ESSILOR

SEEING THE WORLD BETTER

2014 INTERIM FINANCIAL REPORT

ESSILOR INTERNATIONAL

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This is a free translation into English of the 2014 Interim Financial Report issued in French.

August 28, 2014

ESSILOR
SEEING THE WORLD BETTER

A solid strategy, with strong, profitable growth

- ↗ Revenue up 12.6% excluding the currency effect
- ↗ Improved margins
- ↗ Successful innovations and consumer marketing
- ↗ Strong momentum for key accounts and new contracts
- ↗ Deployment of synergies at Transitions Optical and Coastal.com

Charenton-le-Pont, France (August 28, 2014) – The Board of Directors of Essilor International met yesterday to approve the Company's financial statements for the six months ended June 30, 2014. The auditors have performed a limited review of the consolidated financial statements. Their report does not include any observations.

Key figures

in € millions	H1 2014 adjusted[a]	H1 2013 adjusted[b]	Change	H1 2014 reported	H1 2013 reported
Revenue	**2,780**	2,576	+7.9 %	**2,780**	2,576
Contribution from operations[c]	**526**	472	+11.4 %	**513**	472
(% of revenue)	***18.9%***	*18.3 %*	*+0.6 pt*	***18.4%***	*18.3 %*
Operating profit	**494**	445	+11.0 %	**834**	441
Profit attributable to equity holders	**325**	314	+3.5 %	**699**	310
Earnings per share (in €)	**1.54**	1.49	+3.4 %	**3.32**	1.48
Free cash flow [d]	**245**	171	+43.3 %	**245**	171

(a) As the reported results were impacted by various non-recurring items linked primarily to the acquisition of Transitions Optical, Coastal.com, Costa and Xiamen Yarui Optical, the Group is publishing adjusted results which better reflect its underlying operating performance. The reported financial statements and the reconciliation of reported to adjusted financial statements are presented on page 7 of the Management Report.

(b) The first-half 2013 income statement has been adjusted to include a €4 million expense, corresponding to costs relating to strategic acquisitions.

(c) Operating profit before compensation costs for share-based payment plans, restructuring costs, other income and expenses, and goodwill impairment.

(d) Net cash from operating activities less change in WCR and less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.

Commenting on these results, Hubert Sagnières, Chairman and Chief Executive Officer of Essilor said, "The Group's results reflect major progress in its mission to deliver better visual health to as many people as possible. Our focus on innovation combined with assertive consumer communication campaigns and a new operational organization have started to pay off with independent eyecare professionals and key accounts. At the same time, the Group has boosted its presence in three fast-growing optical segments – the photochromic lenses, sun and online businesses – while delivering a further improvement in its operating margin."

The highlights of the first-half were:

- Like-for-like growth of 3%, with an acceleration in the second quarter (+3.5%), led by the "Lenses and Optical Instruments" division.
- The success of all the Group's innovations, including the Crizal®, Varilux® S series™, Transitions® Signature™ and Xperio® lenses.
- Strong sales growth with key accounts – optical chains and eyecare networks.
- A dynamic performance in North America.
- A significant 9.6% positive impact from changes in the scope of consolidation, mainly related to the acquisitions of Transitions Optical, Costa and Coastal.com, for which synergies are currently being unlocked in line with plans.
- The setup of a dedicated organization for the sun business.
- Adjusted contribution from operations at a record 18.9% of revenue.
- A sharp 43% increase in free cash flow to €245 million.

Outlook

In the second-half, Essilor will continue with the worldwide rollout of its innovative product portfolio across its operating segments and will ramp up its consumer advertising spend. The Group will also step up implementation of integration plans for acquired companies.

In 2014, the Group expects revenue growth of over 13% excluding the currency effect and an adjusted contribution from operations[1] of around 18.6% of revenue, a significant improvement compared to 2013.

In the medium term, the Group will continue to deploy its ambitious growth strategy focused on taking advantage of opportunities in all its segments: prescription lenses, sun and online optical products. This strategy will enable the Group to continue lifting its organic growth.

Practical information

A meeting with analysts will be held in Paris today, August 28, at 10:00 a.m.
The meeting will be available live and recorded for later listening at:
http://hosting.3sens.com/Essilor/20140828-232AD551/en/
The slides may be downloaded at:
http://www.essilor.com/en/Investors/Pages/PublicationsDownloads.aspx

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Regulatory filings

The interim financial report is available at www.essilor.com by clicking on: http://www.essilor.com/en/Investors/Pages/PublicationsDownloads.aspx

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Investor calendar

Third-quarter 2014 revenue will be published on October 24, 2014.

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[1] Adjusted for non-recurring items mainly related to the acquisitions of Transitions Optical, Costa, Coastal.com and Xiamen Yarui Optical.

About Essilor

The world's leading ophthalmic optics company, Essilor designs, manufactures and markets a wide range of lenses to correct and protect eyesight. Its corporate mission is to improve vision to improve life. To support this mission, the Company allocates more than €150 million to research and innovation every year, in a commitment to continuously bring new, more effective products to market. Essilor's flagship brands are Varilux®, Crizal®, Transitions®, Definity®, Xperio®, Optifog™, Foster Grant®, Bolon® and Costa®. It also develops and markets equipment, instruments and services for eyecare professionals.

Essilor reported consolidated revenue of over €5 billion in 2013 and employs more than 55,000 people. It operates in some 100 countries with 28 plants, more than 450 prescription laboratories and edging facilities, as well as several research and development centers around the world.

For more information, please visit www.essilor.com.

The Essilor share trades on the NYSE Euronext Paris market and is included in the Euro Stoxx 50 and CAC 40 indices.

Codes and symbols: ISIN: FR0000121667; Reuters: ESSI.PA; Bloomberg: EI:FP.

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MANAGEMENT REPORT

REVENUE UP 12.6% EXCLUDING THE CURRENCY EFFECT

Consolidated Revenue by Operating Segment and by Region

In € millions	H1 2014	H1 2013	% Change (reported)	% Change (like-for-like)	Impact of changes in scope of consolidation
Lenses & Optical Instruments	2,419.0	2,296.3	+5.3%	+3.6%	+6.5%
North America	*984.7*	*914.8*	*+7.6%*	*+4.1%*	*+8.6%*
Europe	*825.5*	*802.0*	*+2.9%*	*-0.5%*	*+3.6%*
Asia/Pacific/Middle East/Africa	*432.8*	*407.9*	*+6.1%*	*+8.5%*	*+6.5%*
Latin America	*176.0*	*171.6*	*+2.6%*	*+7.9%*	*+9.5%*
Equipment	85.3	92.3	-7.6%	-3.0%	-1.3%[a]
Sunglasses & Readers	275.8	187.1	+47.5%	-1.4%	+52.9%
TOTAL	**2,780.1**	**2,575.7**	**+7.9%**	**+3.0%**	**+9.6%**

(a) Intra-group sales with and by newly consolidated companies

Revenue amounted to €2,780.1 million in the first six months of 2014, an increase of 7.9% as reported and of 9.4% like-for-like including bolt-on acquisitions[1].

- On a like-for-like basis, revenue grew by 3.0% overall, led by the Lenses & Optical Instruments business. The pace of growth accelerated in the second quarter, with revenue up 3.5% versus 2.4% in the first quarter.
- The 9.6% favorable impact of changes in the scope of consolidation was attributable to bolt-on acquisitions (including Costa and Xiamen Yarui Optical) for 6.4% and strategic acquisitions (Transitions Optical and Coastal.com) for 3.2%.
- The 4.7% negative currency effect was due to the rise in the euro against most of the other billing currencies, with declines in the U.S., Canadian and Australian dollars, the Brazilian real and the Indian rupee accounting for over three-quarters of the revenue impact.

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[1] Acquisitions or local partnerships

Revenue by region and by division

The Lenses & Optical Instruments division delivered like-for-like growth of 3.6%, reflecting a sequential improvement between the first and second quarters.

In **North America (up 4.1% like-for-like),** sales trended strongly upward despite adverse weather conditions in the first quarter. Sales to independent eye care professionals were buoyed by the success of the Crizal® range of antireflective lenses and the Xperio® range of polarized lenses, as well as by the ramp-up of Varilux® S series™, all of which were supported by dynamic advertising campaigns. For its part, Transitions® launched Signature™, its new mainstream photochromic lens, along with the exclusive Graphite Green lens. Both of these products were warmly received by the market. Demand from optical chains and managed care organizations was also strong, and online sales were sharply higher.

In Canada, the strong growth in revenue was led by optical chains.

In **Europe (down 0.5% like-for-like)**, year-on-year comparisons were adversely affected by the loss of a sales contract in the second-half of 2013. Excluding this impact, revenue increased thanks to successful innovations and progress in building business with several major optical chains. Markets in Southern Europe (Spain, Italy) and Eastern Europe rebounded, and the Company also performed well in the United Kingdom and Russia. In France, where conditions were difficult, business was supported by Crizal® Prevencia™, which was warmly received, as well as by Essilor's broad product line-up and by effective media campaigns. Growth remained fragile in German-speaking markets and Benelux.

The Instruments division staged a strong recovery and consolidated its positions in the edging systems segment.

In the **Asia/Pacific/Middle East/Africa region (up 8.5% like-for-like)**, the fast-growing countries enjoyed double-digit growth. Revenue growth in China reflected the solid performance by the Essilor network, healthy advances in anti-UV product sales by Essilor's partners, strong demand for Kodak® brand products and a recovery in exports. In India, the Varilux® and Crizal® brands raised their profiles and benefitted from new product launches. Essilor enjoyed sustained growth in Southeast Asia, led by strong demand in Thailand. Revenue in the region's developed markets was slightly higher, with sales in Australia continuing to benefit from dynamic performances among independent eye care professionals.

In **Latin America (up 7.9% like-for-like)**, strong demand for high value-added products such as Crizal®, Varilux® and Transitions® lenses, and successful deployment of the partnership strategy continued to act as powerful growth drivers. This was notably the case in Brazil where the Company continued to grow despite the economic impact of the Football World Cup, by leveraging its expanding distribution network and broad product portfolio. The star performer was Colombia, where the partnership with Servi Optica helped to ensure wide distribution of Essilor's flagship brands. In Chile, Essilor leveraged its local partnership with Megalux to capture new customers, such as one of the region's leading optical chains. In the coming quarters, Essilor will partner the chain's development in Colombia, Peru and Ecuador. In Mexico, revenue growth was held back to some extent by the economic slowdown.

The **Equipment division (down 3.0% like-for-like)** was affected by the increasing proportion of its intra-group sales associated with Essilor's partnership strategy and by the low external order backlog following the high delivery volumes of late 2013. The decline in revenue was mainly due to reduced sales of coating machines, although revenues were nevertheless supported by a favorable product mix reflecting the growing desire among optical chains and independent laboratories to access higher value-added processes. Growth in sales of digital surfacing machines was weak, as optical chains are taking time out from their capital spending programs. Interest for the new green alternative to the traditional alloy ophthalmic blocking process should lead to an increase in orders during the second half.

The **Sunglasses & Readers division (down 1.4% like-for-like)** experienced mixed fortunes depending on the regions. In the United States, FGX International was adversely affected by the difficult market conditions experienced by its mass retail customers, some of which implemented large scale inventory drawdowns. Outside North America, business was up sharply both in Europe and in Latin America. In China, Xiamen Yarui Optical (consolidated since November 2013) enjoyed very strong growth thanks to the success of its Bolon® brand. Once combined with Bolon's dynamic performance and with rapidly expanding sales at Costa, a high-performance sunglass specialist (consolidated since February 2014), like-for-like growth in the group's Sunglass sales is in line with that for the global sun market.

Second-quarter revenue up 16.7% excluding the currency effect

In € millions	Q2 2014	Q2 2013	% Change (reported)	% Change (like-for-like)	Impact of changes in scope of consolidation
Lenses & Optical Instruments	1,259.3	1,147.7	+9.7%	+4.2%	+10.1%
North America	*517.9*	*452.2*	*+14.5%*	*+5.6%*	*+14.6%*
Europe	*425.8*	*399.5*	*+6.6%*	*+0.0%*	*+6.5%*
Asia/Pacific/Middle East/Africa	*221.7*	*203.2*	*+9.1%*	*+7.9%*	*+9.0%*
Latin America	*93.9*	*92.9*	*+1.1%*	*+7.0%*	*+6.2%*
Equipment	46.4	49.8	-6.9%	-1.8%	- 1.5% (a)
Sunglasses & Readers	151.8	101.9	+49.0%	-1.0%,	+54.4%
TOTAL	**1,457.5**	**1,299.5**	**+12.2%**	**+3.5%**	**+13.2%**

(a) Intra-group sales with and by newly consolidated companies.

Revenue for the second-quarter stood at €1,457.5 million, an increase of 12.2% as reported and 3.5% like-for-like, lifted by 4.2% growth in Lenses & Optical Instruments sales. Changes in the scope of consolidation drove a 13.2% increase in revenue for the quarter, reflecting the consolidation of Transitions Optical from April 1 and Coastal.com from May 1. The currency effect was a negative 4.5%.

By region and business, second-quarter highlights were as follows:

- Growth accelerated in **North America**, driven by successful innovations and increased business with key accounts.
- Revenue stabilized in **Europe**, thanks to the economic rebound in Southern Europe, the improved situation in France and a good performance in the United Kingdom.
- Fast-growing countries in the **Asia/Pacific/Middle East/Africa** region continued to enjoy strong momentum, offsetting a temporary setback in Japan due to a hike in the VAT rate.
- Revenue in **Latin America** increased at a healthy rate despite the impact of the Football World Cup in Brazil.
- The **Equipment** and **Sunglasses & Readers** divisions improved slightly during the quarter.

Eight transactions since January 1

During the first-half of 2014, Essilor acquired interests in eight companies, representing additional full-year revenue of around €470 million.

Transitions Optical Inc.

On April 1, Essilor finalized the acquisition of PPG Industries' 51% stake in Transitions Optical, the world's leading provider of photochromic lenses to optical manufacturers, and of all the outstanding shares of Intercast, a manufacturer of premium sun lenses. Founded in 1990 and based in Pinellas Park, Florida (USA), Transitions Optical reported sales of $844 million in 2013, of which around $279 million with lens manufacturers other than Essilor. Transitions Optical and Intercast are fully consolidated in the "Lenses & Optical Instruments" division.

Coastal.com

Since April 28, Essilor has owned all the outstanding common stock of Coastal.com, one of the world's leading online vision care retailers. Based in Vancouver, British Columbia (Canada), Coastal.com designs and distributes one of the widest online selections of optical equipment, including contact lenses, prescription and non-prescription eyeglasses, sunglasses and various accessories. It reported revenue of CAD 218 million for the fiscal year ended October 31, 2013. Coastal.com is fully consolidated in the "Lenses & Optical Instruments" division.

Costa Inc.

Since February 1, Essilor has owned all outstanding shares of Costa Inc., a U.S. leader in high-performance sunglasses. Based in Lincoln, Rhode Island (USA), Costa Inc. designs, assembles and markets sunglasses under the Costa® and Native® brands. Costa has become the fastest growing high-performance sunglass brand in the United States. The company generated revenue of nearly US$100 million in 2013. Costa Inc. is fully consolidated in the "Sunglasses & Readers" division.

Prescription lens laboratories and other transactions

Since the beginning of the year, Essilor has broadened and deepened its local roots in the United States by acquiring a majority stake in two prescription laboratories:

- **Plunkett Optical**, an Arkansas-based prescription laboratory with annual revenue of US$3.3 million.
- **iCoat**, an independent California-based prescription laboratory specialized in the development and licensed sale of thin-film deposit and coating technologies for premium optical equipment. iCoat generates around US$26 million in annual revenue, primarily through optical chains and eye care insurance companies in North America.

In the United Kingdom, Essilor has acquired a majority stake in the **ASE Corporate Eyecare** business representing annual revenue of some €4 million.

In Brazil, the Company has acquired a majority interest in **Starclic**, a prescription laboratory based in São Paulo with annual revenue of around €0.7 million. Lastly, 50%-owned Essilor Saudi Arabia has completed the acquisition of **Magrabi Optical Ltd**, a prescription laboratory based in Jeddah (Saudi Arabia) with annual revenue of some €8 million.

CONDENSED STATEMENT OF INCOME

Reported Statement of Income/Adjusted Statement of Income

In € millions	H1 2014 Adjusted [(b)]	Non-recurring items	H1 2014 Reported	H1 2013 Reported
Revenue	2,780	--	2,780	2,576
Contribution from operations[(a)]	526	(13)	513	472
(% of revenue)	*18.9%*		*18.4%*	*18.3%*
Other income (expenses), net	(32)	353	321	(32)
Operating profit	494	340	834	441
Net profit	356	374	730	337
Attributable to equity holders of Essilor International	325	374	699	310
(% of revenue)	*11.7%*	--	*25.1%*	*12.0%*
Earnings per share *(in €)*	1.54	1.78	3.32	1.48

(a) Operating profit before compensation costs for share-based payment plans, restructuring costs, other income and expenses, and goodwill impairment

(b) Adjusted for non-recurring items related mainly to the Transitions Optical, Coastal.com, Costa and Xiamen Yarui Optical (Bolon®) acquisitions. Non-recurring items include mainly a gain recognized on consolidation of Transitions Optical (€544 million), impairment losses on property, plant and equipment, intangible assets and goodwill (€70 million), technical adjustments arising from the consolidation of Transitions Optical as expenses (€34 million), restructuring costs arising from plans to unleash acquisition-related synergies (€35 million), contingent consideration payments and adjustments to other provisions for contingencies as expenses (€39 million).

The **adjusted** statement of income has been restated to exclude the non-recurring items described above, which for the most part represent technical accounting entries with no impact on cash.

Note that the scope of consolidation includes:

- Essilor and its consolidated subsidiaries as of December 31, 2013
- 50% of Xiamen Yarui Optical since November 1, 2013
- 100% of Costa since February 1, 2014
- 100% of Transitions Optical since April 1, 2014
- 100% of Coastal.com since May 1, 2014
- Other 2014 bolt-on acquisitions

The following tables and comments concern the **adjusted** statement of income, which is representative of the underlying operating performance of Essilor and its subsidiaries.

In € millions	H1 2014 Adjusted [b]	H1 2013 Adjusted [c]	Change
Revenue	2,780	2,576	+7.9%
Contribution from operations[a]	526	472	+11.4%
(% of revenue)	*18.9%*	*18.3%*	--
Operating profit	494	445	+11.0%
Net profit	356	340	+4.7%
Attributable to equity holders of Essilor International	325	314	+3.5%
(% of revenue)	*11.7%*	*12.2%*	--
Earnings per share *(in €)*	1.54	1.49	+3.4%

(a) *Operating profit before compensation costs for share-based payment plans, restructuring costs, other income and expenses, and goodwill impairment.*

(b) *Adjusted for non-recurring items related mainly to the Transitions Optical, Coastal.com, Costa and Xiamen Yarui Optical (Bolon®) acquisitions.*

(c) *The first-half 2013 income statement has been adjusted to include a €4 million expense, corresponding to costs relating to strategic acquisitions, recognized in "Other expenses".*

Adjusted contribution from operations[a][b]: 18.9% of revenue

In € millions	H1 2014 Adjusted [b]	H1 2013 Reported [c]	Change
Gross margin	1,612	1,449	+11.2%
(% of revenue)	*58.0%*	*56.3%*	--
Operating expenses	1,086	977	+11.2%
Contribution from operations[a]	526	472	+11.4%
(% of revenue)	*18.9%*	*18.3%*	--

(a) *Operating profit before compensation costs for share-based payment plans, restructuring costs, other income and expenses, and goodwill impairment.*

(b) *Adjusted for non-recurring items related mainly to the Transitions Optical, Coastal.com, Costa and Xiamen Yarui Optical (Bolon®) acquisitions.*

(c) *There were no adjustments to contribution margin for first-half 2013.*

A 170-bp improvement in adjusted gross margin

Adjusted gross profit (revenue less cost of sales) stood at €1,612 million for the first six months of 2014, representing 58.0% of revenue, versus 56.3% in first-half 2013. The increase mainly reflects the contributions of Transitions Optical, Costa and Xiamen Yarui Optical, as well as the effects of the operational efficiency programs. Excluding the effect of changes in the scope of consolidation, gross profit was stable.

Adjusted operating expenses up 11.2% to €1,086 million

Adjusted operating expenses represented 39% of revenue, compared with 37.9% in first-half 2013. Excluding changes in the scope of consolidation but including the increase in media spend, operating expenses were stable compared with first-half 2013.

They comprised:

- R&D and engineering costs of €90 million versus €81 million in first-half 2013. Excluding Transitions Optical, the period-on-period change was an increase of 3.7%.
- Selling and distribution costs of €649 million, compared with €584 million in first-half 2013. The increase reflected (i) the costs of launching new products including, in the United States, Transitions®' new generation photochromic lenses marketed under the Signature™ brand and (ii) an increase in media spend to spur development of the Varilux®, Crizal®, Transitions® and Xperio® brands in Essilor's main geographic markets, in line with the Company's strategy. Excluding Transitions Optical, the increase was 5%.
- Other expenses represented €346 million versus €312 million in first-half 2013. Excluding Transitions Optical, the period-on-period increase was 7.7% and stemmed mainly from changes in exchange rates and changes in the scope of consolidation.

Adjusted contribution from operations amounted to €526 million, representing 18.9% of revenue. The 0.6-point net increase reflected the improved profitability of Essilor's core business (0.3-point positive impact), the consolidation of Transitions Optical (0.8-point positive impact), partly offset by the rise in media spend (0.2-point negative impact) and the expected dilutive impact of Coastal.com (0.3-point negative impact).

Adjusted earnings per share up 3.4% to €1.54

Adjusted operating profit up 11% to €494 million, representing 17.8% of revenue

Adjusted "Other income and expenses from operations" and "Gains and losses on asset disposals" together represented a net expense of €32 million, compared with a net expense of €28 million in first-half 2013. The total includes:

- Charges to restructuring provisions in a total amount of €10 million.
- Compensation costs of shared-based payments (in particular performance share plans), totaling €17 million.
- Other expenses for €5 million.

Cost of gross debt and other financial income and expenses, net

This item increased to €20 million from €6 million in first-half 2013, due to the interest costs on the debt taken on to finance the Transitions Optical, Costa, Xiamen Yarui Optical (Bolon®) and Coastal.com acquisitions.

Adjusted profit attributable to equity holders of Essilor International up 3.5% to €325 million

Profit attributable to equity holders of Essilor International is stated after:

- Adjusted income tax expense of €122 million. The 25.7% adjusted effective tax rate compared with a 25.1% rate for first-half 2013.
- The share of profits of associates, corresponding to Transitions Optical for €4 million in first-half 2014 compared with €11 million in the year-earlier period. Transitions Optical was accounted for by the equity method only in the first three months of 2014 versus the full six months in 2013.
- Non-controlling interests in an amount of €32 million, versus €26 million in first-half 2013. This item reflects Essilor's dynamic partnership strategy, with the period-on-period increase resulting from the consolidation of new partners, mainly Xiamen Yarui Optical (Bolon®) in first-half 2014.

Adjusted earnings per share rose 3.4% to €1.54.

Excluding the negative currency effect of €0.07 per share, the increase was 8%.

Free cash flow[1] up 43%

Operating cash flow[2] grew at the same rate as revenue, rising by 7.8%, and was sufficient to finance the dividends paid to shareholders, the capital expenditure program and the increase in working capital requirement.

Investments

Purchases of property, plant and equipment and intangible assets, net of disposals, totaled €101 million, or 3.6% of consolidated revenue versus 6.7% in first-half 2013 when certain exceptional expenditures were made. First-half 2014 capital expenditure covered expenditure on industrial assets to support the Company's development and the construction of several buildings, including the regional headquarters in Singapore and the Sunglasses & Readers division's Rhode Island distribution center in the United States.

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[1] Net cash from operating activities less change in WCR and less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.
[2] Net cash from operating activities before changes in working capital requirement.

Financial investments for the period amounted to €1,825 million, including purchases of Transitions Optical, Costa and Coastal.com shares.

Lastly, €15 million was invested in the buyback of 214,000 Essilor shares to offset part of the dilution from the issuance of shares under employee share-based payment plans.

Working capital requirement

The working capital requirement increased by €159 million in first-half 2014.

Free cash flow[1]

Free cash flow[1] amounted to €245 million, an increase of 43.3% that was primarily attributable to tight control over capital expenditure.

At June 30, after completing the $1.73 billion Transitions Optical transaction and other acquisitions (Coastal.com and Costa mainly), consolidated net debt rose by €1,797 million to €2,166 million, representing 1.8 times consolidated EBITDA for the twelve months ended at that date.

Cash Flow Statement

In € millions

Cash provided by operations (before change in WCR)	510	Capital expenditure	106
Proceeds from share issues	23	Change in WCR	159
Reported change in net debt	1,797	Dividends	216
		Financial investments, net of disposals	1,825
		Purchases of treasury stock	15
		Other	9

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[1] Net cash from operating activities less change in WCR and less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.

SIGNIFICANT EVENTS SINCE THE END OF THE FIRST-HALF

Acquisitions

Since July 1, Essilor has acquired a majority interest in **Esel Optik**, Essilor Instruments' long-standing distribution partner in Turkey with annual revenue of some €1.7 million.

Share buybacks

Since July 1, Essilor has pursued its share buyback program with the purchase of 20,578 shares for a total of €1.5 million.

Appendix 1: Essilor International Reported Statement of Income

In € millions	H1 2014 Reported	H1 2013 Reported
Revenue	**2,780**	**2,576**
Contribution from operations [(a)] *(% of revenue)*	**513** *18.4%*	**472** *18.3%*
Other income (expense), net	321	(31)
Operating profit	**834**	**441**
Financial income (expense), net	(20)	(6)
Share of profit of associates	4	11
Profit before tax	**818**	**446**
Net profit	730	337
Net profit attributable to equity holders *(% of revenue)*	**699** *25.1%*	**310** *12.0%*
Earnings per share (*in €*)	**3.32**	**1.48**

(a) Operating profit before compensation costs for share-based payment plans, restructuring costs, other income and expenses, and goodwill impairment

Appendix 2: Consolidated Revenue by Quarter (€ millions)

	2014	2013
First Quarter		
Lenses & Optical Instruments	1,160	1,149
➢ *North America*	*467*	*463*
➢ *Europe*	*400*	*402*
➢ *Asia/Pacific/Middle East/Africa*	*211*	*205*
➢ *Latin America*	*82*	*79*
Equipment	39	42
Readers	124	85
TOTAL First Quarter	**1,323**	**1,276**
Second Quarter		
Lenses & Optical Instruments	1,259	1,148
➢ *North America*	*518*	*452*
➢ *Europe*	*426*	*400*
➢ *Asia/Pacific/Middle East/Africa*	*222*	*203*
➢ *Latin America*	*94*	*93*
Equipment	46	50
Readers	152	102
TOTAL Second Quarter	**1,457**	**1,300**
Third Quarter		
Lenses & Optical Instruments		1,114
➢ *North America*		*439*
➢ *Europe*		*376*
➢ *Asia/Pacific/Middle East/Africa*		*208*
➢ *Latin America*		*91*
Equipment		52
Readers		71
TOTAL Third Quarter		**1,237**
Fourth Quarter		
Lenses & Optical Instruments		1,095
➢ *North America*		*416*
➢ *Europe*		*394*
➢ *Asia/Pacific/Middle East/Africa*		*197*
➢ *Latin America*		*88*
Equipment		60
Readers		97
TOTAL Fourth Quarter		**1,252**

ESSILOR

SEEING THE WORLD BETTER

FIRST-HALF 2014 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

€ millions, except for per share data	**Notes**	**First-half 2014**	**First-half 2013**	**Year 2013**
Revenue	**3**	2,780	2,576	5,065
Cost of sales		(1,182)	(1,127)	(2,227)
GROSS PROFIT		**1,598**	**1,449**	**2,838**
Research and development costs		(90)	(81)	(164)
Selling and distribution costs		(649)	(584)	(1,145)
Other operating expenses		(346)	(312)	(612)
CONTRIBUTION FROM OPERATIONS		**513**	**472**	**917**
Other income from operations, net	**4**	546	3	5
Other expenses from operations, net	**4**	(225)	(34)	(79)
OPERATING PROFIT	**3**	**834**	**441**	**843**
Cost of net debt	**5**	(16)	(3)	(8)
Other financial income	**6**	73	44	87
Other financial expenses	**6**	(77)	(47)	(99)
Share of profit of associates	**12**	4	11	22
PROFIT BEFORE TAX		**818**	**446**	**845**
Income tax expense	**7**	(88)	(109)	(199)
PROFIT FOR THE PERIOD		**730**	**337**	**646**
Attributable to equity holders of Essilor International		**699**	**310**	**593**
Attributable to minority interests		31	27	53
Basic earnings per share (€)		3.32	1.48	2.82
Weighted average number of shares (thousands)	**8**	210,316	210,436	210,156
Diluted earnings per share (€)		3.26	1.45	2.78
Diluted weighted average number of shares (thousands)		214,334	214,182	213,057

The accompanying notes are an integral part of the condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	First-half 2014			First-half 2013			Year 2013		
€ millions	**Attributable to equity holders of Essilor International**	**Attributable to minority interests**	**Total**	**Attributable to equity holders of Essilor International**	**Attributable to minority interests**	**Total**	**Attributable to equity holders of Essilor International**	**Attributable to minority interests**	**Total**
Profit for the period (a)	**699**	**31**	**730**	**310**	**27**	**337**	**593**	**53**	**646**
Items of comprehensive income that will not be recycled to profit or loss in the future									
Actuarial gains and losses on defined benefit obligations	(13)		(13)	7		7	6		6
Tax	8		8	(2)		(2)	(6)		(6)
Items of comprehensive income that will be recycled to profit or loss in the future									
Cash flow hedges, effective portion	5		5	1		1	(5)		(5)
Hedges of net investments, effective portion	-		-	-		-	-		-
Valuation gains and losses on non-current financial assets	-		-	-		-	(1)		(1)
Heding reserves	62	3	65	(56)	(6)	(62)	(238)	(18)	(256)
Other			-			-			-
Tax	(1)		(1)	-		-	2	-	2
Total income and expense for the period recognized directly in equity, net of tax (b)	**61**	**3**	**64**	**(50)**	**(6)**	**(56)**	**(242)**	**(18)**	**(260)**
Total recognized income and expense, net of tax (a) + (b)	**760**	**34**	**794**	**260**	**21**	**281**	**351**	**35**	**386**

The accompanying notes are an integral part of the condensed consolidated financial statements.

CONSOLIDATED BALANCE SHEET (ASSETS)

€ millions	Notes	June 30, 2014	December 31, 2013
Goodwill	**9**	4,437	2,476
Other intangible assets	**10**	1,323	732
Property, plant and equipment	**11**	1,099	998
Investments in associates	**12**	2	113
Non-current financial assets		86	97
Deferred tax assets		135	112
Long-term receivables		15	17
Other non-current assets		1	1
TOTAL NON-CURRENT ASSETS, NET		**7,098**	**4,546**
Inventories		929	869
Prepayments to suppliers		23	16
Short-term receivables		1,348	1,192
Current income tax assets		63	67
Other receivables		29	33
Derivative financial instruments		16	17
Prepaid expenses		63	46
Marketable securities		5	5
Cash and cash equivalents	**15**	663	786
CURRENT ASSETS		**3,139**	**3,031**
TOTAL ASSETS		**10,237**	**7,577**

The accompanying notes are an integral part of the condensed consolidated financial statements.

CONSOLIDATED BALANCE SHEET (EQUITY AND LIABILITIES)

€ millions	Notes	June 30, 2014	December 31, 2013
Share capital		39	39
Additional paid-in capital		318	302
Retained earnings		3,787	3,340
Treasury stock		(319)	(304)
Revaluation and other reserves		(84)	(83)
Translation difference		(69)	(131)
Profit attributable to equity holders of Essilor International		699	593
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF ESSILOR INTERNATIONAL		**4,371**	**3,756**
Equity attributable to non-controlling interests		310	285
TOTAL CONSOLIDATED EQUITY		**4,681**	**4,041**
Provisions for pensions and other post-employment benefit obligations	**13**	238	209
Long-term borrowings	**15**	1,756	607
Deferred tax liabilities		365	165
Other non-current liabilities		447	517
NON-CURRENT LIABILITIES		**2,806**	**1,498**
Provisions	**14**	230	131
Short-term borrowings	**15**	1,088	567
Customer prepayments		19	28
Short-term payables		1,039	1,060
Taxes payable		75	63
Other current liabilities		274	156
Derivative financial instruments		17	17
Deferred income		8	16
CURRENT LIABILITIES		**2,750**	**2,038**
TOTAL EQUITY AND LIABILITIES		**10,237**	**7,577**

The accompanying notes are an integral part of the condensed consolidated financial statements.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

♦ First-half 2014

€ millions	Share capital	Additional paid-in capital	Revaluation reserves	Retained earnings	Translation reserve	Treasury stock	Profit attributable to equity holders of Essilor International	**Equity attributable to equity holders of Essilor International**	Equity attributable to non-controlling interests	**Total equity**
Equity at January 1, 2014	**39**	**302**	**(83)**	**3,340**	**(131)**	**(304)**	**593**	**3,756**	**285**	**4,041**
Issue of share capital								-		-
- To the corporate mutual funds		-						-		-
- On exercise of stock options		16						16		16
- Paid up by capitalizing reserves								-		-
Issue of share capital for minority shareholders								-	7	7
Cancellation of treasury stock		-				-		-		-
Share-based payments				17				17		17
Purchases and sales of treasury stock, net						(15)		(15)		(15)
Appropriation of profit				593			(593)	-		-
Effect of changes in scope of consolidation				35				35	2	37
Dividends paid				(198)				(198)	(18)	(216)
Transactions with shareholders	**-**	**16**	**-**	**447**	**-**	**(15)**	**(593)**	**(145)**	**(9)**	**(154)**
Total income (expense) for the period recognized directly in equity			(1)					(1)		(1)
Profit for the period							699	699	31	730
Exchange differences on translating foreign operations					62			62	3	65
Total recognized income and expense	**-**	**-**	**(1)**	**-**	**62**	**-**	**699**	**760**	**34**	**794**
Equity at June 30, 2014	**39**	**318**	**(84)**	**3,787**	**(69)**	**(319)**	**699**	**4,371**	**310**	**4,681**

The accompanying notes are an integral part of the condensed consolidated financial statements.

♦ First-half 2013

€ millions	Share capital	Additional paid-in capital	Revaluation reserves	Retained earnings	Translation reserve	Treasury stock	Profit attributable to equity holders of Essilor International	**Equity attributable to equity holders of Essilor International**	Equity attributable to non-controlling interests	**Total equity**
Equity at January 1, 2013	**39**	**311**	**(79)**	**2,934**	**107**	**(239)**	**584**	**3,657**	**257**	**3,914**
Issue of share capital								-		-
- To the corporate mutual funds								-		-
- On exercise of stock options	-	31						31		31
- Paid up by capitalizing reserves								-		-
Issue of share capital for minority shareholders								-	1	1
Cancellation of treasury stock								-		-
Share-based payments				13				13		13
Purchases and sales of treasury stock, net						(50)		(50)		(50)
Appropriation of profit				584			(584)	-		-
Effect of changes in scope of consolidation				8				8		8
Dividends paid				(191)				(191)	(16)	(207)
Transactions with shareholders	**-**	**31**	**-**	**414**	**-**	**(50)**	**(584)**	**(189)**	**(15)**	**(204)**
Total income (expense) for the period recognized directly in equity			6					6		6
Profit for the period							310	310	27	337
Exchange differences on translating foreign operations				(1)	(55)			(56)	(6)	(62)
Total recognized income and expense	**-**	**-**	**6**	**(1)**	**(55)**	**-**	**310**	**260**	**21**	**281**
Equity at June 30, 2013	**39**	**342**	**(73)**	**3,347**	**52**	**(289)**	**310**	**3,728**	**263**	**3,991**

The accompanying notes are an integral part of the condensed consolidated financial statements.

- **Full-year 2013**

€ millions	Share capital	Additional paid-in capital	Revaluation reserves	Retained earnings	Translation reserve	Treasury stock	Profit attributable to equity holders of Essilor International	**Equity attributable to equity holders of Essilor International**	Equity attributable to non-controlling interests	**Total equity**
Equity at January 1, 2013	**39**	**311**	**(79)**	**2,934**	**107**	**(239)**	**584**	**3,657**	**257**	**3,914**
Issue of share capital								-		-
- To the corporate mutual funds		23						23		23
- On exercise of stock options		45						45		45
- Paid up by capitalizing reserves								-		-
Issue of share capital for minority shareholders								-	2	2
Cancellation of treasury stock		(77)				77		-		-
Share-based payments				27				27		27
Purchases and sales of treasury stock, net				(27)		(142)		(169)		(169)
Appropriation of profit				584			(584)	-		-
Effect of changes in scope of consolidation				8				8	23	31
Dividends paid				(186)				(186)	(32)	(218)
Transactions with shareholders	**-**	**(9)**	**-**	**406**	**-**	**(65)**	**(584)**	**(252)**	**(7)**	**(259)**
Total income (expense) for the period recognized directly in equity			(4)					(4)		(4)
Profit for the period							593	593	53	646
Exchange differences on translating foreign operations					(238)			(238)	(18)	(256)
Total recognized income and expense	**-**	**-**	**(4)**	**-**	**(238)**	**-**	**593**	**351**	**35**	**386**
Equity at December 31, 2013	**39**	**302**	**(83)**	**3,340**	**(131)**	**(304)**	**593**	**3,756**	**285**	**4,041**

The accompanying notes are an integral part of the condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

€ millions		First-half 2014	First-half 2013	Year 2013
NET PROFIT	(a)	730	337	646
Share of profit of associates, net of dividends received		26	16	42
Depreciation, amortization and other non-cash items		226	123	247
Profit before non-cash items and share of profit of associates, net of dividends received		**982**	**476**	**935**
Provision charges (reversals)		70	11	(2)
(Gains) losses on asset disposals, net		(509)	-	1
Share of investment grants transferred to income statement			-	
Cash flow after income tax expense and finance costs, net		**543**	**487**	**934**
Finance costs, net		16	3	8
Income tax expense (current and deferred taxes)	**(a)**	88	109	199
Cash flow before income tax expense and finance costs, net		**647**	**599**	**1,141**
Income taxes paid		(125)	(123)	(222)
Interest (paid) and received, net		(12)	(3)	(7)
Change in working capital		(159)	(129)	(69)
NET CASH FROM OPERATING ACTIVITIES		**351**	**344**	**843**
Purchases of property, plant and equipment and intangible assets		(106)	(173)	(297)
Acquisitions of subsidiaries, net of the cash acquired		(1,820)	(91)	(330)
Purchases of available-for-sale financial assets		-	(4)	(3)
Change in other non-financial assets		(1)	(6)	(5)
Impact of changes in scope of consolidation		-	1	2
Proceeds from the sale of other non-current assets		5	7	12
NET CASH USED IN INVESTING ACTIVITIES		**(1,922)**	**(266)**	**(621)**
Proceeds from the issue of share capital	**(b)**	23	30	68
(Purchases) sales of treasury stock, net	**(b)**	(15)	(50)	(169)
Dividends paid to:				
- Equity holders of Essilor International	**(b)**	(198)	(191)	(186)
- Minority shareholders of subsidiaries	**(b)**	(18)	(16)	(32)
Proceeds from bond issues	**15**	800	-	-
Increase (decrease) in borrowings other than finance lease liabilities	**15**	868	96	281
Repayment of finance lease liabilities		(2)	(2)	(1)
Other movements		-	-	1
NET CASH USED IN FINANCING ACTIVITIES		**1,458**	**(133)**	**(38)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(113)**	**(55)**	**184**
Cash and cash equivalents at January 1		749	580	580
Effect of changes in exchange rates		(8)	(18)	(15)
NET CASH AND CASH EQUIVALENTS AT PERIOD-END		**628**	**507**	**749**
Cash and cash equivalents reported in the balance sheet	**15**	663	562	786
Short-term bank loans and overdrafts	**15**	(35)	(55)	(37)

[a] Please refer to the consolidated income statement
[b] Please refer to the statement of changes in equity

The accompanying notes are an integral part of the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

1.1. GENERAL INFORMATION

Essilor International (Compagnie Générale d'Optique) is a *société anonyme* (joint stock company) with a Board of Directors, governed by the laws of France. Its registered office is at 147 rue de Paris – 94220 Charenton-le-Pont. The Company's main business activities consist of the design, manufacture and sale of ophthalmic lenses and ophthalmic optical instruments.

The condensed consolidated financial statements for the six months ended June 30, 2014 have been prepared in accordance with IAS 34 – Interim Financial Reporting. They were approved by the Board of Directors on August 27, 2014.

The Company's functional and presentation currency is the euro. All amounts are presented in millions of euros, unless otherwise specified.

1.2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

In accordance with European Council regulation 1606/2002/EC of July 19, 2002, effective from January 1, 2005 the Company has adopted as its primary basis of accounting the International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and related interpretations adopted by the European Union and applicable as of June 30, 2014. These standards and interpretations are available for consultation on the European Commission's website[1].

1.3. CHANGE OF ACCOUNTING METHODS AND PRESENTATION

There were no changes to the Company's accounting policies for the interim 2014 consolidated financial statements, apart from changes relating to the standards, amendments and interpretations described below which are mandatorily applicable to annual periods beginning on or after January 1, 2014.

1.4. IFRS, AMENDMENTS TO IFRS AND INTERPRETATIONS APPLICABLE FROM JANUARY 1, 2014

The following new standards and interpretations applicable as from January 1, 2014 did not have any impact on the Company's 2014 condensed consolidated financial statements.

- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IAS 27 (revised) – Separate Financial Statements
- IAS 28 (revised) – Investments in Associates and Joint Ventures
- Amendments to IAS 32 – Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)

[1] http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission.

1.5. IFRS, AMENDMENTS TO IFRS AND INTERPRETATIONS APPLICABLE IN FUTURE PERIODS

The Company has decided not to early adopt the following standards, amendments and interpretations whose application was not mandatory as of January 1, 2014:

- IFRIC 21 – Levies
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions

The Company is in the process of assessing the impact of these standards on the consolidated financial statements.

1.6. USE OF ESTIMATES

The preparation of financial statements involves the use of estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses in the financial statements as well as the disclosures in the notes concerning contingent assets and liabilities at the balance sheet date. These estimates and assumptions, which are determined based on the information available when the financial statements are prepared, mainly concern provisions for returned goods and trade receivables, product life cycles, provisions for tax liabilities, claims and litigation, the measurement of goodwill and put options granted to minority shareholders. The final amounts may be different from these estimates.
The Company is subject to income tax in many jurisdictions with different tax rules and the determination of global income tax expense is based to a significant extent on estimates and assumptions that reflect the information available when the financial statements are prepared.
First-half income tax expense recognized in the consolidated income statement is determined based on an estimate of the effective tax rate that will be paid by the Company on annual profit, in accordance with IAS 34 – Interim Financial Reporting.

1.7. OPERATING SEGMENTS

Since the adoption of IFRS 8 with effect from January 1, 2009, the Company's information by operating segment is presented in accordance with the information provided internally to management for the purpose of managing operations, making decisions and analyzing operational performance.
This information is prepared in accordance with the IFRSs used by the Company to prepare its consolidated financial statements.
The Company has three operating segments: Lenses & Optical Instruments, Equipment and Sunglasses & Readers.
The Lenses & Optical Instruments business segment comprises the lens business (production, finishing, distribution and trading) and the instruments business (small equipment used by opticians and related to the sale of lenses). The end customers for this business are eyecare professionals (opticians and optometrists).
The Lenses & Optical Instruments business segment is now structured to offer comprehensive market coverage, with multiple points of contact through a global network of plants, prescription laboratories, edging facilities and distribution centers serving eyecare professionals around the world. This network is centrally managed, as are the research and development, marketing, intellectual property and engineering processes.
In light of the increasing number of international transactions among the various subsidiaries, their interdependency and the growing share of sales derived from large multinational accounts, the Lenses & Optical Instruments segment's performance is now led and tracked globally by senior management.

The Equipment business segment encompasses the production, distribution and sale of high-capacity equipment, such as digital surfacing machines and lens polishing machines, used in manufacturing plants and prescription laboratories for finishing operations on semi-finished lenses. Its end customers are optical lens manufacturers.

The Sunglasses & Readers business encompasses the production, distribution and sale of non-prescription glasses. Its end customers are retailers, who sell the products on to consumers.

1.8. CONSOLIDATED STATEMENT OF CASH FLOWS

The statement of cash flows has been prepared by the indirect method, whereby profit is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
Profit before non-cash items and share of profits of associates, net of dividends received, is defined as profit of fully-consolidated companies before depreciation, amortization and provisions (other than provisions for impairment of current assets) and other non-cash items (mainly the costs of stock option plans, share grants and employee stock ownership plans), plus dividends received from associates.
Working capital comprises inventories, receivables and payables, current tax assets, taxes payable, other receivables and payables, deferred income and prepaid expenses. Changes in working capital are stated before the effect of changes in scope of consolidation.
Cash flows of foreign subsidiaries are translated at the average exchange rate for the period.
The effect of changes in exchange rates on cash and cash equivalents corresponds to the effect of (i) changes in exchange rates between the beginning and end of the period and (ii) differences between the closing exchange rate and the average rate for the period on movements for the period.
The amounts reported for acquisitions (sales) of subsidiaries correspond to the purchase price (sale proceeds) less the cash and cash equivalents of the acquired (sold) subsidiary at the transaction date.
Cash and cash equivalents in the cash flow statement correspond to cash and marketable securities qualifying as cash equivalents less bank overdrafts.
- Marketable securities, consisting mainly of units in money market funds, make up the bulk of the Group’s cash investments and are qualified as cash equivalents when the fund’s management objectives fulfill the criteria specified in IAS 7.
- Marketable securities that do not fulfill these criteria are not classified as cash equivalents. Purchases and sales of these securities are treated as cash flows from financing activities.

1.9. OTHER INCOME AND EXPENSES FROM OPERATIONS

Other operating income and expenses from operations comprise income and expenses that, due to their amount, nature or frequency, may not be considered inherent to the Company’s recurring operations.

These mainly include restructuring costs, compensation costs of share-based payments, costs relating to strategic acquisitions, adjustments to provisional amounts recognized in the opening balance sheet of newly acquired subsidiaries following the 12-month measurement period, material charges to provisions and impairment losses on plant, property and equipment or intangible assets, litigation costs and related provisions, adjustments to contingent consideration on acquisitions completed after January 1, 2010, and gains and losses on the disposal of consolidated businesses and entities.

1.10. BORROWINGS

Borrowings are initially recognized at an amount corresponding to the issue proceeds, net of directly attributable transaction costs.
Any difference between this amount and the redemption price is recognized in profit over the life of the debt by the effective interest method.

NOTE 2. EXCHANGE RATES AND SCOPE OF CONSOLIDATION

2.1. EXCHANGE RATES OF THE MAIN CURRENCIES

	Closing rate			Average rate		
For €1	June 2014	June 2013	December 2013	June 2014	June 2013	December 2013
Canadian dollar	1.46	1.37	1.47	1.50	1.33	1.37
Pound sterling	0.80	0.86	0.83	0.82	0.85	0.85
Chinese yuan	8.47	8.03	8.35	8.45	8.13	8.16
Japanese yen	138.44	129.39	144.72	140.40	125.46	129.66
Indian rupee	82.20	77.72	85.37	83.29	72.28	77.93
Brazilian real	3.00	2.89	3.26	3.15	2.67	2.87
U.S. dollar	1.37	1.31	1.38	1.37	1.31	1.33

2.2. CHANGES IN THE SCOPE OF CONSOLIDATION

The consolidated financial statements include the financial statements of holding companies, asset management companies and entities meeting one of the following two criteria:

- Annual revenue in excess of €1 million;
- Property, plant and equipment in excess of €9 million.

Entities that do not fulfill these criteria may also be consolidated, if their consolidation has a material impact on the Company's financial statements.
Moreover, companies acquired at the very end of the year that do not have the resources to produce financial statements according to Group standards within the time allotted are entered into the scope of consolidation the following January 1, if the impact of their consolidation is not material for the Group.

♦ **Strategic acquisitions**

On April 1, 2014, Essilor International acquired PPG Industries' 51% stake in Transitions Optical, the leading provider of photochromic lenses to optical manufacturers worldwide.
As a result of the transaction, Essilor now owns 100% of the capital of Transitions Optical. Founded in 1990 and based in Pinellas Park, Florida (USA), Transitions Optical reported sales of $844 million in 2013, of which around $279 million with lens manufacturers other than Essilor.
The consideration for the transaction comprises $1.73 billion paid at closing and $125 million deferred over five years.

Transitions Optical has been fully consolidated by Essilor International as from April 1, 2014, prior to which it was accounted for by the equity method on a 49% basis.

On April 28, 2014, Essilor International completed the acquisition of all outstanding common stock of Coastal.com, one of the world's leading online vision care retailers. The transaction, announced last February 27, was approved by Coastal.com shareholders in extraordinary meeting on April 16, after which it was cleared by regulatory authorities.
Based in Vancouver, British Columbia (Canada), Coastal.com designs and distributes one of the widest online selections of optical equipment, including contact lenses, prescription and non-prescription eyeglasses, sunglasses and accessories. It reported revenue of C$218 million for the fiscal year ended October 31, 2013. Its net assets amount to approximately C$430 million, corresponding to C$12.45 per Costal.com share.

Costal.com has been fully consolidated by Essilor as from April 28, 2014.

♦ **Newly consolidated companies**

The following companies were consolidated for the first time in first-half 2014.

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
Plunkett Optical Inc.	United States	January 2, 2014	Full	80	100
Rooney Optical Inc.	United States	January 3, 2014	Full	100	100
Rooney Optical of Pennsylvania, LLC.	United States	January 3, 2014	Full	100	100
Ping Ding Shan Fangyuan Vision Optical Technology Co Ltd.*	China	January 1, 2014	Full	51	100
Shanghai Global Lens Distribution*	China	January 1, 2014	Full	100	100
Costa Inc.	United States	January 31, 2014	Full	100	100
Shamir Asia Pte. Ltd.	Singapore	March 25, 2014	Full	50	100
Intercast Europe Srl	Italy	April 1, 2014	Full	100	100
Starclic Indústria e Comércio Ótico Ltda.	Brazil	April 1, 2014	Full	25.5	100
I-Coat Company, LLC	United States	April 1, 2014	Full	85	100
Solarlens	Thailand	April 1, 2014	Full	100	100
Essilor Saudi Arabia Limited	Saudi Arabia	April 10, 2014	Full	50	100
Coastal Contacts (Aus) Pty Ltd	Australia	April 28, 2014	Full	100	100
Clearly Contacts Ltd	Canada	April 28, 2014	Full	100	100
Lensway OY	Finland	April 28, 2014	Full	100	100
Coastal Japan Kabushikigaisha 2	Japan	April 28, 2014	Full	100	100
Condis BV	Netherlands	April 28, 2014	Full	100	100
Lensway BV	Netherlands	April 28, 2014	Full	100	100
Asiazaakka PTY	Singapore	April 28, 2014	Full	100	100
Eyeway AB	Sweden	April 28, 2014	Full	100	100
Lensco AB	Sweden	April 28, 2014	Full	100	100
Lenshold AB	Sweden	April 28, 2014	Full	100	100
Lenslogistics AB	Sweden	April 28, 2014	Full	100	100
Coastal Vision (US), Inc.	United States	April 28, 2014	Full	100	100
Just Eyewear LLC	United States	April 28, 2014	Full	100	100
ASE Corporate Eyecare	United Kingdom	May 6, 2014	Full	70	100

*Companies acquired or set up in prior years, consolidated for the first time in first-half 2014.

The first-half 2014 income statement also includes the contribution over the full six months of the following companies that were consolidated for the first time in 2013.

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
MOC BBGR	Russia	March 1, 2013	Full	51	100
Megalux	Chile	March 1, 2013	Full	51	100
Servioptica	Colombia	April 18, 2013	Full	51	100
Impasoles	Luxembourg	April 18, 2013	Full	100	100
Ivortest	Colombia	April 18, 2013	Full	100	100
Optiminas	Brazil	May 1, 2013	Full	70	100
Isbir	Turkey	May 1, 2013	Full	73	100
Prodigy	United States	May 1, 2013	Full	100	100
Shih Heng Optical Taiwan Branch	Taiwan	May 1, 2013	Full	70	100
Deepak Lens Pvt Ltd	India	May 13, 2013	Full	60	100
Onbitt	South Korea	May 14, 2013	Full	51	100
India New Vision Generation	India	May 17, 2013	Full	100	100
E.magine	United States	June 1, 2013	Full	80	100
PSA Nilo	Brazil	June 10, 2013	Full	51	100
Classic Optical	United States	July 1, 2013	Full	95	100
VIP Optical	United States	July 1, 2013	Full	100	100
PT Polyvisi Rama Optik	Indonesia	July 1, 2013	Full	49	100
PT Supravisi Rama Optik Manufacturing	Indonesia	July 1, 2013	Full	49	100
Polycore Optical (Malaysia) Sdn Bhd	Malaysia	July 1, 2013	Full	50	100
B.V. Nederlandse Optische Industrie	Netherlands	July 1, 2013	Full	50	100
Polycore Optical (HK) Limited	Hong Kong	July 1, 2013	Full	50	100
Polyvision Inc.	United States	July 1, 2013	Full	50	100
Polycore Optical (Pte) Ltd	Singapore	July 1, 2013	Full	50	100
Brazil 2.5 New vision Generation	Brazil	July 22, 2013	Full	100	100
Shamir Optical Co Ltd	China	July 30, 2013	Full	50	100
Riverside	Canada	August 31, 2013	Full	61	100
Active Vision	Canada	August 31, 2013	Full	61	100
Clearlen	Canada	August 31, 2013	Full	61	100
SuperLab	Canada	August 31, 2013	Full	61	100
UTMC	Canada	August 31, 2013	Full	61	100
AN Optical	Canada	August 31, 2013	Full	31	100
Benson Edwards	Canada	August 31, 2013	Full	50	100
Laboratoire d'Optique de Hull	Canada	August 31, 2013	Full	100	100
CPS 360 Optical	Canada	August 31, 2013	Full	50	100
Technologies Humanware Inc.	Canada	September 1, 2013	Full	63	100
Humanware Europe Ltd	United Kingdom	September 1, 2013	Full	63	100
Humanware USA Inc	United States	September 1, 2013	Full	63	100
Humanware Australia Pty Ltd.	Australia	September 1, 2013	Full	63	100
Katz & Klein	United States	September 4, 2013	Full	100	100
Essilor Management North & West Africa	Morocco	September 3, 2013	Full	100	100
Essilor Management Turkey	Turkey	October 10, 2013	Full	100	100
Xiamen Yarui Optical Co. Ltd	China	October 31, 2013	Full	50	100
Artgri Group International Pte Ltd	Singapore	October 31, 2013	Full	50	100
Xiamen Artgri Optical Co. Ltd.	China	October 31, 2013	Full	50	100
Cordless Network Service (Frame Displays)	United States	November 1, 2013	Full	80	100
Suntech Optics Inc.	Canada	November 25, 2013	Full	100	100
Bugaboos Eyewear Corporation	Canada	November 25, 2013	Full	100	100
Bugaboos Eyewear Inc.	United States	November 25, 2013	Full	100	100
Naked Eye Enterprises Inc.	Canada	November 25, 2013	Full	100	100
PureLab DLP Inc	Canada	December 2, 2013	Full	25.5	100
Comprol	Brazil	December 2, 2013	Full	51	100
R&D Cherry	United States	December 2, 2013	Full	80	100

2.3. IMPACT OF CHANGES IN EXCHANGE RATES AND SCOPE OF CONSOLIDATION

♦ **Balance Sheet**

The impact of changes in the scope of consolidation on the consolidated balance sheet is analyzed below:

in € millions	**First-time (full) consolidation of Transitions**	**First-time consolidation of other companies**	**All newly consolidated companies**
Intangible assets	526	87	613
Property, plant and equipment	107	17	124
Other non-current assets	9	(15)	(6)
Current assets	178	56	234
Cash and cash equivalents	83	13	96
Total assets acquired at fair value	**903**	**158**	**1,061**
Minority interests in equity	-	(1)	(1)
Other non-current liabilities	197	38	235
Short-term borrowings	-	3	3
Other current liabilities	120	44	164
Total liabilities assumed at fair value	**317**	**84**	**401**
NET ASSETS ACQUIRED(2)	**586**	**74**	**660**
Acquisition cost	2,050(1)	570	2,620
Fair value of net assets acquired(2)	586	74	660
Recognized goodwill	**1,464**	**496**	**1,960**

(1) This amount corresponds to the total purchase price and to the remeasurement at fair value of the previously held 49% interest.
(2) Or consolidated for the first time during the period.

In accordance with IFRS 3 (revised) – Business Combinations, the change in consolidation method applied to Transitions Optical led to the recognition in first-half 2014 of:

- a capital gain of €544 million arising from remeasurement at fair value through profit of the previously held 49% interest in Transitions Optical that was accounted for by the equity method up to March 31, 2014.
- the provisional allocation of the Transitions Optical purchase price, mainly involving the recognition of intangible assets valued at €526 million by independent valuers.
- provisional goodwill of €1,464 million, after the recognition, at fair value, of Transition Optical's identifiable assets and liabilities.

The impact on the consolidated balance sheet of other newly consolidated companies includes the Coastal.com acquisition.

The amount recognized as goodwill is supported by projected synergistic benefits and the growth outlook of the acquired companies as part of Essilor.

The fair values of the acquired assets and assumed liabilities are based on the provisional accounting for the business combination and may be adjusted once the valuation process has been completed or additional analyses have been performed. Any such adjustments are treated as a retrospective adjustment of goodwill if they are made within twelve months of the acquisition date.

♦ **Income Statement**

The methods used to measure the impact of changes in scope of consolidation and exchange rates on the income statement are detailed below.

Changes in performance indicators (revenues, contribution from operations and operating profit) are apparent when broken down by their impact on the Group's acquisitions (scope of consolidation impact), on currency changes (foreign exchange impact) and on intrinsic operations, or growth on a like-for-like basis.

Concerning changes in scope of consolidation:
- Changes in scope of consolidation due to companies acquired during the period include the impact of consolidating their income statements as from their acquisition date up to June 30, 2014.
- Changes in scope of consolidation due to companies acquired in the prior period include the impact of consolidating their income statements as from January 1, 2014 up to the one-year anniversary of their acquisition.
- As the Company did not dispose of any fully or proportionally consolidated subsidiaries, there was no related change in the scope of consolidation to report.
- Acquisitions that are considered to be strategic for the Group, because they are highly material or involve a new business segment, are presented separately from bolt-on acquisitions, which are smaller transactions that relate to the Group’s core operations, i.e. prescription laboratories or plants.

Concerning the currency effect:
- The currency effect is calculated separately for each subsidiary outside the euro zone by applying the average prior-period exchange rate to the subsidiary’s income statement for the current period, expressed in its functional currency and adjusted for changes in scope of consolidation as measured above, and by calculating the change in this value compared with the subsidiary’s prior-period income statement.
- The currency effect therefore reflects the translation of foreign subsidiary accounts into euros, and not net conversion gains and losses.

Like-for-like growth is calculated as reported growth less the impact of acquisitions and disposals and changes in exchange rates. Corresponding to organic growth, this amount therefore represents growth at constant exchange rates and comparable scope of consolidation.

The currency effect and changes in scope of consolidation impacted revenue and contribution from operations as follows:

			Changes in scope of consolidation		
(in %)	**Reported growth**	Currency effect	Bolt-on acquisitions	Strategic acquisitions	**Like-for-like growth**
Revenue	**7.9**	(4.7)	6.4	3.2	**3.0**
Contribution from operations	**8.6**	(4.7)	5.8	4.5	**3.0**

If Transitions Optical had been fully consolidated as from April 1, 2013, pro forma consolidated revenue for the six months ended June 30, 2013 would have amounted to an estimated €2,630 million versus the reported amount of €2,576 million.

NOTE 3. OPERATING SEGMENTS

3.1. INFORMATION BY OPERATING SEGMENT

First-half 2014

in € millions	**Lenses & Optical Instruments**	**Equipment**	**Sunglasses & Readers**	**Elimination of inter-segment revenue**	**GROUP TOTAL**
External revenue	2,419	85	276	-	**2,780**
Inter-segment revenue	2	35	-	(37)	**-**
Total revenue	2,421	120	276	(37)	**2,780**
					-
Operating profit	777	12	45	-	**834**
Non-cash income and expenses	(35)	-	-	-	**(35)**
Interest income	8	-	-	-	**8**
Interest expense	(23)	(1)	-	-	**(24)**
Income tax expense	(71)	(4)	(13)	-	**(88)**
Share of profit of associates	4	-	-	-	**4**
Impairment, depreciation and amortization of property, plant and equipment and intangible assets	(170)	(5)	(23)	-	**(198)**
					-
					-
Purchases of property, plant and equipment and intangible assets	88	3	12	-	**103**
Non-current assets	5,380	331	1,148	-	**6,859**
Total assets	8,376	461	1,400	-	**10,237**
Provisions for contingencies, pensions and other post-employment benefit obligations	426	19	23	-	**468**
Borrowings and payables	4,808	46	234	-	**5,088**

First-half 2013

in € millions	Lenses & Optical Instruments	Equipment	Sunglasses & Readers	Elimination of inter-segment revenue	GROUP TOTAL
External revenue	2,297	92	187	-	**2,576**
Inter-segment revenue	2	33	-	(35)	**-**
Total revenue	2,299	125	187	(35)	**2,576**
Operating profit	401	14	26	-	**441**
Non-cash income and expenses	(13)	-	-	-	**(13)**
Interest income	9	-	-	-	**9**
Interest expense	(11)		-	-	**(11)**
Income tax expense	(97)	(4)	(9)	-	**(110)**
Share of profit of associates	11	-	-	-	**11**
Impairment, depreciation and amortization of property, plant and equipment and intangible assets	(104)	(5)	(21)	-	**(130)**
Purchases of property, plant and equipment and intangible assets	139	2	34	-	**175**
Non-current assets	2,946	336	679	-	**3,961**
Total assets	5,833	467	833	-	**7,133**
Provisions for contingencies, pensions and other post-employment benefit obligations	317	21	6	-	**344**
Borrowings and payables	2,565	67	168	-	**2,800**

2013

in € millions	Lenses & Optical Instruments	Equipment	Sunglasses & Readers	Elimination of inter-segment revenue	GROUP TOTAL
External revenue	4,505	205	355	-	**5,065**
Inter-segment revenue	4	60	-	(64)	**-**
Total revenue	4,509	265	355	(64)	**5,065**
Operating profit	764	33	46	-	**843**
Non-cash income and expenses	(32)	-	-	-	**(32)**
Interest income	18	-	-	-	**18**
Interest expense	(25)	(1)	-	-	**(26)**
Income tax expense	(177)	(10)	(12)	-	**(199)**
Share of profit of associates	22	-	-	-	**22**
Impairment, depreciation and amortization of property, plant and equipment and intangible assets	(204)	(10)	(39)	-	**(253)**
Purchases of property, plant and equipment and intangible assets	240	4	55	-	**299**
Non-current assets	2,947	331	928	-	**4,206**
Total assets	5,971	471	1,135	-	**7,577**
Provisions for contingencies, pensions and other post-employment benefit obligations	306	20	14	-	**340**
Borrowings and payables	2,931	67	198	-	**3,196**

The Company's top 20 customers accounted for approximately 20% of revenue in first-half 2014 (approximately 20% in fiscal 2013).

No single customer accounts for more than 10% of the Company's revenue.

NOTE 4. OTHER INCOME (EXPENSES) FROM OPERATIONS

in € millions	First-half 2014	First-half 2013	2013
Capital gains on disposals of businesses and assets[1]	544	-	
Other	2	3	5
Other income from operations	**546**	**3**	**5**
Restructuring costs[2]	(45)	(10)	(22)
Compensation costs of share-based payments	(17)	(14)	(32)
Other[3]	(163)	(10)	(25)
Other expenses from operations	**(225)**	**(34)**	**(79)**

(1) Capital gains on disposals in first-half 2014 include the gain recognized on the full consolidation during the period of Transitions, which was previously accounted for by the equity method (see note 2).

(2) Restructuring costs mainly concern manufacturing facility rationalization plans in the United States and Europe.

(3) Other expenses from operations in first-half 2014 mainly comprise impairment losses on property, plant and equipment, intangible assets and goodwill (€70 million), provisions for contingencies (see note 14), contingent consideration adjustments (€39 million), and technical adjustments relating to the elimination of inter-company margins on inventory following the full consolidation of Transitions (€34 million).

NOTE 5. COST OF NET DEBT

in € millions	First-half 2014	First-half 2013	2013
Cost of gross debt	(24)	(11)	(26)
Income from cash and cash equivalents	8	8	18
COST OF NET DEBT	**(16)**	**(3)**	**(8)**

NOTE 6. OTHER FINANCIAL INCOME AND EXPENSES

in € millions	First-half 2014	First-half 2013	2013
Exchange gains	72	40	84
Other	1	4	3
Other financial income	**73**	**44**	**87**
Exchange losses	(68)	(41)	(86)
Discounting adjustments to liabilities	(5)	(5)	(10)
Charges to provisions for impairment of available-for-sale financial assets	(2)	-	(3)
Other	(2)	(1)	-
Other financial expenses	**(77)**	**(47)**	**(99)**

NOTE 7. INCOME TAX

Income tax expense amounted to €88 million for first-half 2014, compared with €109 million for first-half 2013, corresponding to an effective rate of 11% versus 24%. The lower effective tax rate was due to certain non-recurring non-taxable items (see Note 4).

NOTE 8. SHARES OUTSTANDING

The shares have a par value of €0.18.

Shares outstanding, net of treasury stock

	First-half 2014	First-half 2013	2013
Shares outstanding at January 1	**210,245,092**	**210,336,563**	**210,336,563**
Shares issued on exercise of stock options	397,284	752,455	1,098,051
Shares issued to the Essilor corporate mutual fund	-	-	377,407
Delivery of performance shares	5,465	2,585	625,369
(Purchases)/sales of treasury stock, net	(214,000)	(639,329)	(2,192,298)
Shares outstanding at period-end	**210,433,841**	**210,452,274**	**210,245,092**
Number of treasury shares excluded from the calculation	4,662,941	5,024,221	4,454,406

Average shares outstanding, net of treasury stock

	First-half 2014	First-half 2013	2013
Shares outstanding at January 1	**210,245,092**	**210,336,563**	**210,336,563**
Shares issued on exercise of stock options	177,033	327,138	612,602
Shares issued to the Essilor corporate mutual fund	-	-	11,374
Treasury shares allocated to performance share grants	1,448	1,625	49,441
(Purchases)/sales of treasury stock, net	(107,591)	(229,192)	(854,430)
Average shares outstanding for the period	**210,315,982**	**210,436,134**	**210,155,550**

NOTE 9. GOODWILL

in € millions	at December 31, 2013	Newly consolidated companies	Other changes in scope of consolidation and other movements	Translation adjustment	Impairment losses recognized in the period	At June 30, 2014
Gross	2,489	1,960	(34)	53	-	4,468
Impairment losses	(13)	-	-	(1)	(17)	(31)
CARRYING AMOUNT	**2,476**	**1,960**	**(34)**	**52**	**(17)**	**4,437**

The main increases in goodwill resulted primarily from the Transitions Optical acquisition (€1,464 million) and the Coastal.com and Costa acquisitions.

Goodwill for companies acquired during the period is based on the provisional accounting for the business combination and may be adjusted during the 12-month period from the acquisition date.

Since January 1, 2010, Essilor has generally applied the full goodwill method to account for acquisitions involving a commitment to purchase minority (non-controlling) interests. In such cases, the fair value of the non-controlling interests is calculated by estimating the present value of the future price to be paid to acquire them. For acquisitions that do not include a minority interest put option, the Company generally applies the partial goodwill method.

The net carrying amount of goodwill per Cash Generating Unit (CGU) is as follows:

in € millions	**June 30, 2014**	**December 31, 2013**
Lenses – Europe	284	282
Lenses – North America*	2,566	769
Lenses – South America	203	193
Lenses – Asia-Pacific/Africa	464	431
Equipment	269	267
Sunglasses & Readers	651	534
TOTAL	**4,437**	**2,476**

*Including provisional goodwill on the Transitions acquisition that will be allocated to the different CGUs in the second half of 2014.

Note: The assets in the "plant" CGU are allocated to the other CGUs for impairment testing purposes.

NOTE 10. OTHER INTANGIBLE ASSETS

in € millions	At December 31, 2013	Changes in scope of consolidation	Acquisitions	Disposals and retirements	Translation differences and other movements	Amortization and impairment losses	At June 30, 2014
Trademarks	301	498	-	-	5	-	804
Patents and licenses	331	64	12	-	5	-	412
Contractual customer relationships	328	74	7	-	3	-	412
Other intangible assets	171	16	6	-	5	-	198
Gross	**1,131**	**652**	**25**	**-**	**18**	**-**	**1,826**
Accumulated amortization	(399)	(6)	-	-	(3)	(95)	(503)
Net	**732**	**646**	**25**	**-**	**15**	**(95)**	**1,323**

The increase in the gross carrying amount of trademarks mainly resulted from the provisional allocation of the Transitions Optical purchase price in the first half of 2014.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

in € millions	At December 31, 2013	Changes in scope of consolidation	Acquisitions	Disposals and retirements	Translation differences and other movements	Depreciation and impairment losses	At June 30, 2014
Land	48	6	-	-	1	-	55
Buildings	634	76	4	(2)	13	-	725
Plant and equipment	1,589	140	36	(19)	36	-	1,782
Other	474	45	38	(8)	(21)	-	528
Gross	**2,745**	**267**	**78**	**(29)**	**29**	**-**	**3,090**
Accumulated depreciation	(1,747)	(142)	-	23	(22)	(103)	(1,991)
Net	**998**	**125**	**78**	**(6)**	**7**	**(103)**	**1,099**

NOTE 12. INVESTMENTS IN ASSOCIATES

Movements in investments in associates were as follows over the period:

in € millions	**First-half 2014**
At beginning of period	**113**
Share of net profits of associates	4
Dividends	(29)
Change in accounting method for Transitions Optical	(111)
Translation adjustments and other movements	25
At end of period	**2**

NOTE 13. PENSION AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS

The Company's pension and other post-retirement benefit obligations mainly concern:

- Supplementary pension plans in France, Germany, the United Kingdom and the United States.
- Length-of-service awards payable to employees on retirement in France and other European countries.
- Other long-term benefits, consisting mainly of jubilees payable in France and other countries.

Net pension and other post-employment benefit obligations recognized in the balance sheet amounted to €238 million at June 30, 2014 and €209 million at December 31, 2013. The change over the period due to actuarial gains and losses recognized in equity included €13 million of actuarial losses arising from the reduction in the discount rate applied to plans in all geographic regions.

- Provisions for pension and other post-employment benefit obligations

in € millions	**June 30, 2014**	**December 31, 2013**
Non-current assets (plan surpluses)	1	1
Provisions (plan deficits)	238	209

- Analysis of changes in actuarial gains and losses recognized in equity

in € millions	**First-half 2014**	**2013**
Actuarial (gains)/losses recognized in equity at the beginning of the period	**90**	**96**
Actuarial (gains)/losses recognized in equity during the period	13	(6)
Actuarial (gains)/losses recognized in equity at the end of the period	**103**	**90**

- Expense for the period

in € millions	**First-half 2014**	**2013**
Service cost	(5)	(11)
Interest cost	(3)	(6)
Expense for the period	**(8)**	**(17)**

NOTE 14. PROVISIONS FOR CONTINGENCIES

in € millions	At December 31, 2013	Charges*	Reversals	Translation adjustments	Changes in scope of consolidation, other movements	At June 30, 2014
Provisions for losses in subsidiaries and affiliates	1	-	-	-	-	1
Restructuring provisions	7	28	(3)	-	(1)	31
Warranty provisions	25	3	(5)	-	6	29
Other	98	24	(4)	-	51	169
TOTAL	**131**	**55**	**(12)**	**-**	**56**	**230**

*See note 4.

Provisions for other contingencies at June 30, 2014 include, in particular, provisions for tax audits and litigation concerning income tax and other taxes for a total amount of €63 million (€17 million at December 31, 2013), and the provision of €51 million set aside to cover potential violations of the cartel laws in Germany (€51 million at December 31, 2013), see note 18 – Litigation.

NOTE 15. NET DEBT AND BORROWINGS

Net debt can be analyzed as follows:

(€ millions)	**June 30, 2014**	**December 31, 2013**
Long-term borrowings	1,756	607
Short-term borrowings	1,045	525
Bank overdrafts	34	37
Accrued interest	9	5
Total borrowings	**2,844**	**1,174**
Cash and cash equivalents	(663)	(786)
Other short-term investments[(b)]	(5)	(5)
Total assets	**(668)**	**(791)**
Interest rate and cross-currency swaps[(c)]	(10)	(14)
Net debt	**2,166**	**369**

(a) Net debt is shown as a positive amount and a net cash position as a negative amount.
(b) Other short-term investments that the Company considers as eligible for inclusion in the calculation of net debt.
(c) Interest rate and cross-currency swaps are measured at fair value at the end of each reporting period.

Following the acquisition of Transitions Optical, the Company's debt increased due to the issue of €500 million worth of 1.75% bonds due 2021 and €300 million worth of 2.375% bonds due 2024, the setup of a U.S. commercial paper program and issues under the European commercial paper program.

In February 2014, Standard & Poor's assigned Essilor a credit rating of A-1, deeming its business risk profile to be "strong" and its financial risk profile to be "modest". Also in February, Moody's assigned a P-1 short-term rating to Essilor's European commercial paper program, with a stable outlook.
In March 2014, Moody's assigned Essilor an A2 long-term issuer rating.

♦ **Long-term borrowings**

At June 30, 2014, the Company's long-term financing structure was as follows:

in € millions	**June 30, 2014**	**December 31, 2013**	**Issue date**	**Maturity**
Bonds	800	-	2014	2021/2024
Bank loans	329			Beyond one year
U.S. private placement (2 tranches)	366	217	2012	2017/2019
U.S. private placement (7 tranches)	220	363	2013	2017/2023
Other	41	27		
LONG-TERM BORROWINGS	**1,756**	**607**		

♦ **Short-term borrowings**

At June 30, 2014, the Company's short-term financing structure was as follows:

in € millions	**June 30, 2014**	**December 31, 2013**	**Issue date**	**Maturity**
Bank loans	-	250	2007	2014
European commercial paper programs	403	215	2013	2014
U.S. commercial paper programs	592		2014	2014
Bank overdrafts	34	37		
Other	59	65		
SHORT-TERM BORROWINGS	**1,088**	**567**		

NOTE 16. OFF-BALANCE SHEET COMMITMENTS

There were no material changes in the amount or nature of off-balance sheet commitments between December 31, 2013 and June 30, 2014.

NOTE 17. MARKET RISKS

Market risks are managed by the Corporate Treasury and Financing department. The head of this department reports directly to the Chief Financial Officer, who is a member of the Executive Committee.

NOTE 18. LITIGATION

The accounting methods used to calculate provisions for contingencies are explained in section 3.4 of the 2013 Registration Document and in note 1.32 to the consolidated financial statements. Details of other income and expenses from operations are provided in note 4 above and provision movements for the period are presented in note 14.

The main claims and litigation are as follows:

Germany

At the end of 2008, the German competition authorities, the BundesKartellAmt (BKA), launched an investigation into possible breaches of German competition law by major players in the ophthalmic optics market, including two Essilor subsidiaries, Essilor GmbH and Rupp & Hubrach Optik GmbH.

On June 10, 2010, following the investigation, the BKA notified the companies investigated that it intended levying fines on them, with the fine applicable to Essilor's two subsidiaries representing an aggregate amount of around €50 million.
Essilor GmbH and Rupp & Hubrach Optik GmbH contested both the grounds for the BKA's findings and the amount of the fine, which they considered to be disproportionate. As a result, two appeals were lodged against the BKA's decisions on June 15 and 16, 2010. None of the fines will be paid while these appeals are pending. The Company does not currently know when the appeals will be heard and is not in a position to forecast their outcome.

On being notified of the fines by the BKA, the Company set aside provisions totaling €51 million in its consolidated balance sheet at December 31, 2010.

Since then, there have been no developments in the case, aside from the transfer, on May 5, 2014, of the matter by the prosecutor to the Dusseldorf Court, and the original provisions have therefore been maintained in the consolidated balance sheet at June 30, 2014.

United States and Canada

Following the settlement of charges brought by the Federal Trade Commission after an investigation in 2009 into Transitions Optical Inc.'s business practices, around twenty motions for authorization to bring class actions have been filed since late March 2010 against Transitions Optical Inc., Essilor of America and Essilor Laboratories of America before U.S. and Canadian courts. The plaintiffs in these motions are alleging that the companies concerned endeavored to jointly monopolize the market for the development, manufacture and sale of photochromic lenses between 1999 and March 2010.

During the first half of 2014, the Court handed down a ruling in Essilor's favor by refusing to certify the class actions. An agreement was signed with certain plaintiffs in July 2014 and an agreement in principle was also signed. A provision for approximately US$ 1 million has been set aside for payments due under these first two agreements. A provision has also been recorded for the third and final matter that is still pending before the federal court in Florida.

Other litigation

To the best of the Company's knowledge, it is not currently involved and has not recently been involved in any other claims, litigation or arbitration proceedings that would be likely to have a material adverse effect on the financial position, results of operations, profitability, business or assets and liabilities of the Company or the Group.

NOTE 19. RELATED PARTY TRANSACTIONS

The Company has identified the following related parties:
- Associates and joint ventures
- Senior executives

♦ **Related party transactions with associates**

At June 30, 2014, related party transactions with associates concerned the following company:
- Vision Web: Essilor of America laboratories use the Vision Web ordering system in the United States.

♦ **Other related party transactions**

There were no non-current transactions with members of Senior management.

NOTE 20. SUBSEQUENT EVENTS

Since July 1, Essilor has acquired a majority interest in **Esel Optik**, Essilor Instruments' long-standing distribution partner in Turkey with annual revenue of some €1.7 million.

Statement by the Person Responsible for the 2014 Interim Financial Report

I declare that, to the best of my knowledge, (i) the financial statements for the first six months of 2014 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of Essilor International and the consolidated companies, and (ii) the accompanying interim management report includes a fair review of significant events of the past six months, their impact on the interim financial statements and the main related party transactions for the period, as well as a description of the main risks and uncertainties in the second half of the year.

Charenton-le-Pont, France, August 28, 2014

Hubert Sagnières

Chairman and Chief Executive Officer

ESSILOR

SEEING THE WORLD BETTER

STATUTORY AUDITORS' REVIEW REPORT ON THE 2014 HALF-YEAR FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' review report on the 2014 half-year financial statements issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

Period of January 1 to June 30, 2014

IAS 34 condensed consolidated financial statements - statutory auditors report on the half-year financial statements

To the shareholders,

In accordance with our appointment as statutory auditors by the General Shareholders' Meeting, and in application of article L.451-1-2 III of the French monetary and financial code, we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of ESSILOR INTERNATIONAL SA, for the period from January 1 to June 30, 2014 ;
- the verification of the information contained in the half-year management report.

These condensed half-year consolidated financial statements were prepared under the responsibility of your Board of Directors. Our role is to express a conclusion on these financial statements, based on our review.

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. These procedures are less in scope that those required for an audit conducted in accordance with professional standards applicable in France. Consequently, a review does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, the IFRS standard as adopted by the European Union applicable to interim financial information.

Without qualifying the above conclusion, we draw your attention to Note 2.3 to the condensed half-year consolidated financial statements which describes the impacts on the balance sheet and the profit and loss statement pursuant to the acquisition of the 51% shares of Transitions Optical as of April 1st, 2014.

2. Specific verification

We have also verified the information presented in the half-year management report on the condensed half-year consolidated financial statements that were the subject of our review.

We have no matters to report with respect to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-Sur-Seine and Courbevoie, August 29th, 2014

The Statutory Auditors

French original signed by

P R I C E W A T E R H O U S E C O O P E R S A U D I T

Christine BOUVRY

M A Z A R S

Daniel ESCUDEIRO