2010 INTERIM FINANCIAL REPORT

ESSILOR INTERNATIONAL

Contents

This is a free translation into English of the 2010 Interim Financial Report issued in French.

MANAGEMENT REPORT

The 2009 financial statements have been adjusted following the expensing of acquisition-related costs in accordance with revised IFRS 3.

REVENUE UP 11.8% AT CONSTANT EXCHANGE RATES

Revenue by division and by region

(in € millions)	**H1 2010**	**H1 2009**	**% Change (reported)**	**Like-for-like growth**	**Contribution from acquisitions***
Lenses and Optical Instruments	1,786.9	1,613.6	+10.7%	+2.5%	+4.1%
Europe	*707.6*	*665.1*	*+6.4%*	*+1.4%*	*+4.1%*
North America	*776.4*	*718.1*	*+8.1%*	*+1.0%*	*+3.9%*
Asia-Pacific & Africa	*214.3*	*170.1*	*+26.0%*	*+8.0%*	*+4.8%*
Latin America	*88.6*	*60.3*	*+47.1%*	*+16.6%*	*+5.0%*
Equipment	60.2	49.8	+20.8%	+8.8%	+12.1%
Readers	79.7	-	N/M	N/M	N/M
TOTAL	**1,926.8**	**1,663.4**	**+15.8%**	**+2.7%**	**+9.1%**

** Revenue from Signet Armorlite has been allocated by region.*

Revenue rose 15.8% to €1,926.8 million in first-half 2010. Excluding FGXI and Signet, revenue growth stood at 10%.

- Like-for-like growth in first-half revenue came to 2.7%, which included increases of 2.5% in the first quarter and 2.9% in the second. This reflected growth of 2.5% in the Optical Lenses business and 8.8% in the Equipment business.
- The 9.1% contribution from acquisitions corresponds to the bolt-on acquisitions carried out in 2009 and first-half 2010, for 3.2%, and the contribution of FGXI and Signet Armorlite, consolidated from March 12 and April 1, 2010 respectively.
- The positive currency effect of 4% reflects the euro's decline against all the other currencies and particularly the Brazilian real, the Canadian dollar and the US dollar.

Performance by division

Lenses and Optical Instruments

Revenue growth was driven by an increase in sales volumes in all regions.

- In **Europe**, where performances still vary considerably from one country to another, sales progressed overall by 1.4% like-for-like. France maintained strong momentum thanks to its multi-network strategy and business picked up in the Netherlands, but remained disappointing in Germany and Austria. Benefiting from Russia's rapid development, the Eastern European countries returned to growth.
- Growth leveled off in **North America** (up 1.0% like-for-like). In the United States, all distribution channels contributed to growth in volumes, with a significant increase reported in sales of Xperio polarized lenses. Operating problems affected performance in Canada, in an already challenging environment.
- In **Asia**, like-for-like growth of 8.0% was led by emerging markets. Essilor continued its rapid expansion in India, where it gained market share during the period, as well as in the ASEAN countries, particularly Thailand and Indonesia. Business in China was stimulated by improvements in the product mix, while sales contracted in Australia and New Zealand in a difficult market environment.
- Countries in **Latin America** recorded significant growth in the first half, with revenue for the region up 16.6% like-for-like. In Brazil, the mid-range segment benefited from an increase in volumes and higher demand for anti-reflective lenses, and Mexico and Argentina both reported very strong growth.

Equipment

- The Equipment division began to recover sharply in the first half of 2010, with revenue up 8.8% like-for-like excluding intragroup sales. Satisloh sales were particularly robust in the area of consumables and digital surfacing machines. Business is developing rapidly in Asia, particularly in China where Satisloh now has a dedicated product offering.

Readers

- Recently created following the acquisition of FGX International, the Readers division[1] performed very well. The second quarter saw particularly strong sales of sunglasses, which dominate demand at that time of year.

[1] The Readers business encompasses the production, distribution and sale of non-prescription glasses. The division's end customers are retailers, who sell the products on to consumers.

Second quarter: continued recovery in growth

Revenue *(in € millions)*	**Q2 2010**	Q2 2009	% Change as reported	Like-for-like growth	Contribution from acquisitions*
Lenses and Optical Instruments	923.0	797.7	+15.7%	+2.3%	+5.2%
Europe	*362.3*	*335.1*	*+8.1%*	*+2.1%*	*+5.0%*
North America	*400.7*	*345.7*	*+15.9%*	*-0.2%*	*+5.2%*
Asia-Pacific & Africa	*111.2*	*84.5*	*+31.6%*	*+7.5%*	*+4.3%*
Latin America	*48.8*	*32.5*	*+50.1%*	*+17.6%*	*+6.2%*
Equipment	36.6	25.4	+44.2%	+20.5%	+23.7%
Readers	61.3	-	N/M	N/M	N/M
TOTAL	**1,020.9**	823.1	**+24.0%**	**+2.9%**	**+13.2%**

** Revenue from Signet Armorlite has been allocated by region*

Consolidated revenue for the second quarter alone stood at €1,020.9 million, up 24% year-on-year as reported and 2.9% like-for-like. The integration of FGXI and Signet, as well as new partnerships, brought the contribution from acquisitions to a high 13.2%. All currencies contributed to the significant 7.9% positive currency effect.

The trends observed during the quarter varied between regions, with:

- A slight improvement in Europe.
- Stable demand in the United States and operating problems in Canada.
- Continued sharp growth in Asia, except for Australia and Japan.
- Very strong demand in Latin America.
- A sharp recovery in the Equipment business.

13 new partnerships and 2 strategic acquisitions in first-half 2010

During the first half of 2010, Essilor acquired or increased its holding in 13 companies, representing additional revenue of around €80 million. Transactions were carried out in all regions:

- In the **United States**, Essilor of America acquired a stake in two prescription laboratories— Hawkins in Kansas ($4.5 million in revenue) and Epic Labs in Minnesota ($3 million). EOA also acquired the assets of Custom Optical (Georgia, $2.5 million). Nikon-Essilor increased its stake in the Encore prescription laboratory (Connecticut, $4 million) through its US subsidiary.
- In **Canada**, Essilor acquired a majority stake in Cascade, a prescription laboratory in the province of British Columbia (C$6 million), and in Econo-Optic, a laboratory based in New Brunswick (C$0.7 million).

- In **Brazil**, the Company acquired an interest in Ceditop, a prescription laboratory and distributor in the state of Rio Grande do Sul, with annual revenue of around €3.5 million (BRL8 million).
- In **China**, a majority stake was acquired in ILT Danyang, which produces lenses for both the domestic market and for export.
- In **Singapore**, the Company acquired Visitech, a distributor that generates around €0.7 million in annual revenue.
- In **Taiwan**, a majority stake was acquired in SMJ, a prescription laboratory and distributor with €1.6 million in revenue.
- In the **United Arab Emirates**, Essilor become the majority shareholder of Ghanada Opticals, a prescription laboratory based in Abu Dhabi, which serves the United Arab Emirates and the other Gulf states and generates €2 million in revenue.
- In **Australia**, Essilor became a 70% partner in a joint venture with Luxottica, which owns the Eyebiz laboratory.
- In the **Equipment** division, the Company acquired a 60% interest in **DAC Vision**, one of the world's leading manufacturers of consumable supplies for surfacing, coating and mounting lenses, which generates around €30 million in revenue, mainly in France and the United States.

Since the beginning of the year, Essilor has also made two strategic acquisitions: **FGX International**, the North American leader in non-prescription reading glasses with $259 million in 2009 revenue, and California-based **Signet Armorlite**, one of the largest independent manufacturers of ophthalmic lenses and the exclusive producer of Kodak-brand lenses, with 2009 revenue of $115 million.

CONTRIBUTION MARGIN: 18.0%

Contribution from operations up 15.2% to €347.5 million, or 18% of revenue

(in € millions)	First-half 2010	First-half 2010 excl. FGXI and Signet Armorlite	First-half 2009
Gross margin	1,068.8	1,015.8	930.7
As a % of revenue	55.5%	55.5%	56.0%
Operating expenses	721.2	684.7	628.9
Contribution from operations (1)	347.5	331.0	301.8
As a % of revenue	18.0%	18.1%	18.1%

(1) Operating profit before compensation costs of share-based payments, restructuring costs, other income and expense, and goodwill impairment.

Gross margin up 14.8% to €1,068.8 million (up 9.1% excluding FGXI and Signet Armorlite)

In first-half 2010, gross margin (revenue less cost of sales, expressed as a percentage of revenue) stood at 55.5%, compared with 56.0% in first-half 2009. The decrease is mainly due to the dilutive effect of bolt-on acquisitions and the ramp-up of mid-range networks.

Operating expenses up 14.7% to €721.2 million (up 8.9% excluding FGXI and Signet Armorlite)

Operating expenses in the first half accounted for 37.4% of consolidated revenue, versus 37.8% in the prior-year period, when they amounted to €628.9 million.

Operating expenses comprised:

- R&D and engineering costs of €78.4 million, up 4.7% over first-half 2009.
- Selling and distribution costs of €421.7 million, versus €353.4 million in the prior-year period, representing an increase of 19.3% (12.9% excluding FGXI and Signet Armorlite) and coming to 21.9% of revenue compared with 21.2% in first-half 2009.
- Other operating expenses of €221.2 million, representing an increase of 10.3% (3.5% excluding FGXI and Signet Armorlite) and 11.5% of consolidated revenue versus 13.2% in first-half 2009.

Excluding FGXI and Signet Armorlite, the contribution margin rose 9.7% to €331 million and represented 18.1% of revenue, as in first-half 2009.

This performance reflects the Company's ability to integrate acquisitions, drive further productivity gains and diligently manage its operating expenses.

ADJUSTED EPS UP 17.6% TO €1.14

Operating profit up 1.0% to €281.2 million (up 15.9% excluding BKA provision)

"Other income and expenses from operations" and "Gains and losses on asset disposals" together represented a net expense of €66.3 million (compared with €23.4 million in first-half 2009). The increase reflects:

- Virtually unchanged compensation costs on stock options, performance share grants and employee stock ownership plans of €10.1 million, versus €9.7 million in first-half 2009.
- Restructuring costs of €12.5 million, versus €6.5 million in the prior-year period.
- A €41.5 million provision set aside for the fine imposed by Germany's competition authorities, the Bundeskartellamt (BKA). Essilor has lodged two appeals against the BKA's decision, which suspend payment of the fine (see Note 10 of the financial statements).

Operating profit represented 14.6% of consolidated revenue, compared with 16.7% in first-half 2009.

Finance costs and other financial income and expenses, net: net expense of €6.2 million

Finance costs and other financial income and expenses represented a net expense of €6.2 million compared with €5.3 million in first-half 2009, reflecting an increase in average debt partially offset by a decrease in finance costs.

Profit attributable to equity holders of Essilor International down 1.3% to €197.5 million (up 19.3% excluding BKA provision)

Net profit totaled €202.9 million, versus €204.8 million in first-half 2009. It comprised:

- Income tax expense of €88.8 million. The 32.3% effective tax rate (28.1% excluding BKA provision) compared with a 28.9% rate for first-half 2009.
- The share of profit from associates — VisionWeb, Sperian Protection and Transitions — which amounted to €16.7 million, versus €10.7 million in the prior-year period. Earnings were up for both Transitions (€14.2 million versus €9.8 million in first-half 2009) and Sperian Protection (€2.5 million versus €0.9 million).

Profit attributable to equity holders of the parent amounted to €197.5 million, down 1.3%, and earnings per share stood at €0.94, down 2.7%.

Excluding the BKA provision, attributable profit rose 19.3% to €238.8 million and earnings per share climbed 17.6% to €1.14.

FREE CASH FLOW UP 72%

The Company' high profitability and robust performance enabled it to pursue an ambitious program of industrial and financial investment (acquisitions and share buybacks) and to increase dividends.

Investments

Capital expenditure net of divestments totaled €54 million or 2.8% of consolidated revenue.

Financial investments net of disposals amounted to €563 million, which included €485 million related to acquisitions, mainly FGXI and Signet Armorlite.

Transactions involving Essilor shares amounted to €182 million. These included the buyback of 4.1 million shares, as well as employee share grants and the conversion of OCEANE bonds.

Working capital requirement

The change in working capital requirement amounted to €106 million, relatively unchanged from first-half 2009, despite the seasonal impact of annual discount payments to customers, which are generally concentrated in the first half.

Inventories amounted to €626 million at June 30, 2010, compared with €486 million at year-end 2009, an increase of 28.8%. At comparable scope of consolidation and exchange rates, the increase was 6.8%.

Free cash flow and change in net debt

At €165 million, free cash flow[2] was up 72% compared with first-half 2009.

At June 30, 2010, net debt was up €731 million to €638 million, compared with net cash of €93 million at December 31, 2009, for gearing of 21.6%.

Cash Flow Statement

(in € millions)			
Net cash from operations (before WCR)	**329**	Purchases of property, plant and equipment	**58**
Proceeds from employee share issue	**40**	Change in WCR	**106**
Reported change in net debt	**731**	Dividends	**147**
		Financial investments net of disposals*	**563**
		Treasury stock	**182**
		Other	**44**

* Of which €107 million in acquired financial debt

SIGNIFICANT EVENTS SINCE THE END OF THE FIRST HALF

Acquisitions

Since July 1, two new partnerships have been created in the United States:

- Essilor of America acquired a majority stake in **Gulf States**, a prescription laboratory based in Louisiana that generates $3 million in revenue.
- Nikon Optical US, a Nikon-Essilor subsidiary, acquired a majority interest in Colorado-based **Pasch**, which generates $3.9 million in revenue.

Divestment of Sperian Protection shares

Essilor sold its long-standing 15% stake in Sperian Protection to Honeywell on August 9, 2010. The asset's net realizable value is estimated at nearly €132 million. The consolidated capital gain from the sale (estimated at approximately €27 million) will be recognized in the Company's second-half 2010 accounts.

Redemption of OCEANE convertible bonds

On July 2, Essilor redeemed at maturity all the 2003 OCEANE bonds that had not yet been converted. These bonds were previously traded on the NYSE-Euronext Paris exchange under ISIN code FR0000189276.

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

Ongoing share buybacks

Since June 30, Essilor has pursued its share buyback program. More than 700,000 shares with a total value of €33.7 million have been bought back on the market.

Related party transactions / Risks and contingencies

In first-half 2010, the nature of transactions with companies consolidated by the proportionate or equity method was not significantly different from the description in the 2009 Registration Document.

Similarly, risks and contingencies to which the Company is exposed in the months ahead are generally in line with the analysis presented in Chapter 4 of the Registration Document.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2010

CONSOLIDATED INCOME STATEMENT

€ thousands, except for per share data	Notes	First-half 2010	First-half 2009 (a)	2009 (a)
Revenue	3	1,926,750	1,663,413	3,267,978
Cost of sales		(857,971)	(732,684)	(1,435,333)
GROSS PROFIT		**1,068,779**	**930,729**	**1,832,645**
Research and development costs		(78,372)	(74,909)	(151,221)
Selling and distribution costs		(421,684)	(353,431)	(706,619)
Other operating expenses		(221,184)	(200,598)	(381,773)
CONTRIBUTION FROM OPERATIONS		**347,539**	**301,791**	**593,032**
Other income and expenses from operations, net	4	(66,288)	(23,069)	(41,461)
Gains and losses on asset disposals, net		(8)	(313)	(1,303)
OPERATING PROFIT	3	**281,243**	**278,409**	**550,268**
Finance costs		(13,221)	(16,518)	(31,498)
Income from cash and cash equivalents		8,780	9,051	18,739
Other financial income and expenses, net	5	(1,775)	2,130	1,605
Share of profit of associates	3	16,654	10,698	25,974
PROFIT BEFORE TAX		**291,681**	**283,770**	**565,088**
Income tax expense		(88,805)	(79,005)	(166,573)
PROFIT FOR THE PERIOD		**202,876**	**204,765**	**398,515**
Attributable to equity holders of Essilor International		**197,540**	**200,103**	**390,685**
Attributable to minority interests		5,336	4,662	7,830

Earnings per share				
Basic earnings per share (€)		0.94	0.97	1.89
Weighted average number of shares (thousands)	6	209,744	206,623	206,691
Diluted earnings per share (€)		0.93	0.95	1.88
Diluted weighted average number of shares (thousands)		213,628	213,185	210,557

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

CONSOLIDATED STATEMENT OF TOTAL RECOGNIZED INCOME AND EXPENSES

	First-half 2010 (6 months)			First-half 2009 (6 months) (a)			2009 (12 months) (a)		
(€ thousands)	Attributable to equity holders of Essilor International	Attributable to minority interests	Total	Attributable to equity holders of Essilor International	Attributable to minority interests	Total	Attributable to equity holders of Essilor International	Attributable to minority interests	Total
Profit for the period (A)	**197,540**	**5,336**	**202,876**	**200,103**	**4,662**	**204,765**	**390,685**	**7,830**	**398,515**
Valuation gains and losses on derivative financial instruments, net of tax									
Cash flow hedges, effective portion	35		35	(1,500)		(1,500)	(4,885)		(4,885)
Tax	447		447	552		552	1,097		1,097
	482		*482*	*(948)*		*(948)*	*(3,788)*		*(3,788)*
Hedges of net investments in foreign operations, effective portion	(4,717)		(4,717)	1,088		1,088	391		391
Tax	1,624		1,624	(375)		(375)	(135)		(135)
	(3,093)		*(3,093)*	*713*		*713*	*256*		*256*
Transfers to profit for the period, net of tax: Cash flow hedges, effective portion	2,170		2,170	(3,321)		(3,321)	(6,378)		(6,378)
Tax	(715)		(715)	873		873	1,639		1,639
	1,455		*1,455*	*(2,448)*		*(2,448)*	*(4,739)*		*(4,739)*
Hedges of net investments in foreign operations, effective portion	1,584		1,584	25		25	(195)		(195)
Tax	(545)		(545)	(12)		(12)	67		67
	1,039		*1,039*	*13*		*13*	*(128)*		*(128)*
Valuation gains and losses on non-current financial assets, net of tax	(70)		(70)	369		369	2,962		2,962
Tax	23		23	(135)		(135)	(200)		(200)
	(47)		*(47)*	*234*		*234*	*2,762*		*2,762*
Actuarial gains and losses on defined benefit obligations, net of tax	(19,660)		(19,660)	(906)		(906)	(10,170)		(10,170)
Tax	*6,417*		6,417	*263*		263	*3,096*		3,096
	(13,243)		*(13,243)*	*(643)*		*(643)*	*(7,074)*		*(7,074)*
Translation adjustments to hedging and revaluation reserves	(223)		(223)	84		84	166		166
Translation adjustments to other reserves and profit for the period	263,567	6,312	269,879	7,033	(370)	6,663	19,376	853	20,229
Total income and expense for the period recognized directly in equity, net of tax (B)	**249,937**	**6,312**	**256,249**	**4,038**	**(370)**	**3,668**	**6,831**	**853**	**7,684**
Total recognized income and expense, net of tax (A) + (B)	**447,477**	**11,648**	**459,125**	**204,141**	**4,292**	**208,433**	**397,516**	**8,683**	**406,199**

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

CONSOLIDATED BALANCE SHEET

ASSETS

€ thousands	Notes	June 30, 2010	December 31, 2009 (a)
Goodwill	**7**	1,524,001	1,059,941
Other intangible assets		536,072	221,688
Property, plant and equipment		908,019	803,022
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, NET	**3**	**2,968,092**	**2,084,651**
Investments in associates		119,175	180,034
Other long-term financial investments		76,314	68,820
Deferred tax assets		78,071	57,229
Long-term receivables		9,463	10,570
Other non-current assets		910	854
OTHER NON-CURRENT ASSETS, NET		**283,933**	**317,507**
TOTAL NON-CURRENT ASSETS, NET		**3,252,025**	**2,402,158**
Inventories		625,836	485,606
Prepayments to suppliers		14,817	12,373
Short-term receivables		971,927	746,266
Current income tax assets		28,391	17,039
Other receivables		15,490	18,434
Derivative financial instruments		10,823	40,485
Prepaid expenses		43,586	20,765
Marketable securities			33,965
Cash and cash equivalents	**9**	353,365	385,548
CURRENT ASSETS		**2,064,235**	**1,760,481**
Non-current assets held for sale	**13**	112,720	
TOTAL ASSETS		**5,428,980**	**4,162,639**

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

CONSOLIDATED BALANCE SHEET

EQUITY AND LIABILITIES

€ thousands	Notes	June 30, 2010	December 31, 2009 (a)
Share capital		38,313	38,792
Additional paid-in capital		297,807	415,321
Retained earnings		2,347,379	2,107,571
Treasury stock		(158,168)	(174,580)
Oceane conversion option		4,227	6,854
Revaluation and other reserves		(35,284)	(21,653)
Translation reserve		212,922	(50,238)
Profit attributable to equity holders of Essilor International		197,540	390,685
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF ESSILOR INTERNATIONAL		**2,904,736**	**2,712,752**
Minority interests		40,772	21,786
TOTAL EQUITY		**2,945,508**	**2,734,538**
Provisions for pensions and other post-employment benefit obligations		159,332	131,316
Long-term borrowings	**9**	306,554	282,222
Deferred tax liabilities		151,186	22,973
Other long-term payables		79,312	49,792
NON-CURRENT LIABILITIES		**696,384**	**486,303**
Provisions	**8**	129,414	68,887
Short-term borrowings	**9**	689,713	82,929
Customer prepayments		7,675	2,866
Short-term payables		744,213	624,184
Taxes payable		65,786	46,507
Other liabilities		129,867	96,890
Derivative financial instruments		8,768	10,897
Deferred income		11,652	8,638
CURRENT LIABILITIES		**1,787,088**	**941,798**
TOTAL EQUITY AND LIABILITIES		**5,428,980**	**4,162,639**

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

CONSOLIDATED CASH FLOW STATEMENT

€ thousands	First-half 2010 (6 months)	First-half 2009 (6 months) (a)	2009 (12 months) (a)
PROFIT FOR THE PERIOD	**202,876**	**204,765**	**398,515**
Share of profit of associates, net of dividends received	(3,245)	(9,292)	19,504
Depreciation, amortization and other non-cash items	86,882	74,822	143,400
Profit before non-cash items and share of profit of associates, net of dividends received	**286,513**	**270,295**	**561,419**
Provision charges (reversals)	47,926	3,638	19,724
(Gains) losses on asset disposals, net	9	347	1,303
Cash flow after income tax and finance costs, net	**334,448**	**274,280**	**582,446**
Finance costs, net	4,789	7,754	13,027
Income tax expense (current and deferred taxes)	88,800	79,005	166,573
Cash flow before income tax and finance costs, net	**428,037**	**361,039**	**762,046**
Income taxes paid	(95,052)	(85,444)	(172,226)
Interest (paid) and received, net	(3,452)	(3,394)	(8,773)
Change in working capital	(106,483)	(102,825)	(70,656)
NET CASH FROM OPERATING ACTIVITIES	**223,050**	**169,376**	**510,391**
Purchases of property, plant and equipment and intangible assets	(57,866)	(73,554)	(125,275)
Acquisitions of subsidiaries, net of the cash acquired	(447,836)	(32,220)	(128,634)
Purchases of available-for-sale financial assets	(7,160)	(2,852)	(24,263)
Purchases of other long-term financial investments	(690)	(772)	(3,124)
Proceeds from the sale of subsidiaries, net of the cash sold			
Proceeds from the sale of other non-current assets	4,010	2,510	8,889
NET CASH USED IN INVESTING ACTIVITIES	**(509,542)**	**(106,888)**	**(272,407)**
Proceeds from the issue of share capital	40,221	15,945	37,085
(Purchases) sales of treasury stock, net	(182,289)	(19,576)	(76,096)
Dividends paid to:			
- Equity holders of Essilor International	(145,984)	(136,189)	(136,189)
- Minority shareholders of subsidiaries	(657)	(1,755)	(2,922)
Repayments of borrowings other than finance lease liabilities	463,470	37,739	(185,931)
Purchases of marketable securities*	33,965	(585)	(1,427)
Repayment of finance lease liabilities	(1,213)	(1,242)	(2,521)
Other movements	1,915	1,527	(536)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**209,428**	**(104,136)**	**(368,537)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(77,064)**	**(41,648)**	**(130,553)**
Cash and cash equivalents at January 1	363,902	486,765	486,765
Effect of changes in exchange rates	23,118	(1,436)	7,690
CASH AND CASH EQUIVALENTS AT PERIOD-END	**309,956**	**443,681**	**363,902**
Cash and cash equivalents reported in the balance sheet	353,365	454,251	385,548
Short-term bank loans and overdrafts	(43,408)	(10,570)	(21,646)

* Units in money market funds not qualified as cash equivalents under IAS 7.

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

♦ First-half 2010

(€ thousands)	Share capital	Additional paid-in capital	Revaluation reserves	Oceane conversion option	Retained earnings	Translation reserve	Treasury stock	Profit attributable to equity holders of Essilor International	**Equity attributable to equity holders of Essilor International**	Minority interests	**Total equity**
Equity at January 1, 2010	**38,792**	**415,321**	**(21,654)**	**6,854**	**2,107,572**	**(50,238)**	**(174,580)**	**390,685**	**2,712,752**	**21,786**	**2,734,538**
Issue of share capital											
- To the corporate mutual funds	61	12,459							12,520		12,520
- On exercise of stock options	179	27,522							27,701		27,701
- On conversion of Oceane bonds	1	97		(13)	13				98		98
- Paid up by capitalizing reserves											
Cancellation of treasury stock	(720)	(157,592)					158,312				
Shares transferred out of treasury stock in exchange for Oceane bonds				(2,614)	2,555		23,111		23,052		23,052
Share-based payments					10,089				10,089		10,089
Purchases and sales of treasury stock, net					(17,278)		(165,011)		(182,289)		(182,289)
Appropriation of profit					390,685			(390,685)			
Effect of changes in scope of consolidation on minority interests										7,995	7,995
Impact of changes in scope of consolidation not resulting in a loss of control					(680)				(680)		(680)
Dividends					(145,984)				(145,984)	(657)	(146,641)
Transactions with shareholders	**(479)**	**(117,514)**	**0**	**(2,627)**	**239,400**	**0**	**16,412**	**(390,685)**	**(255,493)**	**7,338**	**(248,155)**
Total income and expense for the period recognized directly in equity			(13,407)						(13,407)		(13,407)
Profit for the period								197,540	197,540	5,336	202,876
Exchange differences on translating foreign operations			(223)		397	263,170			263,344	6,312	269,656
Total recognized income and expense	**0**	**0**	**(13,630)**	**0**	**397**	**263,170**	**0**	**197,540**	**447,477**	**11,648**	**459,125**
Equity at June 30, 2010	**38,313**	**297,807**	**(35,284)**	**4,227**	**2,347,369**	**212,932**	**(158,168)**	**197,540**	**2,904,736**	**40,772**	**2,945,508**

♦ **First-half 2009**

(€ thousands)	Share capital	Additional paid-in capital	Revaluation reserves	Oceane conversion option	Retained earnings	Translation reserve	Treasury stock	Profit attributable to equity holders of Essilor International	**Equity attributable to equity holders of Essilor International**	Minority interests	**Total equity**
Equity at January 1,2009	**37,984**	**311,765**	**(9,109)**	**22,206**	**1,829,870**	**(70,235)**	**(153,407)**	**382,356**	**2,351,430**	**14,544**	**2,365,974**
Issue of share capital											
- To the corporate mutual funds	76	10,992							11,068		11,068
- On exercise of stock options	39	4,835							4,874		4,874
- On conversion of Oceane bonds		3							3		3
- Paid up by capitalizing reserves											
Cancellation of treasury stock											
Shares transferred out of treasury stock in exchange for Oceane bonds											
Share-based payments					9,608				9,608		9,608
Purchases and sales of treasury stock, net					(94)		(19,482)		(19,576)		(19,576)
Appropriation of profit					382,356			(382,356)			
Effect of changes in scope of consolidation on minority interests										6,960	6,960
Dividends					(136,189)				(136,189)	(1,755)	(137,944)
Transactions with shareholders	**115**	**15,830**	**0**	**0**	**255,681**	**0**	**(19,482)**	**(382,356)**	**(130,212)**	**5,205**	**(125,007)**
Total income and expense for the period recognized directly in equity			(3,079)						(3,079)		(3,079)
Profit for the period								200,103	200,103	4,662	204,765
Exchange differences on translating foreign operations			84		(80)	7,113			7,117	(370)	6,747
Total recognized income and expense	**0**	**0**	**(2,995)**	**0**	**(80)**	**7,113**	**0**	**200,103**	**204,141**	**4,292**	**208,433**
Equity at June 30, 2009 (a)	**38,099**	**327,595**	**(12,104)**	**22,206**	**2,085,471**	**(63,122)**	**(172,889)**	**200,103**	**2,425,359**	**24,041**	**2,449,400**

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

♦ **Full-year 2009**

(€ thousands)	Share capital	Additional paid-in capital	Revaluation reserves	Oceane conversion option	Retained earnings	Translation reserve	Treasury stock	Profit attributable to equity holders of Essilor International	**Equity attributable to equity holders of Essilor International**	Minority interests	**Total equity**
Equity at January 1, 2009	**37,984**	**311,765**	**(9,109)**	**22,206**	**1,829,870**	**(70,235)**	**(153,407)**	**382,356**	**2,351,430**	**14,544**	**2,365,974**
Issue of share capital											
- To the corporate mutual funds	119	18,329							18,448		18,448
- On exercise of stock options	140	18,497							18,637		18,637
- On conversion of Oceane bonds	819	120,909		(15,352)	12,325				118,701		118,701
- Paid up by capitalizing reserves											
Cancellation of treasury stock	(270)	(54,179)					54,449				
Shares transferred out of treasury stock in exchange for Oceane bonds											
Share-based payments					20,305				20,305		20,305
Purchases and sales of treasury stock, net					(474)		(75,622)		(76,096)		(76,096)
Appropriation of profit					382,356			(382,356)			
Effect of changes in scope of consolidation on minority interests										1,481	1,481
Dividends					(136,189)				(136,189)	(2,922)	(139,111)
Transactions with shareholders	**808**	**103,556**	**0**	**(15,352)**	**278,323**	**0**	**(21,173)**	**(382,356)**	**(36,194)**	**(1,441)**	**(37,635)**
Total income and expense for the period recognized directly in equity			(12,711)						(12,711)		(12,711)
Profit for the period								390,685	390,685	7,830	398,515
Exchange differences on translating foreign operations and other			166		(621)	19,997			19,542	853	20,395
Total recognized income and expense	**0**	**0**	**(12,545)**	**0**	**(621)**	**19,997**	**0**	**390,685**	**397,516**	**8,683**	**406,199**
Equity at December 31, 2009 (a)	**38,792**	**415,321**	**(21,654)**	**6,854**	**2,107,572**	**(50,238)**	**(174,580)**	**390,685**	**2,712,752**	**21,786**	**2,734,538**

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

Notes to the interim consolidated financial statements

NOTE 1. ACCOUNTING POLICIES

In accordance with European Council regulation 1606/2002/EC of July 19, 2002, 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 as of the balance sheet date, and which are posted on the European Commission website[1].

The consolidated financial statements for the six months ended June 30, 2010 have been prepared in accordance with IAS 34 – Interim Financial Reporting. They were approved by the Board of Directors on August 26, 2010.

The accounting policies used to prepare the interim consolidated financial statements are unchanged compared with those applied in the 2009 consolidated financial statements.

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

♦ **IFRSs, amendments to IFRSs and interpretations applicable from January 1, 2010**

- **IFRS 3 (revised) – Business Combinations**

The revised IFRS 3, which is applicable for annual periods beginning on or after July 1, 2009, describes the accounting treatment of business combinations based on the acquisition method. In particular, goodwill may now be calculated on the basis of the fair value of either the acquiree or the acquirer's proportionate share of the acquiree's net assets. The choice between these two methods may be made separately for each acquisition.

For acquisitions made in stages, the difference between the carrying amount of the investment held before the acquisition and its fair value at the acquisition date is recognized in operating profit (under "Other expenses from operations" and "Other income from operations"), along with the recyclable components of other comprehensive income.

Contingent consideration is recognized at its acquisition-date fair value as part of the consideration transferred in exchange for the acquiree, whether or not its payment is considered probable. The obligation to pay contingent consideration is recognized as a liability or as equity. Any subsequent adjustments should be recognized in profit or loss or in equity depending on the initial classification of the contingent consideration.

Acquisition-related costs must now be expensed rather than included in goodwill. Costs related to major strategic acquisitions (i.e. that represent highly significant amounts or correspond to a new area of business) are included in operating profit, under "Strategic acquisition costs" (see Note 4). Costs related to lower-value acquisitions are included in "Other operating expenses" as part of "Contribution from operations".
Costs attributable to acquisitions that were not completed at December 31, 2009 were capitalized in the consolidated financial statements for the year. As a result, the consolidated financial statements for first-half 2009 and the twelve months ended December 31, 2009 have been restated to reflect the fact that these costs are now expensed (rather than classified as long-term financial investments as was previously the case), with the ensuing deferred tax impact taken into consideration. These restated amounts break down as follows:

(€ thousands)	**First-half 2009**	**Full-year 2009**
Non-strategic acquisition costs	823	1,406
Strategic acquisition costs	2,636	3,541
Deferred taxes	(1,127)	(1,796)
Total impact on profit attributable to equity holders	2,332	3,351

The revised version of IFRS 3 is applicable on a prospective basis and therefore has no impact on financial information relating to periods prior to its effective date.

[1] http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

The Group has applied this standard from January 1, 2010, for all acquisitions carried out after that date. Any changes concerning subsidiaries acquired prior to January 1, 2010 – particularly in relation to the exercise of minority put options – are accounted for in accordance with the previous version of IFRS 3.

- **IAS 27 (revised) – Consolidated and Separate Financial Statements**

  IAS 27 (revised), which is applicable for annual periods beginning on or after July 1, 2009, addresses the comparability, reliability and relevance of the financial information presented in the individual and consolidated financial statements. In particular, it deals with consolidation procedures and the accounting treatment for partial disposals of subsidiaries that result in loss of control. The revised standard changes the accounting treatment of transactions with non-controlling interests, with changes in a parent's ownership interest in a subsidiary not resulting in the loss of control being accounted for as equity transactions. In the case of a partial disposal that results in a loss of control, any investment retained in the former subsidiary is measured at fair value and the disposal gain or loss includes the fair value adjustment and the gain or loss on the sold interest, including all amounts recognized in other comprehensive income and reclassified to profit or loss.

  The revised version of this standard had no impact on the consolidated financial statements for first-half 2010.

- **Amendment to IAS 39 – Eligible Hedged Items**
  This amendment, which is applicable for annual periods beginning on or after July 1, 2009, clarifies what can be designated as a hedged item.
  It had no impact on the consolidated financial statements for first-half 2010.

- **Amendments to IFRS 2 – Group Cash-Settled Shared-Based Payment Transactions**
  The amendments to IFRS 2, which are applicable for annual periods beginning on or after July 1, 2009, clarify the accounting treatment in the financial statements of a subsidiary for cash-settled payments made by the parent to remunerate employees under group plans when the payments concerned are based on the value of equity instruments of either the subsidiary or the parent.
  These amendments had no impact on the consolidated financial statements for first-half 2010.

- **IFRIC 12 – Service Concession Arrangements**
  IFRIC 12 deals with public service concessions and is applicable for annual periods beginning on or after March 29, 2009. It is not relevant to Essilor's operations.

- **IFRIC 15 – Agreements for the Construction of Real Estate**
  This interpretation, which is applicable for annual periods beginning on or after January 1, 2010, concerns the recognition of revenue from agreements for the construction of real estate. It is not relevant to Essilor's operations.

- **IFRIC 16 – Hedges of a Net Investment in a Foreign Operation**
  This interpretation, which is applicable for annual periods beginning on or after July 1, 2009, concerns the recognition and measurement of hedges of net investments in foreign operations. It is not relevant to Essilor's operations.

- **IFRIC 17 – Distribution of Non-Cash Assets to Owners (non-cash dividends)**
  Applicable for annual periods beginning on or after November 1, 2009, IFRIC 17 addresses how distributions of assets other than cash should be measured when dividends are paid to owners. In particular, it stipulates that the difference between the dividend and the carrying amount of the distributed net assets should be recognized in profit or loss.
  This interpretation is not relevant to Essilor's operations.

- **IFRIC 18 – Transfers of Assets from Customers**
  This interpretation, which is applicable for annual periods beginning on or after November 1, 2009, deals with the recognition and measurement of transfers of assets from customers. It is not relevant to Essilor's operations.

♦ **IFRSs, amendments to IFRSs and interpretations applicable in future periods**

Essilor has decided not to early-adopt the following standards, amendments or interpretations:

- **IFRS 9 – Financial Instruments Part 1: Classification and Measurement**
  This standard, which is applicable for annual periods beginning on or after January 1, 2013 and has not yet been adopted by the European Union, stipulates that financial assets such as derivatives or equity instruments should be measured at fair value at initial recognition, with any gain or loss from remeasurement at fair value recognized in profit or loss or, exceptionally, in equity, in which case the gain or loss cannot subsequently be recycled into profit or loss.
  Only those financial assets qualifying as debt instruments should be measured at amortized cost.
  The impact of this standard on the consolidated financial statements is currently being assessed.

- **IAS 24 (revised) – Related Party Disclosures**
  The revised version of IAS 24, which is applicable for annual periods beginning on or after January 1, 2011 and has not yet been adopted by the European Union, simplifies the disclosure obligations of entities that are controlled or jointly controlled by the State or over which the State exercises significant influence, and clarifies the definition of a related party.
  Essilor does not expect to be affected by this revised standard.

- **IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments**
  Applicable for annual periods beginning on or after July 1, 2010 and not yet adopted by the European Union, this interpretation describes how debtors should account for the extinguishment of financial liabilities by the issue of equity instruments.
  The impact of IFRIC 19 on the consolidated financial statements is currently being assessed.

♦ **Changes in presentation**

Long-term operating payables and liabilities related to minority put options exercisable beyond one year are now both presented in "Other long-term payables" under "Non-current liabilities".
Liabilities related to minority put options exercisable beyond one year were previously presented under "Other liabilities" and totaled €47.4 million at December 31, 2009. The balance sheet at December 31, 2009 has been adjusted to reflect this change of presentation.

Liabilities related to minority put options exercisable within one year are still recorded under "Other liabilities".

1.1. USE OF ESTIMATES

The preparation of financial statements involves the use of estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses in the financial statements as well as the disclosures in the notes concerning contingent assets and liabilities at the balance sheet date. These estimates and assumptions, which were determined based on the information available when the financial statements were drawn up, mainly concern provisions for returned goods and trade receivables, product life cycles, pension and other post-employment benefit obligations, restructuring provisions, provisions for tax and environmental liabilities, claims and litigation, the measurement of goodwill, the measurement of purchased intangible assets and their estimated useful life, the fair value of derivative financial instruments, deferred tax assets and share-based payments. The final amounts may be different from these estimates.

Essilor is subject to income tax in many jurisdictions with different tax rules and the determination of global income tax expense is based to a significant extent on estimates and assumptions that reflect the information available when the financial statements are drawn up.
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 Essilor on annual profit, in accordance with IAS 34 – Interim Financial Reporting.

1.2. SEGMENT INFORMATION

Since the adoption of IFRS 8 with effect from January 1, 2009, Essilor's segment information is presented in accordance with the information provided internally to management for the purpose of managing operations, making decisions and analyzing operational performance.
The information provided to management for internal management purposes is prepared in accordance with the IFRSs used by the Company in its consolidated financial statements.

Essilor has three operating segments: Lenses & Optical Instruments, Equipment, and Readers.

The Lenses & Optical Instruments segment comprises the Company's 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 segment are eyecare professionals (opticians and optometrists).
The segment is managed by region, as follows:
- Europe
- North America
- Rest of world

The Equipment segment comprises 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 for this segment are optical lens manufacturers.

Since its acquisition of FGX on March 12, 2010, Essilor has had a new operating segment, called Readers, comprising the production, distribution and sale of non-prescription reading glasses. The end customers for this segment are retailers that sell non-prescription reading glasses to consumers

1.3. 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.

In the consolidated cash flow statement:

- Changes in current assets and liabilities are stated before the effect of changes in scope of consolidation and exchange rates.
- Cash flows of foreign subsidiaries are translated at the average exchange rate for the period.
- Profit before non-cash items and share of profit 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 and employee stock ownership plans), plus dividends received from associates.
- 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 correspond to cash and marketable securities qualifying as cash equivalents less short-term bank loans and 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.

1.4. OTHER INCOME AND EXPENSES FROM OPERATIONS

Other income and expenses from operations mainly comprise:

- Restructuring costs
- Costs of claims and litigation
- Strategic acquisition costs, following application of the revised version of IFRS 3 from January 1, 2010
- Changes in accounting estimates concerning the opening balance sheets of acquired subsidiaries that are recorded after the twelve-month measurement period, following application of the revised version of IFRS 3 from January 1, 2010.
- Impairment losses on goodwill, intangible assets and property, plant and equipment
- Compensation costs of share-based payments

1.5. BORROWINGS

Borrowing costs 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.

In accordance with IAS 32, the conversion option embedded in convertible bonds is separated from the host contract and recognized in equity, net of deferred taxes. The conversion option is initially recognized at an amount corresponding to the difference between the convertible bond issue proceeds net of directly attributable transaction costs and the present value of vanilla bonds with the same characteristics. Any difference between the carrying amount of convertible bonds, excluding the conversion option, and the redemption price is recognized in profit over the life of the debt using the effective interest method.

The purchase cost of any Oceane convertible bonds bought back by the Company is allocated between the debt instrument and the equity instrument based on market rates at the buyback date for bonds with a maturity corresponding to the remaining life of the Oceanes, using the same method as that applied at the issue date.

- The difference between the carrying amount of the debt at the buyback date (amortized cost) and the portion of the purchase price corresponding to the debt instrument is recognized in profit.
- The portion of the purchase price corresponding to the equity instrument is recognized directly in equity, net of deferred taxes.

NOTE 2. EXCHANGE RATES AND SCOPE OF CONSOLIDATION

2.1. EXCHANGE RATES OF THE MAIN FUNCTIONAL CURRENCIES

For €1	Closing rate			Average rate		
	June 30, 2010	**Dec. 31, 2009**	**June 30, 2009**	**First-half 2010**	**Full-year 2009**	**First-half 2009**
Canadian dollar	1.29	1.51	1.63	1.37	1.58	1.60
Pound sterling	0.82	0.89	0.85	0.86	0.89	0.89
Yen	108.79	133.16	135.51	120.04	130.63	128,41
U.S. dollar	1.23	1.44	1.41	1.32	1.40	1,34
Swiss franc	1.33	1.48	1.53	1.42	1.51	1,51

2.2. CHANGES IN THE SCOPE OF CONSOLIDATION

- **Newly-consolidated companies**

The following companies were consolidated for the first time in first-half 2010:

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
Mont-Royal*	France	January 1, 2010	Full	63.68	100.00
DAC SAS	France	April 1, 2010	Full	60.00	100.00
Danyang	China	January 15, 2010	Full	80.00	100.00
Eyebiz	Australia	February 1, 2010	Full	70.00	100.00
Nikon Optical US*	United States	January 1, 2010	Proportionate	50.00	50.00
Encore*	United States	March 1, 2010	Proportionate	39.83	50.00
Optical Dimension	United States	January 1, 2010	Full	80.00	100.00
Ultimate Optical Lab	United States	January 1, 2010	Full	100.00	100.00
FGX	United States	March 12, 2010	Full	100.00	100.00
Signet	United States	April 1, 2010	Full	100.00	100.00
Epic Labs	United States	June 1, 2010	Full	80.00	100.00
DAC Inc	United States	April 1, 2010	Full	60.00	100.00
Cascade	Canada	April 1, 2010	Full	60.00	100.00
GBO*	Brazil	January 1, 2010	Full	51.00	100.00
Ghanada	United Arab Emirates	January 1, 2010	Full	40.00	100.00

* Companies acquired or set up in prior years, consolidated for the first time in 2010.

The first-half 2010 income statement also includes the contribution over the full six months of the following companies that were consolidated for the first time in 2009:

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
De Ceunynck	Belgium	July 1, 2009	Full	100.00	100.00
Technopark	Brazil	April 30, 2009	Full	51.00	100.00
Amico	United Arab Emirates	August 1, 2009	Full	50.00	100.00
Essilor Middle East	United Arab Emirates	August 1, 2009	Full	100.00	100.00
FZ Co	United Arab Emirates	August 1, 2009	Full	50.00	100.00
Abba Optical, Inc	United States	May 1, 2009	Business acquisition		
Barnett & Ramel Co. Of Nebr	United States	June 1, 2009	Full	80.00	100.00
Mc Leodd Optical Company Inc	United States	June 1, 2009	Full	80.00	100.00
Apex Optical	United States	July 1, 2009	Full	100.00	100.00
Optisource	United States	July 1, 2009	Full	80.00	100.00
Vision Pointe	United States	July 1, 2009	Full	80.00	100.00
Orion Progressive Lab	United States	September 1, 2009	Business acquisition		
Truckee Meadows	United States	October 1, 2009	Full	80.00	100.00
Frames For America	United States	November 2, 2009	Full	70.00	100.00
AG Opticals Inc	United States	December 1, 2009	Full	100.00	100.00
Wholesale Lens Corporation Ltd	United Kingdom	August 3, 2009	Full	70.00	100.00
Horizon Optical Company Ltd	United Kingdom	November 1, 2009	Full	95.00	100.00
NERC	Japan	February 5, 2009	Proportionate	50.00	50.00
JZO	Poland	March 25, 2009	Full	51.00	100.00

- **Other movements**

On January 1, 2010, Essilor increased its ownership interest in the following subsidiaries:
- Omax (to 75% from 51%).
- ILT and Lenscom (to 100% from 51%).
- ILT Malaysia (to 80.50% from 40.80%).

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

♦ **Balance Sheet**

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

€ thousands	FGX	SIGNET	Other acquisitions	**Companies consolidated for the first time in first-half 2010**
Intangible assets	240,222	15,510	20,961	276,694
Property, plant and equipment	12,027	17,164	10,860	40,052
Investments in associates				
Non-current financial assets	10,295		2,764	13,060
Other non-current assets	8,424	1,476	639	10,538
Current assets	61,045	35,044	31,242	127,331
Cash and cash equivalents	14,443	3,884	7,629	25,956
Total assets acquired at fair value	**346,457**	**73,078**	**74,096**	**493,631**
Minority interests in equity	1,568		2,664	4,232
Long-term borrowings	85,268	8,915	12,717	106,900
Other non-current liabilities	100,738	8,130	6,175	115,044
Short-term borrowings		3,423	801	4,224
Other current liabilities	52,815	16,714	16,734	86,263
Total liabilities assumed	**240,390**	**37,182**	**39,091**	**316,663**
NET ASSETS ACQUIRED	**106,067**	**35,896**	**35,005**	**176,968**

Acquisition cost	482,915
. Acquisitions for the period (paid in cash)	*462,643*
. Prior period acquisitions	*20,272*
- Fair value of net assets acquired	176,968
- Liabilities arising from put options granted to minority shareholders	(26,674)
+ Post-acquisition retained earnings	0
Recognized goodwill	**332,621**

Following approval by the majority of the shareholders of FGX International Holdings Limited, on March 12, 2010 Essilor International completed the acquisition of the company, which was previously listed on the Nasdaq. FGX is the North American market leader in the design and sale of non-prescription reading glasses, with revenue of $259 million in 2009.
The acquisition will enable Essilor to establish a foothold in a new, fast-growing market segment and reach new customers.

On April 1, 2010, following approval by the US competition authorities, Essilor completed its acquisition of Signet Armorlite, a leading independent manufacturer of ophthalmic lenses. Based in California, Signet Armolite generates global revenue of approximately $115 million, primarily through its subsidiaries in the United States, the United Kingdom, Germany, Spain, Columbia, Portugal and Holland. Holding an exclusive worldwide license for the development, production and distribution of Kodak® brand lenses, Signet Armorlite markets a product portfolio that is strategically aligned with Essilor's offering.

Details of Essilor's other acquisitions during the period are provided in Note 2.2 – Changes in the scope of consolidation.

The amount recognized as goodwill related to these acquisitions is supported by projected synergistic benefits and the growth outlook of the acquired companies within Essilor.

The fair values of the acquired assets and assumed liabilities are based on the provisional accounting for the business combinations concerned and may be adjusted once the valuation process has been completed or additional analyses have been performed. Any such adjustments will be treated as a retrospective adjustment of goodwill if they are made within twelve months of the acquisition date. Any adjustments made more than twelve months after the acquisition date will be recognized directly in profit, unless they correspond to corrections of errors.

♦ **Income Statement**

The overall effect of changes in scope of consolidation and exchange rates on first-half 2010 revenue, contribution from operations and operating profit was as follows:

In %	**Reported growth**	Impact of changes in exchange rates	Impact of changes in consolidation scope	**Like-for-like growth**
Revenue	**15.8%**	4.0%	9.1%	**2.7%**
Contribution from operations	**15.2%**	4.8%	6.9%	**3.4%**
Operating profit	**1.0%**	5.2%	7.3%	**-11.5%**

NOTE 3. SEGMENT INFORMATION

Revenue is attributed by origin (invoicing country).

Sign convention: income (expense)

JUNE 2010	**Lenses Europe**	**Lenses North America**	**Lenses Rest of World**	**Equipment**	**Readers**	**Elimination of inter-segment revenue**	**Group total**
External revenue	708	776	303	60	80		**1,927**
Inter-segment revenue	44	32	104	15		(195)	**0**
Total revenue	752	808	407	75	80	(195)	**1,927**
Operating profit	63	111	85	5	17		**281**
Non-cash income and expenses	(10)						**(10)**
Interest income	6	1	1				**8**
Interest expense	(5)	(7)	(1)				**(13)**
Income tax expense	(28)	(35)	(18)	(2)	(6)		**(89)**
Share of profit of associates	7	7	3				**17**
Impairment, depreciation and amortization of property, plant and equipment and intangible asets	(32)	(34)	(21)	(4)	(2)		**(93)**
Purchases of property, plant and equipment and intangible assets	20	15	24	1			**60**
Non-current assets	634	1,044	417	336	537		**2,968**
Total assets	1,653	1,622	1,085	422	647		**5,429**
Provisions	215	34	12	18	10		**289**
Borrowings and payables	1,154	635	204	43	159		**2,195**

JUNE 2009 (a)	Lenses Europe	Lenses North America	Lenses Rest of World	Equipment	Readers	Elimination of inter-segment revenue	Group total
External revenue	665	718	230	50			**1,663**
Inter-segment revenue	36	24	89	16		(165)	**0**
Total revenue	701	742	319	66		(165)	**1,663**
Operating profit	76	129	72	1			**278**
Non-cash income and expenses	(10)	1					**(11)**
Interest income	7	1	1	0			**9**
Interest expense	(10)	6	1	0			**(17)**
Income tax expense	(19)	41	18	1			**(79)**
Share of profit of associates	3	4	3				**11**
Impairment, depreciation and amortization of property, plant and equipment and intangible asets	(32)	(28)	21	3			**(84)**
Purchases of property, plant and equipment and intangible assets	22	30	22	2			**76**
Non-current assets	577	835	280	318			**2,010**
Total assets	1,731	1,284	763	383			**4,161**
Provisions	121	27	9	17			**174**
Borrowings and payables	866	491	155	25			**1,537**

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

DECEMBER (a)	Lenses Europe	Lenses North America	Lenses Rest of World	Equipment	Readers	Elimination of inter-segment revenue	Group total
External revenue	1,332	1,353	480	103			**3,268**
Inter-segment revenue	81	51	169	31		(332)	**0**
Total revenue	1,413	1,404	649	134		(332)	**3,268**
Operating profit	146	253	147	4			**550**
Non-cash income and expenses	(22)						**(22)**
Interest income	14	2	3	0			**19**
Interest expense	(18)	(13)	(1)	0			**(32)**
Income tax expense	(57)	(77)	(31)	(2)			**(167)**
Share of profit of associates	9	11	6				**26**
Impairment, depreciation and amortization of property, plant and equipment and intangible asets	(63)	(54)	(37)	(7)			**(161)**
Purchases of property, plant and equipment and intangible assets	44	39	42	3			**128**
Non-current assets	608	848	314	315			**2,085**
Total assets	1,667	1,276	839	381			**4,163**
Provisions	148	26	9	17			**200**
Borrowings and payables	547	495	161	26			**1,228**

(a): Restated to reflect the fact that acquisition-related costs are now expensed in accordance with the revised version of IFRS 3 (see Note 1)

Essilor's top 20 customers accounted for 21.9% of revenue in the first half of 2010 (first-half 2009: 22.3%) and no single customer accounts for more than 10% of its revenue.

NOTE 4. OTHER INCOME AND EXPENSES FROM OPERATIONS, NET

€ thousands	First-half 2010 (6 months)	First-half 2009 (6 months)	Full-year 2009 (12 months)
By nature			
Impairment losses		0	
Compensation costs of stock options	(3,910)	(4,038)	(8,649)
Compensation costs of employee share issues	(1,067)	(632)	(1,360)
Compensation costs of performance share grants	(5,112)	(5,016)	(11,856)
Restructuring costs, net	(12,509)	(6,524)	(11,383)
Strategic acquisition costs*	(2,023)	(2,636)	(3,541)
Other	(41,667)	(4,223)	(4,672)
Total	**(66,288)**	**(23,069)**	**(41,461)**

* See Note 10 – Claims and litigation

NOTE 5. OTHER FINANCIAL INCOME AND EXPENSES, NET

€ thousands	First-half 2010 (6 months)	First-half 2009 (6 months)	Full-year 2009 (12 months)
By nature			
(Charges to)/reversals of provisions for impairment of available-for-sale financial assets, net	22	(45)	(923)
Exchange gains and losses, net	(4,795)	12,566	13,110
Changes in fair value of derivative financial instruments	2,619	(10,697)	(11,065)
Dividends	380	304	833
Other	(1)	2	(350)
Total	**(1,775)**	**2,130**	**1,605**

NOTE 6. CHANGE IN NUMBER OF SHARES

Change in outstanding shares, net of treasury shares

	First-half 2010	First-half 2009	Full-year 2009
Number of shares at January 1	**210,879,319**	**207,013,917**	**207,013,917**
Shares issued on exercise of stock options	994,238	217,190	778,714
Shares issued to the Essilor corporate mutual fund	339,482	425,898	662,646
Treasury shares allocated on conversion of Oceane bonds	757,006		
Shares sold out of treasury on exercise of stock options	34,097	18,918	52,724
Delivery of performance shares	539,683	1,854	2,326
Shares issued on conversion of Oceane bonds	3,690	66	4,548,690
(Purchases) and sales of treasury stock, net	(4,136,583)	(679,698)	(2,179,698)
Number of shares at the period-end	**209,410,932**	**206,998,145**	**210,879,319**
Number of treasury shares excluded from the calculation	3,436,450	4,664,931	4,630,653

Average number of shares, net of treasury shares

	First-half 2010	First-half 2009	Full-year 2009
Number of shares at January 1	**210,879,319**	**207,013,917**	**207,013,917**
Shares issued on exercise of stock options	376,552	63,125	217,752
Shares issued to the Essilor corporate mutual fund	3,751	11,765	222,479
Treasury shares allocated on conversion of Oceane bonds	171,174		0
Shares sold out of treasury on exercise of stock options	13,440	11,060	19,711
Treasury shares used to make performance share grants	92,892	906	1,483
Shares issued on conversion of Oceane bonds	3,054	44	258,654
(Purchases) and sales of treasury stock, net	(1,796,636)	(477,642)	(1,043,485)
Number of shares at the period-end	**209,743,546**	**206,623,175**	**206,690,511**

NOTE 7. GOODWILL

€ thousands	At January 1	Changes in consolidation scope and acquisitions	Other movements	Translation adjustment	Impairment losses recognized in the period	At period-end
First-half 2010						
Gross	**1,072,121**	**332,622**	**529**	**131,820**		**1,537,092**
Impairment losses	12,180		8	882	21	13,091
Carrying amount	**1,059,941**	**332,622**	**521**	**130,938**	**(21)**	**1,524,001**
Full-year 2009						
Gross	**973,331**	**94,826**	**12,730**	**(8,766)**	**0**	**1,072,121**
Impairment losses	15,726	47	(3 830)	208	29	12,180
Carrying amount	**957,605**	**94,779**	**16,560**	**(8,974)**	**(29)**	**1,059,941**

The carrying amount of goodwill breaks down as follows by segment:

€ thousands	June 30, 2010	December 31, 2009
Lenses – Europe	243,208	226,341
Lenses – North America	638,532	503,247
Lenses – Rest of World	126,915	89,839
Equipment	257,066	240,514
Readers	258,280	
	1,524,001	**1,059,941**

Goodwill for companies acquired in the second half of 2009 and the first half of 2010 is based on the provisional accounting for the business combinations concerned and may be adjusted during the 12-month period from the acquisition date.

NOTE 8. PROVISIONS FOR CONTINGENCIES AND CHARGES

€ thousands	At January 1	Charges	Utilizations	Releases	Impact of changes in exchange rates	Impact of changes in scope of consolidation	Other movements	At period end
First-half 2010								
Provisions for losses in subsidiaries and affiliates	300							300
Restructuring provisions	1,987	4,537	(2,467)		456	2,738	(262)	6,989
Warranty provisions	20,307	2,935	(1,902)	(273)	2,499	324	51	23,941
Other	46,293	43,904	(1,687)	(901)	1,684	8,920	(30)	98,183
Total	**68,887**	**51,376**	**(6,056)**	**(1,174)**	**4,639**	**11,982**	**(241)**	**129,413**
2009								
Provisions for losses in subsidiaries and affiliates	81	300		(79)	(2)			300
Restructuring provisions	2,302	4,707	(3,821)	(1,094)	(2)		(105)	1,987
Warranty provisions	18,870	5,491	(4,568)	(384)	(69)	957	10	20,307
Other	15,467	34,368	(2,767)	(1,044)	162		108	46,293
Total	**36,720**	**44,866**	**(11,156)**	**(2,601)**	**89**	**957**	**13**	**68,887**

At June 30, 2010, other provisions for contingencies and charges mainly included €26.1 million in provisions for tax risks (unchanged from December 31, 2009) as well as a €50.7 million provision for potential fines for alleged breaches of German competition law, versus €9.2 million at December 31, 2009 (see Note 10 – Claims and litigation).

NOTE 9. NET DEBT

€ thousands	June 2010	December 2009
Oceane convertible bonds	33,928	53,107
Other long-term borrowings	306,554	282,222
Short-term borrowings	611,394	6,925
Short-term bank loans and overdrafts	43,408	21,646
Accrued interest	983	1,251
Total borrowings	**996,267**	**365,151**
Marketable securities*	0	(33,965)
Cash equivalents	(127,653)	(171,389)
Cash	(225,712)	(214,159)
Total assets	**(353,365)**	**(419,513)**
Cross currency swaps	(4,865)	(38,422)
Total cross currency swaps	**(4,865)**	**(38,422)**
Net debt	**638,037**	**(92,784)**

* Marketable securities not qualifying as cash equivalents that the Company considers as eligible for inclusion in the calculation of net debt.

Short-term borrowings increased by around €600 million in first-half 2010, and at the period-end comprised €65 million worth of commercial paper issued in June 2010 as well as drawdowns on confirmed credit facilities representing an aggregate amount of €1,700 million. The funds concerned were mainly used in connection with the acquisitions of FGX and Signet (see Note 2 – Exchange rates and scope of consolidation).

<u>Oceane convertible bonds</u>

At June 30, 2010, a total of 626,218 Oceanes were outstanding.

The Company had received conversion applications for 533,156 bonds prior to their maturity date of July 2, 2010. These bonds were exchanged for 1,066,312 treasury shares, reflecting the fact that following the July 16, 2007 two-for-one stock split, the exchange ratio for Essilor's Oceanes was amended to one bond for two new shares with a par value of €0.18.

The 93,062 Oceanes still outstanding at July 2, 2010 were redeemed at their nominal value of €53.54, representing an aggregate amount of €4,982,539.

NOTE 10. CLAIMS AND LITIGATION

The accounting treatment applied by Essilor for provisions for contingencies is described in section 20.3.1.5 of the 2009 registration document, in Note 1.32. In addition, an analysis of other income and expenses from operations as well as movements in provisions is provided in Notes 4 and 8 respectively to these interim consolidated financial statements.

<u>Germany</u>

In late 2008, Germany's competition authorities, the "Bundeskartellamt" ("BKA"), launched an investigation into possible breaches of German competition law by major players in the ophthalmic optics market, including two of Essilor's subsidiaries – Essilor GmbH and Rupp & Hubrach Optik GmbH. On June 10, 2010 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 are contesting both the grounds for the BKA's conclusions and the amount of the fine which they deem to be disproportionate. Two appeals were therefore lodged against the BKA's decisions on June 15 and 16, 2010. None of the fines will be paid while these appeals are pending and the Company is not currently in a position to forecast their outcome or timetable with any certainty.

Essilor recorded €9.2 million in provisions for this investigation in its consolidated financial statements for the year ended December 31, 2009. This amount was based on the situation at that date and the fact that the Company had not been notified of any fines. Following the notifications received from the BKA, the Company has decided to increase these provisions to €50.7 million. Consequently, an additional €41.5 million has been booked under "Other expenses from operations" in the interim consolidated financial statements at June 30, 2010.

<u>United States and Canada</u>

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

The Company has not recorded any provisions for these motions at this stage. In early August 2010 it was decided that the class action motions would be consolidated and heard by a US federal court, but no proceedings have commenced and no information is available yet on the quantum of the damages claimed. The procedures to rule whether the claims lodged are admissible will begin in the second half of 2010.

<u>Other disputes</u>

To the best of the Company's knowledge, apart from the cases described above there are no governmental, legal or arbitration proceedings which may have, or have had in the recent past, a significant effect on the financial position, results of operations, profitability, business or assets and liabilities of the Company or the Group.

NOTE 11. OFF-BALANCE SHEET COMMITMENTS

There were no material changes in the amount or nature of off-balance sheet commitments during first-half 2010 compared with December 31, 2009.

NOTE 12. ESSILOR INTERNATIONAL FINANCIAL STATEMENTS

€ millions	**First-half 2010 (6 months)**	**Full-year 2009 (12 months)**	**First-half 2009 (6 months)**
Revenue	357	670	341
Net profit	163	215	141

NOTE 13. SUBSEQUENT EVENTS

- **Sale of Sperian Protection**

On August 9, 2010, Essilor sold its long-standing 15% interest in Sperian Protection to the Honeywell group. The carrying amount of this interest, corresponding to around €105 million, was recorded under “Non-current assets held for sale” in the consolidated balance sheet at June 30, 2010. The net realizable value of the shares concerned is estimated to represent around €132 million.

Essilor’s share of Sperian Protection’s profits was recorded under “Share of profit of associates” in the first-half 2010 consolidated income statement.

Statement by the Person Responsible for the 2010 Interim Financial Report

I declare that, to the best of my knowledge, (i) the financial statements for the first six months of 2008 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of Essilor International and the consolidated companies, and (ii) the accompanying interim management report includes a fair review of significant events of the past six months, their impact on the interim financial statements and the main related party transactions for the period, as well as a description of the main risks and uncertainties in the second half of the year.

Charenton-le-Pont, France, August 27, 2010

Hubert Sagnières
Chief Executive Officer

STATUTORY AUDITORS' REVIEW REPORT ON THE 2010 HALF-YEAR FINANCIAL INFORMATION

To the Shareholders,

This is a free translation into English of the Statutory Auditors' review report issued in French 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.

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements 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 six months ended June 30, 2010 ;
- the verification of the information contained in the half-year management report.

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

1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently 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 accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

We draw your attention to:

- Notes 8 and 10 to the condensed half-year consolidated financial statements, which describe changes in outstanding claims and litigation and the related provisions since January 1, 2010.

- Note 1 "Accounting Policies" to the condensed half-year consolidated financial statements, which describes the changes in accounting methods resulting from the application, from January 1, 2010, of IFRS 3 (revised) "Business Combinations" and IAS 27 (revised) "Consolidated and Separate Financial Statements".

2. Specific verification

We have also verified the information given in the half-year management report on the condensed half-year consolidated financial statements subject to our review.

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

Neuilly-sur-Seine and Courbevoie, August 26, 2010

The Statutory Auditors

P R I C E W A T E R H O U S E C O O P E R S A U D I T	Christine BOUVRY
M A Z A R S	Pierre SARDET