerous information systems to manage, monitor, analyze and control both upstream activities (production/logistics) and downstream activities (prescription/ distribution). In addition, an international intranet charter has been drawn up to coordinate the circulation and sharing of information via the Essilor intranet.

Essilor is included in the FTSE4GOOD Europe sustainable development index.

In France and the United States, a compliance manual has been issued to help prevent any form of illegal discrimination, thereby strengthening vigilance against any situation contrary to the Company's fundamental values.

17 plants are ISO 9001-certified, 10 plants are also ISO 14001-certified and 5 are OHSAS 18001-certified.

The Company has drawn up general conditions or sale and purchase, a code governing stock market ethics and procedures dealing with commitments.

Description of internal control systems

Internal controls are based on an organization structure and specific methodologies. They concern all Essilor entities and are monitored by the individuals or structures responsible for control activities, in accordance with Company standards and procedures.

Each year, the Company's main risk exposures (market risk, production risk, environmental risk) are analyzed in connection with the preparation of the rolling 5-year business plan. The overall risk management strategy is developed based on analyses performed by each department of the specific risks associated with its activities. The Company is capable of reacting swiftly to any change of circumstances or any incident that could severely affect its ability to fulfill its objectives, by adjusting its overall strategy or the strategy followed in a given area. At local level, identifying risks is the responsibility of the regional Vice-Presidents and the management of the subsidiaries. All information about risks and the related protections is reported to the members of the Executive Committee.

The Group comprises some 160 legal entities, the majority of which are direct subsidiaries of the parent company. Levels of authority and accountability are clearly defined for each management level, with very strong cross-functional relations. Corporate functions, such as management accounting, legal affairs and human resources, have a dual reporting relationship, with local management and with the corporate Vice President who heads the department concerned. On the operations side, each plant manager reports to the regional production director who in turn reports to the Vice-President, Operations. On the sales side, the manager of each subsidiary reports to the regional Vice-President. All of the regional Vice-Presidents are members of the Executive Committee.

The various reporting packages and the various controls performed by outside organizations (on a monthly or quarterly basis), help the Company to monitor and control the activities of subsidiaries in the areas of finance, business activities, workplace accidents, workplace health and safety audits, APAVE inspections, ISO certification, sustainable development, logistics (monthly reporting), insurance claims, other claims, etc.

Internal control procedures for the production and processing of financial and accounting information

The budgeting process begins in July, with significant input from the regional units, which provide analyses of transaction volumes between the central marketing unit, the logistics unit and the regions. Budget objectives and guidelines are issued by Essilor senior management in September, and are taken into account to prepare each entity's budget. The management of each entity presents the entity's budget, together with a description of the entity's strategy for the coming year, to Essilor senior management or finance management at the budget review meetings held in November and December. The consolidated budget is produced at the end of November and the final budget is issued in December. The Management Accounting team plays a major role in the process, ensuring that all budgets are prepared on a consistent basis taking into account the Company's guidelines for each business area.

Actual performance is analyzed on a monthly basis via the Figures reporting system, which is used not only to perform management analyses but also for the statutory consolidation. All entities are managed by the system, including entities that are not consolidated.

For statutory consolidation purposes, balance sheet data are reported on a quarterly basis, in addition to the monthly reporting. The Consolidation department checks the figures entered in the system and ensures that they comply with Essilor accounting policies.

The aims of consolidation procedures are to:

- Guarantee compliance with the applicable rules (IAS, Company policies, AMF guidelines, etc.) through the implementation of general procedures and the issuance of specific consolidation instructions to the various entities.
- Provide assurance concerning the reliability of financial information, through the execution of controls programmed into the system or performed by the various Finance departments (management accounting, consolidation, treasury) within the required timeframes.
- Guarantee data integrity through high-level systems security.

The procedures for monitoring off-balance sheet commitments and assets are included in the Group Finance Manual. The procedures stipulate the types of commitments to be recorded on- and off-balance sheet. Full information about these commitments is provided by the reporting system.

All of the procedures set out in the Group Finance Manual apply to all Essilor companies, whether or not they are consolidated, and the internal auditors' work programs include checking that the procedures are implemented. The external Auditors review accounting and internal control systems in order to plan their audit engagements and determine their audit approach. The Audit Committee meets twice a year to review the annual and interim financial statements. The meetings are attended by the Chief Financial Officer and the external Auditors, who present the accounts and discuss with the Committee all significant transactions and the main accounting options selected to address potential risks.

Lastly, the external Auditors are responsible for expressing an opinion as to whether the financial statements have been properly prepared and give a true and fair view of the assets and liabilities, financial position and results of operations of Essilor, in accordance with generally accepted accounting principles.

Future developments

In 2003, the Internal Audit department conducted a review of the Company's internal control environment, based primarily on a questionnaire sent to all members of senior management, the Executive Committee and the Committees of the Board. Future phases in the project include assessing the adequacy of internal controls and procedures at the level of Essilor and its subsidiaries.

The Company intends to pursue its drive to steadily improve the quality and documentation of the system of internal control. Improvement projects currently under consideration concern the methods used to formally analyze risks across all businesses, improvements in information access security, and, possibly, an increase in the resources assigned to the Internal Audit department.

POWERS OF THE CHIEF EXECUTIVE OFFICER

No restrictions have been placed on the powers of the Chief Executive Officer.

Charenton, March 3, 2004

Xavier Fontanet

STATUTORY AUDITORS' REPORT ON THE CHAIRMAN'S SPECIAL REPORT

In our capacity as Statutory Auditors of Essilor International (the Company) and as required by the final paragraph of Article L.225-235 of the Commercial Code, we hereby present our report on the report prepared by the Chairman of the Board of Directors of the Company in accordance with Article L.225-37 of the Commercial Code for the year ended December 31, 2003.

Under the responsibility of the Board of Directors, the Company's management is required to define and implement adequate and efficient internal control procedures. In his report, the Chairman of the Board of Directors is required to comment on the conditions applicable for the preparation and organization of the work carried out by the Board of Directors and the internal control procedures implemented within the Company.

Our responsibility is to report to shareholders our comments on the information and representations contained in the Chairman's report concerning the internal control procedures related to the preparation and processing of accounting and financial information.

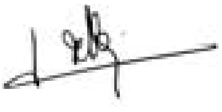
In accordance with the professional guidelines applicable in France, we have examined the objectives and general organization of the Company's internal control system and the internal control procedures covering the preparation and processing of accounting and financial information, as described in the Chairman's report.

Based on our procedures, we have no comments to make on the description of the Company's internal control procedures covering the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors, prepared in accordance with the final paragraph of Article L.225-37 of the Commercial Code.

Paris, March 12, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit
Liliane Tellier



Cabinet Dauge et Associés
Gérard Dauge

CONSOLIDATED FINANCIAL STATEMENTS

KEY FINANCIAL DATA, YEAR ENDED DECEMBER 31, 2003

(€ millions, except for per share data)	**2003**	2002	2001
INCOME STATEMENT			
Sales	**2,116**	2,138	2,070
Operating income	**365**	341	311
Pre-tax income after non-operating items	**316**	278	233
Net income	**200**	182	143
Basic earnings per share*	**1.98**	1.82	1.43
Diluted earnings per share*	**1.95**	1.81	1.43
BALANCE SHEET			
Capital stock	**36**	36	35
Shareholders' equity	**1,206**	1,212	1,207
Net debt	**97**	163	321
Fixed assets, net	**1,049**	1,088	1,199
Total assets	**2,495**	2,158	2,149

** After 10-for-1 stock-split in 2001.*

Consolidated Income Statement, year ended December 31, 2003

(€ thousands)	Note	2003	2002	2001
Sales	2	**2,116,419**	2,138,269	2,070,379
Cost of sales		**(834,175)**	(861,757)	(896,781)
Other operating expenses		**(917,391)**	(935,930)	(862,999)
Operating income		**364,853**	340,582	310,599
Net interest expense	4	**(33,518)**	(36,670)	(48,298)
Non-operating expense, net	5	**(14,961)**	(26,183)	(29,007)
Pre-tax income after non-operating items		**316,374**	277,729	233,294
Corporate income tax	6	**90,319**	78,289	69,218
Net income from consolidated companies		**226,055**	199,440	164,076
Net income of companies accounted for by the equity method		**(2,880)**	6,637	2,647
Amortization of goodwill	8	**22,517**	23,670	23,927
Minority interests		**327**	54	220
Net income		**200,331**	182,353	142,576
Earnings per common share (€)*		**1.98**	1.82	1.43
Weighted average number of common shares* (thousands)		**101,099**	100,141	99,049
Diluted earnings per share (€)*		**1.95**	1.81	1.43
Diluted weighted average number of common shares* (thousands)		**104,331**	100,667	99,833

** Earnings per share and the number of shares have been calculated after the 10-for-1 stock-split carried out in 2001.*

Consolidated Statement of Cash Flows, year ended December 31, 2003

(€ thousands)	2003	2002	2001
Net income	**200,658**	182,406	142,796
Income from companies accounted for by the equity method, net of dividends received	**4,034**	(6,637)	(2,367)
Depreciation, amortization and provisions	**149,319**	159,596	146,007
Cash flow	**354,011**	335,365	286,436
Change in provisions for contingencies and charges	**10,381**	14,739	4,450
Gains and losses on asset disposals	**(1,478)**	(1,892)	16,131
Investment grants written back to income	**26**	(117)	(72)
Change in deferred taxes	**3,111**	11,378	(3,787)
Decrease (increase) in inventories	**15,670**	23,147	2,887
Decrease (increase) in receivables and deferred charges	**(38,362)**	3,741	(38,961)
Increase (decrease) in payables and deferred income	**47,358**	(8,801)	15,356
Increase (decrease) in accrued interest	**1,451**	(1,184)	(664)
Net cash provided by operations	**392,168**	376,376	281,776
Capital expenditures	**(150,211)**	(144,817)	(127,456)
Disposals of assets	**10,344**	4,802	45,107
Acquisitions of shareholdings and new loans extended	**(150,286)**	(37,214)	(37,112)
Repayments of loans			1,034
Net cash used by investment activities	**(290,153)**	(177,229)	(118,427)
Issuance of shares	**26,437**	40,350	25,988
Dividends paid to:			
- Essilor SA shareholders	**(58,838)**	(46,198)	(41,153)
- Minority shareholders in subsidiaries	**(304)**		
New borrowings raised/(repayment of borrowings)	**309,346**	(5,062)	(135,991)
Impact of changes in scope of consolidation	**21,103**	6,085	(12,184)
Net cash provided/(used) by financing activities	**297,744**	(4,825)	(163,340)
Change in cash and cash equivalents	**399,759**	194,322	9
Cash and cash equivalents at beginning of year	**207,765**	56,467	55,988
Impact of exchange rate changes on cash and cash equivalents	**(26,976)**	(43,024)	470
Cash and cash equivalents at end of year	**580,548**	207,765	56,467
Marketable securities	**516,622**	189,483	22,131
Cash	**94,999**	62,978	73,987
Short-term bank loans and overdrafts	**(31,073)**	(44,696)	(39,651)

Consolidated Balance Sheet at December 31, 2003

Assets

(€ thousands)	Note	2003	2002	2001
Intangible assets	7	**115,787**	124,667	132,389
Goodwill	8	**307,934**	292,008	356,767
Property, plant and equipment	9	**512,978**	526,626	572,026
Fixed assets, net		**936,699**	943,301	1,061,182
Investments in companies accounted for by the equity method		**69,175**	94,616	77,315
Other long-term financial investments	11	**43,398**	50,176	60,328
Other non-current assets		**112,573**	144,792	137,643
Inventories and work in progress	12	**309,569**	325,239	348,386
Advance payments to suppliers		**7,035**	8,250	10,135
Operating receivables	12	**441,250**	395,735	399,795
Deferred tax assets	6	**40,404**	43,515	54,893
Other receivables		**18,863**	26,830	27,204
Capital subscribed, called, unpaid				
Marketable securities	14	**516,622**	189,483	22,131
Cash		**94,999**	62,978	73,987
Prepayments and other assets		**15,868**	13,955	11,377
Current assets		**1,444,610**	1,065,985	947,908
Deferred charges	13	**1,322**	3,712	2,665
Total assets		**2,495,204**	2,157,790	2,149,398
Commitments received	19	**3,293**	2,980	18,894

LIABILITIES AND SHAREHOLDERS' EQUITY

(€ thousands)	Note	2003	2002	2001
Capital stock		**35,959**	35,939	35,377
Additional paid-in capital		**194,091**	189,674	149,888
Reserves		**1,016,072**	892,486	795,895
Treasury stock		**(47,459)**	(45,212)	(27,498)
Cumulative translation adjustment		**(192,700)**	(42,817)	111,127
Net income		**200,331**	182,353	142,576
SHAREHOLDERS' EQUITY	15	**1,206,294**	1,212,423	1,207,365
Minority interests	16	**2,989**	1,728	1,724
Minority interests in income	16	**326**	54	220
TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTERESTS		**1,209,609**	1,214,205	1,209,309
Provisions for pensions and other post-retirement benefits		**57,476**	53,386	49,190
Provisions for contingencies and charges		**37,248**	40,166	30,195
TOTAL PROVISIONS	17	**94,724**	93,552	79,385
Borrowings	18	**709,034**	415,551	417,421
Advances and deposits received from customers		**10,172**	3,523	3,484
Operating liabilities		**422,672**	397,044	395,344
Miscellaneous liabilities		**44,500**	31,247	42,245
Deferred income		**4,493**	2,668	2,210
TOTAL LIABILITIES		**1,190,871**	850,033	860,704
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,495,204**	2,157,790	2,149,398
Commitments given	19	**150,310**	123,339	130,486

Notes to the Consolidated Financial Statements for the year ended December 31, 2003

Note 1: accounting policies

1.1. General

The consolidated financial statements have been prepared in accordance with French generally accepted accounting principles, including standard CRC 99-02.

Figures in the tables are in thousands of euros, unless stated otherwise.

Change of presentation of the income statement

Effective from 2003, the income statement is presented by function and not by type of income and expense, as was the case in prior years.

The 2002 and 2001 income statements have been restated on the same basis, to permit meaningful comparisons. The change of presentation has no impact on the reported amounts of sales and operating income. The 2002 and 2001 income statements based on the former presentation are as follows:

(€ thousands)	2002	2001
Sales	2,138,269	2,070,379
Production transferred to inventory	41,065	390
Production of assets for own use	37,458	22,286
Production	2,216,792	2,093,055
Purchases of materials and change in inventory	466,234	425,321
Other purchases	502,144	470,391
Added value	1,248,414	1,197,343
Taxes, other than income tax	35,127	41,425
Personnel expenses	738,175	723,213
Gross operating income	475,112	432,705
Depreciation, amortization and provisions, net	(127,515)	(117,597)
Other income (expenses), net	(7,015)	(4,509)
Operating income	340,582	310,599

First time adoption of IFRS in 2005

Along with all other European quoted companies, for the preparation of its 2005 consolidated financial statements, Essilor will be required to comply with all the International Financial Reporting Standards (IFRS) applicable as of January 1, 2005. The adjustments to the opening balance sheet at January 1, 2004 resulting from the adoption of IFRS will be dealt with in accordance with the transition rules contained in IFRS 1.

The main impacts on the opening balance sheet at January 1, 2004 (and January 1, 2005 for standards IAS 32 and IAS 39) are described below. They result either from the first time adoption of existing standards or the adoption of new or revised standards applicable as of January 1, 2005.

- Intangible assets: intangible assets include trade marks and market shares recognized in connection with business combinations carried out after January 1, 1995. These intangible assets are not amortized. In application of IAS 38 (Intangible assets) and IAS 22 (Business combinations) some of these assets will be included in goodwill. This is the case, in particular, of market shares which do not fulfill the identifiability criteria of IAS 38. In addition, based on the current exposure draft on business combinations, goodwill will not be amortized but will be tested for impairment annually. Based on the valuations already performed, the Group does not expect the impact of the change in accounting treatment of intangible assets to be material.
- Convertible bonds: in 2003, Essilor issued bonds convertible into new shares or exchangeable for existing shares (OCEANEs). IAS 32 requires the portion of the issue price corresponding to the value of the conversion option on the issue date to be included in equity. In the 2003 financial statements, the value of the option is included in borrowings.
- Financial instruments: currency and interest rate hedges are not accounted for in accordance with IAS 39 which requires:

- The recognition of derivative instruments in the balance sheet, at fair value.
- The recognition in the income statement of gains and losses on fair value hedges in parallel with the recognition of mark-to-market gains and losses on the hedged assets and liabilities.
- The recognition in equity of the effective portion of gains and losses on cash flow hedges.

The accounting policy applied by the Group for hedging transactions is described in note 1-10.

- Provisions for pensions and other post-employment benefits: under the current provisions of IFRS 1, Essilor may elect to recognize against equity all cumulative deferred actuarial gains and losses for all defined benefit plans at the opening IFRS balance sheet date.
- Cumulative translation adjustments: Essilor may elect to recognize all translation adjustments arising on the translation of the financial statements of foreign entities in accumulated profits or losses at the opening IFRS balance sheet date.
- Share-based payments: based on the current version of the exposure draft on share-based payments, the Group will be required to recognize as an expense the value of employee stock options and any discount to market price granted on employee share issues.

1.2. Consolidation methods

Significant companies over which Essilor International has direct or indirect exclusive control are fully consolidated.

Jointly-controlled companies are consolidated by the proportional method.

Companies in which Essilor International holds more than 20% of the voting rights and/or exercises significant influence, directly or indirectly, are accounted for by the equity method.

The consolidation criteria are described in Note 2: Changes in scope of consolidation.

The results of subsidiaries acquired or sold during the year are included in the consolidated income statement as from the date of acquisition or up to the date of disposal. In the case of a change in percent interest during the year, the company's share of income is calculated by applying:

- the former percentage to income earned up to the date on which the company's interest changes
- the new percentage to income earned between that date and the year-end.

If Essilor International does not take up its share of a capital increase by a subsidiary, leading to a dilution of its percent interest, the operation is treated as a sale and the change in the share of the company's equity is recorded under non-operating income and expense.

All intercompany profits and transactions are eliminated in consolidation.

1.3. Consolidated statement of cash flows

In the statement of cash flows:

- Cash flow is defined as the sum of net income of fully and proportionally consolidated companies, depreciation, amortization and provision expenses (other than provisions against current assets) and dividends received from companies accounted for by the equity method.
- The impact of changes in exchange rates on cash and cash equivalents corresponds to the impact of changes between opening and closing exchange rates.

1.4. Foreign currency translation

Financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries have been translated at year-end rates in the case of the balance sheet and at average annual rates in the case of the income statement. The financial statements of branches have been translated at year-end rates in the case of the balance sheet and at hedging rates in the case of the income statement.

Main exchange rates (against the euro)

	Year-end rate			Average rate		
	2003	2002	2001	**2003**	2002	2001
CAD	**1.62**	1.65	1.41	**1.59**	1.49	1.38
GBP	**0.70**	0.65	0.61	**0.69**	0.63	0.62
JPY	**135.05**	124.39	115.34	**131.76**	118.08	108.81
USD	**1.26**	1.05	0.88	**1.14**	0.95	0.89

The differences between shareholders' equity translated at year-end rates and shareholders' equity based on historical cost, and differences arising from the use of average annual rates to translate subsidiaries' income or loss, have been recorded under "Cumulative translation adjustments" in consolidated shareholders' equity. When a foreign subsidiary is sold or liquidated, the corresponding cumulative translation adjustment is written off to the income statement.

In the case of companies doing business in highly inflationary economies (inflation rate above 100% over 3 years), non-monetary assets have been translated at historical rates of exchange and monetary assets at year-end exchange rates. Income or loss has been translated at the average annual exchange rate, except for non-monetary items which have been translated at the historical rate. Translation differences are recorded in the income statement.

1.5. Goodwill

Consolidation goodwill corresponds to the excess of the cost of acquisition of investments in consolidated companies over Essilor International's share in the fair value of net assets at the date of acquisition.

As allowed under generally accepted accounting principles, fair value adjustments to the net assets acquired are finalized during the year following the date of acquisition.

Goodwill is amortized or written back on the basis of a plan that reflects, as reasonably as possible, the development prospects at the time of the acquisition and over a period not to exceed 20 years.

Goodwill is tested for impairment at each year-end, using the discounted cash flows method.

1.6. Negative equity

If a consolidated company has negative equity at the end of the year, minority interests are treated as being attributable to Essilor International unless the minority shareholders are liable for their share of the losses.

1.7. Revenue recognition

Sales correspond to revenues derived from the sale of products and services, net of customer discounts.

1.8. Other operating expenses

Other operating expenses consist mainly of:

- Distribution expenses
- Selling expenses
- Research, development and engineering expenses
- General and administrative expenses

In 2003, selling expenses – corresponding to marketing costs, the cost of the sales force and sales administration expenses – amounted to €367 million.

Research costs are expensed as incurred. Development costs are also expensed in cases where they do not fulfill all of the criteria for recognition in the balance sheet. In 2003, research and development costs, including engineering costs, totaled €104 million (€87 million in 2002).

1.9. Net interest expense

Interest income and expense are recognized in the period in which they are earned or incurred.

1.10. Foreign currency receivables and payables

Foreign currency receivables and payables are converted at year-end exchange rates or hedging rates. Conversion gains and losses are included in the income statement.

1.11. Financial instruments

Financial instruments are used only to hedge risks on commercial transactions and identified foreign currency receivables and payables. They include forward sales of foreign currencies (or forward purchases of euros by foreign subsidiaries) and currency options. The company also uses interest rate options in certain circumstances.
The company uses financial instruments solely for hedging purposes. Gains and losses on financial instruments used as hedges are determined and accounted for on a symmetrical basis with the loss or gain on the hedged item.

1.12. Corporate income tax

In accordance with IAS 12, deferred taxes are recorded by the liability method on temporary differences between the book value of assets and liabilities and their tax basis.
Deferred tax assets are recognized only if their recovery is considered probable.
Deferred taxes recorded by Essilor's French companies have been calculated at a tax rate of 35.44% for 2003, 2002 and 2001.

1.13. Property, plant and equipment

Property, plant and equipment are stated at cost.
Assets acquired under finance leases resulting in a transfer of the risks and benefits related to the leased asset are recorded as an asset and depreciated by the method described below. A debt in the same amount is recorded as a liability.

Depreciation

Property, plant and equipment are depreciated by the straight-line method over their estimated useful lives.

The main useful lives are as follows:

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

1.14. Intangible assets

Intangible assets correspond primarily to purchased goodwill, trademarks, concessions, patents and licenses.
Purchased goodwill and trademarks correspond to part of the excess of the cost of acquisition of investments over the company's share in net assets acquired. They are not amortized.
The value of purchased goodwill and trademarks is reviewed annually, based on the projections made at the time of acquisition, and provision is made in the case of any impairment in value.
Other intangible assets are stated at cost and are amortized by the straight-line method over 3 to 5 years.

1.15. Inventories and work in progress

Inventories are valued at weighted average cost.
Provisions are recorded against inventories, taking into account market prices, sales prospects and the risk of obsolescence.

1.16. Provisions for impairment in value of receivables

Statistical provisions are recorded in addition to specific provisions based on the age of the receivables. The write-down rate is gradually increased so that receivables that are more than 12 months past-due are written down in full.

1.17. Pensions and other post-retirement benefits

Depending on regulations and practices that may be applicable in each country, the obligations of Essilor companies for pensions, early-retirement benefits and retirement indemnities under defined benefit plans are provided for on an actuarial basis.

The amount of these obligations, corresponding to the vested rights of active and retired employees, is determined by the projected unit credit method, based on estimated end-of-career salary levels. The actuarial assumptions used differ depending on the country (discount rate, inflation rate) and the company (staff turnover rates, rate of future salary increases). The discount rate corresponds to the prime interest rate in the country concerned.

In cases where all or part of the obligation is funded under an external plan, the provision recorded corresponds to the difference between the projected benefit obligation and the fair value of the plan assets.

In certain circumstances, in the case of a change in actuarial assumptions or a plan amendment or the establishment of a new plan, the gain or loss is amortized on a straight-line basis over the remaining service period of the employees concerned.

1.18. Accruals

Accruals include prepayments and deferred charges.

NOTE 2: CHANGES IN SCOPE OF CONSOLIDATION

The consolidated financial statements include the financial statements of all entities, including holding and portfolio management companies, that satisfy one of the following two criteria:
- annual sales of over €3 million
- or tangible assets in excess of €9 million.

Newly-consolidated companies

Company	Country	Consolidated from	Consolidation method	% interest	% consolidated
Rupp & Hubrach Group	Germany	October 1, 2003	Full	100.00	100.00
Aries Optical Ltd*	Canada	January 1, 2003	Full	100.00	100.00
Custom Surface	Canada	April 1, 2003	Full	100.00	100.00
Morrison Optical	Canada	February 1, 2003	Full	100.00	100.00
OPSG Ltd	Canada	August 1, 2003	Full	100.00	100.00
Optique de l'Estrie	Canada	September 1, 2003	Full	100.00	100.00
Chemilens	China	February 1, 2003	Proportional	42.10	50.00
Chemiglas	S. Korea	February 1, 2003	Proportional	41.23	50.00
Essilor Korea Co. Ltd	S. Korea	February 1, 2003	Proportional	50.00	50.00
Nassau Lens Co. Inc. Group	United States	July 1, 2003	Full	100.00	100.00
OMNI	United States	September 1, 2003	Full	100.00	100.00
Optical Suppliers Inc. (Hawaii)	United States	July 1, 2003	Full	80.00	100.00
Speciality Lens Corp.	United States	March 1, 2003	Full	100.00	100 00
Stereo Optical*	United States	January 1, 2003	Full	100.00	100.00
Jacques Denis*	France	January 1, 2003	Full	51.00	100.00
BNL Group	France	October 1, 2003	Full	100.00	100.00
Plasticplus	Singapore	January 1, 2003	Full	80.00	100.00

** Companies acquired in prior years, consolidated for the first time in 2003.*

Companies removed from the scope of consolidation

Essilor Optik Sanayi Ticaret S.A. (Turkey) was removed from the scope of consolidation effective January 1, 2003, after having been placed in liquidation.

Changes of consolidation method

VisionWeb, which was previously proportionally consolidated, has been accounted for by the equity method as from January 1, 2003 due to the dilution of Essilor's interest to 45.57% at December 31, 2003 from 49.97% at the previous year-end, as a result of share issues not taken up by Essilor.

In 2002, VisionWeb's contribution consisted solely of non-operating expenses in the amount of €6.1 million.

Other changes

In 2003:
- Following the acquisition of additional shares in December 2003, the Group's percentage interest in Optikot (Brazil) increased to 100% at December 31, 2003 from 50.36% at the previous year-end.

In 2002:
- The Bacou-Dalloz Group carried out a share issue not taken up by Essilor, which had the effect of reducing the Group's interest to 15.15% at December 31, 2002 from 18.61% at December 31, 2001.

In 2001:
- BBGR United Kingdom was fully consolidated as from July 1, 2001.

NOTE 3: INFORMATION BY GEOGRAPHIC AREA

Sales

(€ millions)	2003	2002	2001
By geographic area			
Europe	**1,048**	973	896
North America	**869**	971	980
Rest of world	**199**	194	194
TOTAL	**2,116**	2,138	2,070
By activity			
Corrective lenses*	**1,985**	2,010	1,951
Other*	**131**	128	119
TOTAL	**2,116**	2,138	2,070

** 2002 and 2001 data have been restated to permit direct comparisons with 2003.*

Contribution to net income

(€ millions)	2003	2002	2001
By geographic area			
Europe	**132**	118	87
North America	**47**	37	16
Rest of world	**22**	27	40
TOTAL	**200**	182	143

Acquisitions of intangible assets and property, plant and equipment

(€ millions)	2003	2002	2001
By geographic area			
Europe	**67**	59	65
North America	**42**	52	38
Rest of world	**40**	35	23
TOTAL	**149**	146	126

Amortization and depreciation of intangible assets and property, plant and equipment

(€ millions)	2003	2002	2001
By geographic area			
Europe	**533**	476	446
North America	**263**	275	294
Rest of world	**128**	117	111
TOTAL	**924**	868	851

Fixed assets and total assets

(€ millions)	2003 Fixed assets*	2003 Total assets	2002 Fixed assets*	2002 Total assets	2001 Fixed assets*	2001 Total assets
By geographic area						
Europe	**298**	**1,432**	242	1,016	244	842
North America	**484**	**744**	552	841	663	989
Rest of world	**155**	**320**	149	301	154	319
Total	**937**	**2,495**	943	2,158	1,061	2,149

** Excluding financial investments.*

Provisions for contingencies and charges and current liabilities

(€ millions)	2003 Provisions for contingencies and charges	2003 Borrowings and operating liabilities	2002 Provisions for contingencies and charges	2002 Borrowings and operating liabilities	2001 Provisions for contingencies and charges	2001 Borrowings and operating liabilities
By geographic area						
Europe	**70**	**1,030**	66	661	51	648
North America	**22**	**99**	25	121	24	132
Rest of world	**3**	**62**	3	68	4	81
Total	**95**	**1,191**	94	850	79	861

Note 4: net interest expense

Income/(expense)

	2003	2002	2001
Interest expense	**(24,143)**	(25,975)	(35,681)
Interest income	**12,587**	10,835	7,784
Net cash discounts	**(19,310)**	(18,016)	(17,000)
Dividend income	**1,866**	3,733	168
Impairment of investments in non-consolidated subsidiaries	**(3,923)**	(8,502)	(530)
Exchange gains and (losses)	**(1,044)**	1,196	(3,176)
Other	**449**	58	137
Total	**(33,518)**	(36,670)	(48,298)

Note 5: non-operating income and expense

Income/(expense)

	2003	2002	2001
Restructuring costs and provisions	**(12,328)**	(25,745)	(6,850)
Provisions for other contingencies and charges	**(1,206)**	(1,071)	(824)
Income and (losses) related to prior years	**300**	(1,206)	86
Gains/(losses) on asset disposals, net	**1,508**	(1,040)	(15,915)
Other income/(expense), net	**(3,235)**	2,879	(5,504)
Total	**(14,961)**	(26,183)	(29,007)

Non-operating expense related to VisionWeb in 2002 and 2001 includes:
- Essilor's share of the company's start-up losses for €6.1 million in 2002 (€9.9 million in 2001)
- Dilution gains resulting from share issues to outside investors, for €1.9 million in 2001.

In 2003, VisionWeb was accounted for by the equity method.

NOTE 6: CORPORATE INCOME TAX

Tax charge/(benefit) for the period

	2003	2002	2001
Current taxes	**93,004**	73,308	73,414
Deferred taxes	**(2,685)**	4,981	(4,196)
TOTAL	**90,319**	78,289	69,218

Analysis of current taxes

(as % of pre-tax earnings)	2003	2002	2001
Theoretical rate of taxation	**35.4**	35.4	36.4
Impact of differentials in tax rates applicable to foreign subsidiaries	**(5.1)**	(7.7)	(5.9)
Impact of items taxed at reduced rates and of permanent differences between income calculated for financial reporting and tax purposes	**(1.8)**	0.5	(0.8)
Effective tax rate	**28.5**	28.2	29.7

Change in deferred taxes recorded in the balance sheet

The change in deferred taxes (assets) recorded in the balance sheet breaks down as follows:

	2003	2002	2001
AT JANUARY 1	**43,515**	54,893	51,106
Additions	**(10,312)**	(8,141)	(6,825)
Reversals	**13,098**	3,639	11,155
Changes in scope of consolidation, other movements and translation adjustment	**(5,897)**	(6,876)	(543)
AT DECEMBER 31	**40,404**	43,515	54,893

Components of deferred taxes

	2003	2002	2001
Elimination of intercompany profits included in inventory	20,613	19,533	18,424
Effect of differences in depreciation and amortization periods	(8,301)	(8,915)	(9,121)
Non-deductible provisions	12,680	16,808	16,728
Other	15,412	16,089	28,862
TOTAL	**40,404**	43,515	54,893

Other deferred taxes include various temporary differences resulting from other income or expenses that are temporarily non-deductible or taxable, various adjustments to the local statutory accounts to comply with Group policies (capitalization of assets under finance leases, elimination of provisions recognized for tax purposes, etc.), as well as deferred tax assets corresponding to tax loss carryforwards (mainly at the level of the tax group).

Tax consolidation

Essilor, BBGR, Optim, VIP (not consolidated), Invoptic, Novisia, Varilux University (not consolidated), OSE (not consolidated) and Essidev file a consolidated tax return. The tax is paid by the parent company of the tax group. In 2003, the companies in the tax group did not incur any tax losses and therefore no tax benefit was generated. In 2002 and 2001, tax benefits corresponding to the utilization of tax losses amounted to €0.2 million and €0.3 million respectively.

NOTE 7: INTANGIBLE ASSETS

	At January 1	Changes in scope and other	Acquisitions	Disposals	Translation adjustment	Amortization and provisions	At December 31
2003							
Purchased goodwill	64,446	269	115	0	(10,494)		54,336
Other intangibles*	117,592	1,109	19,747	3,344	(9,439)		125,665
GROSS VALUE	**182,038**	**1,378**	**19,862**	**3,344**	**(19,933)**		**180 001**
Amortization	57,371	700	0	3,245	(3,263)	12,651	64,214
NET	**124,667**	**678**	**19,862**	**99**	**(16,670)**	**(12,651)**	**115,787**

** Including concessions, patents and licenses in the amount of €94,959 thousand at December 31, 2003.*

2002							
Purchased goodwill	76,323	45	0	0	(11,922)		64,446
Other intangibles*	104,729	2,163	24,148	6,015	(7,433)		117,592
GROSS VALUE	181,052	2,208	24,148	6,015	(19,355)		182,038
Amortization	48,663	(816)	0	5,533	(2,912)	17,969	57,371
NET	132,389	3,024	24,148	482	(16,443)	(17,969)	124,667

** Including concessions, patents and licenses in the amount of €98,644 thousand at December 31, 2002.*

2001							
Purchased goodwill	72,486	0	0	24	3,861		76,323
Other intangibles	89,956	6,578	12,839	5,216	572		104,729
GROSS VALUE	162,442	6,578	12,839	5,240	4,433		181,052
Amortization	41,613	(241)		5,011	656	11,646	48,663
NET	120,829	6,819	12,839	229	3,777	(11,646)	132,389

Purchased goodwill corresponds mainly to the values attributed to the trademarks and market shares of two American companies, Omega (renamed Essilor Laboratories of America Inc., Florida) and Gentex Optical Inc.

NOTE 8: GOODWILL

	At January 1	Changes in scope and acquisitions	Disposals	Translation adjustment	Amortization and provisions	At December 31
2003						
GROSS VALUE	**427,960**	**77,344**	**(62)**	**(55,963)**		**449,279**
Amortization	135,952	(1,528)	0	(15,594)	22,515	141,345
NET	**292,008**	**78,872**	**(62)**	**(40,369)**	**(22,515)**	**307,934**
2002						
GROSS VALUE	488,390	4,479	(2,217)	(62,692)		427,960
Amortization	131,623	0	(876)	(16,794)	21,999	135,952
NET	356,767	4,479	(1,341)	(45,898)	(21,999)	292,008
2001						
GROSS VALUE	515,337	2,610	(48,319)	18,762		488,390
Amortization	115,890	0	(10,749)	2,667	23,815	131,623
NET	399,447	2,610	(37,570)	16,095	(23,815)	356,767

In 2003, increases in goodwill mainly concerned acquisitions in France (BNL Group), Germany (Rupp & Hubrach Group) and the United States (Nassau Group, Specialty Lens Corp., Optical Suppliers Inc. Hawaii, Omni and Stereo Optical).

In 2002, "changes in scope and acquisitions" consisted mainly of goodwill on the acquisitions of Optifacts and the CSC laboratory assets.

In 2001, goodwill written off on disposals primarily concerned the contact lens business. Goodwill recognized on acquisitions in 2001 mainly concerned the acquisition of additional shares in Bacou-Dalloz.

A significant proportion of goodwill represents acquisitions realized by Essilor of America in the United States. Consequently, translations adjustments for years 2002 and 2003 mainly reflect the fall in the dollar exchange rate.

Net goodwill breaks down as follows by geographic area:

	2003	2002	2001
Europe	**49,544**	15,162	18,649
North America	**242,112**	264,238	322,895
Rest of the world	**16,278**	12,608	15,223
TOTAL	**307,934**	292,008	356,767

NOTE 9: PROPERTY, PLANT AND EQUIPMENT (including assets acquired under finance leases)

	At January 1	Changes in scope and other	Acquisitions	Disposals	Translation adjustment	Depreciation and provisions	At December 31
2003							
Land	25,759	2,247	79	627	(2,265)		25,193
Buildings	319,884	22,110	12,549	9,449	(25,500)		319,594
Industrial machinery and equipment	750,850	62,933	59,033	23,014	(68,077)		781,725
Other	240,299	(27,971)	57,847	9,142	(14,539)		246,494
GROSS VALUE	**1,336,792**	**59,319**	**129,508**	**42,232**	**(110,381)**		**1,373,006**
Depreciation	810,166	32,280	0	31,924	(59,336)	108,842	860,028
NET	**526,626**	**27,039**	**129,508**	**10,308**	**(51,045)**	**(108,842)**	**512,978**

2002							
Land	28,468	131	100	486	(2,454)		25,759
Buildings	338,279	7,854	9,496	6,024	(29,721)		319,884
Industrial machinery and equipment	768,870	20,816	62,913	27,941	(73,808)		750,850
Other	238,564	(21,189)	47,395	8,147	(16,324)		240,299
GROSS VALUE	1,374,181	7,612	119,904	42,598	(122,307)		1,336,792
Depreciation	802,155	2,963	0	34,019	(61,519)	100,586	810,166
NET	572,026	4,649	119,904	8,579	(60,788)	(100,586)	526,626

2001							
Land	28,040	0	249	4	183		28,468
Buildings	304,811	12,191	21,124	3,731	3,884		338,279
Industrial machinery and equipment	721,981	18,849	49,818	36,933	15,155		768,870
Other	261,844	(57,308)	42,318	12,402	4,112		238,564
GROSS VALUE	1,316,676	(26,268)	113,509	53,070	23,334		1,374,181
Depreciation	744,491	(16,126)		42,617	9,845	106,562	802,155
NET	572,185	(10,142)	113,509	10,453	13,489	(106,562)	572,026

NOTE 10: PROPERTY PLANT AND EQUIPMENT: ASSETS ACQUIRED UNDER FINANCE LEASES

	At January 1	Changes in scope and other	Acquisitions	Disposals	Translation adjustment	Depreciation and provisions	At December 31
2003							
Land	850	107	0	0	0		957
Buildings	28,435	601	0	2,089	0		26,947
Other	8,294	986	4,944	220	(645)		13,359
GROSS VALUE	**37,579**	**1,694**	**4,944**	**2,309**	**(645)**		**41,263**
Depreciation	21,645	191		2,309	(574)	4,965	23,918
NET	**15,934**	**1,503**	**4,944**	**0**	**(71)**	**(4,965)**	**17,345**
2002							
Land	850	0	0	0	0		850
Buildings	28,435	0	0	0	0		28,435
Other	8,506	0	291	0	(503)		8,294
GROSS VALUE	37,791	0	291	0	(503)		37,579
Depreciation	19,987	0	0	0	(380)	2,038	21,645
NET	17,804	0	291	0	(123)	(2,038)	15,934
2001							
Land	850	0	0	0	0		850
Buildings	17,711	(1,252)	11,976	0	0		28,435
Other	9,007	(62)	93	0	(532)		8,506
GROSS VALUE	27,568	(1,314)	12,069	0	(532)		37,791
Depreciation	17,419	(2,195)	0	0	(43)	4,806	19,987
NET	10,149	881	12,069	0	(489)	(4,806)	17,804

Note 11: other non-current assets

	At January 1	Changes in scope and other	Acquisitions	Disposals	Translation adjustment	Provisions	At December 31
2003							
Investments in non-consolidated companies	51,298	(159,437)	149,893	1,370	814		41,198
Loans to non-consolidated companies	5,972	3,586	2,032	617	(1,497)		9,476
Other long-term investments and loans	10,950	13,939	700	1,756	(946)		22,887
Gross value	**68,220**	**(141,912)**	**152,625**	**3,743**	**(1,629)**		**73,561**
Provisions	18,044	9,578	0	1,420	(85)	4,046	30,163
Net	**50,176**	**(151,490)**	**152,625**	**2,323**	**(1,544)**	**(4,046)**	**43,398**
2002							
Investments in non-consolidated companies	52,470	(36,872)	36,257	105	(452)		51,298
Loans to non-consolidated companies	6,867	(841)	2,151	1,133	(1,072)		5,972
Other long-term investments and loans	12,679	(1,173)	1,043	811	(788)		10,950
Gross value	72,016	(38,886)	39,451	2,049	(2,312)		68,220
Provisions	11,688	(2,010)	0	229	(197)	8,792	18,044
Net	60,328	(36,876)	39,451	1,820	(2,115)	(8,792)	50,176
2001							
Investments in non-consolidated companies	41,834	36,204	31,045	56,532	(81)		52,470
Loans to non-consolidated companies	2,755	(364)	5,569	1,034	(59)		6,867
Other long-term investments and loans	12,168	(5)	1,544	1,215	187		12,679
Gross value	56,757	35,835	38,158	58,781	47		72,016
Provisions	12,133	(800)	0	1,384	0	1,739	11,688
Net	44,624	36,635	38,158	57,397	47	(1,739)	60,328

Acquisitions of investments in non-consolidated companies include acquisitions of shares in consolidated and non-consolidated companies and purchases of treasury stock. Negative changes in scope and other movements correspond to the impact of consolidating companies whose purchase price is recorded in the "Acquisitions" column (and subsidiaries that were consolidated for the first time in 2003), as well as the elimination of treasury stock.

Analysis of other financial assets by maturity

	2003	2002	2001
More than one year	**67,720**	56,749	60,763
Less than one year	**5,841**	11,471	11,253
	73,561	68,220	72,016

NOTE 12: CURRENT ASSETS

12.1. Stocks	2003	2002	2001
Raw materials and other supplies	**142,952**	131,683	157,542
Goods for resale	**82,122**	29,250	52,151
Finished and semi-finished products and work in progress	**149,798**	235,836	207,999
GROSS VALUE	**374,872**	396,769	417,692
Provisions	**65,303**	71,530	69,306
NET	**309,569**	325,239	348,386

12.2 Receivables

Trade receivables	2003	2002	2001
GROSS VALUE	**427,827**	392,643	396,046
Provisions	**(33,706)**	(32,873)	(31,657)
NET	**394,121**	359,770	364,389

Other receivables			
GROSS VALUE	**47,794**	35,965	35,406
Provisions	**(665)**		
NET	**47,129**	35,965	35,406
TOTAL RECEIVABLES, NET	**441,250**	395,735	399,795

NOTE 13: DEFERRED CHARGES

Deferred charges	2003	2002	2001
NET AT JANUARY 1	**3,712**	2,665	2,827
Increases	777	2,870	1,309
Amortization	**(1,263)**	(1,749)	(1,602)
Translation adjustment	**(28)**	(74)	21
Changes in scope	**(1,876)**		110
NET AT DECEMBER 31	**1,322**	3,712	2,665

NOTE 14: MARKETABLE SECURITIES

	2003	2002	2001
Net book value	**516,622**	189,483	22,131
Market value	**516,693**	189,483	22,131
UNREALIZED GAINS	**71**	0	0

Breakdown at December 31	2003	2002	2001
SICAV mutual funds	**407,627**	186,603	17,592
FCP mutual funds and money market securities	**184**	179	155
Currency options	**508**	561	0
Certificates of deposit	**105,995**	0	0
Other	**2,308**	2,140	4,384
TOTAL	**516,622**	189,483	22,131

Note 15: changes in shareholders' equity

	Capital stock	Additional paid-in capital	Reserves	Cumulative translation adjustment	Treasury stock	Net income	Total
At January 1, 2003	**35,939**	**189,674**	**892,487**	**(42,817)**	**(45,212)**	**182,352**	**1,212,423**
Issuance of shares	300	26,137					26,437
To Corporate Mutual Funds	155	12,968					13,122
On exercise of stock options	146	13,169					13,315
Cancellations of treasury stock	(280)	(21,720)			22,000		
Net purchases of treasury stock					(24,247)		(24,247)
Net income appropriation			182,352			(182,352)	
Net income for the year						200,331	200,331
Paid dividends (including equalization tax)			(58,837)				(58,837)
Operating subsidies			191				191
Translation adjustment and other movements			(121)	(149,883)			(150,004)
At December 31, 2003	**35,959**	**194,091**	**1,016,072**	**(192,700)**	**(47,459)**	**200,331**	**1,206,294**
At January 1, 2002	35,378	149,888	795,895	111,127	(27,498)	142,576	1,207,366
Issuance of shares	561	39,787					40,347
To Corporate Mutual Funds	130	9,269					9,400
On exercise of stock options	431	30,517					30,947
Purchases of treasury stock					(17,714)		(17,714)
Net income appropriation			142,576			(142,576)	
Net income for the year						182,352	182,352
Paid dividends (including equalization tax)			(46,198)				(46,198)
Operating subsidies			214				214
Translation adjustment and other movements				(153,944)			(153,944)
At December 31, 2002	35,939	189,674	892,487	(42,817)	(45,212)	182,352	1,212,423
At January 1, 2001	32,399	308,119	703,078	72,763	(204,961)	135,441	1,046,839
Issuance of shares	463	25,525					25,988
To Corporate Mutual Funds	159	11,457					11,616
On exercise of stock options	305	14,067					14,372
Capitalization of reserves	4,522	(4,522)					
Purchases of treasury stock					(5,040)		(5,040)
Cancellations and redemptions of treasury stock	(2,007)	(179,234)	(1,262)		182,503		
Net income appropriation			135,441			(135,441)	
Net income for the year						142,576	142,576
Paid dividends (including equalization tax)			(41,277)				(41,277)
Operating subsidies			(85)				(85)
Translation adjustment and other movements				38,364			38,364
At December 31, 2001	35,378	149,888	795,895	111,127	(27,498)	142,576	1,207,365

Translation adjustments in 2003 and 2002 mainly result from the weaker US dollar, whereas in 2001 they result mainly from the US dollar's appreciation.

Change in number of shares outstanding

On July 11, 2003, the Board of Directors decided to use the authorization given at the General Shareholders' Meeting of May 16, 2003 to cancel 800,000 common shares held in treasury stock and to reduce capital stock by €280,000.

In 2002, a total of 1,607,722 new shares were issued on exercise of stock options and in connection with employee share issues. Net purchases of shares into treasury stock represented 450,645 shares.

In 2001, in accordance with the decisions of the General Shareholders' Meetings of January 18, 2001 and May 3, 2001:

- 638,001 common shares and 3,026 preferred non-voting shares held in treasury stock were canceled,
- the capital was converted into euros and the par value of the shares was raised from FRF20 to €3.50. The resulting capital increase of €4,522 thousand was paid up by capitalizing reserves,
- a simplified public exchange offer was made in July-August 2001, for the 53,392 preferred non-voting shares outstanding, on the basis of one common share for one preferred share. At the close of the offer period, 38,118 preferred non-voting shares were exchanged for the same number of common shares. The remaining 15,274 preferred non-voting shares were redeemed at a price of €330 per share.
- a ten-for-one stock-split was carried out in September 2001, resulting in the par value of the shares being reduced to €0.35.

The numbers of shares shown below for 2003, 2002 and 2001 take account of the ten-for-one stock split carried out in May 2001.

	2003	2002	2001
NUMBER OF COMMON SHARES, EXCLUDING TREASURY STOCK, AT JANUARY 1	**101,232,968**	100,075,891	98,316,800
Number of treasury shares eliminated	**1,450,645**	1,000,000	7,380,010
Exercise of stock options	**417,762**	1,233,160	925,051
Shares issued to the Essilor Corporate Mutual Fund	**438,733**	374,562	452,860
Conversion of bonds		0	0
Purchases of treasury stock	**(619,192)**	(450,645)	
Exchange of preferred, non-voting stock		0	381,180
NUMBER OF COMMON SHARES, EXCLUDING TREASURY STOCK, AT DECEMBER 31	**101,470,271**	101,232,968	100,075,891
Number of treasury shares eliminated	**1,269,837**	1,450,645	1,000,000
PREFERRED, NON-VOTING SHARES, EXCLUDING TREASURY STOCK, AT JANUARY 1	**0**	0	533,920
Number of treasury shares eliminated	**0**	0	30,260
Exchanged for common stock			(381,180)
Redemptions			(152,740)
Purchases of treasury stock			
NUMBER OF PREFERRED, NON-VOTING SHARES, EXCLUDING TREASURY STOCK, AT DECEMBER 31	**0**	0	0
Number of treasury shares eliminated	**0**	0	0

Note 16: change in minority interests

	2003	2002	2001
Minority interests at January 1	**1,782**	1,944	1,439
Income for the year	**327**	54	220
Dividends paid by consolidated subsidiaries	**(304)**	(40)	(75)
Effect of changes in scope of consolidation	**1,868**	(111)	487
Translation adjustment and other	**(358)**	(65)	(127)
Minority interests at December 31	**3,315**	1,782	1,944

Note 17: provisions

17.1. Provisions for contingencies and charges

	At January 1	Increases	Releases	Other movements[2]	At December 31
2003					
Provisions for pensions and other post-retirement benefits	**53,386**	**7,154**	**(1,046)**	**(2,018)**	**57,476**
Provisions for contingencies and charges	**40,166**	**12,831**	**(8,557)**	**(7,192)**	**37,248**
Provisions for losses in subsidiaries and affiliates	1,814			(1,311)	503
Provisions for restructuring	10,699	4,270	(1,208)	(1,139)	12,622
Other[1]	27,653	8,561	(7,349)	(4,742)	24,123
Total provisions for contingencies and charges	**93,552**	**19,985**	**(9,603)**	**(9,210)**	**94,724**
2002					
Provisions for pensions and other post-retirement benefits	49,190	6,926	(1,003)	(1,727)	53,386
Provisions for contingencies and charges	30,195	26,995	(14,083)	(2,941)	40,166
Provisions for losses in subsidiaries and affiliates	503	1,311			1,814
Provisions for restructuring	5,443	11,048	(5,290)	(502)	10,699
Other[1]	24,249	14,636	(8,793)	(2,439)	27,653
Total provisions for contingencies and charges	79,385	33,921	(15,086)	(4,668)	93,552
2001					
Provisions for pensions and other post-retirement benefits	45,338	5,896	(2,563)	519	49,190
Provisions for contingencies and charges	31,219	15,098	(14,513)	(1,609)	30,195
Provisions for losses in subsidiaries and affiliates	6,242		(5,739)		503
Provisions for restructuring	5,636	3,683	(3,590)	(286)	5,443
Other[1]	19,341	11,415	(5,184)	(1,323)	24,249
Total provisions for contingencies and charges	76,557	20,994	(17,076)	(1,090)	79,385

(1) These provisions primarily concern product warranties and miscellaneous contingencies.
(2) Other movements include the impact of changes in exchange rates and scope of consolidation.

In 2001, surplus provisions for other contingencies and charges in the amount of €3.4 million were released to the income statement.

17.2. Provisions for pensions and other post-retirement benefits

Provisions for pensions and other post-retirement benefits mainly concern the commitments of Essilor International, BBGR, the German subsidiaries and Essilor of America.

	2003	2002	2001
Projected benefit obligation	**108,003**	101,569	90,841
Plan assets at fair value	**(33,472)**	(26,846)	(27,998)
Deferred items	**(17,055)**	(21,337)	(13,653)
PROVISION RECORDED IN THE BALANCE SHEET	**57,476**	53,386	49,190

At December 31, 2003, provisions for pensions and other post-retirement benefits broke down as follows by type of plan:

	Projected benefit obligation	**Plan assets**	**Deferred items**	**Provision**
Pensions (supplementary pensions, top-hat plans)	82,935	(24,595)	(15,700)	42,640
Retirement indemnities	18,708	(8,877)	(1,355)	8,476
Other	6,360			6,360
TOTAL	**108,003**	**(33,472)**	**(17,055)**	**57,476**

The main discount rates applied to estimate pension and other post-retirement benefit obligations are as follows:

- 5.50% for euro zone countries
- 5.75% for the United States.

NOTE 18: BORROWINGS

18.1. Borrowings

At December 31, 2003, consolidated net debt amounted to €97 million (€163 million in 2002 and €321 million in 2001).

Borrowings break down as follows by maturity:

	2003	2002	2001
Due within one year	**110,851**	65,038	64,878
Due in 1 to 5 years	**291,355**	349,537	76,284
Due beyond 5 years	**306,828**	976	276,259
TOTAL	**709,034**	415,551	417,421
including: Obligations under finance leases	**8,627**	10,802	14,821

Borrowings break down as follows by currency:

(€ millions)	**2003**	2002	2001
US dollars	**249**	252	132
Euros	**442**	137	221
Yen	**1**	1	5
Canadian dollars	**3**	1	1
Other currencies	**15**	25	58
TOTAL	**709**	416	417

In early July 2003, Essilor issued bonds convertible into new shares or exchangeable for existing shares (OCEANEs) with the following characteristics:

- Amount of the issue: €309 million
- Number of bonds: 6,040,212
- Nominal value per bond: €51.15
- Life: 7 years
- Interest: 1.50% per year, payable in arrears on July 2 of each year
- Conversion: 1 Essilor share per bond (to be adjusted in the case of any transactions affecting capital stock)
- Redemption: on July 2010 at a price of €53.54, representing a premium of 4.7%
- Early redemption at the request of holders from July 2, 2008
- Early redemption at the request of Essilor from July 2, 2008 subject to certain conditions

The bonds are traded on the Premier Marché of Euronext Paris.

18.2. Management of interest rate and currency risks

Management of interest rate risks

The company's interest rate risk management policy consists of protecting positions against the effects of an unfavorable change in interest rates and taking advantage of or locking-in the benefits of favorable rates.

The nominal value of interest rate hedging instruments at December 31, 2002 was as follows:

Interest rate swaps (fixed rate paid by Essilor): €182 million (2002: €182 million; 2001: €182 million)

Interest rate swaps (fixed rate received by Essilor): €0 (2002: €0; 2001: €0).

At December 31, 2003, borrowings included private borrowings for €210 million, bonds for €431 million and miscellaneous lines of credit for €68 million. Fixed rate debt represented 44% of the total before hedging and 69% after hedging (2002: 55%; 2001: 44%).

The weighted average rate of interest on total borrowings, including the effect of hedging instruments, was 3.06% at December 31, 2003 (2002: 3.92%; 2001: 5.16%).

Management of liquidity risk

In 2003, the company continued to pay down debt. However, in preparation for the renewal of facilities expiring in 2004 and 2005, in July the company launched a €309 million "OCEANE" convertible/exchangeable bond issue, due July 2010 with an early redemption option in July 2008.

Management of currency risks

The company's currency risk management policy consists of systematically hedging these risks using appropriate market instruments, including spot and forward purchases and sales of foreign currencies and currency options. Sales to and purchases from subsidiaries of Essilor are billed in local currency; substantially all of the currency risk is therefore borne by the parent company, and subsidiaries have very limited exposure. Some local risks, and particularly the risk of the US dollar depreciating against the currencies of some Asian countries (excluding Japan) where the company has factories, are deliberately not hedged.

Currency transactions are designed solely to hedge currency risks arising on business transactions. Essilor International does not trade in foreign currencies.

All currency transactions are subject to pre-determined position limits which are designed to optimize the protection afforded by the hedges. At December 31, 2003, residual open positions were not material and remained easily within the limits set by the company (hedging of between 80% and 100% of the identified risk position).

At December 31, 2003, currency positions including cross-currency swaps but excluding options totaled €582 million (2002: €499 million; 2001: €488 million). Currency options outstanding at December 31, 2003 totaled €98 million (2002: €20.5 million).

NOTE 19: OFF-BALANCE SHEET COMMITMENTS

19.1. Financial commitments

Commitments given

	2003	2002	2001
Guarantees	**150,310**	123,339	130,128
Collateral for debts:			
Debts	**196**	19	20
Net book value of collateral	**0**	15	358

Commitments received

	2003	2002	2001
Guarantees	**3,293**	2,980	18,894

Commitments under non-cancelable operating leases

	2003
Within one year	**12,399**
One to five years	**28,357**
Beyond five years	**20,099**
TOTAL	**60,855**

19.2. Derivative instruments

Forward exchange contracts

	2003	2002	2001
Sales*	**461,879**	414,745	441,907
Purchases	**120,001**	84,147	46,275

** Including cross-currency swaps.*

In 2003, these amounts included sales and purchases by Essilor International for €446 million and €73 million respectively.

Currency options: hedges of business transactions

	2003	2002	2001
Purchases of put options	**50,844**	0	0
Sales of call options	**47,424**	0	0
Purchases of call options		20,408	0
Sales of put options		0	0

Interest rate swaps (fixed rate borrower)

	2003	2002	2001
	181,959	181,959	181,959

Interest on the €122 million 1996 bonds was swapped for a fixed rate over the period through July 3, 1996. Interest on the €60 million floating rate borrowing issued in 1999 was swapped for a fixed rate over the period through October 29, 2004.

The notional values of derivative instruments and their market values at December 31, 2003 are presented below:

(€ thousands)	Notional amount	Market value
Forward sales of foreign currencies		
Sale AUD / Purchase EUR	4,942	(17)
Sale CAD / Purchase EUR	15,530	318
Sale CHF / Purchase EUR	7,970	59
Sale DKK / Purchase EUR	1,424	1
Sale GBP / Purchase EUR	45,050	647
Sale NOK / Purchase EUR	5,917	124
Sale NZD / Purchase EUR	326	(4)
Sale PLN / Purchase EUR	9,729	132
Sale SEK / Purchase EUR	13,493	36
Sale SGD / Purchase EUR	10,273	304
Sale USD / Purchase EUR	103,708	7,416
Sale* USD / Purchase EUR	231,959	20,473
Sale ZAR / Purchase EUR	2,997	47
Sale USD / Purchase MXN	8,561	5
Total forward sales of foreign currencies	**461,879**	**29,541**

** Cross currency swaps.*

Forward purchases of foreign currencies		
Purchase JPY / Sale EUR	18,099	(743)
Purchase NOK / Sale EUR	595	(1)
Purchase USD / Sale EUR	54,813	(4,074)
Purchase EUR / Sale GBP	15,330	140
Purchase USD / Sale CAD	20,625	(1,397)
Purchase USD / Sale BRL	3,563	(267)
Purchase USD / Sale AUD	4,355	(659)
Purchase JPY / Sale EUR	1,234	(65)
Purchase USD / Sale JPY	1,386	(49)
Total forward purchases of foreign currencies	**120,001**	**(7,115)**

Purchases of currency options		
Sale USD / Purchase EUR	43,182	2,649
Sale GBP / Purchase EUR	5,714	(3)
Sale CAD / Purchase EUR	1,948	54
Total purchases of currency options	**50,844**	**2,700**

Sales of currency options		
Purchase USD / Sale EUR	45,476	495
Purchase CAD / Sale EUR	1,948	21
Total sales of currency options	**47,424**	**517**

Interest rate swaps		
Interest rate swaps	**181,959**	**(10,526)**

NOTE 20: AVERAGE NUMBER OF EMPLOYEES AND PAYROLL COSTS

	2003	2002	2001
Management	**2,031**	2,031	1,794
Supervisory and administrative	**6,882**	6,935	5,877
Production	**12,801**	13,334	13,260
TOTAL	**21,713**	22,300	20,931
(€ thousands)			
Payroll costs (wages and salaries and payroll taxes)	**720,625**	738,175	723,213
Number of employees at December 31	**23,607**	23,269	22,309
including employees of proportionally consolidated companies (100%)	**2,256**	1,810	1,686

NOTE 21: MANAGEMENT REMUNERATION

	2003	2002	2001
Total remuneration and benefits paid to the Executive Committee*	**4,270**	3,936	3,690
Attendance fees paid to the Executive Committee	**29**	16	6
TOTAL MANAGEMENT REMUNERATION	**4,299**	3,952	3,696

** Gross amount before payroll and other taxes.*

2003 data cannot be compared directly with those for 2002 because the Executive Committee had one additional member in 2003.

NOTE 22: ENVIRONMENT

Essilor is not exposed to any material environmental risks.

NOTE 23: CLAIMS AND LITIGATION

There are no claims or litigation outstanding or pending that are likely to have a material impact on the company's consolidated financial position.

NOTE 24: SUBSEQUENT EVENTS

No events occurred after the year-end that would be likely to have a material impact on the company's consolidated financial position.

Note 25: fully consolidated companies

Company	Country	% voting rights	% interest
France			
BBGR	France	99.99	99.99
Essidev	France	100.00	100.00
Invoptic	France	99.99	99.99
Optim	France	99.99	99.99
Novisia	France	100.00	100.00
Jacques Denis	France	100.00	51.00
BNL Eurolens	France	100.00	100.00
BNL Polyofta	France	100.00	100.00
Fred management	France	100.00	100.00
Financière Bellegarde Optique	France	100.00	100.00
Europe			
Essilor GmbH	Germany	100.00	100.00
BBGR GmbH	Germany	100.00	100.00
Rupp & Hubrach Optik GmbH	Germany	100.00	100.00
Essilor Austria GmbH	Austria	100.00	100.00
Essilor Belgium S.A.	Belgium	100.00	100.00
Essilor Danmark A/S	Denmark	100.00	100.00
Essilor Espana S.A.	Spain	100.00	100.00
Essilor OY	Finland	100.00	100.00
BBGR United Kingdom	United Kingdom	100.00	100.00
Essilor Ltd	United Kingdom	100.00	100.00
Essilor Optika Kft	Hungary	100.00	100.00
Ireland (Sales) Ltd	Ireland	100.00	100.00
Essilor Ireland (branch)	Ireland	100.00	100.00
Organic Lens Manufacturing (branch)	Ireland	100.00	100.00
Essilor Italia S.p.A	Italy	100.00	100.00
Essilor Norge A.S.	Norway	100.00	100.00
Essilor Nederland BV	Netherlands	100.00	100.00
Essilor Nederland Holding BV	Netherlands	100.00	100.00
Holland Optical Corp. BV	Netherlands	100.00	100.00
Holland Optical Instruments BV	Netherlands	73.88	73.88
Essilor Optical laboratory Polska Sp. Z.o.o.	Poland	100.00	100.00
Essilor Polonia	Poland	100.00	100.00
Essilor Portugal	Portugal	100.00	100.00
Essilor AB	Sweden	100.00	100.00
BBGR Svenska	Sweden	100.00	100.00
Essilor (Suisse) S.A.	Switzerland	100.00	100.00
Vaco Holding S.A.	Switzerland	100.00	100.00
Essilor Optika Spol Sro	Czech Republic	100.00	100.00
North and Central America			
Aries Optical Ltd.	Canada	99.99	99.99
BBGR Optique Canada Inc.	Canada	99.99	99.99
Canoptec Inc.	Canada	100.00	100.00
Custom Surface	Canada	100.00	100.00
Eastern Optical Laboratories Ltd	Canada	100.00	100.00
Essilor Canada Ltd	Canada	100.00	100.00
OK Lenscraft Laboratories Ltd	Canada	100.00	100.00
K & W Optical Ltd	Canada	100.00	100.00
Morrison Optical	Canada	100.00	100.00

	Country	% voting rights	% interest
OPSG Ltd	Canada	100.00	100.00
Optique de l'Estrie	Canada	100.00	100.00
Perspectics	Canada	100.00	100.00
Pioneer Optical Ltd	Canada	100.00	100.00
Pro Optic Canada Inc.	Canada	99.99	99.99
R & R Optical Laboratory Ltd	Canada	100.00	100.00
C.S.C.	United States	100.00	100.00
Essilor of America Holding Co, Inc.	United States	100.00	100.00
Essilor of America Inc.	United States	100.00	100.00
Essilor Laboratories of America Holding Co, Inc.	United States	100.00	100.00
Essilor Laboratories of America, Inc. (including US laboratories)	United States	100.00	100.00
Essilor Laboratories of America Corporation	United States	100.00	100.00
Omega Optical Holdings, Inc.	United States	100.00	100.00
Omega Optical General, Inc.	United States	100.00	100.00
Essilor Laboratories of America, LP (including Avisia, Omega, Duffens)	United States	100.00	100.00
Gentex Optics Inc.	United States	100.00	100.00
Optifacts Inc.	United States	100.00	100.00
Speciality Lens Corp	United States	100.00	100.00
Nassau Lens Co.	United States	100.00	100.00
Optical Suppliers Inc. Hawaii	United States	80.00	80.00
OMNI	United States	100.00	100.00
Stereo Optical	United States	100.00	100.00
Essilor Mexico (ex- Arlens)	Mexico	100.00	100.00
Vision Center S.A. de C.V.	Mexico	100.00	100.00
REST OF THE WORLD			
Essilor South Africa (Pty) Ltd	South Africa	100.00	100.00
Essilor Argentine S.A.	Argentina	100.00	100.00
AG Thompson	Australia	100.00	100.00
Essilor Australia Pty Ltd.	Australia	100.00	100.00
Essilor Lens Australia Pty Ltd	Australia	100.00	100.00
Hobart Optical	Australia	51.00	51.00
Optilabs Pty Ltd	Australia	100.00	100.00
Perkins Optical	Australia	100.00	100.00
Brasilor Participacoes Sc Ltda	Brazil	100.00	100.00
Essilor Da Amazonia Industria e Commercio Ltda	Brazil	100.00	100.00
Multi Optica Distribuidora Ltda	Brazil	100.00	100.00
Optikot SA	Brazil	100.00	100.00
Sudop Industria Optica Ltda	Brazil	100.00	100.00
Shanghaï Essilor Optical Co. Ltd	China	97.88	97.88
Essilor Hong Kong	Hong Kong	100.00	100.00
Essilor SRF Optics Ltd	India	88.18	88.18
Indian Ophtalmic Lenses Manufacturing Co.	India	100.00	100.00
P.T. Essilor Indonesia	Indonesia	100.00	100.00
Essilor Malaysia Sdn Bhd	Malaysia	100.00	100.00
Essilor Laboratories New Zealand Ltd (ex OHL Lenses Ltd)	New Zealand	100.00	100.00
Direct Optical Supplies New Zealand Ltd	New Zealand	100.00	100.00
Essilor New Zeeland	New Zealand	100.00	100.00
Xtra Vision	New Zealand	100.00	100.00
Essilor Manufacturing Philippines Inc.	Philippines	100.00	100.00
Optodev	Philippines	99.99	99.99
Essilor Asia Pacific Pte Ltd	Singapore	100.00	100.00
PlasticPlus	Singapore	80.00	80.00
Essilor Manufacturing (Thaïland) Co Ltd	Thailand	100.00	100.00

Note 26: proportionally consolidated companies

Company	Country	% voting rights	% interest
Transitions Optical Limited	Ireland	49.00	49.00
Transitions Optical Inc.	United States	49.00	49.00
Transitions Optical Do Brazil Limitada	Brazil	49.00	49.00
Transitions Optical Pty Ltd	Australia	49.00	49.00
Transitions Optical Philippines Inc.	Philippines	49.00	49.00
Transitions Optical Holdings BV	Netherlands	49.00	49.00
Nikon Optical Canada Inc.	Canada	50.00	50.00
Aichi Nikon Company	Japan	50.00	50.00
Nasu Nikon Company	Japan	50.00	50.00
Nikon-Essilor Co Ltd	Japan	50.00	50.00
Nikon Optical United Kingdom	United Kingdom	50.00	50.00
Essilor Korea	South Korea	50.00	50.00
Chemiglas	South Korea	50.00	41.23
Chemilens	China	50.00	42.10

The companies in the Transition Group, which are all 49%-owned, are consolidated by the proportional method. No information is given concerning these companies due to confidentiality agreements signed with partners.

Note 27: companies accounted for by the equity method

Company	Country	% interest
Groupe Bacou Dalloz	France	15.13
VisionWeb	United States	45.57

Note 28: non-consolidated companies

Company	Country	% interest
France		
Distrilens	France	100.00
Varilux University	France	99.90
VIP	France	100.00
Europe		
Essilor Logistik GmbH	Germany	100.00
Essilor Optika D.o.o	Croatia	100.00
BBGR Lens Ibéria	Spain	100.00
M.J.S. Scientific Ltd	United Kingdom	100.00
Biolent Srl	Italy	100.00
Oftalma s.r.l.	Italy	100.00
Opto 3	Italy	50.00
Lunelle BV	Netherlands	100.00
Essilor Slovakia s.r.o.	Slovakia	100.00
Essilor D.o.o.	Slovenia	100.00
Lunelle S.A.	Switzerland	100.00
Essilor Optik AS	Turkey	100.00
North America		
Metro Optical	Canada	100.00
Essilor Transfer Corporation	United States	100.00
Micro Optical	United States	20.00
EyeWeb Inc.	United States	12.79
Rest of the world		
Lead Brésil Ltda	Brazil	100.00
VisionWeb Hong Kong	Hong Kong	100.00
Transitions Optical India	India	49.00
Essilor Japan K.K.	Japan	100.00
Nikon Corp	Japan	0.16
Transitions Optical Japan	Japan	49.00
Optical Laboratories NZ Limited	New Zealand	20.00
VisionWeb NZ	New Zealand	100.00
Essilab Philippines Inc.	Philippines	40.00
Eyeland	Philippines	49.00
Optoland	Philippines	100.00
Central Essilor Co Ltd	Thailand	35.00
BOD (Paris Lunettes Corporation Siam Co Ltd)	Thailand	48.99

Companies in which the parent company's interest exceeds 20% and with sales of over €3 million or tangible assets of over €9 million are consolidated.
Where necessary, a provision is recorded to write down the value of non-consolidated companies to their fair value, based on estimated future cash flows.
Key data for the main non-consolidated companies owned by fully consolidated companies are presented below:

	Shareholders' equity	Sales	Net income / (loss)	Book value	
				Cost	Net
Total non-consolidated companies	12,445	18,783	(5,951)	41,198	15,353

Note: 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.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

In accordance with the terms of our appointment at the General Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Essilor International and its subsidiaries for the year ended December 31, 2003.

These financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on the financial statements, based on our audit.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applied in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 by management, 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 consolidated financial statements give a true and fair view of the assets and liabilities and financial position of Essilor International and its subsidiaries as of December 31, 2003, and of the results of their operations for the year then ended in accordance with French generally accepted accounting principles and standards.

Note 1.1 to the consolidated financial statements describes a change in the presentation of the income statement. This observation does not affect the opinion expressed above.

BASIS OF OPINION

In accordance with Article L.225-235 of the Commercial Code requiring the auditors to explain the basis of their opinion, which is applicable for the first time this year, we set out below information used in formulating our audit opinion on the financial statements taken as a whole:

Note 1.5 to the consolidated financial statements described the principles and methods used to account for goodwill. In connection with our assessment of the accounting principles used, we obtained assurance concerning the appropriateness of these accounting principles and methods and of the related disclosures in the notes to the consolidated financial statements, and verified that they had been properly applied.

These assessments were made in connection with our audit procedures on the consolidated financial statements, taken as a whole, and contributed to the formulation of the unqualified audit opinion expressed in the first section of this report.

SPECIFIC PROCEDURES

We also reviewed the information about the Group given in the report of the Board of Directors. We have no matters to report concerning the fairness of this information and its consistency with the consolidated financial statements.

Paris, March 12, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit
Liliane Tellier

Cabinet Dauge et Associés
Gérard Dauge

Company Accounts

Key Financial Data, year ended December 31, 2003

(€ thousands, except for per share data)	**2003**	2002	2001
Income statement			
Sales	**650,196**	637,588	576,495
Operating income	**61,732**	54,668	41,521
Income before non-operating items and tax	**156,081**	167,704	95,549
Net income	**143,803**	149,247	85,606
Balance sheet			
Capital stock	**35,959**	35,939	35,377
Shareholders' equity	**1,023,367**	953,900	813,165
Net indebtedness	**141,342**	152,722	306,009
Fixed assets, net	**1,167,735**	1,079,806	1,068,437
Total assets	**1,988,911**	1,564,693	1,393,354
Dividend per common share	**0.56**	0.50	0.41
Dividend per preferred non-voting share	**0**	0	0

Income Statement for year ended December 31, 2003

(€ thousands)	Note	2003	2002	2001
Sales	2	**650,196**	637,588	576,495
Production transferred to inventory		**(11,288)**	4,459	3,918
Production of assets for own use		**2,663**	3,776	1,457
Production		**641,571**	645,823	581,870
Purchases of materials and change in inventory		**265,434**	273,497	242,357
Other purchases		**164,007**	157,246	141,050
Added value		**212,130**	215,080	198,463
Taxes, other than income tax		**15,235**	16,370	18,326
Personnel expenses	15	**181,768**	175,754	165,912
Ebitda		**15,127**	22,956	14,225
Depreciation, amortization and provisions, net	11	**(6,694)**	(14,268)	(6,387)
Other income (expenses), net		**53,299**	45,980	33,683
Operating income		**61,732**	54,668	41,521
Net interest income	3	**94,349**	113,036	54,028
Income before non-operating items and tax		**156,081**	167,704	95,549
Net exceptional (expense)	4	**(1,668)**	(13,568)	(7,169)
Corporate income tax	5	**10,611**	4,889	2,773
Net income	15	**143,803**	149,247	85,606

Statement of Cash Flows for year ended December 31, 2003

(€ thousands)	2003	2002	2001
Cash flow	**173,073**	189,412	101,167
Change in working capital[1]	**20,346**	9,039	31,879
Net cash provided by operations	**193,419**	198,451	133,046
Capital expenditures	**(24,049)**	(17,177)	(17,662)
Deferred charges	**(841)**	(902)	(1,083)
Acquisitions of shareholdings and new loans extended	**(1,178,888)**	(1,073,551)	(1,076,836)
Disposals of assets	**7,235**	236	1,523
Repayments of loans	**1,066,851**	1,053,540	1,115,443
Net cash (used)/provided by investment activities	**(129,692)**	(37,855)	21,385
Issuance of shares	**300**	563	2,978
Increase in reserves	**22,293**	36,869	24,506
Dividends paid	**(58,837)**	(46,198)	(41,138)
Repayment of borrowings	**(2,053)**	(7,372)	(662,811)
New borrowings raised*	**309,953**	8,387	512,542
Net cash provided/(used) by financing activities	**271,656**	(7,751)	(163,923)
Change in cash and cash equivalents	**335,383**	152,845	(9,492)
Cash and cash equivalents at beginning of year	**186,326**	33,481	42,974
Cash and cash equivalents at end of year	**521,709**	186,326	33,481

* *Convertible bond issue.*

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	2003	2002	Change
Advance payments to suppliers	**5,020**	6,011	991
Inventories and work in progress	**71,689**	84,712	13,023
Operating receivables	**168,468**	159,179	(9,289)
Other receivables	**28,049**	35,586	7,537
Accrued interest on loans and dividends receivable	**541**	1,046	505
Advances and deposits from customers	**0**	0	0
Operating liabilities	**(186,850)**	(174,213)	12,637
Miscellaneous liabilities	**(58,997)**	(60,729)	(1,732)
Accrued interest	**(7,532)**	(5,863)	1,669
Deferred income, deferred charges and translation adjustment	**8,261**	3,266	(4,995)
Total	**28,649**	48,995	20,346

Balance Sheet at December 31, 2003

Assets

(€ thousands)	Note	2003			2002	2001
		Cost	Depreciation amortization provisions	Net	Net	Net
Intangible assets	6	48,243	27,974	20,269	17,805	20,682
Property, plant and equipment	7	203,459	146,675	56,784	56,232	57,427
Investments and other non-current assets	8	1,146,407	55,726	1,090,681	1,005,769	990,328
Fixed assets, net		1,398,109	230,375	1,167,735	1,079,806	1,068,437
Inventories and work in progress	9.1	86,232	14,543	71,689	84,712	81,912
Advance payments to suppliers	9.2	5,028	8	5,020	6,011	6,164
Trade receivables	9.2	154,285	3,132	151,153	143,855	144,644
Other operating receivables	9.2	17,315	0	17,315	15,324	14,235
Other receivables	9.2	28,714	665	28,049	35,586	40,204
Marketable securities	9.3	514,315	0	514,315	187,344	17,713
Bond redemption premiums		12,458	0	12,458	0	0
Cash		10,301	0	10,301	7,264	16,730
Prepayments and other assets	9.4	8,940	0	8,940	3,317	1,326
Current assets		837,587	18,349	819,239	483,414	322,927
Deferred charges	9.4	1,240	0	1,240	1,473	1,990
Conversion losses		698	0	698	0	0
Total assets		2,237,634	248,723	1,988,911	1,564,693	1,393,354

LIABILITIES AND SHAREHOLDERS' EQUITY (before income appropriation)

(€ thousands)	Note	2003	2002	2001
Capital stock	10.1	**35,959**	35,939	35,377
Additional paid-in capital		**194,091**	189,674	149,887
Legal reserve		**3,594**	3,538	3,240
Untaxed reserves		**0**	1,435	17,725
Other reserves		**649,172**	557,172	502,172
Retained earnings		**(12,330)**	5,817	5,416
Net income		**143,803**	149,247	85,606
Investment subsidies		**14**	20	30
Untaxed provisions		**9,816**	8,032	7,768
Cumulative translation adjustment		**(752)**	3,027	5,944
SHAREHOLDERS' EQUITY	10.2	**1,023,367**	953,900	813,165
PROVISIONS FOR CONTINGENCIES AND CHARGES	11.1	**52,362**	28,470	16,286
Convertible bonds*	12.2	**325,698**	0	0
Other bonds		**125,845**	126,275	127,696
Bank borrowings		**214,088**	219,694	212,411
Other borrowings		**327**	1,361	345
TOTAL BORROWINGS	12	**665,958**	347,330	340,452
Advances and deposits from customers		**0**	0	0
Trade payables	12.1	**90,381**	86,363	80,408
Accrued taxes and personnel expenses	12.1	**36,758**	39,367	36,773
Other operating liabilities	12.1	**59,710**	48,484	45,721
Miscellaneous liabilities	12.1	**58,997**	60,728	60,047
Deferred income		**1,179**	51	502
TOTAL LIABILITIES		**247,025**	234,992	223,451
Conversion gains		**198**	0	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,988,911**	1,564,693	1,393,354

* *Including redemption premiums of €14 million and accrued interest of €2.3 million.*

Notes to the Parent Company Financial Statements for the year ended December 31, 2003

The balance sheet at December 31, 2003 shows total assets of €1,988,911 thousand and the statement of income for the year then ended shows net income of €143,803 thousand.

The financial statements cover the 12-month period from January 1 to December 31, 2003.

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

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

Significant events of the year

In 2003, sales in France rose slightly and lens deliveries from the logistics center to the French and European subsidiaries were high. Sales by the Porto Rican branch contracted sharply, due to lower sales of Orma lenses in the US market.
A provision for pensions and other post-retirement benefits was recorded in the parent company accounts for the first time in 2003, by way of a charge against retained earnings, together with a provision for long-service awards, charged to exceptional expense. These two provisions correspond to a change of accounting method.
In July 2003, Essilor carried out a €309 million convertible bond issue.
During the year, Essilor set up a joint venture in South Korea. In September, the company acquired BNL, a sunglass lens manufacturer.

Note 1: accounting policies

1.1. 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.

1.2. 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.

1.3. 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.

1.4. 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.

1.5. 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.

1.6. Receivables and payables

Receivables and payables in euros 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.

1.7. Marketable securities

Marketable securities, consisting primarily of *Sicav* and *FCP* mutual funds, are stated at cost. A provision is recorded if the net asset value of the units represents less than their cost.

1.8. 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. If hedging positions at the year-end exceed the currency positions reflected in the balance sheet, a provision is recorded for the estimated cost of unwinding the hedges.

1.9. 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 or the month-end rate if they are not hedged, with the exception of foreign currency bank balances which are converted at the month-end exchange rate.

1.10. Pensions and other post-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 top-hat pensions to management and employees are funded under an insured plan (note 13.4).
Essilor recorded a provision in the opening balance sheet at January 1, 2003 for the unfunded portion of supplementary pension benefit obligations. This represented a change of accounting method and the provision was therefore charged against retained earnings (note 10.2).
In addition, a provision was recorded in the opening balance sheet for long-service awards, charged to exceptional expense. In previous years, these obligations were included in off-balance sheet commitments.

1.11. 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".

1.12. Corporate income tax (Group relief)

Essilor files a consolidated tax return with BBGR, Optim, VIP, Invoptic, Varilux University, Novisia, OSE, Essidev and Barbara and pays the corporate income tax due by the tax group.
Each company in the tax group records the income tax charge that would apply if it were not a member of the tax group. This has no impact on the parent company accounts.
In 2003, the corporate income tax due by the tax group amounted to €18,689 thousand.

NOTE 2: SALES

2003 NET SALES BY BUSINESS SEGMENT	**France**	**Export**	**Total**	**% change /02**
Corrective lenses	258,096	237,484	495,580	2.76%
Optical instruments	23,164	48,428	71,592	-3.38%
Industrial equipment	11,310	44,118	55,428	2.19%
Other	8,604	18,992	27,596	2.24%
TOTAL	**301,174**	**349,022**	**650,196**	**1.98%**

2002 NET SALES BY BUSINESS SEGMENT	France	Export	Total	% change /01
Corrective lenses	243,143	239,113	482,256	8.19%
Contact lenses	0	0	0	-100.00%
Optical instruments	23,376	50,724	74,100	11.89%
Industrial equipment	9,903	44,338	54,241	37.92%
Other	8,434	18,557	26,991	16.70%
TOTAL	284,856	352,732	637,588	10.60%

2001 NET SALES BY BUSINESS SEGMENT	France	Export	Total	% change /00
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%

BREAKDOWN BETWEEN INTERCOMPANY AND EXTERNAL SALES				
FRANCE AND EXPORT	**2003**	2002	2001	% change 03/02
France				
Intercompany	**51,282**	43,644	30,687	17.50%
External	**249,892**	241,212	234,795	3.60%
SUBTOTAL	**301,174**	284,856	265,482	5.73%
Export				
Intercompany	**289,096**	303,545	266,850	-4.76%
External	**59,926**	49,187	44,164	21.83%
SUBTOTAL	**349,022**	352,732	311,014	-1.05%
TOTAL	**650,196**	637,588	576,496	1.98%

NOTE 3: NET INTEREST INCOME

3.1. Net interest income

	2003	2002	2001
Interest expense	**(17,609)**	(17,647)	(26,853)
Dividend and interest income	**123,777**	134,251	81,001
Net discounts	**(2,169)**	(2,134)	(2,676)
Provisions for losses on subsidiaries	**(12,963)**	(4,973)	2,589
Exchange gains and losses	**913**	2,989	(592)
Other	**2,400**	551	559
TOTAL	**94,349**	113,037	54,027

3.2. Related party transactions

	Net amounts concerning			
Other information	**Related parties**	**Other companies with which the company has capital ties**	**Other**	**Total**
INCOME STATEMENT				
Interest expense	5,867	3,690	38,531	48,088
Interest income	91,315	32,816	18,306	142,437

NOTE 4: NON-OPERATING INCOME AND EXPENSE

	2003	2002	2001
REVENUE TRANSACTIONS	**(6,018)**	(828)	(1,191)
Other income and expenses from revenue transactions	**(5,445)**	(1,149)	1,589
Restructuring costs	**(573)**	321	(2,780)
CAPITAL TRANSACTIONS	**5,818**	4,312	(4,660)
Disposals of investments	**(961)**	9	(10,738)
Other income from capital transactions*	**6,779**	4,303	6,078
PROVISION MOVEMENTS	**(1,468)**	(17,052)	(1,318)
Tax provisions	**(1,944)**	(1,263)	(3,315)
Restructuring provisions	**621**	(6,856)	2,160
Provisions for impairment in value of intangible assets	**0**	(3,557)	0
Provisions for impairment in value of investments	**1,121**	0	0
Other	**(1,265)**	(5,375)	(163)
TOTAL	**(1,668)**	(13,568)	(7,169)

** Including €6.83 million corresponding to the proceeds from the sale of the Créteil Echat building.*

NOTE 5: CORPORATE INCOME TAX

5.1. Income before entries recorded for tax purposes

	2003	2002	2001
Net income	**143,803**	149,247	85,606
Corporate income tax	**10,611**	4,889	2,773
Pre-tax income	**154,414**	154,136	88,379
Change in untaxed provisions	**1,784**	264	(287)
Income before tax and entries recorded for tax purposes	**156,198**	154,400	88,092

Income for 2003 includes €105 million worth of dividends and €35 million worth of royalties which are taxed at a reduced rate.

5.2. Corporate income tax analysis

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

	Before tax	**Tax**	**After tax**
2003			
Operating income after interest	**156,081**	**(12,530)**	**143,551**
Non-operating expense	**(1,668)**	**1,920**	**252**
Net income			**143,803**

	Before tax	Tax	After tax
2002			
Operating income after interest	167,704	(8,191)	159,513
Non-operating expense	(13,568)	3,302	(10,266)
Net income			149,247

	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

5.3. Deferred taxes

Assets

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

	2003	2002	2001
Provisions for vacation pay*	**9,873**	9,314	8,926
CSS surtax	**887**	828	785
Retirement indemnities	**11,956**	10,382	6,410
Convertible bonds (amortization of redemption premiums)	**1,977**	0	0
Other	**1,104**	2,072	2,090
TOTAL	**25,797**	22,596	18,211
Unrecognized deferred tax asset (35.44% tax rate)	**9,143**	8,008	6,454

** 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 €3,918 thousand as follows:

	At Dec. 31, 2001	Increase 2002	Decrease 2002	At Dec. 31, 2002	Increase 2003	Decrease 2003	At Dec. 31, 2003
Provisions for:							
Excess tax depreciation	7,768	3,251	2,988	8,032	**4,102**	**2,318**	**9,816**
Other	1,990	902	1,419	1,473	**841**	**1,074**	**1,240**
TOTAL	9,758	4,153	4,407	9,505	**4,943**	**3,392**	**11,056**
Unrecognized deferred tax liability (35.44% tax rate)	3,458			3,369			**3,918**

NOTE 6: INTANGIBLE ASSETS

	At January 1	Acquisitions	Disposals	Other movements	Amortization and provisions	At December 31
2003						
Concessions	40,328	6,384	3,087	2,492		46,117
Purchased goodwill	435					435
Other intangibles	2,211	1,468	54	(1,933)		1,691
AT COST	**42,974**	**7,852**	**3,141**	**559**		**48,243**
Amortization and provisions	25,169				2,805	27,974
NET	**17,805**					**20,269**

	At January 1	Acquisitions	Disposals	Other movements	Amortization and provisions	At December 31
2002						
Concessions	35,815	4,603	3,143	3,054		40,328
Purchased goodwill	435					435
Other intangibles	3,663	1,645		(3,097)		2,211
AT COST	39,912	6,248	3,143	(44)		42,974
Amortization and provisions	19,230				5,939	25,169
NET	20,682					17,805

	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

Note 7: property, plant and equipment

	At January 1	Acquisitions	Disposals	Other movements	Depreciation and provisions	At December 31
2003						
Land	7,015	5	627	28		6,421
Buildings	74,273	1,973	6,045	5,124		75,325
Industrial machinery and equipment	74,040	4,960	2,083	(2,496)		74,421
Other	38,656	4,828	892	(2,522)		40,070
Assets under construction	4,732	5,396	19	(3,503)		6,606
Advance payments to suppliers	578	551	35	(478)		616
Cost	**199,294**	**17,713**	**9,701**	**(3,847)**		**203,459**
Depreciation	143,062				3,613	146,675
Net	**56,232**					**56,784**
2002						
Land	7,002	13	0	0		7,015
Buildings	71,640	1,407	966	2,192		74,273
Industrial machinery and equipment	72,828	3,849	2,896	259		74,040
Other	40,111	2,216	3,013	(658)		38,656
Assets under construction	4,989	3,971	0	(4,228)		4,732
Advance payments to suppliers	882	575	0	(879)		578
Cost	197,452	12,031	6,875	(3,314)		199,294
Depreciation	140,025				3,037	143,062
Net	57,427					56,232
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

NOTE 8: INVESTMENTS AND OTHER NON-CURRENT ASSETS

8.1. Investments and other non-current assets

	At January 1	Acquisitions	Disposals	Other movements	Provisions	At December 31
2003						
Shares in subsidiaries and affiliates	701,089	47,949	1,175	(1)		747,862
Loans to subsidiaries and affiliates	297,746	1,119,220	1,079,874			337,092
Other long-term investments*	56,638	24,882	535	(21,999)**		58,986
Loans	1,231	0	3			1,228
Other non-current assets	541	768	25	(45)		1,239
COST	**1,057,245**	**1,192,819**	**1,081,612**	**(22,045)**		**1,146,407**
Provisions	51,475				4,250	55,725
NET	**1,005,770**					**1,090,682**

** Including 1,269,837 Essilor International shares at December 31, 2003.*
*** Cancellation of Essilor International shares.*

2002						
Shares in subsidiaries and affiliates	723,184	33,389	69	(55,415)		701,089
Loans to subsidiaries and affiliates	310,702	1,056,700	1,069,355	(301)		297,746
Other long-term investments	1,168	55	0	55,415		56,638
Loans	1,232	2	3	0		1,231
Other non-current assets	545	86	80	(10)		541
COST	1,036,831	1,090,232	1,069,506	(312)		1,057,245
Provisions	46,502				4,973	51,475
NET	990,328					1,005,770

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

8.2. 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	70,145	726,459	161,576	159,762	1,829	3,530	197,813	19,036	16,480
International subsidiaries	200,024	558,096	584,564	536,078	295,737	125,233	2,584,230	134,112	87,946
LESS THAN 1% OF THE COMPANY'S CAPITAL									
French companies	80	(240)	80	80	0	547	12,679	1,808	0
International subsidiaries	21,231	4,099	1,641	1,583	15,262	8,080	126,288	3,546	712

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.

8.3. Related party transactions

	Net amounts concerning			
Other information	**Related parties**	**Other companies with which the company has capital ties**	**Other**	**Total**
INVESTMENTS (NET)				
Shares in subsidiaries and affiliates	557,770	139,732		697,502
Loans to subsidiaries and affiliates	334,917	1,702	473	337,092
TOTAL INVESTMENTS (NET)	**892,687**	**141,434**	**473**	**1,034,594**

8.4. Analysis of long-term loans and receivables by maturity

	2003	2002	2001
More than one year	**124,868**	124,115	124,119
Less than one year	**214,692**	175,403	188,360
TOTAL	**339,560**	299,518	312,479

NOTE 9: CURRENT ASSETS

9.1. Inventories

	2003	2002	2001
Raw materials and other supplies	**34,022**	35,708	37,182
Goods for resale	**10,825**	9,681	8,494
Finished and semi-finished products and work in progress	**41,385**	52,721	48,287
COST	**86,232**	98,110	93,963
Provisions	**(14,543)**	(13,398)	(12,052)
TOTAL	**71,689**	84,712	81,911

9.2. Analysis of receivables by maturity

	2003	2002	2001
More than one year	**0**	0	0
Less than one year	**205,342**	203,977	208,008
TOTAL	**205,342**	203,977	208,008

9.3. Marketable securities

	2003		2002		2001	
	Cost	**Net**	Cost	Net	Cost	Net
SICAV mutual funds	**407,627**	**407,627**	186,603	186,603	17,557	17,557
FCP mutual funds and money market securities	**184**	**184**	179	179	156	156
Currency options	**508**	**508**	561	561	0	0
TOTAL	**408,319**	**408,319**	187,344	187,344	17,713	17,713

Market values of marketable securities are as follows:

	2003	2002	2001
Book value	**408,319**	187,344	17,713
Market value	**408,390**	187,344	17,713
UNREALIZED GAIN	**71**	0	0

	2003		2002		2001	
	Cost	**Net**	Cost	Net	Cost	Net
Certificates of deposit	**105,996**	**105,996**	-	-	-	-
TOTAL CERTIFICATES OF DEPOSIT	**105,996**	**105,996**	0	0	0	0
TOTAL MARKETABLE SECURITIES	**514,315**	**514,315**	187,344	187,344	17,713	17,713

9.4. Accruals

Prepaid expenses

	2003	2002	2001
Operating expenses	**6,667**	518	971
Interest expense	**2,272**	2,799	355
TOTAL	**8,940**	3,317	1,326

Deferred charges

Deferred charges are amortized over 3 to 5 years, including €678 thousand to be charged to 2004 income, €434 thousand to be charged to 2005 income, €81 thousand to be charged to 2006 income and €47 thousand to be charged to 2007 income.

	2003	2002	2001
NET AT JANUARY 1	**1,473**	1,990	1,972
Additions	**841**	902	1,083
Amortization	**1,074**	1,419	1,065
NET AT DECEMBER 31	**1,240**	1,473	1,990

9.5. Related party transactions

	Net amounts concerning			
Other information	**Related parties**	**Other companies with which the company has capital ties**	**Other**	**Total**
CURRENT ASSETS (NET)				
Trade receivables	69,256	1,545	83,484	154,285
Other receivables	21,805	518	23,706	46,029
TOTAL CURRENT ASSETS (NET)	**91,061**	**2,063**	**107,190**	**200,314**

9.6. Accrued income

	2003	2002	2001
INVESTMENTS			
Loans to subsidiaries and affiliates	**197**	5,449	98
RECEIVABLES			
Trade receivables	**7,219**	6,076	7,155
Other receivables	**672**	657	1,369
TOTAL	8,088	12,182	8,622

NOTE 10: SHAREHOLDERS' EQUITY

10.1. Capital stock

	At January 1	Number of shares Issued	Cancelled	Exchanged	At December 31	Par value in €
Common stock	102,683,613	856,495	(800,000)	0	102,740,108	0.35
Preferred, non-voting stock	0	0	0	0	0	0
TOTAL	**102,683,613**	**856,495**	**(800,000)**	**0**	**102,740,108**	**0.35**

10.2. Changes in shareholders' equity

Before appropriation of income

	2003	2002	2001
DUE TO CHANGES IN STRUCTURE:			
Capital stock	**20**	563	2,978
Additional paid-in capital	**4,417**	39,787	(158,231)
Reserves and cumulative translation adjustment	**(21,713)****	(2,917)	1,455
Dividends paid*	**(58,837)**	(46,198)	(41,138)
OTHER:			
Net income for the year	**143,803**	149,247	85,606
Untaxed provisions	**1,784**	263	(286)
Revaluation difference	**0**	0	0
Investment subsidies	**(6)**	(9)	(14)
TOTAL	**69,468**	140,735	(109,631)

** Including "précompte" equalization tax of €8.2 million.*
*** Including €17.9 million cumulative effect of a change of method (note 13.4)*

2003
The capital was increased to €35,959 thousand corresponding to the net issuance of 56,495 common shares. A total of 438,733 shares were issued to the Essilor Corporate Mutual Funds, 417,762 shares were issued on exercise of stock subscription options, and 800,000 shares held in treasury stock were canceled.
The new shares carried dividend and voting rights as from January 1, 2003.

2002
The capital was increased to €35,939 thousand through the issuance of 1,607,722 common shares, including 374,562 shares issued to the Essilor Corporate Mutual Funds and 1,233,160 shares issued on exercise of stock subscription options.
The new shares carried dividend and voting rights as from January 1, 2002.

2001
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 €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 €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.

NOTE 11: PROVISIONS

11.1. Provisions for contingencies and charges

	At January 1	Increases	Utilizations	Releases (surplus)	At December 31
2003					
Provisions for pensions and other post-retirement benefits	10,404	17,869*	1,088	0	27,185
Provisions for losses in subsidiaries and affiliates	503	3,973	0	0	4,476
Provisions for restructuring	7,051	0	573	48	6,430
Other	10,512	9,016	4,782	475	14,271
TOTAL	**28,470**	**30,858**	**6,442**	**523**	**52,362**
2002					
Provisions for pensions and other post-retirement benefits	6,459	3,972	27	0	10,404
Provisions for losses in subsidiaries and affiliates	503	0	0	0	503
Provisions for restructuring	1,064	6,856	869	0	7,051
Other	8,260	6,727	4,475	0	10,512
TOTAL	16,286	17,555	5,371	0	28,470
2001					
Provisions for pensions and other post-retirement benefits	6,761	351	653	0	6,459
Provisions for losses in subsidiaries and affiliates	571	0	68	0	503
Provisions for restructuring	3,224	620	2,780	0	1,064
Other	2,071	8,021	1,832	0	8,260
TOTAL	12,627	8,992	5,333	0	16,286

** 2003: €17,869 thousand charged against retained earnings.*

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.

11.2. Untaxed provisions

	At January 1	Increases	Releases	At December 31
2003				
Untaxed provisions	**8,032**	**4,102**	**2,318**	**9,816**
Excess tax depreciation	**8,032**	**4,102**	**2,318**	**9,816**
2002				
Untaxed provisions	7,769	3,251	2,988	8,032
Excess tax depreciation	7,769	3,251	2,988	8,032
2001				
Untaxed provisions	8,055	2,612	2,898	7,769
Excess tax depreciation	8,012	2,612	2,855	7,769
Foreign investment	43	0	43	0

11.3. Provisions for impairment in value

	At January 1	Increases	Releases	At December 31
2003				
Provisions for impairment in value	**68,075**	**30,248**	**24,249**	**74,074**
Inventories	**13,398**	**14,543**	**13,398**	**14,543**
Receivables	**3,193**	**1,144**	**540**	**3,797**
Shares in subsidiaries and affiliates	**49,218**	**11,352**	**10,210**	**50,360**
Other investments	**2,258**	**3,209**	**101**	**5,366**
Other	**8**	**0**	**0**	**8**
2002				
Provisions for impairment in value	61,315	27,677	20,917	68,075
Inventories	12,052	13,398	12,052	13,398
Receivables	2,752	629	188	3,193
Shares in subsidiaries and affiliates	44,245	13,650	8,677	49,218
Other investments	2,258	0	0	2,258
Other	8	0	0	8
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

Note 12: debt

12.1. Maturities of debt

	2003	2002	2001
Due in less than one year	**316,478**	250,312	232,649
Borrowings	**70,631**	15,371	8,483
Operating liabilities	**186,850**	174,213	164,119
Other liabilities	**58,997**	60,728	60,047
Due in one to five years	**271,959**	331,959	60,010
Borrowings	**271,959**	331,959	60,010
Operating liabilities			
Other liabilities			
Due beyond five years	**323,368**	0	271,959
Borrowings*	**323,368**		271,959
Operating liabilities			
Other liabilities			
Total	**911,805**	582,271	564,618

	2003	2002	2001
Analysis by maturity (total liabilities)			
2002			232,649
2003		250,312	10
2004	**316,478**	60,000	60,000
2005			
2006	**121,959**	121,959	121,959
2007	**150,000**	150,000	150,000
2008			
2009			
2010*	**323,368**		
Analysis by currency (borrowings)			
EUR*	**430,113**	114,347	218,493
USD	**235,845**	231,959	121,959
GBP		1,024	

* *Including €14 million corresponding to bond redemption premiums.*

12.2. Convertible bonds

	2003	2002	2001
Number of bonds issued	**6,040,212**	0	0
Number of bonds converted	**458**	0	0
Number of bonds outstanding	**6,039,754**	0	0
Nominal value in €	**51.15**	0	0
Annual interest in € thousands	**2,330**	0	0

12.3. Related party transactions

	Net amounts concerning			
Other information	**Related parties**	**Other companies with which the company has capital ties**	**Other**	**Total**
LIABILITIES				
Trade payables	15,382	6,844	68,156	90,382
Other operating liabilities	435	0	96,033	96,468
Other liabilities	57,979	0	1,018	58,997
TOTAL LIABILITIES	**73,796**	**6,844**	**165,207**	**245,847**

12.4. Accrued charges

	2003	2002	2001
Accrued interest	**7,531**	5,863	7,320
Advances and deposits from customers			
Trade payables (goods received but not yet invoiced)	**25,824**	32,488	34,454
Accrued taxes and personnel costs			
• Vacation pay	**18,894**	17,887	17,633
• Incentive bonuses	**2,979**	2,164	1,525
• Other	**7,559**	8,104	5,808
Other debts	**56,048**	46,898	45,286
TOTAL	**118,835**	113,404	112,026

Note 13: off-balance sheet commitments

13.1. Financial commitments

Commitments given and received	2003	2002	2001
Commitments given			
Guarantees	147,817	122,326	129,698
Commitments received			
Guarantees	3,274	2,980	2,965

Forward exchange contracts
At December 31, 2003, forward sales of foreign currencies, excluding cross-currency swaps, totaled €214,427 thousand and forward purchases amounted to €72,837 thousand.

	Forward EUR equivalent of notional	EUR equivalent at market rate on December 31, 2003	Market value at December 31, 2003
Sell position	214,427,771	205,442,791	8,984,979
Buy position	(72,837,213)	(68,080,520)	(4,756,693)

Currency options
At December 31, 2003, currency options were as follows:

Purchased puts:	€50,844 thousand
Sold calls:	€45,476 thousand*
Sold calls (barrier options):	€1,948 thousand*

	Forward EUR equivalent of notional	Premiums paid/ received at inception	Mark-to-market adjustment at December 31, 2003	Market value at December 31, 2003
Purchased put	50,844,156	1,120,857	3,821,239	2,700,382
Sold call*	(45,476,195)	(514,435)	(19,192)	495,243
Sold calls (barrier options)*	(1,948,052)	(21,512)	(46)	21,466

** All sold options are hedged by purchased options (tunnels).*

Interest rate swaps

Interest on the €122 million 1996 bonds was swapped for a fixed rate over the period through July 3, 2006. Interest on the €60 million floating rate borrowing issued in 2000 was swapped for a fixed rate over the period through October 29, 2004.

	EUR equivalent of notional	Market value at December 31, 2003
Interest rate swap	181,959,214	(10,525,531)

The two loans are hedged by cross-currency swaps.

Cross-currency swaps

At December 31, 2003, cross-currency U.S. dollar swaps totaling €232 million with maturities in 2004, 2006 and 2007 were as follows:

	Forward EUR equivalent of notional	EUR equivalent at market rate on December 31, 2003	Market value at December 31, 2003
Seller of foreign currency	231,959,214	207,421,081	20,473,369

13.2. Commitments under finance leases

2003				
Assets acquired under finance leases	Cost at inception of the lease	Depreciation		Net
		For the year	Accumulated	
Land	97			97
Buildings	12,542	627	2,195	10,347
Total	**12,639**	**627**	**2,195**	**10,444**

Lease commitments	Lease payments		Future minimum lease payments				Total residual value
	For the year	Cumulative	1 year	1 to 5 years	Beyond 5 years	Total	
Land	14	188	3	0		3	
Buildings	2,109	7,146	1,530	6,486		8,016	5,148
Total	**2,123**	**7,334**	**1,533**	**6,486**	**0**	**8,019**	**5,148**

2002

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	8,223	12,497
Total	21,499	1,036	8,223	13,276

Lease commitments	Lease payments		Future minimum lease payments				Total residual value
	For the year	Cumulative	1 year	1 to 5 years	Beyond 5 years	Total	
Land	13	1,320	12	14		25	
Buildings	2,082	18,777	1,485	8,076		9,561	5,148
Total	2,094	20,098	1,496	8,090	0	9,586	5,148

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
Total	21,499	1,036	7,187	14,312

Lease commitments	Lease payments		Future minimum lease payments				Total 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
Total	2,389	18,003	1,396	9,586	0	10,983	5,148

13.3 Commitments under non-cancelable operating leases

Contractual obligations	Future minimum lease payments			
	1 year	1 to 5 years	Beyond 5 years	Total
Operating lease				
Vincennes facility	2,843	11,372	17,058	31,274
Total	**2,843**	**11,372**	**17,058**	**31,274**

13.4. Employee benefit commitments

Supplementary pensions

The company's obligations under supplementary pension plans in favor of management and certain other long-serving employees were revalued in 2003, using the projected unit credit method, based on a rate of salary increases corresponding to inflation plus 2.5% and a discount rate corresponding to inflation plus 4.5%.

The total obligation at December 31, 2003 stood at €29,548 thousand including €11,837 thousand funded under insured plans by the end of the year.

Since 2003, the unfunded portion of supplementary pension obligations is recognized in the parent company accounts. The provision recorded in the opening balance sheet, in the amount of €17,869 thousand, was charged against retained earnings.

	2003	2002	2001
Application of a discount rate	**Yes**	Yes	Yes
Projected benefit obligation	**29,548**	14,991	9,673
Fair value of plan assets	**11,837**	12,351	12,937
Provision recorded in the accounts	**17,711**	-	-
Unfunded obligation	**0**	2,640	(3,264)

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 €2,602 thousand at December 31, 2003.

This amount corresponds to the discounted present value of the obligation, determined by applying a discount rate equal to the inflation rate plus 3.50%. It was recognized in the balance sheet for the first time at December 31, 2003.

NOTE 14: EMPLOYEE DATA

14.1. Average number of employees

Breakdown of average number of employees	**2003**	2002	2001
Management	778	710	662
Supervisory and administrative	**1,313**	1,301	1,297
Production	**1,438**	1,476	1,516
TOTAL	**3,529**	3,487	3,475

14.2. 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:

- €1,415 thousand in 2003.
- €1,309 thousand in 2002.
- €1,219 thousand in 2001.

Note 15: five-year financial summary

(€ thousands, except for per share data)	**2003**	2002	2001	2000	1999
Capital at year-end					
Capital stock	**35,959**	35,939	35,377	32,399	32,251
Number of common shares outstanding*	**102,740,108**	102,683,613	101,075,891	10,569,681	10,521,329
o/w treasury stock*	**1,269,837**	1,450,645	1,000,000	741,027	0
Number of preferred, non-voting shares outstanding	**0**	0	0	56,418	56,418
Results of operations					
Net sales	**650,196**	637,588	576,496	589,808	539,810
Income before tax, depreciation, amortization and provisions	**190,554**	196,165	83,039	139,985	102,734
Corporate income tax	**10,611**	4,889	2,773	14,479	7,914
Employee profit-sharing	**0**	0	0	0	0
Net income	**143,803**	149,247	85,606	105,588	89,528
Total dividends	**56,823**	50,616	41,031	38,721	35,971
Per share data					
Income after tax and employee profit sharing, before depreciation, amortization and provisions, excluding treasury stock*	**1.77**	1.89	0.80	12.70	8.96
Net income, excluding treasury stock*	**1.42**	1.47	0.86	10.68	8.46
Net dividend per common share*	**0.56**	0.50	0.41	3.90	3.40
Net dividend per preferred, non-voting share	**0**	0	0	4.02	3.52
Employee data					
Average number of employees	**3,529**	3,487	3,475	3,575	3,533
Total payroll	**118,661**	116,276	111,050	107,619	104,415
Total benefits	**54,879**	52,465	48,671	49,470	47,589

** 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, 2003

In accordance with the terms of our appointment at the General Shareholders' Meeting, we hereby submit our report for the year ended December 31, 2003, on:

- Our examination of the accompanying financial statements of Essilor International.
- The specific procedures and information required by law.

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

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, 2003 and the results of operations for the year then ended in accordance with French generally accepted accounting principles.

Note 1.10 to the financial statements describes a change of method related to employee benefits, which does not affect the opinion expressed above. Essilor International has recorded for the first time in its accounts:

- A provision covering the unfunded portion of its supplementary pension benefit obligation. The initial provision has been charged against retained earnings.
- A provision covering long-service awards, charged to exceptional expense.

Basis of opinion

In accordance with Article L.225-235 of the Commercial Code requiring the auditors to explain the basis of their opinion, which is applicable for the first time this year, we set out below information used in formulating our audit opinion on the financial statements taken as a whole:

Note 1.4 to the financial statements describes the accounting principles and methods used to value investments. In connection with our assessment of the accounting principles used, we obtained assurance concerning the appropriateness of these accounting principles and methods and of the related disclosures in the notes to the financial statements, and verified that they had been properly applied.

These assessments were made in connection with our audit procedures on the financial statements, taken as a whole, and contributed to the formulation of the unqualified audit opinion expressed in the first section of this report.

Specific procedures and information

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

We have no comments to make on the fairness of the information given in the report of the Board of Directors and the documents sent to shareholders on the financial position and financial statements or its consistency with those financial statements.

As required by law, 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 12, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit
Liliane Tellier

Cabinet Dauge et Associés
Gérard Dauge

Statutory Auditors' Special Report on agreements involving directors for the year ended December 31, 2003

In our capacity as Statutory Auditors of Essilor International, we are required to report to shareholders on agreements involving directors. Our responsibility does not include identifying any undisclosed agreements.

We were not informed of any agreement governed by Article L.225-38 of the Commercial Code.

Paris, March 12, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit
Liliane Tellier

Cabinet Dauge et Associés
Gérard Dauge

General Information About the Company and Its Capital

The Company

Bylaws

Founded in 1971 for a period ending on October 6, 2070, Essilor International (Compagnie Générale d'Optique) is a *société anonyme* (joint stock corporation) incorporated in France and governed by the French Commercial Code. The Company is registered in Créteil under no. 712 049 618 RCS Créteil, with its registered office located at 147 rue de Paris - 94227 Charenton-le-Pont. The APE business identifier code is 334 A (headquarters code: 741 J).

According to article 2 of the bylaws, the Company's corporate purpose is, in any and all countries, to:

- Design, manufacture, purchase, sell and trade in any and all eyewear and optical products, including to manufacture, purchase and sell frames, sunglasses, protective glasses and other protective equipment, and eyeglass and contact lenses.
- Design and/or manufacture, purchase, sell and/or market any and all ophthalmic optical instruments and materials as well as any and all material and equipment for the screening, detection, diagnosis, measure or correction of physiological handicaps, for professional or private use.
- Design and/or develop, purchase and/or sell computer software, programs and related services.
- Conduct research, clinical trials, tests, training, technical assistance and engineering services in relation to the above activities.
- Provide any and all services and assistance related to the above activities, including consulting, accounting, audit, logistics and cash management services.

More generally, the Company may perform any financial, commercial or industrial transactions or any transactions involving either real estate or securities directly or indirectly related to the above-mentioned purposes or any similar or related purposes, or that would facilitate their extension or development or make them more profitable. It may perform such transactions for itself, on behalf of third parties or through any and all forms of participation, including creating new companies, acquiring shares in existing companies, forming partnerships, merging companies, advancing funds, purchasing or selling securities and voting rights, selling or leasing out of all or part of its real estate, securities or related rights, or otherwise.

The Company's fiscal year runs from January 1 to December 31.

Corporate documents and information are available for consultation at the Company's registered office, 147 rue de Paris – 94227 Charenton-le-Pont.

Specific provisions of the bylaws

General Shareholders' Meetings (Article 24)

General Shareholders' Meetings are called and conduct business in accordance with the applicable laws and regulations. All holders of common shares are entitled to participate in General Shareholders' Meetings, however many shares they own, provided such shares have been paid up to the extent called. To participate in a General Shareholders' Meeting in person or by proxy:

- Holders of registered shares must be listed as the shareholder of record in the Company's share register.
- Holders of bearer shares must obtain a certificate from their bank or broker stating that their shares have been placed in a blocked account, preventing their sale up to the date of the Meeting. The certificate must be filed at the address specified in the notice of meeting.

These formalities must be completed at least two days prior to the date of the Meeting.

Shareholders may give proxy only to their spouse or to another shareholder. Each shareholder present or represented at the Meeting has a number of votes equal to the number of shares represented, directly or by proxy, without limit.

Shareholders may also vote by mail, using a postal voting form containing all the information prescribed by French law.

Appropriation of income (Article 28)

At least 5% of net income for the year, less any losses carried forward from prior years, must be credited to the legal reserve, until such time as the legal reserve represents one-tenth of the Company's capital stock. In the case of any increase in capital, similar credits must be made until the legal reserve represents one-tenth of the new capital.

Income available for appropriation corresponds to net income for the year, less any losses carried forward from prior years and any amounts credited to the legal reserve, plus any income carried forward from prior years.

This amount may be appropriated as follows:

- All of part of income available for appropriation may be carried forward as retained earnings or appropriated to any extraordinary, special-purpose or other reserves.
- The amount remaining, if any, is used to pay a non-cumulative first dividend on common shares, equal to 6% of the paid-up par value of the shares.
- Any balance remaining after the above appropriations and distributions is shared among all the shareholders.
- The Annual Shareholders' Meeting may offer shareholders the option of reinvesting all or part of the dividend in new shares, subject to compliance with the applicable laws and regulations.

The Annual Shareholders' Meeting may also decide to distribute funds deducted from distributable reserves. In this case, the related resolution should specify the reserve account from which the funds are to be deducted.

Form of shares (article 10)

Fully paid-up shares may be held in either registered or bearer form, at the shareholder's discretion. The Company may, at any time, subject to compliance with the applicable laws and regulations, request information from the clearing organization about the identity of holders of shares and securities convertible, redeemable, exchangeable or otherwise exercisable for shares carrying rights to vote at General Shareholders' Meetings.

Any acquisition of 1.5% of the voting rights or any increase in an interest to 1.5% of the voting rights must be disclosed to the Company within fifteen days, by registered letter sent to the Company's registered office with return receipt requested. The same formalities are required when a shareholder acquires or raises an interest to 3.5% of voting rights.

Disclosure is also required, within the same maximum period, of any reduction in the percentage of voting rights held to below either of the above thresholds.

Double voting rights (article 24)

Since June 22, 1974, double voting rights have been attributed to all fully paid-up shares registered in the name of the same holder for at least two years. The holding period was raised to five years at the Extraordinary Shareholders' Meeting of June 11, 1983 and reduced to two years at the Extraordinary Shareholders' Meeting of March 3, 1997.

In the case of a bonus share issue paid up by capitalizing reserves, income or additional paid-in capital, the registered bonus shares allotted in respect of shares carrying double voting rights will also carry double voting rights.

If the Company is merged, the double voting rights will be exercisable at Shareholders' Meetings of the surviving company, provided that its bylaws include double voting right provisions.

If any registered shares are converted to bearer shares or transferred to another shareholder, the double voting right on those shares will be forfeited. However, double voting rights will not be forfeited if registered shares are transferred by way of succession, or the liquidation of the marital estate, or a gift between spouses or to a relative in the direct line of succession, and the change of ownership will not be taken into account in determining the two-year minimum holding period referred to above.

In accordance with the law, double voting rights may not be abolished by a Extraordinary Shareholders' Meeting unless this decision is first approved by a special meeting of holders of shares with double voting rights.

Sales of shares (article 11)

Shares are freely negotiable and are indivisible vis a vis the Company.

Voting restrictions

The Company's bylaws do not contain any restrictions on the exercise of voting rights.

Paying agent

Euro Emetteur Finance

THE COMPANY'S CAPITAL

AUTHORIZED CAPITAL

At the Extraordinary Shareholders' Meeting of May 3, 2001, the Board of Directors was authorized to issue shares to employees participating in a stock ownership plan. Under the terms of the five-year authorization, the total number of new shares to be purchased by employees may not exceed 3% of issued capital as of the date of issue.

The Extraordinary Shareholders' Meeting of May 16, 2003 gave the Board of Directors the following authorizations:

- To grant, in one or several times, to employees or officers of the Company or of related companies within the meaning of article L.225-180 of the Commercial Code, options to purchase new common stock of the Company, to be issued for this purpose. Under the terms of this three-year authorization, the total number of new shares to be purchased on exercise of these options may not exceed 3% of issued capital as of the date of grant.

- To issue shares and share equivalents, with pre-emptive subscription rights, for a maximum of:
  – €15 million for share issues
  – €600 million or the equivalent in foreign currency for debt securities (total issued amount)

- To issue shares and share equivalents, without pre-emptive subscription rights but with a priority subscription period for issues carried out in France, with the same limits as above.

- To issue bonus shares paid up by capitalizing reserves, for a maximum of €80 million.

The last three authorizations were given for a period of 26 months.

Under the third authorization described above, granted by the Extraordinary Shareholders' Meeting of May 16, 2003, the Board of Directors decided on June 11, 2003 to issue 5,252,359 bonds convertible or exchangeable into new or existing shares of common stock, at a price based on a reference Essilor International share price of €36.0216, without pre-emptive subscription rights but with a priority subscription period for issues carried out in France. After exercise of the 15% greenshoe option, a total of 6,040,212 bonds convertible or exchangeable into new or existing shares of common stock were issued, each with a nominal value of €51.15, for a total nominal amount of €308,956,843.80 representing a 42% premium to the Essilor International share price on the date final terms were set. The bonds will be redeemed in full on July 2, 2010 (or the next business day) at a price of €53.54 each, or at around a 4.7% premium to par. The bonds are convertible and/or exchangeable into and/or for shares – at Essilor's discretion – on the basis of one Essilor International share of common stock per bond. There were 6,039,754 bonds outstanding at December 31, 2003.

POTENTIAL SHARES

The exercise of all the stock options exercisable for new shares that were outstanding at December 31, 2003 would result in the issuance of 2,932,063 new shares.

Conversion of all the bonds convertible into or exchangeable for new or existing shares of common stock that were outstanding at December 31, 2003 would result in the issuance of 6,039,754 new shares. However, when the bonds are submitted for conversion, Essilor has the option of exchanging all or some of them for existing shares of common stock, instead of converting them into new shares.

Stock options exercisable for new shares

Options outstanding at December 31, 2003 and March 31, 2004

Date of grant	Number of options granted	o/w options granted to the Executive Committee	Exercise price (in euros)	Options outstanding at Dec. 31, 2003	Options outstanding at Mar. 31, 2004
September 20, 1995	327,380	12,840	12.608	0	0
May 6, 1996	50,000	50,000	18.980	0	0
November 27, 1996	1,559,040	129,560	20.992	0	0
March 19, 1997	15,000	15,000	22.959	0	0
April 30, 1997	23,000	0	22.989	0	0
March 11, 1998	50,000	50,000	27.166	12,000	0
June 24, 1998	50,000	25,000	37.076	50,000	35,000
September 16, 1998	10,000	0	33.234	10,000	10,000
November 25, 1998	1,313,000	329,000	32.777	728,515	420,270
November 24, 1999	11,000	0	27.807	7,500	7,500
January 26, 2000	142,280	0	28.800	131,596	129,258
March 15, 2000	65,000	50,000	25.800*	65,000	52,500
September 13, 2000	25,000	25,000	31.483*	25,000	25,000
November 15, 2000	141,000	120,000	28.763*	141,000	141,000
January 31, 2001	20,000	0	32.780*	18,000	18,000
November 14, 2001	160,660	30,000	31.240*	134,568	127,630
November 20, 2002	812,580	243,000	40.670*	804,605	801,159
November 18, 2003	804,570	220,000	40.730*	804,279	803,085
Total	**5,579,510**	**1,299,400**		**2,932,063**	**2,570,402**

** Options granted without any discount to the benchmark price.*

The exercise price is determined by reference to the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the Board of Directors' decision to grant the options. Until January 2000, options were granted at a discount to this average price. This is no longer the case.

Situation at December 31, 2003 and March 31, 2004

	At Dec.31, 2003	Of which in 2003	At Mar. 31, 2004	Of which in 2004
Options granted	**5,579,510**	**804,570**	5,579,510	
Options canceled	**159,334**	**6,757**	161,662	2,328
Options exercised	**2,488,113**	**417,762**	2,847,446	359,333
Options outstanding*	**2,932,063**		2,570,402	

** Representing 2.85% of issued capital at December 31, 2003.*

Stock options to purchase existing shares

Options outstanding at December 31, 2003 and March 31, 2004

Date of grant	Number of options granted	o/w options granted to the Executive Committee	Exercise price (in euros)	Options outstanding at Dec. 31, 2003	Options outstanding at Mar. 31, 2004
November 14, 2001	670,250	200,000	31.24	640,059	621,589
Total	**670,250**	**200,000**		**640,059**	**621,589**

The Annual Shareholders' Meeting of January 18, 2001 authorized the Board of Directors to grant, for the first time, options to purchase existing shares of the Company acquired on the market.
The exercise price of these options, granted on November 14, 2001, is equal to the average of the opening prices quoted for the Company's shares over the twenty trading days that preceded the Board of Directors' decision to grant the options. No options to purchase existing shares were granted in 2002 or 2003.

Situation at December 31, 2003 and March 31, 2004

	At Dec.31, 2003	Of which in 2003	At Mar. 31, 2004	Of which in 2004
Options granted	**670,250**		670,250	
Options canceled	**12,336**	**7,086**	13,003	667
Options exercised	**17,855**	**15,358**	35,658	17,803
Options outstanding*	**640,059**		621,589	

** Representing 0.62% of issued capital at December 31, 2003.*

CHANGES IN CAPITAL STOCK OVER THE LAST FIVE YEARS

(€ thousands)	Number of shares issued	Par value	Additional paid-in capital	New issued capital	New number of shares outstanding
CAPITAL STOCK AT DECEMBER 31, 1998				31,178	10,225,889
Issuance of shares to the Essilor Corporate Mutual Funds	40,230	123	10,355	31,301	10,266,119
Exercise of stock options	34,133	104	2,974	31,405	10,300,252
Conversion of 55,499 convertible bonds	277,495	846	30,994	32,251	10,577,747
CAPITAL STOCK AT DECEMBER 31, 1999				32,251	10,577,747
Issuance of shares to the Essilor Corporate Mutual Funds	48,352	148	10,281	32,399	10,626,099
CAPITAL STOCK AT DECEMBER 31, 2000				32,399	10,626,099
Cancellation of treasury stock	(641,027)	(1,954)	(174,246)	30,445	
Conversion of the capital into euros		4,522	(4,522)	34,967	
Buyback and cancellation of preferred non-voting stock	(15,274)	(54)	(4,987)	34,913	9,969,798
10-for-1 stock-split				34,913	99,697,980
Exercise of stock subscription options	925,051	305	14,067	35,218	
Issuance of shares to the Essilor Corporate Mutual Funds	452,860	159	11,457	35,377	
CAPITAL STOCK AT DECEMBER 31, 2001				35,377	101,075,891
Issuance of shares to the Essilor Corporate Mutual Funds	374,562	131	12,413	35,508	101,450,453
Exercise of stock options	1,233,160	431	27,374	35,939	102,683,613
CAPITAL STOCK AT DECEMBER 31, 2002				35,939	102,683,613
Issuance of shares to the Essilor Corporate Mutual Funds	438,733	154	12,968	36,093	103,122,346
Exercise of stock options	417,762	146	13,169	36,239	103,540,108
Cancellation of treasury stock	(800,000)	(280)	(21,720)	35,959	102,740,108
CAPITAL STOCK AT DECEMBER 31, 2003				**35,959**	**102,740,108**

CURRENT OWNERSHIP STRUCTURE AND VOTING RIGHTS

OWNERSHIP STRUCTURE

At December 31

2003	Number of shares	%	Number of voting rights	%
Employees (in France and abroad)				
- Valoptec International Corporate Mutual Fund	**5,026,774**	**4.9**	**10,053,548**	**9.1**
- Essilor 5 and 7-year Corporate Mutual Funds	**2,632,000**	**2.6**	**4,678,974**	**4.3**
- Essilor Shareholding Plan	**328,874**	**0.3**	**328,874**	**0.3**
- Registered shares held directly by employees	**1,224,181**	**1.2**	**2,219,684**	**2.0**
Public	**92,258,442**	**89.8**	**92,622,262**	**84.3**
Treasury stock	**1,269,837**	**1.2**	**--**	**--**
TOTAL	**102,740,108**	**100**	**109,903,342**	**100**

2002	Number of shares	%	Number of voting rights	%
Employees (in France and abroad)				
- Valoptec International Corporate Mutual Fund	5,238,865	5.1	10,477,730	9.5
- Essilor 5 and 7-year Corporate Mutual Funds	2,512,536	2.5	4,272,216	3.9
- Essilor Shareholding Plan	306,447	0.3	306,447	0.3
Public	93,175,120	90.7	94,858,124	86.3
Treasury stock	1,450,645	1.4	--	--
TOTAL	102,683,613	100	109,914,517	100

2001*	Number of shares	%	Number of voting rights	%
Employees (in France and abroad)				
- 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
- Essilor Shareholding Plan	282,517	0.3	282,517	0.3
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

* *After the 10-for-1 stock split.*

To the best of the Company's knowledge, no shareholder other than the Valoptec International Corporate Mutual Fund holds 5% or more of the capital stock or voting rights, directly, indirectly or in concert with other shareholders.

Employee share ownership

Essilor employees may become shareholders in two ways:

- By purchasing units in various Corporate Mutual Funds, either directly or in connection with employee rights issues. The funds include the Valoptec International Corporate Mutual Fund, the Essilor 5-year Corporate Mutual Fund, the Essilor 7-year Corporate Mutual Fund, and, in the United State, the Essilor Shareholding Plan. They are subject to different rules concerning the minimum investment period and the amount of the matching payments made by the Company.
- By exercising stock options to purchase registered shares of Company stock.

Geographic breakdown of the shareholder base

On January 30, 2004, the Company made enquiries of banks and brokers holding at least 99,000 Essilor shares in accounts managed on behalf of clients, under France's TPI procedure.

The enquiries identified more than 48,300 shareholders owning an aggregate 89.5% of the capital and 99% of the Company's bearer shares. At that date, private investors owned 11.9% of outstanding shares and resident institutional investors held 23.6%, of which 13.5% in mutual funds. Non-resident shareholders held 54.3% of the capital.

Shareholder pacts

Essilor International is no longer party to any shareholder or similar pact, as governed by Article 3-3.1 of Chapter III Section 2 of Commission des Opérations de Bourse regulation 98-01.

The Market for the Company's Shares

Essilor has issued two types of securities, shares of common stock and bonds convertible into or exchangeable for new or existing shares of common stock (OCEANEs).

Common stock

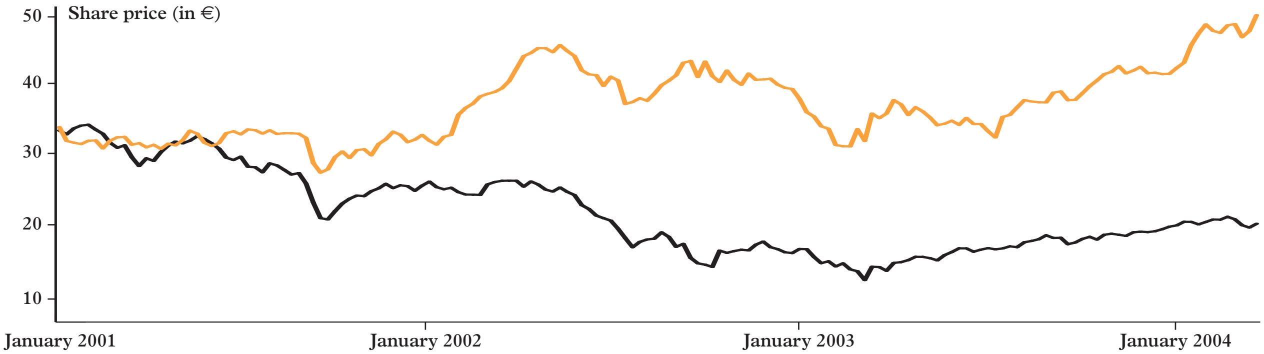
Essilor shares are listed on the Premier Marché of Euronext Paris SA, under ISIN code FR0000121667. The shares are eligible for the "SRD" deferred settlement service. At December 31, 2003, a total of 102,740,108 common shares, each with a par value of €0.35, were issued and outstanding.

Share prices (adjusted for the 2001 10-for-1 stock-split)

	Share price (in €)			Number of shares outstanding at December 31	Market capitalization (€ millions)
	High	Low	Year-end		
2003	**42.50**	**30.85**	**41.00**	**102,740,108**	**4,188**
2002	45.57	31.20	39.25	102,683,613	3,975
2001	35.80	25.00	33.95	101,075,891	3,417
2000	34.78	23.00	34.75	106,113,620	3,667
1999	39.40	27.30	30.80	105,213,290	3,233

Share performance

Source: Euronext



** Based on adjusted Essilor share prices.*

High and low share prices and trading volume

Source: Euronext

	Trading volume by number of shares	Trading volume by amount (€ millions)	High and low share prices (in €)	
			High	Low
2002				
October	9,288,378	383.22	44.20	37.64
November	8,297,667	333.30	41.74	37.61
December	5,242,796	208.46	41.08	37.92

2003				
January	7,184,442	256.52	39.60	33.10
February	7,584,343	249.87	36.19	30.85
March	7,634,247	266.67	37.26	31.34
April	7,661,318	283.39	38.48	34.85
May	12,450,598	443.91	37.80	33.78
June	9,722,170	339.66	36.40	33.95
July	10 219,909	352.56	36.32	32.63
August	7 655,706	285.31	38.50	35.20
September	7,985,306	304.87	39.90	37.00
October	6,403,647	251.35	41.48	36.82
November	5,357,856	220.73	42.43	40.05
December	4,358,042	180.43	42.50	40.50

2004				
January	7,186,556	309.69	46.45	39.20
February	6,460,809	299.48	47.55	44.80
March	7,133,905	334.97	49.80	45.15

Bonds convertible into or exchangeable for new or existing shares of common stock (OCEANES)

In July 2003, Essilor issued bonds convertible into or exchangeable for new or existing shares of common stock (OCEANEs) in an amount of €309 million. The seven-year bonds may be redeemed at holder option after five years. They have been traded on the Euronext Paris SA market since July 2, 2003 under ISIN code FR0000189276. There were 6,039,754 OCEANEs, each with a nominal value of €51.15, outstanding at December 31, 2003.

OCEANEs prices

	Price (in €)			OCEANEs outstanding at December 31
	High	Low	Year-end	
2003	**57.50**	**46.55**	**56.00**	**6,039,754**

High and low prices and trading volume

Source: Euronext

	Trading volume by number of bonds	Trading volume by amount (€ millions)	High and low prices (in €)	
			High	Low
2003				
July	347,917	18.01	56.20	46.55
August	63,341	3.32	53.20	51.50
September	159,134	8.47	54.50	50.50
October	90,330	4.94	57.50	53.20
November	108,169	6.03	56.30	54.80
December	158,902	8.83	56.80	54.20
2004				
January	75,863	4.30	59.00	55.75
February	67,832	4.08	60.50	58.00
March	8,154	0.49	61.10	59.60

Dividends

Dividend history

Dividends for the last five years were as follows:

	Dividend (in €)*			Paid on
	Net dividend	Tax paid in advance	Total revenue	
2003	**0.56**	**0.28**	**0.84**	**May 18, 2004**
2002	0.50	0.25	0.75	May 20, 2003
2001	0.41	0.20	0.61	May 28, 2002
2000	0.39	0.19	0.58	May 21, 2001
1999	0.34	0.17	0.51	June 5, 2000

**Adjusted for the 2001 10-for-1 stock-split.*

Dividends not claimed within five years are time-barred, in accordance with the law.

Payout

Total dividend payouts for the last five years were as follows:

(€ millions)	Net income	Total payout	Payout ratio (%)
2003	**200**	57	28
2002	182	51	28
2001	143	41	29
2000	135	39	29
1999	121	36	30

Information About the Company's Business

General Presentation

The world's leading ophthalmic optics company, Essilor designs, manufactures and customizes corrective lenses adapted to each person's unique vision requirements. Its broad range of lenses correct myopia, hypermetropia, astigmatism and presbyopia to enable people to regain perfect vision.

The leading brands include:
- Varilux® progressive lenses.
- Airwear® polycarbonate lenses.
- Crizal® anti-reflective treatment.
- Transitions® variable-tint lenses.

Essilor currently serves more than 20% of the global market by volume and 25% by value.

History of the Company

Essilor was created through the 1971 merger of two companies: Société des Lunetiers (Essel), an eyewear manufacturer that traced its origins to the Association Fraternelle des Ouvriers Lunetiers, a workers' cooperative, and Société Industrielle de Lunetterie et d'Optique Rationnelle (Silor). Essel had invented the Varilux® progressive lens, which it patented in 1953 and introduced in 1959, while the founder of Silor, Georges Lissac, had developed the Orma® plastic lens in 1954.

In the 1970s, Essilor served global markets primarily through exports, as a distribution network was gradually set up, first in Europe and the United States, then in Asia.

In the 1980s, however, the Company began developing an international presence by transferring part of its stock lens production and prescription operations to emerging markets. In 1979, for example, the first plastic lens plant was opened in the Philippines. This growth in the global industrial base was supported by a similar expansion in local distribution capabilities, through either the acquisition of the local distributor, as in Australia and the Netherlands, or the creation of new subsidiaries, as in Japan and Canada.

Over the past twenty-five years, the Group's geographic reach has been steadily extended. In the early 1990s, the ophthalmic market was reshaped by a wave of mergers and acquisitions, leading to heightened competition. Essilor, which by then had become the worldwide market leader, focused on strengthening its positions through a global strategy. The commitment to locating manufacturing operations in low production cost countries was now extended to higher value-added lenses as well.

In 1995, Essilor acquired Gentex Optics, one of the leading US manufacturers of polycarbonate lenses. At the same time, the Group developed the prescription lens business, particularly in the United States where several independent laboratories were acquired, including Omega in 1996. The 1990s also saw the establishment of two major partnerships. The first, in 1990 with U.S.-based PPG Industries Inc., concerned the production of Transitions® variable-tint lenses, while the second, in 1999 with Japan's Nikon Corp., led to the formation of Nikon Essilor Co Ltd. The new joint venture combined Essilor's business interests in Japan, including Japanese marketing rights for the Varilux® brand, with all of Nikon's ophthalmic optical assets, including worldwide marketing rights for Nikon®-brand products in this segment.

The contact lens business was divested in 2001, completing the strategic refocusing on corrective lenses. Then, Essilor strengthened its presence in the United Kingdom by acquiring the Dollond & Aitchison optical chain's prescription lens laboratories.

In 2002, the Essilor Korea Ltd. joint venture was formed with Samyung Trading Co. Ltd, making Essilor a leading supplier of ophthalmic lenses in South Korea, Asia's second largest market. International expansion was also driven by the acquisition of three laboratories in the United States from CSC Group and of Aries Optical Ltd. in Canada. A subsidiary was created in Mexico following the purchase of a local laboratory. Essilor Instruments expanded its vision tester business with the acquisition of Stereo Optical Inc., a US screening equipment manufacturer. In Europe, Essilor opened its first laboratory in Poland and acquired a majority interest in Jacques Denis, a French lens mounting company.

Employee share ownership, a founding principle

Essilor has a long tradition of employee share ownership, dating back to the founding of Société Civile Valoptec, a non-trading company set up at the same time as Essilor to hold the 50% of outstanding shares owned by the managers of the new company. Employee participation was further expanded in 1979, when an employee stock ownership plan was created for employees of companies in France, in the early eighties, when employees outside France were allowed to invest in Valoptec shares, and in 1997, when the Essilor Shareholding Plan was set up for employees in the United States.

Today, Valoptec is an association comprised of all the employee shareholders who want to actively participate in their Company's growth momentum. Their shares, acquired via employee savings plans with matching Company payments or through stock option plans, are held in Corporate Mutual Funds or in the form of registered shares.

Valoptec Association is administered by an international Board of Directors made up of regional representatives from France, Europe, Asia and the Americas and representatives of the various employee categories. Association members meet twice a year in General Meeting, making an active contribution to Essilor's business, decisions and long-term strategic vision. In addition, the Association takes part in major corporate decisions through its three seats on the Essilor Board of Directors.

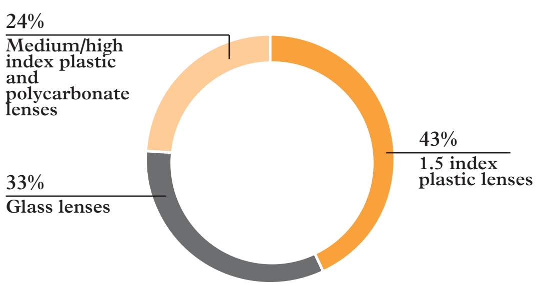
The Association helps to bind Essilor's corporate culture, which is based on human values and supported by each employee's entrepreneurial spirit. In addition, the Group's participative management style enables every member of the corporate community to feel comfortable in his or her role as both employee and investor.

THE GLOBAL CORRECTIVE LENS MARKET

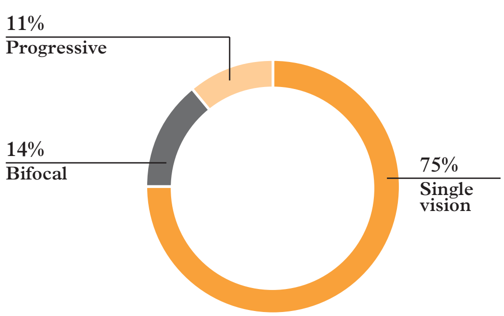
The global corrective lens market is worth an estimated €7 to 8 billion, representing some 800 to 850 million lenses. Lenses are generally replaced every three to four years.

Breakdown of the corrective lens market

By material



By optical design



Growth potential

Expansion of the ophthalmic optical market is based on growth in volumes, estimated at 1 to 2% a year, and on growth in value, estimated at 3 to 4% a year.

Volumes

Growth in volume reflects by global demand for corrective lenses. Growth potential therefore depends on population trends and economic development. It is estimated that of the six billion people living on Earth, four billion, or 65%, need some form of vision correction. However, only 1.3 billion, or 22%, currently wear eyeglasses. In addition, the proportion of people over 45 is expected to increase from 23% today to 31% in 2025. According to the World Bank, the world's population is increasing by an estimated 1.1% a year.

The percentage of people wearing eyeglasses varies by region, from 60% in North America and 35% in Europe, to just 16% in the Asia-Pacific region and 19% in Latin America.

Value

Growth in value is being driven by technological advances in corrective lenses resulting from developments and innovations in the three segments of the corrective lens market: optical design, materials and treatments. The technological content of lenses is constantly being enhanced, with increasingly sophisticated, higher-tech lenses delivering greater value-added.

ORGANIZATION OF THE OPHTHALMIC LENS INDUSTRY

The ophthalmic lens industry is organized around four separate businesses corresponding to the four stages in lens production: raw materials suppliers, lens manufacturers, prescription laboratories, and distributors.

<table>
<tr><td>Raw materials suppliers</td><td colspan="3">Chemical companies and glass manufacturers
PPG Industries, Corning, Schott, etc.</td></tr>
<tr><td>Lens manufacturers</td><td rowspan="2">Integrated manufacturers with laboratories
Essilor, Hoya, Sola, etc.</td><td colspan="2">Other manufacturers
Vision Ease, etc.</td></tr>
<tr><td>Lens finishers</td><td>Independent laboratories</td><td rowspan="2">Integrated optical chains with laboratories
LensCrafters, Wal-Mart, etc.</td></tr>
<tr><td>Retailers</td><td colspan="2">Independent opticians
Non-integrated optical chains</td></tr>
<tr><td>End customers</td><td colspan="3">Consumers</td></tr>
</table>

Chemical companies and glass manufacturers

Raw materials are developed and produced by glass manufacturers for glass lenses and by chemical companies for the polymerizable thermoset resins and injectable thermoplastic resins used in plastic lenses.

Lens manufacturers

Using these raw materials, lens manufacturers produce single-vision finished lenses and a variety of semi-finished lenses.

Prescription laboratories

Prescription laboratories transform semi-finished lenses into finished lenses corresponding to the exact specifications of an optician's order. This customization enables them to deliver the broadest possible array of correction combinations, especially for presbyopia.
In the process, they edge and polish the semi-finished lenses and then apply tinting, scratch-proofing, anti-reflective, smudge-proofing and other treatments.

Retailers and chain stores

Lenses are marketed through a number of channels, including independent opticians and optometrists, cooperatives, central purchasing agencies and retail optical chains.
These eyecare professionals advise customers on the choice of lenses, based on the prescription, as well as the choice of frames. They forward the prescription data to a laboratory, which supplies round lenses that can be edged, mounted and adjusted to the frame.

The interaction among these players differs from one country to another. In the United States and the United Kingdom, for example, laboratories usually fully mount the lenses and frames and deliver ready-to-wear eyeglasses to the optician. In countries such as France and Germany, laboratories deliver round lenses to opticians, who then adjust them to fit the frame.

PRODUCTS

Corrective lenses are a combination of materials, optical design and treatments.

Materials

Lens materials fall into two categories: glass and plastic (organic). Plastic lenses are subdivided into two groups: thermosetting plastics and thermoplastics (polycarbonate).
These materials are selected for lightness, thinness, transparency, shock resistance and protection against UV rays.

Material	Refraction index*
Glass	1.5 to 1.9
Low and medium index plastic	1.5 1.56
Polycarbonate	1.59
High and very high index plastic	1.6 1.67 1.74

** The refraction index measures the angle of deviation of light as it travels through the material. The higher the index, the wider the angle. As a result, for a given correction, a higher index material makes it possible to produce a thinner lens.*

Originally, all lenses were made of glass and even today, glass lenses still account for a significant proportion of the global market, especially in the emerging economies. In the 1960s, however, Essilor introduced a major innovation after developing a plastic lens from PPG Industries' CR-39 monomer. Plastic lenses have now become extremely popular in the industrialized world, accounting for 90% of all lens sales in the US and Japan, for example. The emergence of higher-index materials in recent years has led to the development of even thinner and lighter lenses.

Because they have a naturally high index and are unbreakable, polycarbonate lenses have gained market share around the world, especially since Essilor developed a hardening varnish that made them scratch resistant. Polycarbonate lenses already account for over 25% of the North American market, and they are enjoying growth of over 10% a year. Essilor has a strong position in polycarbonate lenses in North America and in Europe, thanks to Airwear®, which offers the market's best combination of thinness, light weight, sturdiness and scratch resistance.

In 2001, the Group introduced the 1.67 ultra-high index lens (Stylis®), followed in 2002 by Fusio™, a 1.74 index lens.

Optical design

The optical design (or surface) imparts the optical correction to the material. Given the infinite number of eyesight corrections, there are also an almost infinite number of designs, which all deliver the benefit of sharper vision.

Optical design	Description	Correction
Unifocal or single vision lens	Identical correction regardless of vision distance	Myopia Hypermetropia Astigmatism
Bifocal lens	The lens has two separate correction areas. A segment of the lower half corrects for near vision; the rest of the lens corrects for distance vision.	Presbyopia
Progressive lens	Correction power progressively from distance vision in the upper part of the lens to near vision in the lower part, with no break in optical continuity. A single pair of glasses enables the user to see at all distances. The most effective correction for presbyopia	Presbyopia

Traditionally, most vision problems have been corrected with single vision lenses or, for presbyopia, bifocals and trifocals. In the 1950s, thanks to Bernard Maitenaz, Essilor developed the Varilux® progressive lens that provides clear vision at any distance. Today, Essilor is by far the world leader in progressive lenses, whose development for correcting presbyopia is a major strategic challenge.
With the Varilux® Panamic® launched in 2002, wearers enjoy a panoramic field of vision. They also adapt to their new lenses extremely quickly, a factor that may prompt more and more people to shift from unifocals and bifocals to progressives. The latest generation Varilux® Ipseo™ is the first progressive lens whose design and fabrication integrates the wearer's physiological criteria and unique head and eye movements.

Surface treatments

Today, a corrective lens is a highly processed, complex product that combines a variety of materials and numerous coatings with specific functions.

Thanks to Essilor, and especially its Crizal® anti-reflective lenses, coatings are now one of the fastest growing market segments and substantial source of business development in the years ahead.

Coatings are applied on the front and back of the lens to enhance visual comfort and lens protection. They help to improve durability, ease of maintenance, visual comfort and eye protection, while reducing eyestrain.

Treatment	Description
Anti-reflective	Thin integrated layer that eliminates light reflections on lenses. Improves appearance as well as sharpness of vision (night vision) and contrast sensitivity.
Scratch-proofing	Hardening coat that protects lens against scratches.
Smudge-proofing	Water-repellent top coat that prevents dirt deposits on the lens and makes it easier to clean.
Photochromic	In-depth treatment that enables lens to darken in brighter light and becomes clear in shade.
UV protection	Treatment that provides greater eye protection from UVA and UVB rays, which are harmful for the crystalline lens, retina, and other parts of the eye.
Polarization	Lens that incorporates a filter that removes glare and dazzle caused by light reflections on flat surfaces (water, roads, snow).
Tinting	Tinted lens for enhanced appearance and to reduce sun glare.

In 2003, the Crizal® Alizé™ antireflective lenses was introduced. Its smudge-proof coating, using a nanotechnology-based process, responds to a key customer demand by eliminating cleaning problems.

Transitions® variable-tint lenses
A lens that changes color depending on the light is called a photochromic lens. While the process may look easy, it relies on extremely complex technology. To be effective, a variable-tint lens must react quickly to changing light conditions both indoors and outdoors while providing maximum comfort for the wearer in all circumstances.

Essilor and PPG Industries, one of the world's leading chemical companies, developed a particularly sophisticated technology for the Transitions® lens. The new Next Generation Transitions® lens launched in early 2002 benefits from the latest innovations in photochromic pigments that offer both faster changes in color and full protection against UVA and UVB rays.

Sunlenses
Introduced in 2003, a new line of prescription sunlenses is meeting strong demand for lens that effectively protect eyes while correcting vision.

Manufacturing processes

Plastic lenses

The most common process for making plastic lenses consists of pouring thermoset resin between two glass molds, polished to match the convex and concave curves of the lens. A joint or adhesive tape is used to seal the mold. The polymerization phase consists of heating the lens at a specific temperature and for a specific period, according to the type of resin and the mass of the lens.

Polycarbonate lenses

Polycarbonate is a thermoplastic organic material. The basic material is in the form of granules that are heated to soften them and then injected into molds that are the same shape as the lens. This technology can be used to produce lenses of all shapes and sizes, simply by using different molds. The lenses may be finished or semi-finished and ready to be surfaced using similar techniques as those applied to other materials.

A GLOBAL ORGANIZATION

To manufacture and customize corrective lenses, Essilor leverages a global network of production plants and prescription laboratories, whose organization is tailored to local market demand.

Production plants

In 2003, Essilor's 18 manufacturing plants around the globe produced 180 million finished and semi-finished lenses, corresponding to 200,000 different references. The role of the plants is to guarantee constant supplies of finished and semi-finished lenses to subsidiaries and direct customers, in accordance with customer specifications, with the best service level and at the lowest cost.

Plant locations and date established

North and South America	Europe	Asia-Pacific
United States • Saint Petersburg, Florida - 1972 • Carbondale, Pennsylvania - 1995 • Dudley, Massachusetts - 1995 **Mexico** • Chihuahua - 1985 **Puerto Rico** • Ponce - 1986 **Brazil** • Manaus - 1989	**Ireland** • Ennis - 1991 • Limerick - 1974 **France** • Dijon - 1972 • Ligny en Barrois (Les Battants) - 1959 • Mouy - 1972 • Sézanne - 1974	**Philippines** • Mariveles - 1980 • Laguna - 1999 **Thailand** • Bangkok - 1990 **China** • Shanghai - 1997 **India** • Bangalore - 2000 **Japan** • Nikon Essilor plant - Nasu - 1979

Prescription laboratories

Prescription laboratories transform semi-finished stock lenses into finished lenses, responding to the myriad of possible correction combinations and delivering lenses corresponding exactly to order specifications. They surface the back of the lens, add tinting and an anti-reflective treatment and then sometimes edge the lens to fit the frame. At the same time, they are constantly keeping pace with technological developments required to expand the product catalogue.

The number of prescription laboratories varies depending on changes in their operations.

As of the end of 2003, the network of laboratories operated by Essilor and the Nikon-Essilor joint venture comprised 173 units covering virtually all of the world's ophthalmic lens markets, as follows:

United States	Canada	Europe	Asia Pacific	Latin America
81	27	34	28	3

Many independent laboratories also distribute Essilor products, extending the network to provide local service for eyecare professionals worldwide.

Logistics centers

Logistics centers take delivery of finished and semi-finished lenses and ship them to the distribution subsidiaries and prescription laboratories. There are twelve centers worldwide, six in Asia, two in Europe, two in North America and two in South America.

Research and development

In 2003, the equivalent of nearly 5% of consolidated sales was budgeted to the Research and Development Department. Of this amount, the equivalent of around 3% of sales was allocated to research and development activities and the balance to engineering and technical support.

The 480-strong research team is spread among four R&D centers, with 330 people working at the Saint-Maur center in France, 90 in Florida in the United States, around 30 at the Nikon-Essilor center in Japan and another dozen at the new center created in Singapore in 2003. Around 20 more people work in the R&D departments of the manufacturing plants and prescription laboratories.

Research and development activities concern both optical properties and materials (substrates and surface treatments), with support provided by the Quality Department. The R&D Department is also in charge of cross-functionally managing new product development through its integrated New Product Projects Department.

Two major innovations were brought to market in 2003:
- In optical design, the Varilux® Ipseo™ is the first progressive lens whose design and fabrication integrates the wearer's physiological criteria and unique head and eye movements.
- In treatments, Crizal® Alizé™, the new benchmark in anti-reflective, scratch-proof treatments, smudges less and is easier to clean than standard anti-reflective treatments.

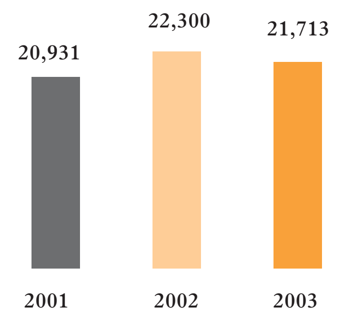
Essilor technologies have also been successfully combined with technologies developed by its partners PPG Industries in photochromic lenses and Nikon Corp. in materials and surface treatments. The R&D Department also establishes partnerships with outside research organizations and universities to conduct research into new technologies. In 2003, a framework cooperation was signed with France's National Center for Scientific Research (CNRS) to develop innovative research in the science of vision and in optical components.

As of end-2003, the Company had more 1,500 patents and patents pending in France and abroad, with the number of patent applications increasing sharply in recent years. The portfolio does not include patents held by the Transitions and Nikon-Essilor joint ventures.

Employees

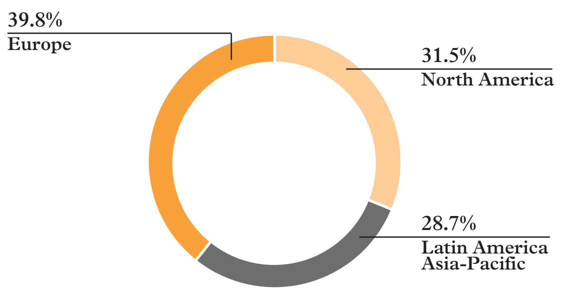
As of December 31, 2003, Essilor had 23,607 employees worldwide, including 2,256 at Transitions Optical Inc., Nikon-Essilor and Essilor Korea.

Average number of employees

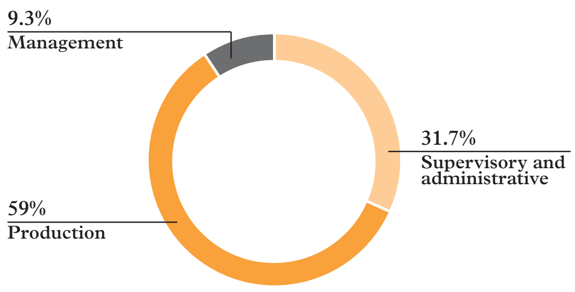


Breakdown of employees

Breakdown by region



Breakdown by category



Social Report

A Social Report, produced each year for employees of the parent company, is distributed to all employees and to shareholders at the Annual Meeting. It is also available to anyone on request.

Risks

Market risks

Market risks are managed by Corporate Treasury. The head of Corporate Treasury and Financing reports directly to the Chief Financial Officer, who is a member of the Executive Committee. The Company is equipped with Reuters financial information terminals and Cash Flow management software.

Financing

Financing strategy is designed to ensure that borrowing needs are met at all times in terms of both amounts and duration. For example, despite the substantial reduction in net debt since 2001, available financing was further secured by the issuance of €309 million worth of bonds convertible into or exchangeable for new or existing shares of common stock (OCEANEs) maturing in 2010, with an early redemption option in July 2008. This extended the average life of existing borrowings while increasing the amount available. Borrowings against confirmed facilities (bonds, structured loans), drawn initially in euros, totaled €641 million at December 31, 2003. At that same date, the Company also had access to an aggregate €770 million in two undrawn syndicated multi-currency facilities maturing in 2005 and 2007.

The loan agreements for the Company's various structured loans and syndicated lines of credit include covenants requiring Essilor to meet certain consolidated ratios at all times, mainly debt-to-equity and interest cover ratios. At December 31, 2003, the Company was in full compliance with all of these covenants.

As a general rule, the parent company negotiates with its banking partners the facilities required to meet the needs of the business, and refinances the vast majority of its subsidiaries through intercompany loans. When these intercompany loans are in foreign currencies, the currency risk is systematically hedged. At December 31, 2003, foreign currency loans to subsidiaries totaled €300 million, of which €232 million were hedged by cross currency swaps in dollars (maturing at various dates in 2004, 2006 and 2007) and €68 million were hedged by forward contracts.

Interest rate risk

Since substantially all financing is raised by the parent company, interest rate risks are also managed at parent company level. Interest rate risk management policy consists of protecting positions against the effects of an unfavorable change in interest rates and taking advantage of or locking-in the benefits of favorable rates.

At December 31, 2003, following the OCEANE issue, 77% of drawdowns on confirmed facilities were at fixed rates, while interest rates on 28% of drawdowns on confirmed facilities had been swapped for fixed rates.

Sensitivity to changes in interest rates at December 31, 2003:

(€ millions)	**Overnight to 1 year**	**1 to 5 years**	**More than 5 years**
Variable rate borrowings *	278	122	
Fixed rate borrowings			309**
Variable rate financial assets	612	0	
Net position before hedging	(334)	122	309
Hedging instruments	60	122	0
Net position after hedging	(394)	0	309

** Including local facilities and obligations under finance leases (€68 million).*
*** Convertible bond.*

Impact of a one-point increase or decrease in interest rates: €3.9 million.

Counterparty risk

Temporary cash surpluses are invested in liquid, risk-free treasury instruments. These surpluses rose substantially in 2003 following the sustained reduction in debt and the issuance of bonds convertible into or exchangeable for new or existing shares of common stock (OCEANEs). In response, cash investment policies have been defined with strict limits on investment periods, counterparties and risks. Counterparty banks, most of which are already Company partners, must be rated investment grade or higher by Moody's and Standard & Poor's.

At December 31, 2003, temporary cash surpluses were invested solely in conventional money market funds and bank certificates of deposit.

Currency risk

Currency risks are systematically hedged using appropriate market instruments, including forward and spot purchases and sales of foreign currencies, and purchases of currency options and collars.

The large majority of currency risks are managed by the parent company. Currency transactions are subject to pre-determined position limits designed to optimize the protection afforded by the hedges. Currency risks on intercompany and external commercial transactions, dividend payments and royalty payments are systematically hedged based on 80% to 100% of the identified exposure. Currency risks on financial transactions (purchases and sales of investments, share issues) are managed on a case-by-case basis, according to the degree of certainty that the transaction will take place, using the most appropriate products.

Intercompany commercial transactions (not involving the parent company) that generate a material currency risk are hedged locally (or via Corporate Treasury) by the subsidiary that incurs the exposure, with the support and approval of Corporate Treasury. The instruments used are forward and spot purchases and sales of foreign currencies. Here again, 80% to 100% of the identified exposure is hedged. Position data are reported to Corporate Treasury on a quarterly basis. However, the total amount of currency hedges held in the subsidiaries and not managed by the parent company remains marginal.

Certain local risks are deliberately not hedged, primarily the risk of a fall in the dollar against the currencies of certain Asian countries (other than Japan) where the Company has manufacturing operations. These positions are included in the tables below.

Consolidated currency risk on assets and liabilities at December 31, 2003 (€ thousands)

CUR1 CUR2	EUR	GBP	JPY	USD	ZAR	Other
AUD	(158)		(156)	443		(3)
BRL				831		
CAD				(1,331)		
CHF	(358)					
CNY	(95)		(35)	(1,496)		
EUR		480	1,001	4,949	692	1,263
GBP	122			(36)		
INR	(4)			19		
MXN				(4,169)		
MYR	(3)		(7)	(72)		
PHP	(64)		(22)	2,838		
THB	(91)		(30)	(227)		
ZAR	(15)		(7)	(21)		
PLN	(108)					
TOTAL	**(774)**	**480**	**745**	**1,727**	**692**	**1,260**

CUR1: risk currency ; CUR2: reference currency
Legend: (-) CUR1 sold against CUR2, (+) CUR1 purchased against CUR2

N.B. This table is a compilation of net balance sheet positions, after hedging, in the main operating currencies of consolidated companies at December 31, 2003. For example, the Company is a net buyer of USD against EUR in a euro amount equivalent to €4,949,000 and a net seller of USD against MXN in a euro amount equivalent to €4,169,000. Total net currency risk exposure represented the euro equivalent of €4,130,000 at December 31, 2003.

LEGAL RISKS

To the best of the Company's knowledge, it is not involved in any claims, litigation or arbitration proceedings that would be likely to have a material impact on its financial position or business.

ENVIRONMENTAL RISKS

By its very nature, Essilor's business has only a limited impact on the environment. Nevertheless, a voluntary process has long been in place to accurately determine the environmental impact, however slight, of its activities. This process reflects a constant commitment to preventing industrial and environmental risks by implementing a management system capable of earning ISO 14001 certification at all its production plants. The system identifies a plant's environmental risks, determines its environmental footprint and helps to set continuous improvement objectives.

In 2003, two more plants implemented ISO 14001-certified environmental management systems, bringing to eight the number of facilities with such systems in place. The other plants are in the process of earning certification.

In the same way, during 2003, Essilor reaffirmed its commitment to integrating hygiene and safety into plant processes by commissioning outside audits of workplace health and safety management and initiating a program to prepare, implement and continuously improve workplace health and safety management systems on all production sites worldwide.

During the year, four more plants implemented OHSAS 18001-certified workplace health and safety management systems, bringing to five the number of facilities with such systems in place. The other plants are in the process of earning certification.

TECHNOLOGY RISKS

Dependence on patents, supply contracts, key customers

The Company is not dependent on any patents having a material impact of its business or whose expiry would have a material impact. Similarly, it is not dependent on any supply contracts, since purchases are spread among a number of suppliers. Nor is it dependent on key customers, since all of the world's 200,000 eyecare professionals represent potential customers for Essilor products.

INSURANCE

To protect its assets and secure its long-term survival and development, the Company has established a risk management and prevention policy, backed by a global insurance program.

The risk management process is based on risk analysis procedures, internal controls, security audits and audits of preventive measures, mainly at the Company's manufacturing facilities. In addition, the Company keeps up a constant drive to raise risk awareness among staff, and improve security procedures and equipment. The Company's insurers and insurance brokers provide risk-prevention advice with respect to capital projects, with the aim of reducing the probability of claims being incurred.

Insurance cover is taken out with respected international insurers. The global programs negotiated at Group level provide consistent levels of coverage of operational risks for all Group companies, including property and casualty/business interruption, liability and goods transportation risks. The insured amounts correspond to an estimate of the related risks. For the property and casualty/business interruption and goods transportation programs, they have been set at €150 million and €1,524,000 respectively.

The total cost of these programs in 2003 was €3.4 million.

Local insurance policies are taken out by subsidiaries to add to the cover provided by the global programs and comply with local insurance requirements.

Certain other policies are taken out at Group level, covering other risks potentially affecting the entire Group.

Corporate Governance

Officers and Management

The Board of Directors
Members at December 31, 2003

Xavier Fontanet Age: 55 *Number of shares owned:* 55,247	**Chairman and Chief Executive Officer**	*First elected:* May 6, 1996 *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2003	***Other directorships*** **Director:** • Essilor International and subsidiaries Essilor of America, Inc. (United States), Transitions Optical, Inc. (United States), Essilor Laboratories of America Holding Co, Inc. (United States), EOA Holding Co, Inc. (United States), Shanghai Essilor Optical Company Ltd (China), Transitions Optical Ltd (Ireland), Transitions Optical Holding B.V. (Netherlands), Nikon-Essilor Co. Ltd (Japan).	• Other companies L'Oréal, Crédit Agricole SA, Chantiers Bénéteau, Association IMS - Entreprendre pour la Cité.
Philippe Alfroid Age: 58 *Number of shares owned:* 89,890	**Chief Operating Officer**	*First elected:* May 6, 1996 *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2004	***Other directorships*** **Chairman:** Bacou-Dalloz SA **Director:** • Essilor International and subsidiaries Abrium, Christian Dalloz Sunoptics, Dalloz Safety, Essidev, Essilor of America, Inc. (United States), Gentex Optics, Inc. (United States), Visionweb, Inc. (United States), Essilor Laboratories of America Holding Co., Inc. (United States),	EOA Holding Co., Inc. (United States), EOA Investment, Inc. (United States), Omega Optical Holding, Inc. (United States), Essilor Canada Ltee/Ltd (Canada), Pro-Optic Canada, Inc. (Canada), Shanghai Essilor Optical Company Ltd (China), Bacou-Dalloz AB (Sweden). • Other companies Faiveley S.A, Faiveley Transport.
Alain Aspect Age: 56 *Number of shares owned:* 500	**Independent director**	*First elected:* June 16, 1997 *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2004	***Other directorships*** Research Director, CNRS, Institut d'Optique d'Orsay, Professor at École Polytechnique.	
Michel Besson Age: 69 *Number of shares owned:* 1,000	**Independent director**	*First elected:* June 16, 1997 *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2005	***Other directorships*** **Director:** • Essilor International and subsidiaries EOA, Inc. (United States)	
Jean Burelle Age: 64 *Number of shares owned:* 500	**Independent director**	*First elected:* June 16, 1997 *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2005	***Other directorships*** **Chairman and Chief Executive Officer:** Burelle S.A, Burelle Participations. **Chairman of the Board:** Sycovest 1	**Director:** • Other companies Compagnie Plastic Omnium, Compania Plastic Omnium (Spain), Plastic Omnium International AG (Switzerland), Signal AG (Switzerland), Sogec 2. **Member of the Supervisory Board:** Lapeyre **Permanent representative of Burelle Participations:** Sycovest 1

Robert M. Colucci Age: 51 *Number of shares owned:* 1,785	**Director representing employee shareholders (United States),** *Senior Vice-President Sales and Marketing Essilor Laboratories of America (United States)*	*First elected:* December 23, 1998 (co-opted by the Board)/April 26, 1999 (ratified by shareholders) *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2003		
Philippe Germond Age: 46 *Number of shares owned:* 500	**Independent director**	*First elected:* January 31, 2001 (co-opted by the Board)/May 3, 2001 (ratified by shareholders) *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2005	***Other directorships*** **Chief Operating Officer and Director:** Alcatel	**Director:** • Other companies Ingenico, Atos Origin, Alcatel Usa, Inc. (United States). **Member of the Supervisory Board:** Alcatel Deutschland GmbH (Germany).
Igor Landau Age: 59 *Number of shares owned:* 1,000	**Independent director**	*First elected:* January 31, 2001 (co-opted by the Board)/May 3, 2001 (ratified by shareholders) *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2005	***Other directorships*** **Chairman of the Management Board:** Aventis	**Director:** • Other companies Thomson Multimedia, C.C.F., I.D.I. (Institut de Développement Industriel), INSEAD, Aventis Pharma (UK) Investments Ltd, Aventis Behring Llc, Fisons Ltd, Rhône Poulenc Agco Ltd, Aventis, Inc. **Member of the Supervisory Board:** Dresdner Bank AG **Member of the Advisory Committee:** Banque de France
Alain-Claude Mathieu Age: 41 *Number of shares owned:* 3,373	**Director representing employee shareholders** *Quality Manager, BB GR, Sézanne plant*	*First elected:* April 26, 1999 *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2004		
Olivier Pécoux Age: 45 *Number of shares owned:* 500	**Independent director**	*First elected:* January 31, 2001 (co-opted by the Board)/May 3, 2001 (ratified by shareholders) *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2005	***Other directorships*** **Director:** • Other companies Rothschild España (Spain), Rothschild Italia (Italy).	**Member of the Supervisory Board:** Financière Rabelais, Rothschild GmbH (Germany). **Managing Partner**: Rothschild et Cie, Rothschild et Cie Banque.
Bertrand Roy Age: 48 *Number of shares owned:* 5,240	**Director representing employee shareholders**	*First elected:* May 3, 2001 *Term ends:* at the Annual Meeting called to approve the accounts for the year ended December 31, 2004	***Other directorships*** **Chairman:** Valoptec Association, Valoptec International Corporate Mutual Fund, Association Nationale pour l'Amélioration de la Vue (ASNAV).	**Chairman, Lens Section:** Chambre Syndicale Verres et Montures **Director:** • Other companies Association SILMO, GIFO. **Legal Manager:** VIP

René Thomas *Died October 2, 2003*

Board procedures

As of December 31, 2003, the Essilor Board of Directors had eleven members, including three representing employee shareholders and two executive directors. One-third of directors are re-elected at each Annual Shareholders' Meeting, so that the entire Board is re-elected over a period of three years. The average age of Board members is 56. Each director is required to hold 500 Essilor shares.

In 2003, the Board met five times, with each meeting lasting an average of two-and-a-half hours. The attendance rate at the meetings was over 86.5%.

At its meeting on November 18, 2003, the Board adopted a set of internal rules governing its operation and incorporating most of the recommendations of the AFEP/MEDEF corporate governance report published in France in October 2003. The internal rules define independent directors as follows:

" A director is independent when he or she has no relationship of any kind whatsoever with the corporation, its group or the management of either that is such as to color his or her judgment.

Directors who fulfill any of the following criteria are not independent:
• The director is an employee or corporate officer *(mandataire social)* of the company, or an employee or director of its parent or of one of its consolidated subsidiaries, or has been one during the previous five years.
• The director is a corporate officer of a company in which the company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the company designated as such or by a current or former (going back five years) corporate officer of the company.
• The director is (directly or indirectly) a customer, supplier, investment banker or commercial banker - in each case:
- which is material for the company or its group, or
- for which the company or its group represents a material proportion of the entity's activity.
• The director has close family ties with a corporate officer *(mandataire social)* of the company.
• The director has been an auditor of the company in the past five years.
• The director has been a director of the company for more than twelve years.

Directors representing significant shareholders of the Company are considered independent as long as they do not, in whole or in part, control the Company; beyond a threshold of 10% of the share capital or voting rights, the Board acting upon a report from the Remunerations Committee should examine individually each case in order to determine whether the given director may be considered independent or not, taking into account the composition of the share capital of the company and whether there exists potential for any conflicts of interest."

Based on the above criteria, the Essilor Board of Directors has six independent directors, a proportion greater than the one-third minimum specified in the internal rules.

The Board's internal rules require the Board to conduct a formal assessment of its operation once a year, and to take any appropriate measures to improve its efficiency. The Board will report to shareholders each year on the results of the assessment and any related measures.

At the November 18, 2003 meeting, the Board also adopted a Directors' Charter setting out the rights and obligations of directors, and including a reminder of the rules applicable to directors of quoted companies who have access to inside information. The Charter states that each director who has access to inside information may not trade in the Company's shares, directly or through a third party, or cause any other person to trade in the Company's shares on the strength of that information, for as long as it has not been made public. In addition, in the same way as for Company executives who have access to inside information, directors are prohibited from trading in the Company's shares during the 21 days that precede the announcement of the Company's annual and half-yearly results and quarterly sales.

In accordance with Commission des Opérations de Bourse (COB) recommendation 2002-1 concerning the disclosure by directors of transactions in their company's shares, twice a year Essilor produces a table showing the transactions carried out by directors over the previous six months. The table is posted on the web site of the Autorité des Marchés Financiers ("AMF" – the successor of the COB) within two months of the end of the half-year period concerned. The Directors' Charter recommends that directors spontaneously report their transactions in the Company's shares on a quarterly basis, in accordance with the Financial Security Act of August 1, 2003 (Act no. 2003-706).

Committees of the Board

In 1997, Essilor set up various Committees of the Board in accordance with corporate governance rules (Audit Committee, Remunerations Committee and Strategy Committee).

Audit Committee: members and role

The Board's internal rules stipulate that the Audit Committee shall have at least three members, appointed by the Board from among the directors. At least two-thirds of the Committee members must be independent directors. The members of the Audit Committee cannot hold senior management positions or be executive directors.

Olivier Pécoux was appointed acting Audit Committee Chairman, by the Board of Directors on November 18, 2003, following the death of the former Chairman, René Thomas, in October 2003. The other members are Alain Aspect, Michel Besson and Bertrand Roy. More the two-thirds of the members are independent directors.

The role of the Audit Committee, as described in the Board's internal rules, is to ensure that Group management has the necessary resources to identify and manage the business, financial and legal risks to which the Group may be exposed in France and abroad, in the normal course of business or in exceptional circumstances, in order to avoid any erosion of the value of Group assets. To this end, the Audit Committee analyzes the procedures in place within the Group to ensure that:

- Accounting regulations are complied with and Group accounting principles and policies are properly applied.
- Information is properly reported and processed at all levels in the organization.
- The business, financial and legal risks facing the Company and its subsidiaries in France and abroad are identified, assessed, anticipated and managed.
- Internal controls are applied to the preparation of accounting and financial information at all levels of the organization.
- Securities regulations and the strict insider trading rules in force within the Company are fully complied with.

Based on these analyses, the Committee makes recommendations as required concerning improvements to existing procedures and the introduction of new ones.

The Audit Committee may be consulted by the Board or by Group management about any issues concerning procedures to control non-recurring risks.

The Audit Committee met on September 8, 2003 to review the interim consolidated financial statements and on March 1, 2004 to review the annual consolidated financial statements. Fabienne Lecorvaisier, Chief Financial Officer, and the Auditors attended both of these meetings, to present the accounts and answer the Committee's questions. The Chairman of the Audit Committee also met separately with Mrs Lecorvaisier on March 10, 2003 and March 1, 2004, to review in detail the 2002 and 2003 accounts. On February 2, 2004, the Chairman of the Committee met the head of Group Internal Audit, to review the various internal audits performed around the world in 2003, the measures taken by the Group to comply with the new Financial Security Act and the work of the external auditors in the various countries where the Group has operations.

Remunerations Committee: members and role

The Remunerations Committee is made up of Jean Burelle, Chairman, Michelle Besson and – up to the time of his death in October 2003 – René Thomas. All of the committee members are independent directors.

The role of the Remunerations Committee, as described in the Board's internal rules, is to:

- Make recommendations concerning senior management compensation.
- Make recommendations concerning stock option grants.
- Review the compensation policies applied within the Group.
- Assist the Chairman and the Board with succession planning issues.
- Consider whether the composition of the Board is appropriate and recommend possible changes.

During 2003, the Remunerations Committee met twice and made recommendations concerning the election to the Board and the compensation of executive directors, as well as the granting of management stock options, based on the authorizations given at the Shareholders' Meeting.

The compensation paid to the two executive directors includes both a fixed portion and a results-based variable portion. The bonus represents a variable percentage of the executive director's basic salary as follows:

- 100% of the bonus if the target is met.
- No bonus if actual results represent less than 80% of the target.
- 150% of the bonus if the target is exceeded by 20% or more.
- Prorated bonus if actual results are between these two extremes.
- The currency effect is excluded from the results used to calculate the bonus.

For the two executive directors, the variable bonus is determined based on like-for-like growth in consolidated net income, excluding the currency effect and the effect of acquisitions.

Strategy Committee: members and role

The Strategy Committee is chaired by Xavier Fontanet and its members include Philippe Alfroid, Michel Besson, Jean Burelle, Philippe Germond, Igor Landau, Olivier Pécoux, Bertrand Roy and, up to the time of his death, René Thomas. Six of the nine members are independent directors.

The role of the Strategy Committee, as described in the Board's internal rules, is to regularly review Group product, technology, geographic and marketing strategies.

During 2003, the Committee met three times, to discuss the budget, the 2003 forecasts, the 5-year business plan, and the Group's external growth strategy. In addition, during its meetings, the Committee was informed in detail about the quarterly consolidated results (not published) and discussed business performance and strategies in the United States and Europe with the executives in charge of these regions.

Each Committee reports to the Board on its activities and recommendations.

The Executive Committee

Members

Xavier Fontanet,	Chairman and Chief Executive Officer
Philippe Alfroid,	Chief Operating Officer
Bertrand de Limé,	Executive Vice President - Vice President, Europe
Claude Brignon,	Vice President, Operations
Patrick Cherrier,	Vice President, Asia
Didier Lambert,	Vice President, Information Systems
Fabienne Lecorvaisier,	Chief Financial Officer
Olivier Mathieux,	Vice President, Latin 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
Carol Xueref,	Vice President, Legal Affairs and Corporate Development

Role

The Executive Committee meets once a month to review the Group's business performance and all short-term activities. It also draws up timelines and medium and long-term projections for the implementation of strategic action plans.
Chaired by Xavier Fontanet, the Committee is made up of the Group's top corporate and business executives, with either global responsibilities – for example lens manufacturing – or regional responsibilities (Europe, North America, Latin America, Asia).

DIRECTORS' INTERESTS

The members of the Board of Directors and the members of the Executive Committee together hold less than 0.5% of the Company's capital.

COMPENSATION OF CORPORATE OFFICERS[1]

(in €)	Gross salary and bonus	Directors' fees	Total compensation
Xavier Fontanet	659,659	8,800	668,459
Philippe Alfroid	472,923	19,954*	492,877
Alain Aspect		8,800	
Michel Besson		11,800	
Jean Burelle		9,800	
Robert Colucci	243,403	7,800	251,203
Philippe Germond		8,800	
Igor Landau		4,800	
Alain-Claude Mathieu	44,047	6,800	50,847
Olivier Pécoux		8,800	
Bertrand Roy	203,380	8,800	212,180
René Thomas		8,750	

[1] The above amounts correspond to the gross compensation before payroll taxes and income taxes and, as stipulated by law, include benefits in kind.
** Including €11,154 in directors' fees received from Bacou-Dalloz, a company 15%-owned by Essilor International.*

The Annual Shareholders' Meeting of May 16, 2003 voted to award the Board of Directors total directors' fees of €135,000. At its meeting on June 11, 2003, the Board decided to allocate this sum as follows:

Directors' fees	Fixed fee	Variable, attendance-based fee
All directors	€3,800	€1,000 per meeting
Chairman of the Audit Committee	€7,700	
Independent directors who are members of either the Audit Committee or the Remunerations Committee		€1,000 per meeting

INFORMATION ABOUT OPTIONS TO PURCHASE NEW OR EXISTING SHARES OF COMMON STOCK

Stock options granted to and exercised by corporate officers	**Number of options granted / exercised**	**Price (in €)**	**Expiry date**	**Plan**
Stock options granted in 2003 by Essilor International or other Group companies				
Xavier Fontanet	45,000	40.73	Nov. 18, 2010	Nov. 18, 2003
Philippe Alfroid	35,000	40.73	Nov. 18, 2010	Nov. 18, 2003
Options exercised during 2003				
Xavier Fontanet	38,073	32.78	Nov. 25, 2004	Nov. 25, 1998
Philippe Alfroid	20,000	32.78	Nov. 25, 2004	Nov. 25, 1998

Employee Incentive Plans

Specific employment conditions of employees of the French parent company incentive bonus plan

The current incentive bonus plan, governed by articles L.441 *et seq* of the French Labor Code, corresponds to the agreement renewed on June 6, 2001 for a period of three years expiring at the end of 2003. Designed to improve employee information and awareness of the Company, its business and its financial results, the agreement also represents a means of motivating employees to meet both corporate and personal performance objectives. Under the plan, a variable incentive bonus is paid on the basis of the ratio of actual operating income to budgeted operating income. The bonus is calculated to provide all employees with an incentive to help improve the Company's results and meet budget objectives.

Incentive bonuses are paid to all employees with at least three months' service. 25% of the amount is based on the period of presence during the year and 75% is prorated to the benchmark salary. The total amount distributed each year may not exceed 20% of the total amount of gross salaries paid to the persons concerned.

Incentive bonuses paid over the last five years were as follows:
- 2003: €2,168,000 for fiscal 2002
- 2002: €1,538,000 for fiscal 2001
- 2001: €2,006,000 for fiscal 2000
- 2000: €1,673,000 for fiscal 1999
- 1999: €1,764,000 for fiscal 1998

Legally-mandated employee profit sharing

In view of the level of the French parent company's shareholders' equity, no amounts have been credited to the employee profit-sharing reserve for eligible employees.

Information about options to purchase new or existing shares of common stock

Stock options granted to and exercised by the employees other than officers who received the greatest number of options	Number of options granted/ exercised	Weighted average price (in €)	Expiry date	Plan
Total options granted in 2003 by Essilor International or other qualified Group companies to the 10 employees of Essilor and other qualified Group companies who received the greatest number of options	127,750	40.73	Nov. 18, 2010	Nov. 18, 2003
Total options exercised in 2003 by the 10 employees of Essilor and other qualified Group companies who exercised the greatest number of options	153,334	30.69	March 19, 2003 March 11, 2004 Nov. 25, 2004 Nov. 14, 2007	March 19, 1997 March 11, 1998 Nov. 25, 1998 Nov. 14, 2001

Historical data about options to purchase new or existing shares of common stock

1997 - 1999

Plan	03/19/1997	04/30/1997	03/11/1998	06/24/1998	09/16/1998	11/25/1998	11/24/1999
Date of Shareholders' Meeting	June 15, 1992	June 15, 1992	June 16, 1997	June 16, 1997	June 16, 1997	June 16, 1997	June 16, 1997
Date of Board Meeting	March 19, 1997	April 30, 1997	March 11, 1998	June 24, 1998	Sept. 16, 1998	Nov. 25, 1998	Nov. 24, 1999
Type of plan	New shares	New shares	New shares	New shares	New shares	New shares	New shares
Total number of shares under option	15,000	23,000	50,000	50,000	10,000	1,313,000	11,000
- Options held by directors	0	0	0	0	0	120,000	0
- Options held by the 10 employees who received the greatest number of options	15,000	23,000	50,000	50,000	10,000	224,000	11,000
Starting date of exercise period	March 19, 1998	April 30, 2002	March 11, 1999	June 24, 1999	Sept. 16, 1999	Nov. 25, 1999	Nov. 24, 2000
Expiry date	March 19, 2003	April 30, 2003	March 11, 2004	June 24, 2004	Sept. 16, 2004	Nov. 25, 2004	Nov. 24, 2005
Exercise price (in €)	22.959	22.989	27.166	37.076	33.234	32.777	27.807
Vesting conditions	1/3 per year from the second year	From April 30, 2004	1/3 per year from the second year	Non residents: 1/3 per year from the second year Residents: from June 24, 2003	1/3 per year from the second year	Non residents: 1/3 per year from the second year Residents: from Nov. 25, 2003	Non residents: 1/3 per year from the second year Residents: from Nov. 24, 2004
Number of options exercised at December 31, 2003	15,000	3,000	38,000	0	0	503,985	3,500
Options canceled	0	20,000	0	0	0	80,500	0
Options outstanding	0	0	12,000	50,000	10,000	728,515	7,500

2000 - 2003

01/26/2000	03/15/2000	09/13/2000	11/15/2000	01/31/2001	11/14/2001	11/14/2001	11/20/2002	11/18/2003
June 16, 1997	June 16, 1997	June 16, 1997	June 16, 1997	June 16, 1997	June 16, 1997	Jan. 18, 2001	Jan. 18, 2001	May 16, 2003
Jan. 26, 2000	March 15, 2000	Sept. 13, 2000	Nov. 15, 2000	Jan. 31, 2001	Nov. 14, 2001	Nov. 14, 2001	Nov. 20, 2002	Nov. 18, 2003
New shares	New shares	New shares	New shares	New shares	New shares	Existing shares	New shares	New shares
142,280	65,000	25,000	141,000	20,000	160,660	670,250	812,580	804,570
0	0	0	120,000	0	0	80,000	101,000	80,000
18,080	65,000	25,000	21,000	20,000	51,120	115,000	146,000	127,750
Jan. 26, 2001	March 15, 2001	Sept. 13, 2004	Nov. 15, 2004	Jan. 31, 2002	Nov. 14, 2002	Nov. 14, 2002	Nov. 20, 2003	Nov. 18, 2004
Jan. 26, 2006	March 15, 2006	Sept. 13, 2006	Nov. 15, 2006	Jan. 31, 2007	Nov. 14, 2007	Nov. 14, 2011	Nov. 20, 2012	Nov. 18, 2010
28.800	25.800	31.483	28.763	32.780	31.240	31.240	40.670	40.730
Non residents: 1/3 per year from the second year Residents: from Jan. 26, 2005	Non residents: 1/3 per year from the second year Residents: from March 15, 2005	From Sept. 13, 2004	From Nov. 15, 2004	1/3 per year from the second year	Non residents: 1/3 per year from the second year Residents: from Nov. 14, 2005	Non residents: 1/3 per year from the second year Residents: from Nov. 14, 2005	Non residents: 1/3 per year from the second year Residents: from Nov. 20, 2006	Non residents: 1/3 per year from the second year Residents: from Nov. 18, 2007
6,530	0	0	0	2,000	17,298	17,855	0	0
4,154	0	0	0	0	8,794	12,336	7,975	291
131,596	65,000	25,000	141,000	18,000	134,568	640,059	804,605	804,279

Persons Responsible for the Reference Document and the Audit of the Accounts

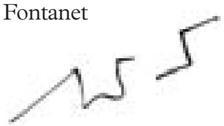
Name and function of the person responsible for the reference document

Xavier Fontanet, Chairman and Chief Executive Officer

Statement by the person responsible for the reference document

To the best of my knowledge, the information about Essilor contained in this reference document is correct and includes all the information required by investors to form an opinion on the assets, business, financial position, results and outlook of the Company. No information has been omitted that would be likely to alter an investor's opinion.

Charenton, April 20, 2004
Xavier Fontanet



Auditors

Statutory auditors

PricewaterhouseCoopers Audit
Tour AIG - 34, place des Corolles
92908 PARIS LA DÉFENSE 2
CEDEX

Re-appointed
on May 3, 2001 for six years.

Cabinet DAUGE & ASSOCIÉS
22, avenue de la Grande Armée
75017 PARIS

Re-appointed
on May 3, 2001 for six years.

Fees paid by the company to the auditors and members of their networks[1]

For the years ended December 31, 2003 and 2002

(€ thousands)	**PricewaterhouseCoopers**				**Cabinet Dauge**			
	Amount		%		Amount		%	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Audit								
Statutory and contractual audits	**2,150**	1,780	**79**	68	**271**	222	**94**	100
Special engagements	**54**	62	**2**	2	**18**		**6**	
Sub-total	**2,204**	1,842	**81**	70	**289**	222	**100**	100
Other services								
Legal, tax, employment advice[2]	**482**	617	**18**	24				
IT services		171		6				
Internal audit services								
Other (specified if > 10% of audit fees)	**23**	2	**1**	NS				
Sub-total	**505**	790	**19**	30				
Total	**2,709**	2,632	**100**	100	**289**	222	**100**	100

[1] *Fees covering all group companies.*
[2] *Fees for work done in foreign subsidiaries.*

STATEMENT BY THE AUDITORS

In our capacity as statutory auditors of Essilor International and as required by regulation COB 98-01, we have examined in accordance with French professional standards the information about the financial position and the historical accounts included in this reference document.

This reference document is the responsibility of the Chairman of the Board of Directors. Our responsibility is to express an opinion on the fairness of the information about the financial position and the accounts contained in this reference document.

Our procedures, which were performed in accordance with French professional standards, consisted of assessing the fairness of the information about the financial position and the accounts and verifying that this information agrees with the audited financial statements, reading the other information contained in the reference document in order to identify any material inconsistencies with the information about the financial position and the accounts, and reporting any manifestly incorrect information that came to our attention, based on our overall knowledge of the Company, as acquired during our audit. This reference document does not include any forward-looking information determined on a structure basis.

We have audited the financial statements of the Company and the consolidated financial statements for the years ended December 31, 1997, 1998, 1999, 2000, 2001 and 2002, as approved by the Board of Directors. Our audits were performed in accordance with auditing standards generally accepted in France. Our reports on these consolidated financial statements were free of any qualification or emphasis of matter.

We have audited the financial statements of the Company and the consolidated financial statements for the year ended December 31, 2003, as approved by the Board of Directors. Our audits were performed in accordance with auditing standards generally accepted in France. Our reports, which were unqualified, included the following observations:

- For the financial statements of the Company, an observation concerning a change of accounting method related to retirement benefits, described in note 1.10 to the financial statements.
- For the consolidated financial statements, an observation concerning a change in the presentation of the income statement, described in note 1.1 to the consolidated financial statements.

In accordance with article L.225-235 of the Commercial Code, which is applicable for the first time this year, in our reports on the financial statements of the Company and the consolidated financial statements, we stated that our audit opinion was based in part on the following information:

- Opinion on the financial statements of the Company:

Note 1.4 to the financial statements describes the accounting policies and methods applied to value financial assets. As part of our assessment of the accounting principles used by the Company, we reviewed the appropriateness of those accounting policies and methods, as well as of the related information given in the notes to the financial statements, and obtained assurance that they were properly applied.

- Opinion on the consolidated financial statements:

Note 1.5 to the consolidated financial statements describes the accounting policies and methods applied to value goodwill. As part of our assessment of the accounting principles used by the Company, we reviewed the appropriateness of those accounting policies and methods, as well as of the related information given in the notes to the consolidated financial statements, and obtained assurance that they were properly applied.

Based on the procedures described above, we have nothing to report with respect to the fairness of the information about the financial position and the historical financial statements contained in this reference document.

Paris, April 20, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit
Liliane Tellier

Cabinet Dauge et Associés
Gérard Dauge

Note: the Auditors' report prepared in accordance with article L.225-235 of the Commercial Code (paragraph 6.1.1) on the Chairman's report on internal control is presented on page 20.

Information Policy

Person responsible for information

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Phone: +33 (0)1 49 77 42 16 - Fax: +33 (0)1 49 77 43 24
invest@essilor.com

2004 financial calendar

1st quarter 2004 sales	April 27
1st half 2004 sales	July 21
1st half 2004 results	September 9
3rd quarter 2004 sales	October 21

All announcements are made before start of trading on the Euronext Paris SA market.

Investor information

Investors are kept regularly informed of Company performance and news through a variety of publications, including the annual report and the reference document filed with the Autorité des Marchés Financiers, financial announcements in the press when widespread publication of reliable information is considered appropriate, and press releases distributed to news media that follow the Company. All of these documents are available on request and may be downloaded from the corporate and investor relations website, **www.essilor.com**, which was revamped in 2003.

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