ESSILOR

SEEING THE WORLD BETTER


# 2015 INTERIM FINANCIAL REPORT

## ESSILOR INTERNATIONAL

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*This is a free translation into English of the 2015 Interim Financial Report issued in French.*

July 30, 2015

# Strong results

# A winning strategy

- Revenue up a very robust 22.6%
- Further improvement in contribution from operations[1] to 19.1% of revenue
- Success of the Crizal®, Varilux® and Transitions® consumer brands
- Strong demand in the United States and Europe
- Annual targets confirmed

***Charenton-le-Pont, France (July 30, 2015 – 6:30 am)*** – The Board of Directors of Essilor International met yesterday to approve the financial statements for the six months ended June 30, 2015. The auditors have performed a limited review of the consolidated financial statements. Their report does not include any observations.

**Financial Highlights**

| *€ millions* | **H1 2015** | **H1 2014 Adjusted[3]** | **% change** |
|---|---|---|---|
| Revenue | **3,408** | 2,780 | +22.6% |
| Contribution from operations[1]<br>*(% of revenue)* | **651**<br>***19.1%*** | 526<br>*18.9%* | +23.8% |
| Operating profit | **614** | 494 | +24.2% |
| Profit attributable to equity holders | **388** | 325 | +19.7% |
| Earnings per share (in €) | **1.83** | 1.54 | +18.7% |
| Cash flow[2] | **617** | 510 | +21.0% |

Commenting on these results, Hubert Sagnières, Chairman and Chief Executive Officer of Essilor, said: "*Our good performance has confirmed the validity of our strategy designed first, to leverage the many interconnections existing between the Prescription Lenses, Sunwear and Online businesses and second, to bring us closer to our end-consumer. The success of our consumer advertising campaigns and our solid growth in developed markets are driving our higher value-added businesses. These good results underscore, once again, the structural growth in our two main markets – vision correction and eye protection – and the potential offered worldwide by our mission, which is 'to improve lives by improving sight'. Given that these dynamics will remain operative in the second half and that our business is expected to enjoy faster growth, we are confident in our ability to meet our full-year financial targets.*"

Since the beginning of the year and around the globe, Essilor has been pursuing its growth model combining innovation and partnerships in its three core businesses: Prescription Lenses, Sunwear and Online. The Company is deploying new products, stepping up investment in direct-to-consumer advertising, leveraging synergies from acquisitions and continually expanding in fast-growing countries, in particular by assertively winning new territories. These initiatives are driving strong growth in its business despite the economic uncertainties that persist in several parts of the world.

**First-half operating highlights**

First-half 2015 revenue grew 9.4% excluding the currency effect and was driven by the following operational advances:

- Like-for-like revenue growth in the Lenses & Optical Instruments division of 4.7% over six months and of 4.9 % in the second quarter alone.
- The start of the commercial roll-out of several new products, including the Eyezen™ lenses designed for a connected life, the Varilux Comfort® 3.0 and Varilux® Physio® 3.0 progressive lenses, the Transitions® XTractive™ photochromic lenses and the E-SPF® 35 UV-protection index.
- The continuation of the Transitions Optical integration and expansion in photochromic lenses ;
- The ramp-up and success of the consumer media campaigns, which are spurring sales of such value-added brands as Crizal®, Varilux®, Transitions® and Xperio®.
- The firm growth in developed markets, especially the United States and Europe.
- The robust improvement in domestic sales in the fast-growing countries.
- The improvement in FGX International's sales in North America in the second quarter.
- The sustained expansion of the Online business and the ongoing reorganization of Coastal.com, with in particular the adoption of its new commercial identity under Clearly™.
- Continued deployment of the partnership strategy, which has given rise to nine new external growth transactions since the beginning of the year, representing aggregate full-year revenue of around €137 million.

**Outlook**

The second half is expected to see the sustained ramp-up of a number of growth drivers, including the global deployment of recently-launched products, the impact of direct-to-consumer advertising, the increasing contribution from online sales and the ongoing improvement of FGX International in North America.

As a result, and barring any additional strategic acquisitions, Essilor confirms its full-year 2015 targets: revenue growth of between 8% and 11% excluding the currency effect and in excess of 4.5% on a like-for-like basis; and a contribution from operations[1] of at least 18.8% of revenue.

<u>*Notes*</u>

1. *Contribution from operations corresponds to revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs, other operating expenses).*
2. *Net cash from operating activities excluding change in working capital requirement.*
3. *The 2014 financial statements have been adjusted for a certain number of non-recurring items arising mainly on the Transitions Optical, Coastal.com, Costa and Xiamen Yarui Optical acquisitions. The unadjusted financial statements are presented in the First-Half 2015 Condensed Consolidated Financial Statements.*

**A conference call in English will be held today at 10:30 a.m. CEST.**

The meeting will be available live and recorded for later listening at:

http://event.onlineseminarsolutions.com/r.htm?e=1025823&s=1&k=E0586977314F0D3902E8A9883BA57D9D

**Regulatory filings**

The interim financial report is available at www.essilor.com, by clicking on:

http://www.essilor.com/en/Investors/Pages/PublicationsDownloads.aspx

**Forthcoming investor event**

October 22, 2015: Third-quarter 2015 revenue

***About Essilor***

*The world's leading ophthalmic optics company, Essilor designs, manufactures and markets a wide range of lenses to improve and protect eyesight. Its mission is to improve lives by improving sight. To support this mission, Essilor allocates more than €180 million to research and innovation every year, in a commitment to continuously bring new, more effective products to market. Its 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 nearly €5.7 billion in 2014 and employs 58,000 people. It markets its products in more than 100 countries and has 33 plants, 490 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 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 22.6%

### First-half Consolidated Revenue by Operating Segment and by Region

| *€ millions* | H1 2015 | H1 2014 | Change (reported) | Change (like-for-like) | Changes in the scope of consolidation | Currency effect |
|---|---|---|---|---|---|---|
| **Lenses & Optical Instruments** | **2,954** | 2,419 | **+22.1%** | **+4.7%** | **+5.3%** | **+12.1%** |
| *North America* | ***1,312*** | *985* | ***+33.3%*** | *+4.1%* | *+7.0%* | *+22.2%* |
| *Europe* | ***904*** | *825* | ***+9.5%*** | *+3.8%* | *+4.4%* | *+1.3%* |
| *Asia/Pacific/Middle East/Africa* | ***536*** | *433* | ***+23.9%*** | *+5.4%* | *+2.6%* | *+15.8%* |
| *Latin America* | ***202*** | *176* | ***+14.9%*** | *+10.3%* | *+7.0%* | *-2.4%* |
| **Sunglasses & Readers** | **362** | 276 | **+31.3%** | **+2.6%** | **+7.0%** | **+21.8%** |
| **Equipment** | **92** | 85 | **+7.8%** | **-4.8%** | **-1.3%[(a)]** | **+13.9%** |
| **TOTAL** | **3,408** | 2,780 | **+22.6%** | **+4.2%** | **+5.3%** | **+13.2%** |

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

### Revenue trends

Revenue amounted to €3,408 million in the first six months of 2015, an increase of 22.6% as reported and of 5.8% like-for-like including bolt-on acquisitions.[1]

- On a solely like-for-like basis, revenue grew by 4.2% overall, led by the Lenses & Optical Instruments division (up 4.7%). The pace of growth accelerated in the second quarter, with revenue gaining 4.4% versus 4.0% in the first three months of the year.
- The 5.3% increase from changes in the scope of consolidation reflects the positive impact of bolt-on acquisitions[1] (1.6%) and the strategic acquisitions of Transitions Optical and Coastal.com (3.6%).
- The 13.2% positive currency effect was due to the decline in the euro against most of the other billing currencies, with the stronger US dollar accounting for nearly three-quarters of the gain.

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[1] Acquisitions or local partnerships

## Revenue by Region and Division

**The Lenses & Optical Instruments division posted like-for-like growth of 4.7%.**

In **North America**, where revenue rose by 4.1% like-for-like overall, business was very firm in the United States. Sales to independent eyecare professionals were lifted by robust segment and economic tailwinds as well as by an uptick in consumer demand through managed care organizations. Essilor also capitalized on marketing initiatives as well as successful advertising campaigns, including for Varilux® progressive and Crizal® anti-reflective lenses. Business with the optical chains remained mixed, however.
Sales in Canada were supported by new product launches – especially in the Varilux® progressive lens range – as well as by advertising campaigns.
Lastly, the Online sales business reported a solid performance across the region, as Coastal.com, which was acquired in 2014, continued its turnaround.

In **Europe**, strong like for like revenue growth of 3.8% was broadly driven by an improved product mix.
Advertising campaigns helped to impel faster growth in branded products, including the Varilux® progressive and Crizal® anti-reflective lenses, in those countries where they have been deployed, i.e. France, the United Kingdom, Poland, Russia and Germany (where the "second pair, same quality" campaign drove noticeably faster growth in sales through independent eyecare professionals).
The partnerships with Boots in the United Kingdom and General Optica in Spain continued to bear fruit during the period, with an improved product mix. Essilor is benefiting from the adoption by Boots of UV-protection technology for all of their corrective lens solutions, as well as from the ramp-up of the blue light protection offering.
On a country basis, the United Kingdom, the Eastern European countries and Spain reported the fastest gains in the region, while sales in Germany and Italy returned to robust growth. Sales of instruments to eyecare professionals also rose over the period.

Revenue in the **Asia/Pacific/Middle East/Africa** region rose by 5.4% like-for-like during the first half, as a robust improvement in domestic sales in the fast-growing countries offset declines in export business and in Japan as well as the negative impact on the second quarter of the consolidation of Transitions Optical sales to third-party lens casters. Operations in India turned in an excellent performance, both domestically – driven by Crizal®, Varilux®, Transitions® and Kodak® branded lenses – and in export markets. Business in China was also lifted by the development of the Essilor network's leading brands, as well as by faster sales of Kodak® lenses in the mid-range and an expanded presence at one of the country's largest optical chains. As a result, domestic business gained momentum in the second quarter despite the more challenging economic environment. Sales in South Korea also returned to growth, thanks in particular to photochromic lenses. Revenue in Southeast Asia maintained its double-digit pace over the period. Growth also gained momentum in the Middle East and Africa, led in particular by Turkey, and business in Australia was buoyed by firm sales with independent eyecare professionals. Lastly, following a challenging first quarter performance against high prior-year comparatives, operations in Japan returned to growth in the second quarter thanks to strong performances with key accounts.

Momentum remained firm in **Latin America**, with a 10.3% like-for-like increase in revenue over the period. Despite worsening economic conditions in Brazil, sale volumes of Crizal® and Kodak® lenses were boosted by advertising campaigns. The acceleration in the rollout of Kodak® lenses following their launch in late 2013 helped to improve positions in the mid-range. Transitions® photochromic lenses also saw brisk sales during the first half, reflecting broader penetration in the single-vision segment.
In Colombia, where the partnership with ServiOptica coupled with advertising support has continued to drive improvements in the product mix, operations turned in some of the region's fastest growth over the period. Revenue in Chile was lifted by the ramp-up of a lens supply and edging services contract with a leading regional optical chain. Demand gained strength in Argentina, buoyed by the more favorable economic environment. Lastly, the partnership signed recently with Grupo Vision extending Essilor's footprint to Costa Rica and Nicaragua has got off to a promising start.

The **Readers & Sunglasses** division reported a 2.6% like-for-like gain in the first half, a clear period-on-period improvement led by the strong growth in the Costa® brand, which expanded its presence in the north east of the United States and in the Great Lakes region. The uplift in the prescription sunwear business also added to momentum. In China, Bolon™ capitalized on its growing brand awareness to expand its presence in the large east coast cities – also boosted by two store openings in Shanghai – and to build up promising sales momentum with the major duty-free shops in the leading Asian airports. Essilor also began marketing Bolon™-brand prescription sunwear to Chinese opticians during the period.
After a challenging first quarter, FGX International returned to growth in North America in the second quarter. The rebound, which is expected to gain momentum in the second half, was led by the start of a new reading glasses supply contract with a leading drugstore chain and by the launch of Foster Grant® Multifocus™ and eReaders™ lenses – two value-added products marketed at premium price points.

The **Equipment** division reported a 4.8% like-for-like decline in the first half, as it continued to be adversely impacted by the recognition of sales to acquired companies as intra-group revenue and by sluggishness in Asia. However, these impacts were partially offset by the growth in business with key accounts in Europe and by several contract wins with small- and mid-sized laboratories in Latin America. Business in North America was lifted by the renewed demand for multi-layer coating machines in the second quarter.

## Second Quarter Consolidated Revenue up 6.6% at Constant Exchange Rates

| *€ millions* | Q2 2015 | Q2 2014 | Change (reported) | Change (like-for-like) | Changes in the scope of consolidation | Currency effect |
|---|---|---|---|---|---|---|
| **Lenses & Optical Instruments** | **1,501** | 1,259 | **+19.2%** | **+4.9%** | **+1.9%** | **+12.3%** |
| *North America* | ***663*** | *518* | ***+28.0%*** | *+3.7%* | *+1.2%* | *+23.0%* |
| *Europe* | ***462*** | *426* | ***+8.5%*** | *+5.0%* | *+1.9%* | *+1.7%* |
| *Asia/Pacific/Middle East/Africa* | ***269*** | *222* | ***+21.4%*** | *+5.2%* | *+0.5%* | *+15.7%* |
| *Latin America* | ***107*** | *94* | ***+13.6%*** | *+10.5%* | *+9.3%* | *-6.2%* |
| **Sunglasses & Readers** | **199** | 152 | **+31.3%** | **+3.2%** | **+4.9%** | **+23.2%** |
| **Equipment** | **49** | 46 | **+6.6%** | **-7.1%** | **-0.4%[a]** | **+14.1%** |
| **TOTAL** | **1,749** | 1,457 | **+20.0%** | **+4.4%** | **+2.2%** | **+13.5%** |

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

Revenue for the second quarter stood at €1,749 million, an increase of 20.0% as reported and 4.4% like-for-like, lifted by the 4.9% growth in Lenses & Optical Instruments sales. Since April 1, 2015, revenue from Transitions Optical sales to third-party lens casters has been included in organic growth. These sales declined compared with the second quarter of 2014, when there was considerable inventory build-up ahead of the launch of Transitions® Signature™. Revenue from Coastal.com, which has been included in organic growth since May 1, 2015, rose slightly in May and June, despite the closure of most of its brick-and-mortar stores in the second half of 2014. Excluding these two impacts, organic growth in the Lenses & Optical Instruments division stood at 5.4%, reflecting the success of investments in consumer marketing.

Changes in the scope of consolidation added 2.2% to growth, primarily from the inclusion of Grupo Vision in Costa Rica and Fabris Lane in the United Kingdom. The currency effect, which was again led by the strength of the US dollar against the euro, came to a positive 13.5%.

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

- Sustained strong growth in sales with independent eyecare professionals in **North America**.
- An excellent quarter in **Europe**, led by the effective media campaigns and a strong performance with key accounts.
- Stepped-up quarter-on-quarter gains in most of the fast-growing countries in the **Asia/Pacific/Middle East/Africa** region, although revenue as a whole was negatively impacted by the consolidation of Transitions Optical sales to third-party lens casters.
- A very good performance in **Latin America** in a generally lackluster economic environment.
- FGX International's return to growth in North America, which helped to improve the performance of the **Sunglasses & Readers** division.

## Nine transactions since January 1

During the first half, Essilor pursued its strategy of forging local partnerships by acquiring stakes in four companies representing aggregate full-year revenue of around €61 million. Since July 1, the Company has finalized 5 transactions (see "Significant Events Since the End of the First Half" on page 9).

**Latin America**

Majority stakes were acquired in:

- **Grupo Vision**, an integrated laboratory and distributor based in **Costa Rica** and **Nicaragua** that reported around US$40 million in revenue in 2014.
- **Segment**, an ophthalmic lens manufacturer and distributor based in São Paulo state in **Brazil** with revenue of around €4 million a year.

**Asia/Pacific/Middle East/Africa**

- In **South Korea**, lens manufacturer and Essilor partner Chemiglas acquired all outstanding shares of **Optimax** (revenue of around €1 million per year), its long-standing distributor in the Daejeon and Chungcheong regions.

**Sunglasses & Readers**

- FGX International acquired all outstanding shares of **Fabris Lane**, a specialized mid-tier sunglasses designer and distributor in the **United Kingdom** that has full-year revenue of around £14 million.

# STATEMENT OF INCOME

## Income statement

| *€ millions* | H1 2015 | H1 2014 Adjusted[a] | Change |
|---|---|---|---|
| Revenue | 3,408 | 2,780 | +22.6% |
| Gross profit<br>*(% of revenue)* | 2,041<br>*59.9%* | 1,612<br>*58.0%* | +26.6%<br>-- |
| Operating expenses | 1,390 | 1,086 | +28.0% |
| EBITDA[b]<br>*(% of revenue)* | 835<br>*24.5%* | 667<br>*24.0%* | +25.1%<br>-- |
| Contribution from operations[c]<br>*(% of revenue)* | 651<br>*19.1%* | 526<br>*18.9%* | +23.8%<br>-- |
| Operating profit | 614 | 494 | +24.2% |
| Net profit<br>Attributable to equity holders of Essilor International<br>*(% of revenue)* | 422<br>388<br>*11.4%* | 356<br>325<br>*11.7%* | +18.4%<br>+19.7%<br>-- |
| Earnings per share (in €) | 1.83 | 1.54 | +18.7% |

*(a) Adjusted for non-recurring items arising mainly on the acquisitions of Transitions Optical, Coastal.com, Costa and Xiamen Yarui Optical (Bolon®) in 2014. The unadjusted financial statements are presented in the First-Half 2015 Condensed Consolidated Financial Statements.*

*(b) Earnings before interest, tax, and recurring depreciation and amortization.*

*(c) Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs, other operating expenses).*

# CONTRIBUTION FROM OPERATIONS: 19.1% OF REVENUE

**Higher gross margin**

In the first half of 2015, gross profit (revenue less cost of sales) stood at €2,041 million for the year, representing 59.9% of revenue, versus 58% in first-half 2014 on an adjusted basis.

The improvement mainly reflects the contribution from Transitions Optical.

**Higher contribution from operations**

The contribution margin widened by 20 basis points from 18.9% in 2014 to 19.1%, and reflects:

- The contribution of Transitions Optical, boosted by the synergies achieved since the acquisition.
- A solid organic profitability performance.
- The dilutive effect of Coastal.com.
- Major investments in marketing and advertising, in line with the Company's strategy.

**Operating expenses up 15.8% at constant exchange rates**

Operating expenses amounted to 40.8% of revenue, versus 39.1% in first-half 2014. Excluding the currency effect, the increase in operating expenses in the first half of 2015 is mainly attributable to the integration of acquisitions carried out in the first half of 2014 (including Transitions Optical), and the higher media spend.

Operating expenses included*:*

- €104 million in R&D and engineering costs, versus €96 million in first-half 2014.
- €841 million in selling and distribution costs, up from €649 million in first-half 2014, chiefly as a result of the strategic increase in advertising on Essilor's leading brands, including Varilux®, Crizal® and Transitions® in the main geographic markets.

**Operating profit up 24.2% to €614 million or 18% of revenue**

"Other income and expenses from operations" and "Gains and losses on asset disposals" together represented a net expense of €37 million versus a net expense of €32 million in first-half 2014. It covered:

- Charges to restructuring provisions in a total amount of €9 million, mainly related to the streamlining of the prescription laboratory network in Europe.
- Compensation costs of shared-based payments (in particular performance share plans), totaling €20 million.
- Other expenses in an amount of €8 million.

**Finance costs and other financial income and expenses, net**

This item came out at a net cost of €20 million in the period under review, the same as in first-half 2014, with the increase in the interest expense as compared to first-half 2014 being offset by exchange gains during the period.

**Attributable profit up 19.7% to €388 million**

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

- €172 million in income tax expense, representing an effective tax rate of 29% compared with 25.7% in the first six months of 2014 and 26% for the full year on an adjusted basis. Most of the increase resulted from changes in the scope of consolidation, the currency effect, and business growth in North America.
- Non-controlling interests in an amount of €34 million, versus €32 million one year earlier.

Earnings per share surged 18.7% to €1.83.

# OPERATING CASH FLOW[1] UP 21%

At 21%, growth in operating cash flow[1] came in at a similar level to the increase in contribution from operations.

**Capital expenditure and investments**

At €178 million for the first six months of 2015, purchases of property, plant and equipment and intangible assets covered capital expenditure to support the Company's development and buy-backs in connection with major account renewals in the Sunglasses & Readers segment.

Financial investments amounted to €285 million for the period, and included the earn-outs from the Transitions Optical and Xiamen Yarui Optical (Bolon®) acquisitions.

**Working capital requirement**

The working capital requirement increased by €213 million in first-half 2015.

**Free cash flow[2]**

Essilor generated €226 million in free cash flow[2] for the period under the impetus of its solid business momentum.

Consolidated net debt was €2,168 million at June 30, 2015, or 1.4 times consolidated 12-month EBITDA.

## Cash Flow Statement

*€ millions*

| | | | |
|---|---|---|---|
| Net cash from operations (before change in WCR) | 617 | Change in WCR | 213 |
| Proceeds from the issue of share capital | 14 | Property, plant and equipment and intangible assets | 178 |
| Reported change in net debt | 376 | Dividends | 241 |
| | | Acquisition of investments, net of disposals | 285 |
| | | Other | 90[(a)] |

*(a) Other items include the positive €97-million currency effect.*

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[1] Net cash from operating activities before working capital requirement
[2] Net cash from operating activities less the change in working capital requirement and 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, the Company has finalized 5 transactions that will add around €76 million in full-year revenue.

In **Turkey**, Essilor finalized the acquisition of a majority stake in **Merve**[1], an Istanbul-based optical products distributor with a portfolio of proprietary sunglass frame brands, including Ossé and Mustang.

In **India**, Essilor India acquired majority stakes in **GKB Vision** and **Prime Lenses**, two ophthalmic lens manufacturers and distributors with combined annual revenue of around €7 million.
Prime Lenses has 10 prescription laboratories based across the country, especially in mid-sized cities. The partnership enables Essilor to increase its presence in the fast-growing plastic and progressive lens segments, and enhance its multi-network strategy.
GKB Vision makes glass lenses and molds, primarily for export to Africa and the Middle East.

In **Australia**, Shamir acquired a majority stake in **Eyres Optics**, a producer and distributor of prescription sunglasses and safety eyewear with annual revenue of around A$6 million.

In the **United States**, Essilor entered into an agreement to acquire a majority stake in **Vision Source**[1], a national network providing services to independent optometrists.

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[1] The acquisition of Merve's ophthalmic lens business and the acquisition of Vision Source remain subject to standard regulatory approvals.

## Consolidated Revenue by Quarter

| *€ millions* | **2015** | **2014** |
|---|---|---|
| **First Quarter** | | |
| **Lenses & Optical Instruments** | 1,454 | 1,160 |
| *North America* | *650* | *467* |
| *Europe* | *441* | *400* |
| *Asia/Pacific/Middle East/Africa* | *267* | *211* |
| *Latin America* | *96* | *82* |
| **Equipment** | 42 | 39 |
| **Sunglasses & Readers** | 163 | 124 |
| **TOTAL First Quarter** | **1,659** | **1,323** |
| **Second Quarter** | | |
| **Lenses & Optical Instruments** | 1,501 | 1,259 |
| *North America* | *663* | *518* |
| *Europe* | *462* | *426* |
| *Asia/Pacific/Middle East/Africa* | *269* | *222* |
| *Latin America* | *107* | *94* |
| **Equipment** | 49 | 46 |
| **Sunglasses & Readers** | 199 | 152 |
| **TOTAL Second Quarter** | **1,749** | **1,457** |
| **Third Quarter** | | |
| **Lenses & Optical Instruments** | | 1,274 |
| *North America* | | *527* |
| *Europe* | | *409* |
| *Asia/Pacific/Middle East/Africa* | | *234* |
| *Latin America* | | *104* |
| **Equipment** | | 46 |
| **Sunglasses & Readers** | | 95 |
| **TOTAL Third Quarter** | | **1,415** |
| **Fourth Quarter** | | |
| **Lenses & Optical Instruments** | | 1,277 |
| *North America* | | *527* |
| *Europe* | | *418* |
| *Asia/Pacific/Middle East/Africa* | | *231* |
| *Latin America* | | *101* |
| **Equipment** | | 66 |
| **Sunglasses & Readers** | | 132 |
| **TOTAL Fourth Quarter** | | **1,475** |

**Risk factors**

Risk factors are similar to those presented in the volume 1.6 of the 2014 Registration Document (pages 27 to 31) and did not change significantly during the first half-year of 2015. The amounts relating to market risks at June 30 are described in notes 15 in section "Notes to financial statements" of this Half-year Report.

ESSILOR

SEEING THE WORLD BETTER

# FIRST-HALF 2015 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

| *€ millions, except for per share data* | **Notes** | **First-half 2015** | **First-half 2014** | **Full-year 2014** |
|---|---|---|---|---|
| Revenue | **3** | 3,408 | 2,780 | 5,670 |
| Cost of sales | | (1,367) | (1,182) | (2,355) |
| **GROSS PROFIT** | | **2,041** | **1,598** | **3,315** |
| Research and development costs | | (104) | (90) | (188) |
| Selling and distribution costs | | (841) | (649) | (1,367) |
| Other operating expenses | | (445) | (346) | (717) |
| **CONTRIBUTION FROM OPERATIONS(*)** | | **651** | **513** | **1,043** |
| Other income from operations, net | **5** | 10 | 546 | 546 |
| Other expenses from operations, net | **5** | (47) | (225) | (367) |
| **OPERATING PROFIT** | **3** | **614** | **834** | **1,222** |
| Finance costs, net | **6** | (19) | (16) | (31) |
| Other financial income | **7** | 328 | 73 | 297 |
| Other financial expenses | **7** | (329) | (77) | (312) |
| Share of profit of associates | | 0 | 4 | 3 |
| **PROFIT BEFORE TAX** | | **594** | **818** | **1,179** |
| Income tax expense | **8** | (172) | (88) | (193) |
| **PROFIT FOR THE PERIOD** | | **422** | **730** | **986** |
| **Attributable to equity holders of Essilor International** | | **388** | **699** | **929** |
| Attributable to non-controlling interests | | 34 | 31 | 57 |
| Basic earnings per share (€) | | 1.83 | 3.32 | 4.41 |
| Weighted average number of shares (thousands) | **9** | 212,067 | 210,316 | 210,511 |
| Diluted earnings per share (€) | | 1.79 | 3.26 | 4.32 |
| Diluted weighted average number of shares (thousands) | **9** | 216,295 | 214,334 | 214,820 |

(*) Contribution from operations corresponds to revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs, other operating expenses).

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | First-half 2015 | | | First-half 2014 | | | Full-year 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| ***€ millions*** | **Attrib. to equity holders of Essilor International** | **Attrib. to non-controlling interests** | **Total** | **Attrib. to equity holders of Essilor International** | **Attrib. to non-controlling interests** | **Total** | **Attrib. to equity holders of Essilor International** | **Attrib. to non-controlling interests** | **Total** |
| **Profit for the period (a)** | **388** | **34** | **422** | **699** | **31** | **730** | **929** | **57** | **986** |
| **Items of comprehensive income that will not be recycled to profit or loss in the future** | | | | | | | | | |
| Actuarial gains and losses on defined benefit obligations and financial instruments | 1 | | 1 | (13) | | (13) | (50) | | (50) |
| Tax | - | | - | 8 | | 8 | 7 | | 7 |
| **Items of comprehensive income that will not be recycled to profit or loss in the future** | | | | | | | | | |
| Cash flow hedges, effective portion | (1) | | (1) | 5 | | 5 | 8 | | 8 |
| Hedges of net investments, effective portion | | | - | - | | - | | | - |
| Valuation gains and losses on non-current financial assets | | | - | - | | - | (1) | | (1) |
| Hedging reserves | 272 | 25 | 297 | 62 | 3 | 65 | 367 | 29 | 396 |
| Other | | | - | | | - | | | - |
| Tax | - | | - | (1) | | (1) | (2) | | (2) |
| **Total income and expense for the period recognized directly in equity, net of tax (b)** | **272** | **25** | **297** | **61** | **3** | **64** | **329** | **29** | **358** |
| **Total recognized income and expense, net of tax (a) + (b)** | **660** | **59** | **719** | **760** | **34** | **794** | **1,258** | **86** | **1,344** |

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

# CONSOLIDATED BALANCE SHEET (ASSETS)

| *€ millions* | **Notes** | **June 30, 2015** | **Dec. 31, 2014** |
|---|---|---|---|
| Goodwill | **10** | 5,029 | 4,668 |
| Other intangible assets | | 1,664 | 1,532 |
| Property, plant and equipment | | 1,195 | 1,154 |
| Investments in associates | | 4 | 3 |
| Non-current financial assets | | 109 | 103 |
| Deferred tax assets | | 198 | 151 |
| Long-term receivables | | 7 | 15 |
| Other non-current assets | | 1 | 1 |
| **TOTAL NON-CURRENT ASSETS, NET** | | **8,207** | **7,627** |
| Inventories and work in progress | | 1,098 | 1,002 |
| Prepayments to suppliers | | 35 | 20 |
| Short-term receivables | | 1,523 | 1,327 |
| Current income tax assets | | 69 | 56 |
| Other receivables | | 39 | 38 |
| Derivative financial instruments | | 34 | 43 |
| Prepaid expenses | | 66 | 50 |
| Cash and cash equivalents | **13** | 563 | 626 |
| **CURRENT ASSETS** | | **3,427** | **3,162** |
| **TOTAL ASSETS** | | **11,634** | **10,789** |

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

# CONSOLIDATED BALANCE SHEET (EQUITY AND LIABILITIES)

| *€ millions* | **Notes** | **June 30, 2015** | **Dec. 31, 2014** |
|---|---|---|---|
| Share capital | | 39 | 39 |
| Additional paid-in capital | | 371 | 360 |
| Retained earnings | | 4,484 | 3,758 |
| Treasury stock | | (286) | (286) |
| Revaluation and other reserves | | (121) | (121) |
| Translation difference | | 508 | 236 |
| Profit attributable to equity holders of Essilor International | | 388 | 929 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF ESSILOR INTERNATIONAL** | | **5,383** | **4,915** |
| Equity attributable to non-controlling interests | | 372 | 345 |
| **TOTAL CONSOLIDATED EQUITY** | | **5,755** | **5,260** |
| Provisions for pensions and other post-employment benefit obligations | **11** | 290 | 281 |
| Long-term borrowings | **13** | 1,584 | 1,521 |
| Deferred tax liabilities | | 423 | 383 |
| Other non-current liabilities | | 443 | 394 |
| **NON-CURRENT LIABILITIES** | | **2,740** | **2,579** |
| Provisions for contingencies | **12** | 338 | 274 |
| Short-term borrowings | **13** | 1,166 | 926 |
| Customer prepayments | | 33 | 31 |
| Short-term payables | | 1,257 | 1,215 |
| Taxes payable | | 98 | 58 |
| Other current liabilities | | 229 | 421 |
| Derivative financial instruments | | 11 | 17 |
| Deferred income | | 7 | 8 |
| **CURRENT LIABILITIES** | | **3,139** | **2,950** |
| **TOTAL EQUITY AND LIABILITIES** | | **11,634** | **10,789** |

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

# STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

- **First-half 2015**

| *€ 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, 2015** | **39** | **360** | **(121)** | **3,758** | **236** | **(286)** | **929** | **4,915** | **345** | **5,260** |
| Issue of share capital | | | | | | | | - | | - |
| - On exercise of stock options | | 11 | | | | | | 11 | | 11 |
| Issue of share capital for minority shareholders | | | | | | | | - | 3 | 3 |
| Share-based payments | | | | 20 | | | | 20 | | 20 |
| Purchases and sales of treasury stock, net | | | | | | | | - | | - |
| Appropriation of profit | | | | 929 | | | (929) | - | | - |
| Effect of changes in scope of consolidation | | | | (7) | | | | (7) | (10) | (17) |
| Dividends paid | | | | (216) | | | | (216) | (25) | (241) |
| **Transactions with shareholders** | **-** | **11** | **-** | **726** | **-** | **-** | **(929)** | **(192)** | **(32)** | **(224)** |
| Total income (expense) for the period recognized directly in equity | | | - | | | | | - | | - |
| Profit for the period | | | | | | | 388 | 388 | 34 | 422 |
| Exchange differences on translating foreign operations | | | | | 272 | | | 272 | 25 | 297 |
| **Total recognized income and expense** | **-** | **-** | **-** | **-** | **272** | **-** | **388** | **660** | **59** | **719** |
| **Equity at June 30, 2015** | **39** | **371** | **(121)** | **4,484** | **508** | **(286)** | **388** | **5,383** | **372** | **5,755** |

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

### ♦ 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 | | | | | | | | - | | - |
| - On exercise of stock options | | 16 | | | | | | 16 | | 16 |
| Issue of share capital for minority shareholders | | | | | | | | - | 7 | 7 |
| 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.

### ♦ Full-year 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 Essilor corporate mutual funds | | 23 | | | | | | 23 | | 23 |
| - On exercise of stock options | | 35 | | | | | | 35 | | 35 |
| Issue of share capital for minority shareholders | | | | | | | | - | 8 | 8 |
| Share-based payments | | | | 34 | | | | 34 | | 34 |
| Purchases and sales of treasury stock, net | | | | (45) | | 18 | | (27) | | (27) |
| Appropriation of profit | | | | 593 | | | (593) | - | | - |
| Effect of changes in scope of consolidation | | | | 34 | | | | 34 | (4) | 30 |
| Dividends paid | | | | (198) | | | | (198) | (30) | (228) |
| **Transactions with shareholders** | **-** | **58** | **-** | **418** | **-** | **18** | **(593)** | **(99)** | **(26)** | **(125)** |
| Total income (expense) for the period recognized directly in equity | | | (38) | | | | | (38) | | (38) |
| Profit for the period | | | | | | | 929 | 929 | 57 | 986 |
| Exchange differences on translating foreign operations | | | | | 367 | | | 367 | 29 | 396 |
| **Total recognized income and expense** | **-** | **-** | **(38)** | **-** | **367** | **-** | **929** | **1,258** | **86** | **1,344** |
| **Equity at December 31, 2014** | **39** | **360** | **(121)** | **3,758** | **236** | **(286)** | **929** | **4,915** | **345** | **5,260** |

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

# CONSOLIDATED CASH FLOW STATEMENT

| *€ millions* | | First-half 2015 | First-half 2014 | Full-year 2014 |
|---|---|---|---|---|
| **NET PROFIT** | (a) | **422** | **730** | **986** |
| Share of profit of associates, net of dividends received | | - | 26 | 25 |
| Depreciation, amortization and other non-cash items | | 164 | 226 | 451 |
| **Profit before non-cash items and share of profit of associates, net of dividends received** | | **586** | **982** | **1,462** |
| Provision charges (reversals) | | 1 | 70 | 99 |
| (Gains) losses on asset disposals, net | | 2 | (509) | (513) |
| **Cash flow after income tax and finance costs, net** | | **589** | **543** | **1,048** |
| Finance costs, net | **(a)** | 19 | 16 | 31 |
| Income tax expense (current and deferred taxes) | **(a)** | 172 | 88 | 193 |
| **Cash flow before income tax expense and finance costs, net** | | **780** | **647** | **1,272** |
| Income taxes paid | | (142) | (125) | (225) |
| Interest (paid) and received, net | | (21) | (12) | (25) |
| Change in working capital | | (213) | (159) | 10 |
| **NET CASH FROM OPERATING ACTIVITIES** | | **404** | **351** | **1,032** |
| Purchases of property, plant and equipment and intangible assets | | (178) | (106) | (232) |
| Acquisitions of subsidiaries, net of the cash acquired | | (283) | (1,820) | (1,836) |
| Purchases of available-for-sale financial assets | | (1) | - | (4) |
| Change in other non-financial assets | | (1) | (1) | (9) |
| Proceeds from the sale of other non-current assets | | 1 | 5 | 6 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(462)** | **(1,922)** | **(2,075)** |
| Proceeds from the issue of share capital | **(b)** | 14 | 23 | 67 |
| (Purchases) sales of treasury stock, net | **(b)** | - | (15) | (36) |
| Dividends paid to: | | | | |
| - Equity holders of Essilor International | **(b)** | (216) | (198) | (198) |
| - Minority shareholders of subsidiaries | **(b)** | (25) | (18) | (30) |
| Proceeds from bond issues | **13** | - | 800 | 800 |
| Increase (decrease) in borrowings other than finance lease liabilities | **13** | 202 | 868 | 434 |
| Purchases of marketable securities [c] | | - | - | 6 |
| Repayment of finance lease liabilities | | (2) | (2) | (4) |
| Other movements | | - | - | - |
| **NET CASH USED IN FINANCING ACTIVITIES** | | **(27)** | **1,458** | **1,039** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(85)** | **(113)** | **(4)** |
| **Cash and cash equivalents at January 1** | | 598 | 749 | 749 |
| Effect of changes in exchange rates | | 15 | (8) | (147) |
| **NET CASH AND CASH EQUIVALENTS AT PERIOD END** | | **528** | **628** | **598** |
| Cash and cash equivalents reported in the balance sheet | **13** | 563 | 663 | 626 |
| Short-term bank loans and overdrafts | **13** | (35) | (35) | (28) |

[a] Please refer to the consolidated income statement
[b] Please refer to the statement of changes in equity
[c] Units in money market funds not qualified as cash equivalents under IAS 7.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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# NOTE 1. ACCOUNTING POLICIES

## 1.1. GENERAL

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, 2015 have been prepared in accordance with IAS 34 – Interim Financial Reporting. They were approved by the Board of Directors on July 29, 2015.

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 and 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 mandatorily applicable as of June 30, 2015. These standards and interpretations are available on the European Commission's website[1].

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

## 1.3. NEW STANDARDS AND INTERPRETATIONS

The accounting standards applied are the same as those used to prepare the annual consolidated financial statements for the year ended December 31, 2014, apart from changes relating to the standards, amendments and interpretations described below whose application is mandatory for annual periods beginning on or after January 1, 2015:

IFRIC 21 – Levies

IFRIC 21 requires that liabilities relating to levies accounted for in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets be recognized when the obligating event occurs. IFRIC 21 is to be applied on a retrospective basis. The Company has assessed the impact of IFRIC 21 on the consolidated financial statements, and in view of its non-material nature, the interim consolidated financial statements for the six months ended June 30, 2014 have not been restated.

The Company has elected not to early adopt the standards, amendments and interpretations whose application is not mandatory as of January 1, 2015:

- IFRS 9 – Financial Instruments.
- IFRS 14 – Regulatory Deferral Accounts.
- IFRS 15 – Revenue from Contracts with Customers.
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants.
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization.
- Amendment to IAS 19 – Defined Benefit Plans: Employee Contributions.
- Amendment to IAS 27 (revised) – Equity Method in Separate Financial Statements.
- Amendments to IFRS 10 and IAS 28 – Sales or Contributions of Assets Between an Investor and its Associate or Joint Venture.
- Amendments to IAS 1 – Disclosure Initiative.
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations.

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

## 1.4. USE OF ESTIMATES

The preparation of financial statements involves the use by management 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 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.

## 1.5. 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 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.

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. The end customers are optical lens manufacturers.

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

## 1.6. CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement 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, operating receivables and payables, 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.

## 1.7. OTHER INCOME AND EXPENSES FROM OPERATIONS

Other 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 property, plant and equipment or intangible assets, litigation costs and related provisions, adjustments to contingent consideration on acquisitions completed after January 1, 2010, gains and losses on the disposal of consolidated businesses and entities and, in the case of step acquisitions, the remeasurement at fair value of the previously-held interest.

## 1.8. IMPAIRMENT OF GOODWILL

Until December 31, 2014, Essilor performed impairment tests on goodwill for each cash-generating unit (CGU) annually during the interim accounts closing process. Further to an internal organizational change within the Finance department within the scope of the fast close project, the Company decided in 2015 to modify the date of the annual goodwill impairment tests, which will now be performed at the year-end accounts closing.

In view of the performances of the Company's CGUs since the impairment tests carried out during the first-half 2014 closing, no indications of impairment have been identified that would be likely to affect the headroom available at June 30, 2014.

## 1.9. 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 30, 2015 | June 30, 2014 | Dec. 31, 2014 | First-half 2015 | First-half 2014 | Full-year 2014 |
| Canadian dollar | 1.38 | 1.46 | 1.41 | 1.38 | 1.50 | 1.47 |
| Pound sterling | 0.71 | 0.80 | 0.78 | 0.73 | 0.82 | 0.81 |
| Chinese yuan | 6.94 | 8.47 | 7.54 | 6.94 | 8.45 | 8.19 |
| Japanese yen | 137.01 | 138.44 | 145.23 | 134.20 | 140.40 | 140.31 |
| Indian rupee | 71.19 | 82.20 | 76.72 | 70.12 | 83.29 | 81.04 |
| Brazilian real | 3.47 | 3.00 | 3.22 | 3.31 | 3.15 | 3.12 |
| U.S. dollar | 1.12 | 1.37 | 1.21 | 1.12 | 1.37 | 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 in first-half 2014**

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 comprised $1.78 billion paid at closing and $125 million deferred over five years.

Transitions Optical has been fully consolidated by Essilor 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 on February 27, 2014, was approved by Coastal.com shareholders in extraordinary meeting on April 16, 2014 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 amounted to approximately C$430 million, corresponding to C$12.45 per Coastal.com share.

Coastal.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 2015:

| Name | Country | Consolidated from | Consolidation method | % interest | % consolidated |
|---|---|---|---|---|---|
| Infield France | France | January 1, 2015 | Full | 60 | 100 |
| Movisia(*) | Morocco | January 1, 2015 | Full | 51 | 100 |
| Optical Supply North Africa(*) | Tunisia | January 1, 2015 | Full | 55 | 100 |
| Three Hundred Ltd (Fabris Lane) | United Kingdom | February 26, 2015 | Full | 100 | 100 |
| Segment | Brazil | March 2, 2015 | Full | 52 | 100 |
| Optimax | South Korea | April 1, 2015 | Full | 50 | 100 |
| Optica Industrial SA | Costa Rica | April 20, 2015 | Full | 80 | 100 |
| Optisa Retail | Costa Rica | April 20, 2015 | Full | 80 | 100 |
| Optisa Holding | Costa Rica | April 20, 2015 | Full | 80 | 100 |
| Vision Nicaragua | Nicaragua | April 20, 2015 | Full | 80 | 100 |
| Diopsa | Nicaragua | April 20, 2015 | Full | 80 | 100 |
| Brine Holding | Panama | April 20, 2015 | Full | 80 | 100 |
| Shamir OHS | Australia | June 30, 2015 | Full | 40 | 100 |

(*) Companies acquired or set up in prior years, consolidated for the first time in 2015.

The first-half 2015 income statement also includes the contribution over the full six months of the following companies that were consolidated for the first time in 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 | 26 | 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 |
| Asianzakka 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 |
| Digitop | Brazil | July 1, 2014 | Full | 70 | 100 |
| Esel Optik | Turkey | July 8, 2014 | Full | 51 | 100 |
| Activisu | France | August 29, 2014 | Full | 68 | 100 |
| Shamir Singapore Pte. Ltd. | Singapore | September 22, 2014 | Full | 50 | 100 |
| Company Grandvision LLC. | Russia | September 24, 2014 | Full | 75 | 100 |
| Lotus Flower Holding B.V. | Netherlands | September 24, 2014 | Full | 75 | 100 |

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

**Other movements**

The Company's interest in the following companies changed as a result of the exercise of put options by partners, intragroup disposals or transactions with third parties:

- Imperial Laboratories Inc., from 60% to 100% on January 2, 2015.
- Wallace Everett Lens Technology, from 66% to 100% on January 30, 2015.
- Shamir Australia, from 33% to 50% on February 1, 2015.
- Ozarks Optical Inc., from 88% to 100% on February 13, 2015.
- Optilens Italia Srl., from 100% to 50% on March 2, 2015.
- SMJ Holdings Pte Ltd, from 70% to 100% on April 20, 2015.
- Shamir Lens Thailand, from 24% to 37% on May 31, 2015.

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

**Balance Sheet**

The impact of changes in the scope of consolidation during the first half of 2015 on the consolidated balance sheet is analyzed below:

| *€ millions* | **All newly consolidated companies** |
|---|---|
| Property, plant and equipment | 7 |
| Current assets | 21 |
| Cash and cash equivalents | 12 |
| **Total assets acquired at fair value** | **40** |
| Other current liabilities | 19 |
| **Total liabilities assumed at fair value** | **19** |
| **Net assets acquired** | **21** |
| Acquisition cost | 109 |
| Fair value of net assets acquired | 21 |
| **Recognized goodwill** | **88** |

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.

### Strategic acquisition of 51% of the share capital held by PPG in Transitions Optical

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

- final goodwill of €1,491 million, after the recognition, at fair value, of Transition Optical's identifiable assets and liabilities.
- The final allocation of the Transitions Optical purchase price, mainly involving the recognition of intangible assets valued at €526 million by independent valuers, including a brand and contractual customer relationships.
- A capital gain of €544 million arising from the remeasurement at fair value through profit in 2014 of the previously-held 49% interest in Transitions Optical that was accounted for by the equity method up to March 31, 2014.

### Fair value of assets acquired and liabilities assumed at the acquisition date

| *€ millions* | **Fair value** |
|---|---|
| Intangible assets | 526 |
| Property, plant and equipment | 91 |
| Other non-current assets | 16 |
| Current assets | 167 |
| Cash and cash equivalents | 82 |
| **Total assets acquired at fair value** | **882** |
| Other non-current liabilities | 199 |
| Other current liabilities | 119 |
| **Total liabilities assumed at fair value** | **318** |
| **Net assets acquired(1)** | **564** |
| Acquisition cost | 2,055(2) |
| Fair value of net assets acquired(1) | 564 |
| **Recognized goodwill** | **1,491** |

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

### 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 and contribution from operations) 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 December 31, 2015.
- 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, 2015 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 Company, 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 eurozone 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 for the period as follows:

| *(in %)* | **Reported growth** | Currency effect | Changes in scope: bolt-on acquisitions | Changes in scope: strategic acquisitions(*) | **Like-for-like growth** |
|---|---|---|---|---|---|
| Revenue | **22.6** | 13.2 | 1.6 | 3.6 | **4.2** |
| Contribution from operations | **26.9** | 14.2 | 1.3 | 3.4 | **8.0** |

(*) Net of media investments.

# NOTE 3. OPERATING SEGMENTS

## 3.1. INFORMATION BY OPERATING SEGMENT

**First-half 2015**

| *€ millions* | Lenses & Optical Instruments | Equipment | Sunglasses & Readers | Elimination of inter-segment revenue | GROUP TOTAL |
|---|---|---|---|---|---|
| External revenue | 2,954 | 92 | 362 | - | 3,408 |
| Inter-segment revenue | 6 | 35 | 1 | (42) | - |
| **Total revenue** | **2,960** | **127** | **363** | **(42)** | 3,408 |
| **Contribution from operations** | **587** | **10** | **54** | **-** | 651 |
| Operating profit | | | | | 614 |
| Finance costs, net | | | | | (19) |
| Other financial income | | | | | 328 |
| Other financial expenses | | | | | (329) |
| Share of profit of associates | | | | | - |
| Income tax expense | | | | | (172) |
| Net profit | | | | | 422 |
| | | | | | - |
| | | | | | - |
| **Segment assets**(1) | **8,415** | **492** | **1,644** | **-** | 10,551 |
| Non-segment assets | | | | - | 1,083 |
| Total assets | | | | | 11,634 |
| **Segment liabilities**(2) | **1,156** | **34** | **100** | **-** | 1,290 |
| Non-segment liabilities | | | | | 4,589 |
| Equity | | | | | 5,755 |
| Total equity and liabilities | | | | | 11,634 |
| Purchases of property, plant and equipment and intangible assets | 110 | 2 | 66 | - | 178 |
| Amortization, depreciation and impairment of property, plant and equipment and intangible assets | (148) | (6) | (36) | - | (190) |

(1) Segment assets include goodwill, other intangible assets, property, plant and equipment, long-term receivables, inventories and work-in-progress, prepayments to suppliers and short-term receivables.

(2) Segment liabilities include customer prepayments and short-term payables.

## First-half 2014

| *€ 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** |
| **Contribution from operations** | **455** | **12** | **46** | **-** | **513** |
| Operating profit | | | | | **834** |
| Finance costs, net | | | | | **(16)** |
| Other financial income | | | | | **73** |
| Other financial expenses | | | | | **(77)** |
| Share of profit of associates | | | | | **4** |
| Income tax expense | | | | | **(88)** |
| Net profit | | | | | **730** |
| | | | | | **-** |
| | | | | | **-** |
| **Segment assets**(1) | **7,376** | **436** | **1,362** | **-** | **9,174** |
| Non-segment assets | | | | - | **1,063** |
| Total assets | | | | | **10,237** |
| **Segment liabilities**(2) | **944** | **29** | **85** | **-** | **1,058** |
| Non-segment liabilities | | | | | **4,808** |
| Equity | | | | | **4,371** |
| Total equity and liabilities | | | | | **10,237** |
| Purchases of property, plant and equipment and intangible assets | 90 | 3 | 13 | - | **106** |
| Amortization, depreciation and impairment of property, plant and equipment and intangible assets | (170) | (5) | (23) | - | **(198)** |

(1) Segment assets include goodwill, other intangible assets, property, plant and equipment, long-term receivables, inventories and work-in-progress, prepayments to suppliers and short-term receivables.

(2) Segment liabilities include customer prepayments and short-term payables.

**Full-year 2014**

| *€ millions* | Lenses & Optical Instruments | Equipment | Sunglasses & Readers | Elimination of inter-segment revenue | GROUP TOTAL |
|---|---|---|---|---|---|
| External revenue | 4,970 | 197 | 503 | - | **5,670** |
| Inter-segment revenue | 5 | 63 | 1 | (69) | **-** |
| **Total revenue** | **4,975** | **260** | **504** | **(69)** | **5,670** |
| **Contribution from operations** | **949** | **30** | **64** | **-** | **1,043** |
| Operating profit | | | | | **1,222** |
| Finance costs, net | | | | | **(31)** |
| Other financial income | | | | | **297** |
| Other financial expenses | | | | | **(312)** |
| Share of profit of associates | | | | | **3** |
| Income tax expense | | | | | **(193)** |
| Net profit | | | | | **986** |
| | | | | | **-** |
| | | | | | **-** |
| **Segment assets**[(1)] | **7,784** | **452** | **1,482** | **-** | **9,718** |
| Non-segment assets | | | | - | **1,071** |
| Total assets | | | | | **10,789** |
| **Segment liabilities**[(2)] | **1,100** | **37** | **109** | **-** | **1,246** |
| Non-segment liabilities | | | | | **4,283** |
| Equity | | | | | **5,260** |
| Total equity and liabilities | | | | | **10,789** |
| Purchases of property, plant and equipment and intangible assets | 193 | 5 | 34 | - | **232** |
| Amortization, depreciation and impairment of property, plant and equipment and intangible assets | (327) | (10) | (76) | - | **(413)** |

(1) Segment assets include goodwill, other intangible assets, property, plant and equipment, long-term receivables, inventories and work-in-progress, prepayments to suppliers and short-term receivables.

(2) Segment liabilities include customer prepayments and short-term payables.

The Company's top 20 customers accounted for 18.8% of revenue in first-half 2015 (20.3% in full year 2014).

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

# NOTE 4. EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation and amortization of property, plant and equipment, intangible assets and the remeasurement of inventories arising on acquisitions.

EBITDA for the six months ended June 30, 2015 came out at €835 million, compared with €667 million in the first half of 2014 and €1,363 million in full-year 2014.

# NOTE 5. OTHER INCOME AND EXPENSES FROM OPERATIONS

| *€ millions* | First-half 2015 | First-half 2014 | Full-year 2014 |
|---|---|---|---|
| Capital gains on disposals of businesses and assets(1) | - | 544 | 544 |
| Other | 10 | 2 | 2 |
| **Other income from operations** | **10** | **546** | **546** |
| | | | |
| Restructuring costs(2) | (9) | (45) | (76) |
| Compensation costs of share-based payments | (20) | (17) | (39) |
| Other (3) | (18) | (163) | (252) |
| **Other expenses from operations** | **(47)** | **(225)** | **(367)** |

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

(2) Restructuring costs for 2014 mainly concern manufacturing facility streamlining plans in North America and Europe.

(3) Other expenses from operations in 2014 mainly comprise:

- Impairment losses on property, plant and equipment, intangible assets and goodwill (€118 million), notably including the impact of the change in amortization policy.
- Provisions for contingencies and contingent consideration adjustments (€50 million).
- Technical adjustments relating to the elimination of inter-company margins on inventory following the full consolidation of Transitions Optical (€28 million).
- The commitment to contribute funds to the Vision for Life program set up to help fight against vision problems around the world (€30 million).

# NOTE 6. COST OF NET DEBT

| *€ millions* | First-half 2015 | First-half 2014 | Full-year 2014 |
|---|---:|---:|---:|
| Cost of gross debt | (28) | (24) | (49) |
| Income from cash and cash equivalents | 9 | 8 | 18 |
| **Cost of net debt** | **(19)** | **(16)** | **(31)** |

# NOTE 7. OTHER FINANCIAL INCOME AND EXPENSES

| *€ millions* | First-half 2015 | First-half 2014 | Full-year 2014 |
|---|---:|---:|---:|
| Exchange gains | 327 | 72 | 296 |
| Other | 1 | 1 | 1 |
| **Other financial income** | **328** | **73** | **297** |
| | | | |
| Exchange losses | (319) | (68) | (291) |
| Discounting adjustments to liabilities | (7) | (5) | (12) |
| Charges to provisions for impairment of available-for-sale financial assets | (3) | (2) | (9) |
| Other | - | (2) | - |
| **Other financial expenses** | **(329)** | **(77)** | **(312)** |

# NOTE 8. INCOME TAX

Income tax expense amounted to €172 million for first-half 2015, compared with €88 million for first-half 2014, corresponding to an effective rate of 29% versus 11% for the same prior-year period. The lower effective tax rate in first-half 2014 was due to certain non-recurring non-taxable items (see note 5).

# NOTE 9. SHARES OUTSTANDING

The shares have a par value of €0.18.

### Shares outstanding, net of treasury stock

| | First-half 2015 | First-half 2014 | Full-year 2014 |
|---|---|---|---|
| **Shares outstanding at January 1** | **211,932,607** | **210,245,092** | **210,245,092** |
| Shares issued on exercise of stock options | 240,289 | 397,284 | 855,848 |
| Shares issued to the Essilor corporate mutual fund | - | - | 337,182 |
| Delivery of performance shares | 1,695 | 5,465 | 963,910 |
| (Purchases)/sales of treasury stock, net | - | (214,000) | (469,425) |
| **Shares outstanding at period-end** | **212,174,591** | **210,433,841** | **211,932,607** |
| Number of treasury shares excluded from the calculation | 3,959,226 | 4,662,941 | 3,959,921 |

### Weighted average shares outstanding, net of treasury stock

| | First-half 2015 | First-half 2014 | Full-year 2014 |
|---|---|---|---|
| **Shares outstanding at January 1** | **211,932,607** | **210,245,092** | **210,245,092** |
| Shares issued on exercise of stock options | 133,396 | 177,033 | 386,601 |
| Shares issued to the Essilor corporate mutual fund | - | - | 11,085 |
| Treasury shares allocated to performance share grants | 758 | 1,448 | 77,306 |
| (Purchases)/sales of treasury stock, net | - | (107,591) | (209,107) |
| **Weighted average shares outstanding for the period** | **212,066,761** | **210,315,982** | **210,510,977** |

# NOTE 10. GOODWILL

| *€ millions* | Dec. 31, 2014 | Newly consolidated companies | Other changes in scope of consolidation and other movements | Translation adjustment | Impairment losses recognized in the period | June 30, 2015 |
|---|---|---|---|---|---|---|
| Gross | 4,699 | 88 | 3 | 275 | - | 5,065 |
| Impairment losses | (31) | - | - | - | (5) | (36) |
| **Carrying amount** | **4,668** | **88** | **3** | **275** | **(5)** | **5,029** |

The main increases in goodwill at June 30, 2015 are chiefly attributable to the acquisition of Grupo Vision (Costa Rica).

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 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 non-controlling interest put option, the Company generally applies the partial goodwill method.

The net carrying amount of goodwill per CGU is as follows:

| *€ millions* | **June 30, 2015** | **Dec. 31, 2014** |
|---|---|---|
| Lenses – Europe | 698 | 684 |
| Lenses – North America | 1,835 | 1,710 |
| Lenses – South America | 516 | 468 |
| Lenses – Asia/Pacific/Middle/East-Africa | 911 | 848 |
| Equipment | 309 | 271 |
| Sunglasses & Readers | 760 | 687 |
| **Total** | **5,029** | **4,668** |

# NOTE 11. 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 €289 million at June 30, 2015 and €280 million at December 31, 2014.

### Provisions for pension and other post-employment benefit obligations

| *€ millions* | **June 30, 2015** | **Dec. 31, 2014** |
|---|---|---|
| Non-current assets (plan surpluses) | 1 | 1 |
| Provisions (plan deficits) | 290 | 281 |

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

| *€ millions* | **June 30, 2015** | **Dec. 31, 2014** |
|---|---|---|
| **Actuarial (gains)/losses recognized in equity at the beginning of the period** | **140** | **90** |
| Actuarial (gains)/losses recognized in equity during the period | (1) | 50 |
| **Actuarial (gains)/losses recognized in equity at the end of the period** | **139** | **140** |

### Expense for the period

| **Income (expense)**<br>*€ millions* | **First-half 2015** | **Full-year 2014** |
|---|---|---|
| Service cost | (12) | (14) |
| Interest cost | (3) | (9) |
| Past service cost | - | 1 |
| **Expense for the period** | **(15)** | **(22)** |

# NOTE 12. PROVISIONS FOR CONTINGENCIES

| *€ millions* | Dec. 31, 2014 | Charges | Reversals (utilizations) | Reversals (surplus) | Translation differences and other movements | Changes in scope of consolidation | June 30, 2015 |
|---|---|---|---|---|---|---|---|
| Restructuring provisions[1] | 29 | 6 | (13) | - | 4 | - | 26 |
| Warranty provisions | 25 | 6 | (4) | - | 6 | - | 33 |
| Other[2] | 220 | 15 | (3) | (1) | 28 | 20 | 279 |
| **Total** | **274** | **27** | **(20)** | **(1)** | **38** | **20** | **338** |

(1) Restructuring provisions mainly concern manufacturing facility streamlining plans in Europe.

(2) Other provisions for contingencies at June 30, 2015 notably include provisions for tax audits and litigation for a total amount of €125 million and provisions for legal disputes for €103 million (see note 16 – Litigation).

# NOTE 13. NET DEBT AND BORROWINGS

Net debt can be analyzed as follows:

| *€ millions*[a] | **June 30, 2015** | **Dec. 31, 2014** |
|---|---|---|
| Long-term borrowings | 1,584 | 1,521 |
| Short-term borrowings | 1,122 | 881 |
| Bank overdrafts | 35 | 28 |
| Accrued interest | 9 | 17 |
| **Total borrowings** | **2,750** | **2,447** |
| | | |
| Cash and cash equivalents | (563) | (626) |
| **Total assets** | **(563)** | **(626)** |
| | | |
| Interest rate swap[b] | (19) | (28) |
| **Net debt** | **2,168** | **1,793** |

(a) Sign convention: net debt is shown as a positive amount and a net cash position as a negative amount.
(b) Interest rate swap measured at fair value at the end of each reporting period.

### Long-term borrowings

At June 30, 2015, the Company's long-term financing structure was as follows:

| *€ millions* | June 30, 2015 | Dec. 31, 2014 | Issue date | Maturity |
|---|---|---|---|---|
| Bonds | 819 | 828 | 2014 | 2021/2024 |
| U.S. private placement (2 tranches) | 268 | 247 | 2012 | 2017/2019 |
| U.S. private placement (7 tranches) | 447 | 412 | 2013 | 2017/2023 |
| Other | 50 | 34 | | |
| **Long-term borrowings** | **1,584** | **1,521** | | |

In February 2014, Standard & Poor's and Moody's rated Essilor International's short-term debt A1 and P1, respectively. Essilor's long-term debt has been rated A2 by Moody's since March 2014.

### Short-term borrowings

At June 30, 2015, the Company's short-term financing structure was as follows:

| *€ millions* | June 30, 2015 | Dec. 31, 2014 | Issue date | Maturity |
|---|---|---|---|---|
| Commercial paper | 95 | 246 | 2014 | 2015 |
| U.S. commercial paper | 958 | 567 | 2014 | 2016 |
| Bank overdrafts | 35 | 28 | | |
| Other | 78 | 85 | | |
| **Short-term borrowings** | **1,166** | **926** | | |

# NOTE 14. OFF-BALANCE SHEET COMMITMENTS

Off-balance sheet commitments are shown in note 26 to the annual 2014 consolidated financial statements.

There were no material changes in the amount or nature of off-balance sheet commitments between December 31, 2014 and June 30, 2015.

# NOTE 15. 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 16. LITIGATION

The accounting methods used to calculate provisions for contingencies are explained in section 3.4 of the 2014 Registration Document and in note 1.31 to the consolidated financial statements. Details of other income and expenses from operations are provided in note 5 above and provision movements for the period are presented in note 12.

The main claims and litigation are as follows:

**Alleged anti-competitive practices**

**Germany**

At the end of 2008, the German competition authority, 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 challenged both the grounds for the BKA's findings and the amount of the fine, which they considered 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.

In 2014, the case was transferred to the prosecutor's office at the court of appeal.

**France**

In July 2014, the inspection department of the French competition authority (*Autorité de la Concurrence*) made unannounced visits to the sites of some of the Company's French subsidiaries as well as to the sites of other ophthalmic lens companies, in connection with the online sale of ophthalmic lenses. The Company has appealed the order.

**Class actions**

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 were filed in 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 alleged that the companies concerned endeavored to jointly monopolize the market for the development, manufacture and sale of photochromic lenses between 1999 and March 2010. These class actions were settled in 2014, and just one action brought by VisionEase against Transitions Optical remains pending.

**Intellectual property**

Hoya filed a court claim in Tokyo (Japan) on July 24, 2013, alleging that certain Nikon-Essilor products sold fell within the scope of a patent originally registered by Seiko and sold to Hoya on March 15, 2013. Hoya's claim covers Nikon-Essilor sales from March to July 2013.

In 2014, Nikon-Essilor filed a motion in the Tokyo Court and the Japanese patent office requesting that the patent be declared invalid. The matter is currently under investigation.

**Tax disputes**

Due to its presence in a large number of countries, the Company is subject to income tax in many jurisdictions with different tax rules. Any failure to adhere to these regulations could result in tax adjustments and the payment of fines and penalties.

There were no changes in these disputes during the first half of 2015.

**Online**

The Quebec optometrists association (Ordre des Optométristes du Québec – OOQ) has lodged a complaint with the courts regarding Coastal. The OOQ considers that the direct sale to consumers of corrective contact lenses is illegal in Quebec. The Quebec courts rejected the complaint; OOQ has appealed against this decision.

To the best of the Company's knowledge, it is not currently involved in, has not recently been involved in, and is not threatened with any tax or legal disputes, proceedings before a court or government authority, or arbitration that have had, in the last six months, or would be likely to have a material adverse effect on its financial position, results of operations, profitability, business or assets and liabilities or of those of the consolidated undertaking.

# NOTE 17. RELATED PARTY TRANSACTIONS

The Company has identified the following related parties:

- Associates and joint ventures

- Senior executives

**Other related party transactions**

There were no material changes in other related party transactions during the first half of 2015.

# NOTE 18. SUBSEQUENT EVENTS

**Acquisitions**

Since July 1, the Company has finalized 5 transactions that will add around €76 million in full-year revenue.

In Turkey, Essilor finalized the acquisition of a majority stake in Merve[1], an Istanbul-based optical products distributor with a portfolio of proprietary sunglass frame brands, including Ossé and Mustang.

In India, Essilor India acquired majority stakes in GKB Vision and Prime Lenses, two ophthalmic lens manufacturers and distributors with combined annual revenue of around €7 million. Prime Lenses has 10 prescription laboratories based across the country, especially in mid-sized cities. The partnership enables Essilor to increase its presence in the fast-growing plastic and progressive lens segments, and enhance its multi-network strategy. GKB Vision makes glass lenses and molds, primarily for export to Africa and the Middle East.

In Australia, Shamir acquired a majority stake in Eyres Optics, a producer and distributor of prescription sunglasses and safety eyewear with annual revenue of around A$6 million.

In the United States, Essilor entered into an agreement to acquire a majority stake in Vision Source[1], a national network providing services to independent optometrists.

(1) The acquisition of Merve's ophthalmic lens business and the acquisition of Vision Source remain subject to standard regulatory approvals.

# Statement by the Person Responsible for the 2015 Interim Financial Report

I declare that, to the best of my knowledge, (i) the financial statements for the first six months of 2015 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, July 30, 2015

Hubert Sagnières
Chairman and Chief Executive Officer

ESSILOR

SEEING THE WORLD BETTER

# STATUTORY AUDITORS' REVIEW REPORT ON THE 2015 HALF-YEAR FINANCIAL STATEMENTS

## (PERIOD OF JANUARY 1 TO JUNE 30, 2015)

*This is a free translation into English of the statutory auditors' review report on the 2015 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.*

**PricewaterhouseCoopers Audit**
63 rue de Villiers
92208 Neuilly-sur-Seine Cedex

**Mazars**
61, rue Henri Régnault
92400 Courbevoie

**(Period of January 1 to June 30, 2015)**

To the shareholders
**ESSILOR INTERNATIONAL**
147, rue de Paris
94220 CHARENTON LE PONT

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, for the period from January 1 to June 30, 2015 ;
- 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.

## I - 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.

## II – 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, July 29, 2015

The statutory auditors

| PricewaterhouseCoopers Audit | Mazars | |
|---|---|---|
| Christine Bouvry | Daniel Escudeiro | Pierre Sardet |