2006 Registration Document

Documents incorporated by reference

In accordance with European Commission regulation 809/2004/EC (Article 28), the following information is incorporated by reference in this Registration Document:

• The management review, consolidated financial statements and Auditors' report on the consolidated financial statements for the year ended December 31, 2004, presented on pages 25 to 35 and 44 to 78 of the 2004 Registration Document filed with the AMF on April 19, 2005 under no. D.05-0479.

• The management review for the year ended December 31, 2005, the main contents of which are inserted in the different sections of the 2005 Registration Document, the consolidated financial statements and Auditors' report on the consolidated financial statements for the year ended December 31, 2005, presented on pages 85 to 151 and 184 to 185 of the 2005 Registration Document filed with the AMF on April 12, 2006 under no. D.06-0254.

The 2004 and 2005 Registration Documents can be downloaded from the Group's website, www.essilor.com.

Disclaimer

Translation

The English language version of this annual report is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate representation of the original. However in all matters of interpretation of information, views or opinion expressed therein the original language version of the document in French takes precedence over the translation.

Company name

The Company's name is Essilor International (Compagnie Générale d'Optique) (hereinafter referred to as "Essilor International" or "the Company").

Reporting period

Unless otherwise specified, the information contained in this Registration Document and its appendices concerns the fiscal year ended December 31, 2006.

Market information

Unless otherwise specified:

• Information concerning market shares and positions is based on volumes sold.

• Marketing information concerning the ophthalmic optics market and industry, and Essilor's market share and positions is based on internal assessments and studies incorporating external market data where appropriate.

Trademarks

Airwear®, Alizé®, Crizal®, Crizal® Alizé®, Crizal® Alizé® AST™, Crizal® Alizé® avec AST™, Crizal A2™, Definity®, Dual Add®, Ellipse®, Essilor®, Essilor® Anti-Fatigue™, Interview®, Ipseo®, i-technology™, Kappa™, Linéis™, OpenView®, Orma®, Panamic®, Physiotints®, Silver Shadow Clean Touch™, Stylis®, Tess™, Twin Rx Technology™, Varilux®, Varilux Comfort®, Varilux Computer™, Varilux Liberty™, Varilux Physio®, Varilux® Polarizing, Varilux Road Pilot™, Vision Haute Résolution™ and Xelios® are trademarks filed or registered in the name of Essilor International.

Accolade™ is a registered trademark of Essilor of America.

Anateo™ is a registered trademark of BBGR.

Sports Sol-utions™ is a registered trademark of BNL.

Nikon® and Presio® are registered trademarks of Nikon Corporation. The Nikon® Seeproud™ trademark is owned by Nikon Corporation.

Transitions® is a registered trademark of Transitions Optical Inc.

2006 Registration Document

Filing information:

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

The French version of this Registration Document was filed with the French securities regulator (Autorité des Marchés Financiers) on March 28, 2007 under no. D.07-0237, in accordance with article 212-13 of the Autorité des Marchés Financiers' règlement général. It may not be used in connection with a financial transaction unless it is accompanied by an information memorandum approved by the Autorité des Marchés Financiers.

Contents

Based on Appendix I of European Commission regulation 809/2004/EC

1 Persons Responsible

1.1. Persons responsible for the Registration Document

Xavier Fontanet, Chairman and Chief Executive Officer, is the person responsible for the information given in the Registration Document.

1.2. Declaration by the persons responsible for the Registration Document

I declare, having taken all reasonable care to ensure that such is the case, that the information contained in this Registration Document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I obtained a statement from the Auditors at the end of their engagement affirming that they had examined the information about the financial position and accounts contained in the Registration Document and read said document in its entirety.

Charenton, March 28, 2007

Xavier Fontanet

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Statutory Auditors

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2.1. Names and addresses of the Company's auditors for the period covered by the historical financial information

Auditors

Statutory Auditors

PricewaterhouseCoopers Audit

Crystal Park
63, rue de Villiers
92200 Neuilly-sur-Seine

First appointed: June 14, 1983

(Befec Mulquin et Associés merged with Price Waterhouse and was renamed Befec-Pricewaterhouse in 1995, and subsequently merged with Coopers & Lybrand to become PricewaterhouseCoopers Audit in 2002).

Re-appointed by the Annual Shareholders' Meeting on May 3, 2001 for six years.

PricewaterhouseCoopers Audit is represented by Jacques Denizeau (registered member of the Compagnie Régionale de Versailles)

The alternate auditor for PricewaterhouseCoopers Audit is Étienne Boris (registered member of the Compagnie Régionale de Versailles).

Cabinet Dauge & Associés

22, avenue de la Grande-Armée
75017 Paris

First appointed: May 3, 2001.

Appointed by the Annual Shareholders' Meeting on May 3, 2001 for six years.

Cabinet Dauge & Associés is represented by Gérard Dauge (registered member of the Compagnie Régionale de Paris).

The alternate auditor for Cabinet Dauge & Associés is Jean-Pierre Guénard (registered member of the Compagnie Régionale de Paris).

2.2. Information about auditors who resigned, were removed or not re-appointed

No auditors resigned or were removed in 2006 and none of the auditors' appointments expired during the year.

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Selected Financial Information

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3.1. Selected historical financial information

Main consolidated financial information

€ millions, excluding share data	2006	2005	2004 [a]
CONSOLIDATED INCOME STATEMENT			
Revenue	2,690	2,424	2,203
Contribution from operations [b]	482	420	357
Operating profit	460	394	339
Profit attributable to equity holders of Essilor International	328	287	244
Basic earnings per ordinary share, in €	3.21	2.82	2.41
Diluted earnings per ordinary share, in €	3.11	2.72	2.32
CONSOLIDATED BALANCE SHEET			
Share capital	36	36	36
Equity attributable to equity holders of Essilor International	1,895	1,681	1,341
Net debt	(210)	(54)	(37)
TOTAL ASSETS	3,124	3,026	2,603

[a] Excluding IAS 32 and IAS 39, applied as from January 1, 2005.
[b] Operating profit before share-based payments, restructuring costs and other non-recurring items, and goodwill impairment.

Essilor turned in an excellent sales and earnings performance in 2006 in a generally favorable environment for the ophthalmic optical industry.

Highlights of the year included:

- The outstanding success of new products, led by the Varilux Physio mass-market progressive lens.
- Improvements in the product mix, attributable to product innovations across all market segments.
- Sustained growth worldwide, particularly in Europe and the United States which are the Company's two main markets.
- Ongoing external growth, with the acquisition during the year of 22 new companies.
- Further profitability gains, with contribution from operations rising to 17.9% of revenue and profit attributable to equity holders reaching 12.2%.

3.2. Selected financial information for interim periods

We have decided not to include financial information for interim periods in this Registration Document. The consolidated results for the six months ended June 30, 2006 were published on September 7, 2006. The first-half results press release, the consolidated balance sheet at June 30, 2006 and the consolidated income statement and cash flow statement for the six months ended at that date, and the first-half 2006 results presentation can be downloaded from the Company's website www.essilor.com in the Shareholders/Investors section.

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4 Risk Factors

4.1. Market risks

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

Risk factors are described in detail in the notes to the consolidated financial statements in Section 20.3.1.5., Note 25.

4.1.1. Liquidity risk

The Company's financing strategy is designed to ensure that borrowing needs are met at all times, in terms of both amounts and duration. This is achieved by diversifying sources of financing, through a mix of bank facilities and debt issues on the financial markets.

The July 1996 €122 billion bond issue was redeemed at maturity in July 2006. No new financing facilities were set up during the year.

At December 31, 2006, the Company had net cash of €210 million and two syndicated credit facilities, a bank loan, and convertible bonds (Oceanes) for a total of €1,703 million with an average duration of 3 1/2 years.

4.1.2. Interest rate risk

Essilor International raises financing for its own needs as well as for substantially all of the needs of subsidiaries and interest rate risks are therefore managed at corporate level.

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

At December 31, 2006, including the convertible bond (Oceane) issue, 56% of financing and drawdowns on confirmed lines of credit was at fixed rates of interest. The Company does not have any interest rate swaps.

4.1.3. Counterparty and investment risk

Available cash is invested in accordance with the two overarching principles of security and liquidity.

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The Company's cash reserves remained stable in 2006, despite the redemption of the €122 million bond issue which was offset by net cash from operating activities. For the investment of these funds, strict limits are applied in terms of investment period, counterparties and risk exposures.

4.1.4. Currency risk

Currency risks are systematically hedged using appropriate market instruments such as forward exchange contracts, spot exchange contracts, currency options and purchased collars. Intercompany transactions are billed in the local currency of the importer or exporter, to position substantially all currency risks at the level of Essilor International, the parent company. Subsidiaries exposed to material currency risks hedge these risks with Corporate Treasury, which in turn hedges the positions with its usual counterparties. The other subsidiaries' exposure, which is very limited, is monitored by Corporate Treasury. Our manufacturing units operate essentially in US dollars; this means that the bulk of intercompany transactions are billed in the US currency, helping to reduce net positions. Up to now, it has been Company policy not to hedge certain local risks, primarily the risk of a fall in the dollar against the currencies of certain Asian countries (other than Japan) where the Company has manufacturing operations. However, these risks are now gradually being hedged.

Currency market transactions are entered into solely to hedge risks arising on business operations. The Company does not carry out any currency trading transactions without any underlying.

4.2. Legal risks (material claims and litigation, proceedings, arbitration)

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

The accounting methods used to calculate provisions for contingencies are explained in the notes to the consolidated financial statements (see Section 20.3.1.5., Note 1.32).

4.3. Industrial and environmental risks

4.3.1. Industrial risks

See Section 6 for an overview of the Company's business.

To the best of the Company's knowledge, the nature of our business does not present any particular risk.

4.3.2. Environmental risks

Environmental management systems have been established and are being maintained at our upstream production facilities. A program is currently underway to have these systems audited with a view to obtaining ISO 14001 certification site-by-site.

These systems help to minimize the environmental impact of our operations and prevent incidents, while also forming the basis for developing action plans based on environmental performance improvement targets.

The starting point in each case is a detailed environmental analysis to identify and qualify the related risks.

Refer to Section 8.2. for information on environmental risks.

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4.4. Insurance

The Company has high-level risk prevention programs and follows a risk prevention and protection strategy designed to drive constant improvement in behaviors, procedures and equipment.

Our plants throughout the world are audited by our insurers who issue reports detailing the levels of insurance cover required at each site and, where applicable, recommending measures to reduce insurance risks. Our insurers' engineering departments are consulted about all construction projects and other major work, concerning both the design and protection aspects. The projects are reviewed and adjusted to take into account both the needs of the business and the prevention targets set jointly with our insurers. Physical assets are regularly valued by independent experts.

The growing geographical diversification of our operations helps to limit the potential impact of a major loss at a given site on our Company's financial position.

In view of the nature of our business, we are not exposed to any specific insurance risks.

Insurance cover is provided mainly by our worldwide insurance programs negotiated at corporate level. The programs comprise a master policy drawn up in France and local policies in other countries, which together provide the same level of cover for all of our controlled subsidiaries throughout the world.

They are placed with leading insurers that have no ties with our Company.

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

The programs cover property and casualty risks (fire, explosion, machine damage, natural disasters), consequential business interruption (loss of gross margin due to the halting of production following an accident), losses due to the interdependence of the various sites, liability claims (operating, after-sales, professional, environmental) and transportation risks (covering all movements of goods).

Under the laws of certain countries, insurance cover must be taken out with local insurers, in which case the guarantees may be different from those provided under the worldwide insurance programs.

The worldwide master policy covers any excess loss not covered by a local policy.

Essilor does not have any captive insurance company and minority shareholders manage their insurance needs independently.

All policies have low deductibles and transfer substantially all of the risk to the insurance market.

No major insurance claims were reported in 2006 and no Essilor companies are involved in any significant litigation.

To determine the required level of cover, we estimated the extent of our exposure to major risks, after taking into account the mitigating effects of internal controls and preventive and protective measures.

Based on the results of this analysis, in 2006 our maximum insurance cover was kept at €150 million for property and casualty risks and business interruption, and at €1.5 million for transportation risks.

The total cost of our worldwide insurance programs was reduced to €2.8 million in 2006, reflecting the lower premiums negotiated by the Company, particularly for property & casualty, business interruption and liability cover, despite an increase in insured values.

The aims of the insurance policy are to protect the Company's assets and its shareholders, as well as to defend the interests of employees and customers.

5 Information About the Company

5.1. History and development of the Company

5.1.1. Legal and commercial name of the Company

The Company's name is Essilor International (Compagnie Générale d'Optique), hereinafter referred to as "Essilor International" or "the Company".

5.1.2. Place of registration and registration number

Essilor International is registered with the Créteil Trade and Companies Registry under no.712 049 618.

The APE business identifier codes are 334 A (Essilor) and 741 J (Headquarters).

5.1.3. Date of incorporation and length of life of the Company

Essilor International was incorporated on October 6, 1971 for a 99-year term expiring on October 6, 2070.

5.1.4. Domicile, legal form, legislation, corporate purpose and accounting period

Domicile

Headquarters: 147, rue de Paris - 94220 Charenton-le-Pont, France.

The telephone number for Company headquarters is + 33 (0)1 49 77 42 24.

The telephone number for the Investor Relations Department is + 33 (0)1 49 77 42 16.

Legal form and legislation

Essilor International is a French joint stock company *(société anonyme)* with a Board of Directors. It is governed by French law, including the Commercial Code *(Code de commerce, livre II)* and Decree no.67-236 of March 23, 1967.

Corporate purpose (Article 2 of the Bylaws)

Essilor International's corporate purpose, in any and all countries, is to:

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

More generally, the Company may perform any financial, commercial or industrial transactions or any transactions involving either real estate or securities directly or indirectly related to the above-mentioned purposes or any similar or related purposes, or that would facilitate their extension or development or make them more profitable.

It may perform such transactions for itself, on behalf of third parties or through any and all forms of participation, including creating new companies, acquiring shares in existing companies, forming partnerships, merging companies, advancing funds, purchasing or selling securities and rights to equity instruments, selling or leasing out of all or part of its real estate, securities or related rights, or otherwise.

Accounting period

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

5.1.5. Important events in the development of the Company's business

Company history

5.1.5.1. Merger of two companies at the forefront of innovation, to create Essilor

The first was Société des Lunetiers (Essel) was an eyewear manufacturer that traced its origins to the Association Fraternelle des Ouvriers Lunetiers, a workers' cooperative created in 1849. In 1953, Essel invented and patented the first progressive lens, which it called Varilux. The lens was introduced in the market in 1959. With its origins as a workers' cooperative (Association Fraternelle des Ouvriers Eyewear Lunetiers), Essel had a strong employee share ownership culture which remains a key feature of Essilor's corporate culture to this day.

The second was Société Industrielle de Lunetterie et d'Optique Rationnelle (Silor) whose founder, Georges Lissac, invented the first plastic lens, marketed under the Orma brand.

The two companies merged in 1972 to form Essilor.

5.1.5.2. A period of rapid international expansion

Essilor was already present in the export market in the 1970s. Essel's products were sold in Japan and Silor had begun making inroads into the US market. A distribution network was gradually built up, first in Europe and the United States and then in Asia.

In the 1980s, Essilor became an international player and began transferring part of its stock lens production to emerging countries. The process was kicked off in 1979 with the opening of the first plastic lens plant in the Philippines. Geographical diversification of the industrial base was supported by a similar expansion of local distribution capabilities, through either acquisition of the local distributor, as in Australia and the Netherlands, or the creation of new subsidiaries, as in Japan and Canada.

5.1.5.3. Essilor becomes no.1 worldwide

STRATEGIC REFOCUSING ON THE CORE BUSINESS

While expanding its international reach, Essilor also refocused on its core corrective lens business, selling its contact lens business in 2001.

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GLOBALIZATION

In the early 1990s, the ophthalmic optical market was reshaped by a wave of mergers and acquisitions, leading to heightened competition. In this environment, Essilor – by then the world's leading ophthalmic optics company – focused on strengthening its positions through a global expansion strategy. Until the mid-1990s, Europe accounted for the bulk of the Company's sales.

In 1995, it acquired Gentex Optics, one of the leading US manufacturers of polycarbonate lenses.

This was followed by a number of other international expansion initiatives, designed to provide better service to customers, establish the Company's corrective lenses in all markets throughout the world and optimize manufacturing operations.

The pace of acquisitions slowed between 2000 and 2001, due to the higher level of debt generated by share buybacks in connection with Saint-Gobain's disposal of its interest in Essilor, but since then the Company has continued to expand rapidly in international markets (see table below).

This strategy has enabled Essilor to consolidate and expand its positions in North America (led by a large-scale program of prescription laboratory acquisitions), Latin America, Europe and Asia, while at the same time affirming its leadership in fast-growing Asian markets, particularly China and India. It has also created opportunities for the Company to bring new technologies and distribution networks on board, and also to expand the product offer in all regions of the world. In 2006, 43% of revenue was generated in North America and 12% in the Asia-Pacific region and Latin America.

A sustained globalization strategy

Year	Europe	North America	Latin America	Asia-Pacific
2002	• Prescription lens laboratory opened in Poland.	• Three laboratories acquired in the United States from the CSC Group; Aries Optical Ltd acquired in Canada.	• Subsidiary created in Mexico following the purchase of a local laboratory.	
2003	• In Germany, Essilor subsidiary BBGR acquires Rupp und Hubrach, ranked 5th in the market. • Sunlens business expanded, with the acquisition of France's BNL.	• Sunlens business further expanded, with the acquisition of US-based Specialty Lens Corp., specialized in polarized (light filtering) lenses. • Nassau Lens Company, Omni Optical Lab and Optical Suppliers, Inc. acquired. • Five laboratories acquired in Canada: Morrison Optical, Custom Surface, Optique de l'Estrie, OPSG and Metro Optical Ltd.		• In India, Essilor acquires Vision Express, located near Chennai (Madras).
2004	• In Italy, Essilor acquires LTL, strengthening its position in finished lens distribution and contributing to its multiple network strategy. • Delamare-Sovra acquired in France.	• In the United States, Essilor acquires controlling interests of 80% or 100% in six prescription lens laboratories: 21st Century Optics, Tri Supreme, Select Optical, Opal-Lite, Dunlaw Optical Laboratories, Inc. and Spectrum Optical, Inc. • In Canada, Nikon-Essilor Canada acquires Optic Lison and a 50% interest in Tech Cite, both prescription lens laboratories.		• In Australia, Essilor acquires 50% of City Optical, a prescription lens laboratory. • In India, a controlling interest is acquired in Vijay Vision Private Ltd, a prescription lens laboratory in Mumbai.

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Year	Europe	North America	Latin America	Asia-Pacific

2005	• Downstream integration is strengthened with the acquisition of the assets and business of the Company's exclusive distributor in the West Indies, OMI, and the acquistion of ATR Mec Optical, Italian distributor for Essilor subsidiary BBGR.
	• Essilor acquires a stake in Madrid-based AVS, active in the low vision (severe visual deficiency) market.
		• Essilor strengthens its high value-added product offering in the United States with a series of acquisitions:
		  • 7 prescription laboratories, most of which distribute Varilux lenses, such as Missouri-based Midland Optical.
		  • The Spectable Lens Group (TSLG), Johnson & Johnson Vision Care Inc.'s ophthalmic lens division, including Dual Add technology which supports Essilor's research into progressive lens surfacing techniques.
		• In Canada, GVO and Hakim Optical's Coating Lab Enterprises, two prescription lens laboratories, and Optical Software Inc., a supplier of prescription laboratory management software, strengthening Essilor's service and information systems offer.
		• US-based National Optronics, giving Essilor access to new instruments technology.
				• Essilor expands its network of prescription lens laboratories in India, with the acquisition of Mumbai-based Delta Lens Private Limited.
				• Essilor acquires a stake in Polylite, Taiwan's second largest corrective lens company, and signs an agreement for the creation of a joint venture to support the Company's expansion in Taiwan, Hong Kong and China.

2006	• Essilor acquires Varirom, its local distributor in Romania.	• Twelve new prescription lens laboratories are acquired in the United States, including Florida-based Future Optics Inc., Homer Optical Company, Inc., the 12th largest independent laboratory in the US [a], and Arizona-based Aspen Optical. • In Canada, Essilor acquires a stake in SDL, an independent laboratory based in Quebec. • Essilor expands its service and information systems business with the acquisition of US-based Vision Star LLS.	• Anti-reflective lens center opened in Argentina.	• In India, Essilor acquires a 50% interest in GKB Rx Lens Private Limited, based in Kolkata (Calcutta), which has played a leading role in developing the country's ophthalmic lens industry. The link-up has enabled Essilor to expand its presence in India and bolster its multi-network strategy. • Essilor acquires Prolab and increases its stake in Olab, two New Zealand-based prescription laboratories, and acquires Australia-based Tec Optik Pty Ltd.

[a] Source: Vision Monday, November 21, 2005 issue.

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STRATEGIC PARTNERSHIPS

All the partnerships set up since the 1990s have represented innovative solutions allowing us to expand our international positions, distribution networks, product offerings and technology portfolios.

- In 1990, we entered into a partnership with US-based PPG Industries to develop Transitions variable-tint plastic lenses.
- Growth in Asia has been supported by several strategic partnerships:
  - The first, in 1999, with Japan's Nikon Corp., led to the formation of Nikon-Essilor Co. Ltd.

    This new joint venture combined Essilor's business interests in Japan, including Japanese marketing rights for the Varilux brand, with all of Nikon's ophthalmic optical assets, including worldwide marketing rights for Nikon-brand products in this segment.
  - In 2002, we teamed up with South Korean group Samyung Trading Co. Ltd to form a joint venture, Essilor Korea Ltd, which has subsidiaries in South Korea and China.
  - In 2006, we established a partnership with India's GKB Rx Lens.

INNOVATION STRATEGY

Alongside our international growth strategy, we have been pursuing a strategy of innovation to develop high value added products and maintain our technological lead, in response to demand in mature markets.

Each year sees innovations in:

- Coatings, led by the Crizal brand (with the latest generation products launched in 2006 and 2007).
- Materials, with the 1999 launch of the Airwear polycarbonate lens.
- Design.

We use technologies developed by other industries to constantly improve our products' properties.

In 2006, we unveiled Varilux Physio combining:

- The wavefront management system, a revolutionary method for calculating lens optics (design), and
- A high-precision production technique called advanced digital surfacing.

Early 2007 saw the launch of a new progressive lens, Antaeo/ Accolade, which optimizes vision quality based on the eye's anatomy and, in some cases, the shape of the frame.

Taken together, our technological and marketing innovations, multiple network distribution strategy, partnerships and acquisitions ensure that we meet demand in all segments of the ophthalmic optics market throughout the world.

5.2. Investments

5.2.1. Principal investments

Investments

€ millions	2006	2005	2004
Capital expenditure net of the proceeds from asset sales	191.9	173.8	145.8
Accumulated depreciation	132.2	120.8	111.7
Gross financial investments	81.3 [a]	175.8	115.4
Cash flow [b]	449.0	388.9	394.5

[a] Financial investments net of divestments in 2006: €70.8 million.

[b] Cash provided by operations less change in working capital requirement and provisions.

Details of investments by geographical segment are provided in the notes to the consolidated financial statements (Section 20.3.1.5., Note 3).

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Capital expenditure

Capital expenditure net of the proceeds from asset sales totaled €191.9 million or 7.1% of consolidated revenue in 2006 compared to €173,8 million in 2005 and €145.8 million in 2004.

Of this, Europe accounted for €69 million, North America €64 million, and the rest of the world €59 million. Spending broke down as follows:

- Around 30% was devoted to series production to increase plant capacity, notably in Mexico and Thailand for medium and high-index lenses.
- Around 65% was used to equip prescription laboratories, most of this for digitally controlled anti-reflection machines needed to deploy the digital surfacing technology used in the production of the new Varilux Physio progressive lens, launched in 2006, and Anateo, unveiled in early 2007. Expenditure in 2006 also included the cost of refitting the Dallas facility.
- The balance went to various uses in Research and Development and Instruments, as well as to the acquisition of software licenses for operational and analytical IT systems.

In the past few years, the percentage of capital expenditure devoted to prescription has steadily increased, in line with the increase in our value added and especially the development of Crizal and Crizal Alizé antireflective lenses, including the Crizal Alizé AST antireflective antistatic lens introduced in 2007.

Since the start of 2007, we have continued implementing our capital expenditure policy. Spending in the first two months came to some €28 million, including €9 million in Europe, €14.5 million in North America and €4.5 million in the rest of the world.

Financial investments

Financial investments net of divestments amounted to €70.8 million in 2006 (reflecting gross investments of €81.3 million versus €175.8 million in 2005 and €115.4 million in 2004. Acquisitions of majority and minority stakes accounted for €59.7 million, while a net €11.1 million was spent on the early-2006 redemption of 780,000 convertible bonds less the proceeds from sales of shares on exercise of stock options.

In the initial months of 2007, we acquired 3 laboratories or laboratory groups in the United States and a majority stake in France's Novacel Group, for a total of about €70 million.

Details of these acquisitions can be found in Section 12.3. – Subsequent Events. The new companies acquired represent some €50 million in full-year revenue.

5.2.2. Principal outstanding investments

Capital expenditure commitments payable represented approximately €87 million at December 31, 2006, corresponding mainly to outstanding orders for equipment. This amount broke down as follows: €36 million in Europe, €32 million in North America and €19 million for the rest of the world. At February 28, 2007, principal outstanding investments came to €85 million.

5.2.3. Principal future investments

In 2007, we will continue to invest in production equipment and prescription lenses. In particular, we plan to acquire additional prescription lens capacity in Asia. The information systems upgrade in Europe launched in 2006 will also be pursued.

In the area of financial investments, we will continue pursuing a very active acquisition strategy.

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Business Overview

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6.1. Principal activities

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6.1.1. Operations and activities

6.1.1.1. Activities

CORRECTIVE LENSES

Essilor, the world's leading ophthalmic optics company, designs, manufactures and customizes corrective lenses adapted to each person's unique vision requirements.

Through its broad range of lenses, it provides solutions for correcting myopia, hypermetropia, astigmatism and presbyopia to enable people to regain perfect vision.

We do business in every category of lenses with globally recognized brands:

- In progressive lenses, with the Varilux range (Varilux Physio, Varilux Ipseo, Varilux Panamic, Varilux Comfort, Varilux Ellipse, etc.).
- In anti-reflective lenses, with Crizal, Crizal Alizé anti-reflective, smudge-proof lenses, and the new Crizal AST anti-reflective, smudge-proof, antistatic lenses.
- In polycarbonate lenses, with Airwear.
- In variable-tint lenses, with the Nikon and Transitions brands used under the agreements with Nikon Corporation and Transitions Optical Inc.
- In 1.67 and 1.74 high-index lenses, with Stylis and Linéis.

INSTRUMENTS

Essilor is also the world leader in lens edging instruments for opticians and prescription laboratories, and in vision screening instruments for eyecare professionals, schools, occupational medicine centers, the army and other institutions responsible for performing medical check-ups.

ESSILOR'S POSITION IN THE OPTICAL MARKETS

Essilor focuses on the ophthalmic lens market, which currently accounts for nearly 95% of revenue.

€ millions	2006	2005
Corrective lenses and lens-related products	2,526.6	2,281.7
Instruments [a] [b] and other products	163.4	142.6
TOTAL	2,690.0	2,424.3

[a] Lens preparation instruments.
[b] Including major contributions from acquisitions in 2005.

6.1.1.2. Organization of the ophthalmic lens industry

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

<table>
<tr><td>RAW MATERIALS SUPPLIERS</td><td colspan="3">Chimistes et verriers</td></tr>
<tr><td>LENS MANUFACTURERS</td><td rowspan="2">FManufacturers with integrated laboratory operations:
Essilor, Hoya, Carl Zeiss Vision</td><td colspan="2">Fabricants non intégrés</td></tr>
<tr><td>LENS FINISHERS</td><td>Independent laboratories</td><td rowspan="2">Optical chains with integrated laboratories
Lenscrafters,
Wal-Mart, etc.</td></tr>
<tr><td>RETAILERS</td><td colspan="2">Independent opticians
Non-integrated optical chains</td></tr>
<tr><td>END CUSTOMERS</td><td colspan="3">Consumers</td></tr>
</table>

CHEMICAL COMPANIES AND GLASS MANUFACTURERS

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

LENS MANUFACTURERS

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

PRESCRIPTION LENS LABORATORIES

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

RETAILERS AND OPTICAL CHAINS

Lenses are marketed through a number of channels, including independent opticians and optometrists, cooperatives, central purchasing agencies and retail optical chains.

These eyecare professionals advise customers on the choice of lenses, based on the prescription, as well as the choice of frames. They forward the prescription data to a laboratory, which supplies round lenses that can be edged, mounted and adjusted to the frame.

The interaction among these players differs from one country to another.

In the United States and the United Kingdom, for example, laboratories usually fully mount the lenses and frames and deliver ready-to-wear eyeglasses to the optician.

In countries such as France and Germany, laboratories deliver round lenses to opticians, who then adjust them to fit the frame.

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6.1.1.3. A global organization

Essilor has a worldwide network of plants and prescription laboratories.

6.1.1.3.1. PRODUCTION PLANTS

In 2006, Essilor's 16 manufacturing plants around the globe produced 215 million finished and semi-finished lenses, corresponding to 300,000 different references.

The role of the plants is to guarantee constant supplies of finished and semi-finished lenses to subsidiaries and direct customers, in accordance with customer specifications, with the best service level and at the lowest cost.

Plant locations and date established (data as at December 31, 2006)

North and South America	Europe	Asia-Pacific
UNITED STATES	IRELAND	PHILIPPINES
• Carbondale, Pennsylvanie - 1995	• Ennis - 1991	• Marivelès - 1980
• Dudley, Massachusetts - 1995	• Limerick - 1974	• Laguna - 1999
MEXICO	FRANCE	THAILAND
• Chihuahua - 1985	• Dijon - 1972	• Bangkok - 1990
PORTO RICO	• Ligny en Barrois (Les Battants) - 1959	CHINA
• Ponce - 1986	• Sézanne - 1974	• Shanghai - 1997
BRAZIL		INDIA
• Manaus - 1989		• Bangalore - 1998
		JAPAN
		• Nikon-Essilor plant in Nasu - 2000

As of December 31, 2006, the Company had a total of 16 plants worldwide. The table does not include:

- The two plants in China and South Korea owned by Chemiglas, which is a subsidiary of Essilor Korea, a 50/50 joint venture set up between Essilor and Samyung Trading Co. Ltd.
- The production units of BNL in France and Specialty Lens Corp. in the United States, which were both acquired in 2003.

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6.1.1.3.2. PRESCRIPTION LENS LABORATORIES

Prescription lens laboratories transform semi-finished lenses into custom-made finished lenses.

At year-end 2006, the 244 prescription laboratories in the Essilor and Nikon-Essilor network broke down as follows by location:

United States	Canada	Europe	Asia-Pacific	Latin America
107	38	42	50	7

6.1.1.3.3. LOGISTICS CENTERS

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

6.1.1.4. 2006 business activity

The following has been extracted from Management's Discussion and Analysis dated March 7, 2007.

6.1.1.4.1. CONSOLIDATED REVENUE

Revenue growth in 2006	Reported	Like-for-like	Changes in scope of consolidation	Currency effect
€ millions	265.6	196.3	77.6	-8.3
In %	+11%	+8.1%	+3.2%	-0.3%

Consolidated revenue increased 11% in 2006 to €2,690 million.

- Like-for-like growth came to 8.1%, significantly outstripping the trend rate of 5 to 6%.
- Companies acquired or consolidated in 2005 and 2006 accounted for 3.3% of the growth (see Section 6.1.1.4.6. – 2006 acquisitions).
- The currency effect (-0.3%) was positive in the early part of the year but became negative with the fall in the US and Canadian dollars and the Japanese yen against the euro.

Refer to Section 6.2. for more information on 2006 revenue by market.

6.1.1.4.2. RESEARCH AND DEVELOPMENT

Additional information regarding research and development can be found in Section 11 – Research and Development, Patents and Licenses.

6.1.1.4.3. PRODUCTION AND CAPITAL EXPENDITURE

Production plants supply subsidiaries and customers with finished and semi-finished ophthalmic lenses that meet required quality specifications.

In 2006, the Company manufactured a total of 215 million lenses, up from 195 million the previous year. Glass lens production continued to decline, offset by higher medium and high-index plastic lens and polycarbonate lens production. Most production is carried out in Asia, particularly the Philippines for 1.5-index lenses, and Thailand and China for polycarbonate lenses. Volume growth went hand-in-hand with productivity gains.

During 2006, we continued to invest heavily in expanding capacity and raising productivity. Capital projects in Asia included the acquisition of anti-reflective mount coating equipment, the ramp-up of finished carbonate lens production at the Chinese plant, and capacity expansion projects at the plants in Mexico and Thailand to prepare for the production of the new 1.6-index lens. In addition, a prescription lens surfacing platform was set up in Thailand during the first quarter. In Europe, the Irish plant improved its performance in 1.67-index lens production.

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6.1.1.4.4. GLOBAL PRESCRIPTION LENS PRODUCTION AND FINISHING

HIGH-TECH LABORATORIES

A vital link in the production chain, our 244 prescription laboratories transform semi-finished and finished lenses to order, with the ability to create several billion combinations of ophthalmic lenses. Based on orders received from independent opticians and optical chains, they edge and polish semi-finished lenses, apply coatings and then shape the lenses to fit the frame (and in some cases, mount the lenses). The total number of orders processed by our laboratories during a given year represents one order per second.

During 2006, we continued to deepen our global coverage by acquiring 31 prescription laboratories around the world. These acquisitions enable us to provide a more local service to opticians while also enhancing our customer service quality. The period from 2001 to 2006 saw a 50% increase in the number of laboratories, with the biggest rises in North America and Asia where we have expanded our market share.

Our new global engineering organization set up three years ago around the largest laboratories, combined with moves to standardize lens finishing processes, have helped to increase the pace of product launches – with Varilux Physio representing the first example – while bringing down lens production costs and reducing the time required to fill orders. At the same time, several of our prescription laboratories in the United States and Europe have begun installing the new Crizal Alizé AST antistatic coating technology.

DIGITAL SURFACING RAMP-UP

Our use of digital surfacing technology took off in 2006, with the launch of Varilux Physio. Digital surfacing is a new prescription lens technology offering unrivalled lens shaping precision that allows the laboratories to create an indefinite range of optical combinations. Initially developed for the Varilux Ipseo lens, we have poured considerable human and financial resources into leveraging the technology's potential and rolling it out to the entire Company. It is now used by 17 laboratories to produce six different progressive lens ranges. We are currently the world leader in digital surfacing, based on the number of lenses produced using this technology.

6.1.1.4.5. ADVANCED LOGISTICS FOR OPTIMAL SERVICE QUALITY

Our logistics organization had a very successful year in 2006, which was shaped by a large number of product launches.

All performance indicators remained on green throughout the year, attesting to the efficiency of the supply chain and the high service levels achieved during the year, while inventories and logistics costs rose at a slower rate than consolidated revenue.

This performance reflects the professionalism of our global logistics teams, who manage some 300,000 product references – more than any other ophthalmic optics logistics organization – as well as handling product flows from our plants and prescription laboratories.

In March 2006, a catalog rationalization plan was launched to limit the annual growth in product references to less than 10%.

In the United States, the transfer of logistics operations from Florida to Texas went very smoothly, without any delays in prescription laboratory deliveries being reported.

6.1.1.4.6. 2006 ACQUISITIONS

In 2006, Essilor continued to expand internationally, entering into many partnerships on several continents. The Company also further strengthened its positions in the prescription lens market and in finished lens distribution.

In all, 22 transactions were completed during the year, adding €73.9 million in annual revenue at a total cost of €54.4 million.

NORTH AMERICA

In the United States, Essilor of America acquired 12 new prescription lens laboratories, in line with its strategy of offering a high quality service to eyecare professionals and enhancing its technology base. These companies are:

- **Eye Care Express Lab Inc.,** based in Houston, Texas.
- **Accu Rx,** based in Johnston, Rhode Island.
- **Uniscoat Inc.,** based in California.
- **PerfeRx Optical Co., Inc.,** based in Massachusetts.
- **Future Optics, Inc.,** based in Largo, Florida.
- **Ozarks Optical Laboratories, Inc.,** based in Springfield, Missouri.
- **Precision Optical Laboratory, Inc.,** based in Gallaway, Tennessee.
- **Precision Optical Laboratory, Inc.,** based in Hartford, Connecticut.
- **Homer Optical Company, Inc.,** the 12th largest independent laboratory in the United States (source: Vision Monday), owner of four prescription lens laboratories located in Maryland, Pennsylvania, Virginia and New York State.
- **Sunstar,** based in Nevada and Utah.
- **Aspen Optical,** based in Mesa, Arizona.
- **Peninsula Optical Lab Inc.,** based in Seattle, Washington.

The Company also acquired the assets of **Vision Star LLC**, a developer of laboratory management software, and **Prio Corporation**, a distributor of correctional lenses for the diagnosis and treatment of Computer Vision Syndrome.

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In **Canada**, Essilor acquired a majority stake in **SDL**, an independent laboratory based in Quebec.

EUROPE

In **Romania**, Essilor acquired its local distributor, **Varirom**.

ASIA-PACIFIC

In **New Zealand,** a controlling interest was acquired in Wellington-based **Prolab** and the stake in Christchurch-based **Olab** was raised to 50%. These two companies are both prescription lens laboratories.

In **Australia**, Essilor acquired **Tec Optik Pty Ltd**, a prescription lens laboratory in Sydney, and increased its stake in **Hobart Optical** from 51% to 100%.

INDIA

Essilor India, a subsidiary of Essilor International, acquired a 50% interest in **GKB Rx Lens Private Ltd**'s prescription laboratory and lens wholesaling business, with an option to increase its stake in the future.

GKB Rx Lens Private Ltd, a family-owned company that played a leading role in developing the Indian ophthalmic lens industry, owned a network of eight prescription lens laboratories.

The partnership has enabled us to expand our presence in India and bolster our multi-network strategy. With solid positions in all of the country's leading cities, Essilor is today ranked number one in India's fast growing plastic and progressive lens market.

During the year, the Company also acquired the assets of **Delta CNC**, a laboratory based in Ahmedabad.

6.1.2. New products and/or services

New products

Sixty new products were launched in 2006, up from 50 in 2005 and 40 in 2004.

VARILUX PHYSIO, A GLOBAL SUCCESS

Introduced in the market in January 2006, Varilux Physio has been a global success with several million lenses sold worldwide. A landmark in product innovation, with the groundbreaking wavefront technology, Varilux Physio has also been a technical success, with the rollout of the underlying digital surfacing technology, and a logistical success, with record service rates and quality levels.

This is the first time in our Company's history that we have launched a major design in all materials and across all continents in the space of six months.

Thanks to wavefront technology, which detects and eliminates aberrations on progressive lens surfaces, Varilux Physio delivers a 30% improvement in visual acuity, allowing wearers to enjoy high-resolution vision. The step-up in vision quality can be likened to the advance in picture quality provided by DVDs compared to videos, while the improvement in contrast sensitivity is even greater depending on the wearer's level of astigmatism. Varilux Physio offers unmatched distance vision acuity, a wider field of intermediate vision and extended near vision. Second order problems are corrected, even on small lenses. Varilux Physio has been universally acclaimed by eyecare professionals and eyeglass wearers throughout the world, registering a satisfaction rate of over 95%. Its success has had a very positive knock-on effect on sales of the entire range of Varilux progressive lenses, allowing us to further expand our market share.

Varilux Physio was launched in the first quarter of 2006 in the United States, Canada and Europe, initially in three different materials – polycarbonate and 1.5 and 1.67 indices – with a range of ten different materials now available. In mid-2006, it was rolled out to Latin America, Asia and India. In 2007, the range will be extended to include specific versions designed to meet demand in certain European and Asian markets.

REDEPLOYMENT OF DEFINITY

Always on the look-out for innovations that improve vision quality, in 2005 we acquired the Definity progressive lens range with the acquisition of Johnson & Johnson Vision Care Inc.'s ophthalmic lens business, The Spectacle Lens Group. This new range uses the revolutionary Dual Add technology to split add power between the front and back surfaces of the lens and is designed in particular for myopics who enjoy a very active lifestyle.

In late 2005 and during 2006, production of Definity lenses was transferred to our own prescription lens laboratories, which improved the production process to guarantee the highest possible quality and service levels. At the same time, we launched Definity throughout the US distribution network and extended the range with the introduction of a version for small frames, along with a collection of polarized and anti-reflective lenses. The Definity range will be further extended in 2007, with the introduction of new materials, and distribution will be extended to other regions of the world.

NIKON SEEPROUD

Launched in the spring of 2006, Seeproud is Nikon Essilor Japan's new ultra-premium, custom-order lens that incorporates an advance on the aberration filter built into every Nikon progressive lens.

A NEW ANTISTATIC COATING FOR CRIZAL ALIZÉ LENSES

To provide the perfect response to eyeglass wearers' need for clear vision and easy-to-clean lenses, Essilor's exclusive i-technology efficiently deposits and seals a dense, even layer of anti-reflective ions across the entire lens surface. This prevents the formation of negative electrostatic charges when the lens is cleaned, because positive dust particles are repelled. Tests conducted by our Research and Development teams showed that the new coating attracted seven times less dust than a lens without an antistatic coating, and two times less than the best antistatic lens on the market.

These findings were backed up by a Sensory Analysis conducted by a representative group of users, comparing Crizal Alizé AST with the best competing lenses based on three criteria – cleanability, number of dust particles and lens transparency. The eyeglass wearers who took part in the study voted Crizal Alizé AST the most transparent lens on the market.

The new lens was launched in the United States in early 2006 under the name Crizal Alizé with Clear Guard, and in Canada under the name Crizal Alizé with AST. It was rolled out to the United Kingdom, Ireland and Switzerland (Crizal Alizé with Scotchgard [1]) in October 2006 and has been available throughout Europe since January 2007 under the Crizal A2 or Crizal Alizé AST name.

HIGH-PERFORMANCE AND HIGH-PROTECTION SUNLENSES

In the sunlens segment, 2006 was a very good year for polarizing lenses, with unit sales up 20% led by rapid growth in Europe. During the year, we prepared the early-2007 launch of our two new tinted corrective lens ranges, Sports Sol-utions, designed for users who practice several different sports, and Airwear Melanine, a sunlens tinted using melanin pigment, which is well known for its skin and eye protecting properties. By protecting the eye from blue light, the two ranges deliver enhanced contrast sensitivity and visual acuity. Lastly, January 2007 saw the US launch of Crizal Sun, a coating for polarized and tinted lenses combining the performance of a back surface anti-reflective coating with the scratch-resistant and cleanabillity properties of Crizal Alizé on both surfaces.

ANATEO/ACCOLADE, A PROGRESSIVE LENS THAT ADAPTS TO THE EYE'S ANATOMY

At the beginning of 2007, we unveiled Anateo/Accolade, our new flagship progressive lens range for BBGR in Europe and optical chains and cooperatives in the rest of the world.

Developed using biometric technology, Anateo/Accolade is the first lens to adapt to the eye's anatomy. The entire surface of the lens is customized, based on the eye's length, retinal curve and the position of its centre of rotation.

Anateo/Accolade takes customization even further, by extending the lenses' performance to a wide choice of frames and optimizing the wearer's field of vision by taking the selected frame's characteristics into account.

These innovations have been made possible by the use of two complex surfaces, on the front and back of the lens, which provide additional freedom to optimize the lens. Precision digital surfacing ensures that the polished lens strictly complies with the calculated design.

Launched in the first quarter of 2007 throughout Europe under the Anateo brand and in the United States under the Accolade brand, the lens will be rolled out to the Australian, New Zealand and Canadian markets in the second quarter, and then to the rest of the world. From the outset, it has been offered in a broad range of materials (1.5 index, polycarbonate, 1.6 and 1.67 index) and with a wide variety of coatings (anti-reflective, Transitions variable-tint, etc.).

(1) *The Scotchgard trademark is owned by 3M.*

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6.2. Principal markets

6.2.1. Sales performance by geographic market

Sales performance in the main geographic markets

Revenue € millions	2006	2005	change (reported)	change (like-for-like)
Europe	1,207.8	1,120.4	+7.8%	+6.6%
North America	1,156.7	1,025.1	+12.8%	+9.4%
Asia-Pacific	233.0	202.1	+15.3%	+8.7%
Latin America	92.4	76.7	+20.4%	+10.4%

For more information about total revenue, refer to Section 6.1.1.4.1.

Revenue by geographic area

Europe: 44.9%; North America: 43%; Asia-Pacific and other: 8.7%; Latin America: 3.4%.

Europe: a renewed growth dynamic

In last year's favorable economic environment in Europe, revenue grew 6.6% like-for-like and our market share increased, helped by the success of Varilux Physio, which was launched in early 2006.

The European market is covered in depth by the Essilor, BBGR and Nikon distribution networks, with different products and brands.

In **France**, revenue grew 5.1% in a market that was slightly up in value. The successful launch of Varilux Physio boosted sales of all progressive lens offerings and we also increased our market shares with opticians and cooperatives. Novisia (Nikon products) also had a very good year.

In **Germany**, Essilor Germany and Rupp und Hubrach (BBGR) both turned in excellent performances. Revenue expanded 9.4% in a lackluster market, led by the development of customized lenses and sunlenses for sporting activities.

In **Austria**, the market continued to be affected by the lower reimbursements for optical equipment that took effect on January 1, 2005, leading to a modest decline in revenue.

In **Southern Europe,** revenue was up 9.7%, reflecting increased market shares with independent opticians and optical chains, as well as rapid growth in Spain and Italy.

The **United Kingdom** enjoyed a return to growth, with the three networks contributing to the 6.1% increase in revenue.

In **Northern Europe,** we began to see the results of the business reorganization plan, with revenue up 8.5%. It was also a very good year in **Eastern Europe.** Revenue climbed 17.1%, led by strong performances in the Czech Republic, Hungary and Poland where we expanded our positions in all segments of these fast-growing markets.

North America: a landmark year

In North America, revenue grew by an exceptional 9.4% like-for-like, reflecting our expanding presence in this market.

United States

In a market that was slightly up in volume and value, revenue climbed 9.1% led by sharply higher volumes and a favorable shift in product mix.

Sales by the prescription lens laboratories to independent opticians/optometrists (ELoA) and to independent laboratories (IDD) rose sharply, led by the introduction of Varilux Physio and the new Crizal Alizé antistatic lens, as well as by the success of the Definity range. We strengthened our positions in both of these market segments, while also rolling out new anti-reflective technologies to the independent laboratories (machines, processes and lenses).

Sales of Nassau stock lenses to eyecare professionals were very satisfactory.

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Lastly, prescription lens sales to optical chains were also significantly higher.

On the product front, the launch of Varilux Physio had a substantial knock-on effect on the entire Varilux range, leading to increased revenues, volumes and market shares. Anti-reflective, variable-tint, polycarbonate and high-index (1.67 and 1.74) lenses also performed very well.

Sales of the Definity progressive lens range included in the acquisition of Johnson & Johnson Vision Care Inc.'s ophthalmic lens business, The Spectacle Lens Group, grew rapidly once it was launched in the Essilor networks. The range has been extended to include new materials and coatings.

Canada

In 2006, like-for-like revenue expanded 12.7% in a favorable economic environment, helped by a recovery in the ophthalmic lens market following the Ontario health authorities' 2005 decision to stop reimbursing eyeglasses. Sales volumes were high and strong demand from independent opticians and optical chains for progressive, anti-reflective and variable-tint lenses drove a favorable shift in the product mix. The new products launched in the market – Varilux Physio and Crizal Alizé antistatic lenses – were very well received, leading to market share gains for Essilor Canada. A new organization by region was implemented during the year, to move closer to customers and enhance service quality.

Nikon Essilor's Canadian subsidiary also turned in an excellent performance.

Asia-Pacific: strong growth in China and India

On a like-for-like basis, revenue in the Asia-Pacific region grew 8.7%. Varilux Physio won acclaim in all of the region's markets.

Essilor has a strong presence in **Japan,** through Nikon Essilor, owned on a 50/50 basis with Nikon. In this very mature market, Nikon Essilor improved its product mix and reported 2% revenue growth. Branded products and high value-added lenses turned in very good performances. During the year, Nikon Essilor launched a customized version of its Presio W progressive lens, called Seeproud.

Outside Japan, Nikon Essilor's Canadian and UK subsidiaries reported outstanding double-digit revenue growth, helped by increased sales of Presio W lenses produced using digital surfacing technology.

In **China,** our multi-channel strategy to build market share continued to pay dividends. Revenue increased by an estimated 15%, far outstripping the growth in the market. The product mix improved in 2006, reflecting rapid growth in sales of medium- and high-index lenses and polycarbonate lenses.

In other countries of the region (Indonesia, Malaysia, Singapore, Hong Kong, the Philippines, Taiwan and Thailand), revenues expanded at rates of over 10%, sustained by the success of Crizal Alizé and the launch of Varilux Physio. First-year revenue in Taiwan was very satisfactory. In Thailand, the end of the year saw the launch of direct distribution of Essilor brand lenses.

In **India,** 2006 was an excellent year, with the various networks generating higher volumes and more than 20% growth in revenues. We continued to deepen our market coverage with the acquisition of GKB Rx Lens Private Ltd (see Section 6.1.1.4.6. – 2006 acquisitions) and the opening of new prescription lens laboratories, leading to market share gains in progressive lenses. We now operate India's largest prescription lens laboratory network.

In **Australia** and **New Zealand,** a small increase in the market and rapid growth in progressive lens sales drove a satisfactory increase in revenue. Two small acquisitions in New Zealand boosted our market share in this country.

Latin America: an uneven performance

In Latin America, revenue grew 10.4% overall, but the performances of the various countries were uneven.

In **Brazil,** the world's third largest progressive lens market in volume, the market slowed in the middle of the year; however, the second-half launch of Varilux Physio restored our growth dynamic in the progressive lens segment and the increase in revenue over the whole year was only slightly down on 2005. Our anti-reflective lenses continued to enjoy considerable success, with double-digit growth sustained by the opening of a fifth anti-reflective coating center in Belo Horizonte.

In **Argentina,** revenue rose sharply in an extremely competitive environment, led by strong sales of progressive and anti-reflective lenses. The first anti-reflective coating center was opened during the year.

Last year's reorganization of our subsidiary in **Mexico** should help us to improve our penetration of the high potential local market where progressive lenses are still something of a rarity.

In the other countries of Latin America, we significantly outperformed the market with double-digit revenue growth led by strong performances in progressive and high value-added single vision lenses. Growth was particularly strong in Colombia, Venezuela, Chile and Costa Rica.

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6.2.2. Optical instruments business

Essilor is also the world leader in the manufacture and sale of optical instruments, with two specialties: lens edging instruments for opticians and prescription laboratories, and vision screening instruments for schools, occupational medicine centers and other institutions responsible for performing medical check-ups.

In 2006, revenue from optical instrument sales grew by an exceptional 13.9% like-for-like.

The lens edging instruments business performed particularly well, led by the new Kappa CTD system, which won acclaim from opticians in Europe, Latin America and Asia when it was launched worldwide in late 2005. In the United States, National Optronics – the country's leading lens edging company which became an Essilor subsidiary in 2005 – also turned in a very good performance, recording significant orders from the US army and from prescription lens laboratories.

The vision screening instruments business also had a good year, particularly in the United States where Stereo Optical increased its market share and launched new products.

Technological innovations included Tess, a robust, high-precision, new-generation frame tracer unveiled in January 2007. Equipped with the most of the standard data transmission ports, Tess is designed for local and remote edging of lenses for all frame shapes, including the curved shapes used for sunglasses. Ready for future developments in edging technologies, it is already the best-performing tracer in the market.

6.3. Exceptional factors

No exceptional factors influenced the Company's main businesses or markets in 2006.

6.4. Dependence on patents, licenses, industrial, commercial or financial contracts or new manufacturing processes

The Company is not dependent on any contracts or patents which currently have a material impact on its operations or which could have a significant impact on expiration. Similarly, it is not dependent on any supply contracts, since purchases are spread among a number of suppliers. Nor is it dependent on key customers, since the world's more than 200,000 eyecare professionals all represent potential customers for Essilor products. All contracts are on arm's length terms.

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6.5. Competitive position

For additional information on this topic, visit our website at www.essilor.com to see the slide presentation given to financial analysts on March 9, 2006 when the 2005 annual results were announced (http://www.essilor.com/InvestorRelations/Library/Slides.htm). The presentation includes a section entitled "Essilor's Growth Fundamentals" which provides an overview of the global ophthalmic lens market, vision correction needs worldwide, major trends and Essilor's competitive position.

Essilor's position in the optical markets

Essilor is the world's leading ophthalmic optics company, ahead of Hoya (Japan) and Carl Zeiss Vision (Germany). According to the available figures, our global market share is around 25% in volume terms.

We do business in every category of lenses with globally recognized brands:

- In progressive lenses, with the Varilux range (Varilux Physio, Varilux Ipseo, Varilux Panamic, Varilux Comfort, Varilux Ellipse, etc.).
- In anti-reflective lenses, with Crizal, Crizal Alizé anti-reflective, smudge-proof lenses, and the new Crizal AST anti-reflective, smudge-proof, antistatic lenses.
- In polycarbonate lenses, with Airwear.
- In variable-tint lenses, with the Nikon and Transitions brands used under the agreements with Nikon Corporation and Transitions Optical Inc.

Year after year, we combine different materials, surface designs and coatings to create new products that deepen and broaden the product offer. This innovation strategy enhances our product mix and responds to strong demand from eyecare professionals and consumers alike. With 300,000 references, we have the broadest product offer in the market.

In 2006, conditions in the global ophthalmic optics market were good, with volumes up by nearly 2%. With 7.2% growth in unit sales, we significantly outperformed the market. Our increased market share was attributable to new product launches – mainly Varilux Physio – and to our strategy of acquiring independent laboratories and ophthalmic optics wholesale distributors.

Each market segment continued to register growth:

- The shift in demand from glass to plastic lenses intensified both in developed and emerging countries.
- Making thinner lenses possible, new plastic materials such as high-index, very high-index and polycarbonate are quickly catching up with 1.5 index material, the oldest, most popular solution on the market.
- Bifocals are being replaced by progressive lenses.
- An increasing number of lenses - 45% on average worldwide – undergo anti-reflective, anti-smudge or other types of surface coating processes.
- Demand for variable-tint lenses is continuing to expand.

In growing niches, our unit sales outpaced the market. Progressive lenses gained 6%, polycarbonate lenses 7%, high- and very high-index lenses more than 15% and variable-tint lenses more than 10%.

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7 Organizational Structure

7.1. Description of the Group

Essilor International is the parent company of the Essilor Group and is listed on Euronext Paris (ISIN code: FR0000121667). In addition to its holding company activities, Essilor International also conducts manufacturing operations in France and distributes products to the French network, as well as managing a logistics platform serving all European subsidiaries.

Most of the French and foreign subsidiaries are held directly by Essilor International, with the exception of:

- Subsidiaries within the BBGR distribution network in Europe and Pro-Optic in Canada, which are held indirectly through BBGR France.
- Finishing laboratories in Canada, which are held indirectly through Essilor Canada.
- Finishing laboratories in the United States and Gentex Optics, which are held indirectly through Essilor of America Holding Inc., and
- Finishing laboratories in Australia, which are held indirectly through Essilor Australia.

7.2. List of significant subsidiaries

The list of subsidiaries can be found in the notes to the consolidated financial statements (Section 20.3.1.5., Notes 31 to 34).

8 Property, Plant and Equipment

8.1. Material Property, Plants and Equipment

The carry amount of property, plant and equipment – including assets under finance leases – held by consolidated companies was €671 million at December 31, 2006 compared to €637 million at the end of 2005. These assets consist mainly of buildings and production plant and equipment.

- Buildings consist mainly of plants, prescription laboratories and administrative offices. Their locations reflect the Group's broad international presence. The main plants, laboratories and administrative offices are located in France and the United States, while other plants are located primarily in Ireland, Thailand and the Philippines.
- Production plant and equipment include machines and equipment for producing semi-finished and finished lenses in plants located mainly in Asia (Thailand, China, the Philippines) and in the United States.

The prescription laboratories also have machines and equipment for surfacing, coating, edging and mounting lenses. These assets are located at many different sites around the world, with a higher concentration in France and the United States

The following information is presented in the notes to the consolidated financial statements (Section 20.3.1.5.):

- Analysis of property, plant and equipment and related movements: Notes 12 and 13,
- Geographic location of property, plant and equipment and intangible assets (carrying amount) and additions for the period: Note 3,
- Finance lease liabilities, by maturity: Note 22.2,
- Commitments under non-cancelable operating leases by maturity: Note 24.

Details of capital expenditure for 2006 are provided in Section 5.2.

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8.2. Environmental issues

Essilor is committed to participating in sustainable development initiatives, helping to protect the environment and promoting recyclable products, as well as to complying fully with all applicable environmental regulations in all host countries throughout the world.

We operate in a light industry, classified in France's NAF industry classifications in category 33, which includes the manufacture and sale of eyeglasses, optical and precision instruments. Upstream production operations and downstream ophthalmic lens finishing operations generally have a limited impact on the environment. In addition, the use of our products and their disposal at the end of their life has virtually no environmental impact.

Nevertheless, a voluntary process has long been in place to accurately determine the environmental impact of our activities, however slight, and encourage employees to apply eco-design principles.

The manufacture of ophthalmic lenses involves managing several thousand references while maintaining the highest standards of cleanliness at each stage in the production process. Environmental management systems contribute significantly to the efficiency of our plants, offering benefits that are often of major importance in keeping production sites clean and tidy.

In line with the eco-design approach adopted to enhance overall ecological efficiency, our product and process development teams take into account environmental issues from the outset. Designing these principles into a project helps to deliver better results in terms of both efficiency and cost.

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Operating and Financial Review

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9.1. Financial condition

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Balance sheet

Inventories and working capital requirement

Inventories amounted to €371.1 million at December 31, 2006 compared with €364.6 million at the previous year-end, an increase of 1.8%. The like-for-like increase was just 4.3%, significantly below the rate of revenue growth.

Investments

Refer to Section 5.2.

Cash Flow Statement

€ millions

Net cash from operations	456	Capital expenditure net of disposals [a]	192
Proceeds from employee share issue	33	Change in WCR and provisions	7
Effect of changes in exchange rates and in the scope of consolidation	33	Dividends	96
		Financial investments net of the proceeds from disposals [a]	71
		Net source of funds	157

[a] In all, the proceeds from disposals of property, plant and equipment and non-current financial assets totaled €24.1 million in 2006.

Higher profitability and the Company's robust performance in 2006 generated a net source of funds despite the sharp rise in dividends and the ambitious program of industrial and financial investment.

Essilor ended the year with a net cash position of €210 million.

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Key ratios

RETURN ON EQUITY (ROE)

Return on equity – corresponding to the ratio of net profit to equity – climbed to 17.3% in 2006 from 17.1% the previous year.

RETURN ON ASSETS (ROA)

Return on assets – corresponding to the ratio of EBIT to non-current assets and working capital – rose to an historical high of 28% from 24.8% in 2005.

No events affecting the accounts at December 31, 2006 have occurred since the year-end.

9.2. Operating results

9.2.1. Significant factors affecting operating profit

Revenue

For more information on revenue, refer to Section 6.1.1.4.1. – Consolidated Revenue and Section 6.2. – Principal Markets.

Gross profit

Gross margin (revenue less cost of sales, expressed as a percentage of revenue) widened by 0.9 points to 58.2% from 57.3%.

The steady improvement reflected a favorable change in the product mix, led by higher sales of progressive lenses, and productivity gains for both standard and prescription lenses.

Operating expenses

Operating expenses amounted to €1,085 million in 2006 versus €969.4 million in 2005, representing 40.3% of revenue, a 0.3-point increase over the year.

The total includes €127.6 million in R&D and engineering costs (net of a €3 million tax credit), €604.5 million in selling and distribution costs, and €352.8 million in other operating expenses. Marketing and advertising spend was increased in 2006, to support the launch of Varilux Physio. The Company also pursued several major prescription lens engineering projects and upgraded its European information systems.

Contribution from operations [a] in euros and as a percentage of revenue

Growth in contribution from operations [a] in 2006	Reported	Like-for-like	Changes in scope of consolidation	Currency effect
€ millions	61.5	57.3	4.2	0
In %	+14.6%	+13.6%	+1.0%	-

[a] Operating profit before share-based payments, restructuring costs and other non-recurring items, and goodwill impairment.

Contribution from operations increased 14.6% to €481.9 million from €420.4 million in 2005.

The contribution margin was 0.6 points higher at 17.9% of revenue. The increase was attributable to strong business volumes in all of the Company's host regions, which more than offset the increase in strategic and support function costs.

Other income and expenses from operations

Other income and expenses from operations represented a net expense of €21.7 million in 2006 compared with a net expense of €24.9 million the year before. The main items reported under this caption are as follows:

- Stock option and stock grant costs, in the amount of €11.2 million versus €8.1 million.

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- Employee stock ownership plan costs of €4.8 million versus €4.2 million.
- Restructuring costs of €2.7 million, corresponding mainly to the cost of closing a glass lens plant in Ireland.
- Charges to provisions for contingencies, claims and litigation for €3 million.
- Goodwill impairment losses, which fell to €2.9 million from €10.9 million.
- A €2.1 million gain recorded on the first-time consolidation in 2006 of subsidiaries in Croatia and Slovenia.

Operating profit

Operating profit (contribution from operations - other income and expenses from operations, net +/- gains and losses on asset disposals) rose 16.8% to €459.8 million from €393.6 million, representing 17.1% of revenue versus 16.2% in 2005.

Change in operating profit in 2006	Reported	Like-for-like	Changes in scope of consolidation	Currency effect
€ millions	66.2	59.6	6.7	0
In %	+16.8%	+15.1%	+1.7%	-

9.2.2. Significant changes to net sales or revenues

There were no significant changes to net sales or revenues in 2006.

9.2.3. Policies and other external factors

The Company is not aware of any governmental, economic, fiscal, monetary or political policies or factors that could materially affect, directly or indirectly, its future operations.

9.3. Net profit

Profit attributable to equity holders of the parent and earnings per share

Profit for the year totaled €331.2 million, an increase of 14.6%. Profit attributable to equity holders of the parent was 14.3% higher, at €328.3 million, representing 12.2% of revenue versus 11.8% in 2005. Earnings per share grew 14.1% to €3.21.

For more information on revenue and operating profit, see Sections 6.1.1.4.1. – Consolidated Revenue, 6.2. – Principal Markets and 9.2.1. – Significant Factors Materially Affecting Operating Profit.

Net profit also reflects the following costs and expenses.

Finance costs and other financial income and expenses

Finance costs and other financial income and expenses represented a net expense of €19.9 million in 2006 compared with €18.7 million the year before. Higher cash reserves led to a reduction in net finance costs, but net exchange losses and net losses on remeasurement of financial instruments at fair value both increased.

Income tax expense

The effective tax rate paid by the Company stood at 31.2% in 2006 versus 28.9% in 2005. The higher rate stemmed mainly from the increased contribution to profit of entities in North America, the Company's highest tax region, and from the reduction in tax incentives received by the Company in Brazil.

Share of profits of associates

This item corresponds to the Company's share of the profits of VisionWeb (44.03%-owned), Bacou-Dalloz (15.04%-owned) and Transitions (49%-owned). Share of profit of associates rose by 26.7% in 2006 to €28.5 million, led by Transitions' strong earnings performance.

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10 Liquidity and Capital Resources

10.1. Information on capital resources

Equity is presented in the consolidated balance sheet (Section 20.3.1.3.).

10.2. Cash flows

The cash flow statement is presented in Section 20.3.1.4.

10.3. Information on borrowing requirements and funding structure

At year-end 2006, the Company had €1,703 million in financing facilities with an average life of 3.5 years, including two undrawn syndicated credit facilities, a bank loan, and a convertible bond (Oceane) issue. Cash and cash equivalents net of total long and short-term debt represented €210 million at December 31, 2006.

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	In € millions	Issue date	Maturity
Bank loan	150	November 2000	November 2007
Syndicated credit facility	600	July 2004	July 2009
Oceane convertible bonds	253	June 2003	June 2010
Syndicated credit facility	700	May 2005	May 2012

The two syndicated credit facilities are undrawn.

For more information, refer to the notes to the consolidated financial statements (Section 20.3.1.5., Note 25).

10.4. Restrictions on the use of capital resources

There are no contractual restrictions on the use of the capital resources described above.

10.5. Anticipated sources of funds

The Company considers that current funds are sufficient and appropriate for anticipated short and medium-term investments.

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11 Research and Development, Patents and Licenses

11.1. Research and Development

Research and development

Innovation represents a core component of our strategy to grow the business and secure competitive advantage. We devote about 5% of consolidated revenue to R&D, engineering and the development of new production processes, spending €130.6 million in 2006, €115.2 million in 2005 and €108.4 million in 2004 before research tax credits.

Our R&D strategy focuses on driving technological breakthroughs, supported by extensive patent filings. In 2006, 85 inventions were patented, the largest number in our Company's history. For more information, see Section 11.2.

In 2006, a number of research programs came to fruition, particularly in the area of coatings with the launch of a new antistatic coating. We were also very active in the design area, preparing and launching a progressive lens (Anateo/Accolade) for the second network and enhancing the performance of existing ranges produced using digital surfacing techniques. See Section 6.1.2. – New Products.

R&D organization

The R&D Department works on projects in two main areas – optical properties and materials (substrates and surface treatments).

The 550-strong R&D team, not including the engineers, is spread among four R&D centers, with around 360 people working at the Saint-Maur center in France, some 100 in Florida in the United States, around 40 at the Nikon-Essilor center in Japan and approximately 15 at the new center in Singapore opened in 2004. This newly-created Singapore center has been set up to foster local scientific talent with the ultimate aim of integrating the specific needs of the Asian market into the Company's offerings.

In addition, about 10 people work in local R&D units within various plants and laboratories.

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World Class Innovation

The World Class Innovation survey launched in mid-2005 – consisting of an in-depth analysis of the R&D Department's activities – has already started delivering results. Five main types of measures were implemented in 2006, covering the global organization of R&D activities, to drive improvement in innovation processes and project management, in particular through the creation of an Innovation Committee. The department has also been encouraged to seek international partnerships more actively. Lastly, cooperation between the R&D teams and other departments, particularly Strategic Marketing and Global Engineering, has been stepped up.

Partnership-driven innovation

The R&D department also works in partnership with outside research organizations and universities to conduct research into new technologies. Essilor technologies have already been successfully combined with technologies developed by our partners, US-based PPG Industries in variable-tint lenses and Japan's Nikon in materials and surface treatments.

Partnerships with French academic research laboratories moved up a gear in 2006, with the launch of an applied digital optics research project with CNRS, the national scientific research center. We also actively sought research partnership opportunities in India and China during 2006.

11.2. Patents and licenses

As of December 31, 2006, the Company held 535 sets of patents, representing a total of approximately 3,500 patents and patent applications in France and abroad. The number of new patent filings increases from year-to year, with 85 inventions patented in 2006.

The portfolio does not include patents held by the Transitions and Nikon-Essilor joint ventures.

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12 Trend Information

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12.1. Recent trends

The Company is not aware of any trends affecting production, sales, inventory, costs or selling prices since the end of the last fiscal year.

12.2. Outlook

We are not aware of any trends, uncertainties, claims, commitments or events that would be reasonably likely to have a material impact on the Company's outlook for the current fiscal year.

12.3. Events occurring after the year-end

Recent Acquisitions

Since the beginning of 2007, Essilor has made several acquisitions.

In **France**, the Company has acquired a majority stake in the **Novacel** group, expanding its international network of wholesale distributors. Founded in 1994, Novacel distributes a full range of lenses under its own brands in France and other European markets and operates a prescription laboratory.

The company, which has 280 employees, reported 2006 revenue of approximately €39 million.

In the **United States**, Essilor has acquired:

- **Beitler McKee Optical Company,** based in Pittsburgh, Pennsylvania, which has annual revenue of some $13 million with 78 employees.
- **Personal Eyes,** a company based in Minneapolis, Minnesota with annual revenue of $2 million and 14 employees.

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Essilor of America debt refinancing

On February 22, part of Essilor of America's intragroup debt was refinanced through a €250 million structured finance facility set up at the level of the subsidiary.

January 2007 performance share grants

On January 24, the Board of Directors decided to make performance share grants to all employees in France who did not participate in the November 2006 plan. A total of 24,576 grants were made, with each participating employee receiving up to eight performance shares. The vesting and lock-up rules applicable to these performance shares are those of the January 2007 plan.

For more information on performance shares, refer to Section 21.1.4.3.

Action plan to create a wider market for the Company's stock

We have decided to deploy an action plan in 2007 comprising a number of measures designed to increase daily trading volumes and thereby widen the market for the Company's stock.

In the first half of the year, we are significantly raising the funding allocated to our AFEI-compliant liquidity contract[2] and at the Annual Shareholders' Meeting on May 11 we will be proposing a 2-for-1 stock-split (see Section 21.1.9.).

Resolutions tabled at the Annual Shareholders' Meeting of May 11, 2007

Refer to the following resolutions tabled at the Annual Shareholders' Meeting of May 11, 2007, presented in Sections 16.1.1. (Ratification of the Appointment of Directors), 21.1.3.1. (Renewal of the Authorization to Implement a Share Buyback Program Proposed at the Annual Shareholders' Meeting of May 11, 2007), 21.1.9. (Financial Authorizations Proposed at the Shareholders' Meeting of May 11, 2007), 21.2.4.2. (Resolutions Tabled at the Annual Shareholders' Meeting of May 11, 2007 that could have an Impact in the case of a Public Tender Offer) and 21.2.7. (Disclosure Thresholds).

12.4. 2007 outlook

In 2007, we will pursue our strategy of bringing innovative products to the market, such as the Crizal Alizé anti-reflective and antistatic coating and the new Anateo/Accolade progressive lens (see Section 6.1.2. – New Products and Services), and making targeted acquisitions in the ophthalmic lens sector.

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(2) *Liquidity contract complying with the code of ethics published by the Association Française des Entreprises d'Investissement (French association of investment service providers).*

13 Profit Forecasts or Estimates

It is not Company policy to disclose profit forecasts or estimates, and no 2007 profit forecasts are provided in any other Company publications.

14

Members of the Board of Directors and Senior Management

14.1. Members of the Board of Directors, the Committees of the Board and Senior Management

14.1.1. Board of Directors

The Company's bylaws (article 12) stipulate that the Board of Directors shall have at least three and no more than fifteen members. As of December 31, 2006, the Board had thirteen members. Directors are elected for a three-year term and may stand for re-election. The terms of one-third of the directors expire at each Annual Shareholders' Meeting, so that the entire Board is re-elected over a rolling three-year period. The average age of directors in 2006 was 59. Each director is required to hold 500 Essilor International shares.

Changes in 2006 were as follows: Michel Besson, Jean Burelle, Philippe Germond and Olivier Pécoux were re-elected as directors, Dominique Reiniche resigned from the Board on August 1, following her promotion to a position within her company involving increased responsibilities, and Maurice Marchand Tonel was appointed as director by the Board on November 22. Juan Boix no longer represents employee shareholders and resigned his directorship on December 31.

The criteria for determining directors' independence set out in the Bouton Committee's report on corporate governance have been taken up in the Company's internal rules, adopted by the Board on November 18, 2003, as follows:

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

In particular:

- The director is not an employee or corporate officer *(mandataire social)* of the company, nor an employee or director of its parent or of one of its consolidated subsidiaries, and has not been one during the previous five years.
- The director is not a corporate officer of a company in which the company holds, either directly or indirectly, a directorship, or in which a directorship is held by an employee of the company designated as such or by a current or former (going back five years) corporate officer of the company.

- The director is none of the following (whether directly or indirectly) a customer, supplier, investment banker or commercial banker – in each case: which is material for the company or its group, or for which the company or its group represents a material proportion of the entity's activity.
- The director does not have any close family ties with a corporate officer *(mandataire social)* of the company.
- The director has not been an auditor of the company over the past five years.
- The director has not been a director of the company for more than twelve years.
- Directors representing significant shareholders of the company or its parent company are considered independent as long as they do not in whole or in part control the company; beyond a threshold of 10% of the share capital or voting rights, the Board shall examine individually each case in order to determine whether the given director may be considered independent or not, taking into account the composition of the share capital of the company and whether there exists potential for any conflicts of interest."

At its meeting on November 23, 2005, the Board of Directors determined that nine of the fourteen members of the Board were independent based on the above criteria, representing more than the one-third minimum prescribed in the internal rules and more than the one-half minimum prescribed in the "Bouton" report for companies with a broad shareholder base and no majority shareholder. Following the changes in the Board's membership that took place in late 2006 and early 2007, the Board will perform an independence review of each of the new directors.

Members of the Board of Directors at December 31, 2006

Xavier Fontanet, Chairman and Chief Executive Officer

Philippe Alfroid, Chief Operating Officer

Independent directors:

(The independence of each individual director will be reviewed by the Board during 2007. For further information on this topic, see the first part of the Chairman's report on corporate governance and internal control, published in Appendix 1 of this Registration Document.)

Alain Aspect

Michel Besson

Jean Burelle

Yves Chevillotte

Philippe Germond

Olivier Pécoux

Maurice Marchand Tonel

Michel Rose

Directors representing employee shareholders:

Juan Boix

Alain Thomas

Serge Zins

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List of directorships at December 31, 2006

Name and additional information	First elected	Current term ends
XAVIER FONTANET Age: 58 Number of shares: 102,360	June 15, 1992	At the Annual Meeting called to approve the 2006 accounts
PHILIPPE ALFROID Age: 61 Number of shares: 100,668	May 6, 1996	At the Annual Meeting called to approve the 2007 accounts
ALAIN ASPECT Independent director Age: 59 Number of shares: 550	June 16, 1997	At the Annual Meeting called to approve the 2007 accounts
MICHEL BESSON Independent director Age: 72 Number of shares: 1,000	June 16, 1997	At the Annual Meeting called to approve the 2008 accounts

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[a] Philippe Alfroid's directorship of Visionweb, Inc. (USA), referred to in the 2005 Registration Document, ended in 2005.

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Main function within the Company	Main function outside the Company	Other directorships
CHAIRMAN AND CHIEF EXECUTIVE OFFICER		DIRECTOR: • **Essilor International and subsidiaries** - Essilor of America, Inc. (USA) - Transitions Optical, Inc. (USA) - EOA Holding Co, Inc. (USA) - Shanghai Essilor Optical Company Ltd (China) - Transitions Optical Holding B.V. (Netherlands) - Nikon-Essilor Co. Ltd (Japan) - Essilor Manufacturing India Private Ltd (India) (elected during 2006) • **External companies** - L'Oréal - Crédit Agricole SA
CHIEF OPERATING OFFICER		DIRECTOR: • **Essilor International and subsidiaries** [a] - Bacou-Dalloz - Essilor of America, Inc. (USA) - Gentex Optics, Inc. (USA) - EOA Holding Co., Inc. (USA) - EOA Investment, Inc. (USA) - Omega Optical Holding, Inc. (USA) - Essilor Canada Ltee/Ltd (Canada) - Pro-Optic Canada, Inc. (Canada) - Shanghai Essilor Optical Company Ltd (China) • **External companies** - Faiveley SA - Faiveley Transport
	• **External establishments and institutions** - Research Director at CNRS, head of the Institut d'Optique atomic optics group - Professor at École Polytechnique	
		DIRECTOR: • **Essilor International and subsidiaries** - EOA, Inc. (USA) CHAIRMAN AND MEMBER OF THE SUPERVISORY BOARD: • **External association** - SAS Club de Port-La-Galère CHAIRMAN AND MEMBER OF THE BOARD: • **External association** - Copropriété Club de Port-La-Galère NATIONAL CHAIRMAN: • **External association** - Association France - États-Unis

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Name and additional information	First elected	Current term ends
JUAN BOIX Director representing employee shareholders Age: 65 Number of shares: 7,357	January 26, 2006 (appointed by the Board), May 12, 2006 (appointment ratified by the Annual Shareholders' Meeting) Directorship ended on December 31, 2006.	
JEAN BURELLE Independent director Age: 67 Number of shares: 1,000	June 16, 1997	At the Annual Meeting called to approve the 2008 accounts
YVES CHEVILLOTTE Independent director Age: 63 Number of shares: 749	May 14, 2004	At the Annual Meeting called to approve the 2006 accounts
PHILIPPE GERMOND Independent director Age: 49 Number of shares: 500	January 31, 2001 (appointed by the Board of Directors), May 3, 2001 (appt. ratified by the Annual Shareholders' Meeting).	At the Annual Meeting called to approve the 2008 accounts

[a] Appointed during 2006.

[b] Philippe Germond's term as member of the Supervisory Board of Atos Origin expired during 2006.

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Main function within the Company	Main function outside the Company	Other directorships
		CHAIRMAN OF THE BOARD OF DIRECTORS: • **External association** - Valoptec Association (directorship ended in 2006) DIRECTOR: • **Essilor International and subsidiaries** - AVS (Madrid, Spain)
CHAIRMAN AND CEO • **External company** - Burelle SA		CHAIRMAN AND CEO: • **External company** - Burelle Participations S.A. CHAIRMAN: • **External companies, associations or mutual funds** - Sycovest 1 (SICAV) - MEDEF International (Association) - Harvard Business School Club de France (Association) (elected in 2006) CHIEF EXECUTIVE OFFICER AND DIRECTOR: • **External company** - SOGEC 2 SA DIRECTOR: • **External companies** - Rémy Cointreau - Compagnie Plastic Omnium SA - Compania Plastic Omnium (Spain) - Plastic Omnium International AG (Switzerland) - Signal AG (Switzerland) MEMBER OF THE SUPERVISORY BOARD: • **External companies** - Soparexo SCA - HR Banque SCA
		VICE CHAIRMAN OF THE BOARD OF DIRECTORS: • **External company** - SA Soredic VICE CHAIRMAN OF THE SUPERVISORY BOARD: • **External company** - Finaref DIRECTOR AND MEMBER OF THE AUDIT COMMITTEE: • **External company** - Crédit Lyonnais
	MEMBER OF THE MANAGEMENT BOARD: • **External company** - Atos Origin[a]	MEMBER OF THE SUPERVISORY BOARD: • **External company** - Atos Origin[b]

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Name and additional information	First elected	Current term ends
MAURICE MARCHAND TONEL Independent director Age: 62 Number of shares: 500	November 22, 2006 (appointed by the Board of Directors). Appointment subject to ratification at the Annual Shareholders' Meeting on May 11, 2007	At the Annual Meeting called to approve the 2008 accounts (subject to ratification at the Annual Shareholders' Meeting on May 11, 2007)
OLIVIER PECOUX Independent director Age: 48 Number of shares: 500	January 31, 2001 (appointed by the Board of Directors), May 3, 2001 (appointment ratified at the Annual Shareholders' Meeting)	At the Annual Meeting called to approve the 2008 accounts
MICHEL ROSE Independent director Age: 63 Number of shares: 500	May 13, 2005	At the Annual Meeting called to approve the 2007 accounts
ALAIN THOMAS Director representing employee shareholders Age: 57 Number of shares: 4,025	May 12, 2006	At the Annual Meeting called to approve the 2007 accounts
SERGE ZINS Director representing employee shareholders Age: 44 Number of shares: 4,738	May 12, 2006	At the Annual Meeting called to approve the 2006 accounts

[a] Elected during 2006.

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Main function within the Company	Main function outside the Company	Other directorships
	CHAIRMAN: • **External association** - European American Chamber of Commerce (France)	DIRECTOR: • **External companies or associations** - Faiveley Transport - Groupe Souchier - Laurene - DT 2000 - Financière Huysmans - European American Chamber of Commerce (Cincinnati, USA) - French American Chamber of Commerce (Chicago, USA)
	MANAGING PARTNER: • **External companies** - Rothschild et Cie - Rothschild et Cie Banque	DIRECTOR: • **External companies** - Rothschild España (Spain) - Rothschild Italia (Italy) MEMBER OF THE SUPERVISORY BOARD: • **External companies** - Financière Rabelais - Rothschild GmbH (Gerrmany)
	CHIEF OPERATING OFFICER: • **External companies** - Lafarge	DIRECTOR: • **External companies** - Lafarge North America (USA) - Lafarge Maroc (Marocco) - Malayan Cement (Malaysia) - Néopost CHAIRMAN: • **External foundation** - Fondation de l'École des Mines de Nancy
INDUSTRIAL OPERATIONS DIRECTOR: • **Essilor International and subsidiaries** - Instruments		DIRECTOR: • **External association** - Valoptec Association
EXECUTIVE: • **Essilor International and subsidiaries** - Essilor Japan Co. Ldt (Japan)[a] CHIEF FINANCIAL OFFICER: • **Essilor International and subsidiaries** - Nikon-Essilor (Japan)		DIRECTOR: • **Essilor International and subsidiaries** - Aichi Nikon Co. Ltd (Japan) - Nasu Nikon Co. Ltd (Japan) - Essilab Philippines Inc. (Philippines) - Beauty Glass Private Ltd (India) - Vijay Vision Private Ltd (India) - P.T. Essilor Indonesia (Indonesia) (Term expired in 2006) • **External association** - Valoptec Association MEMBER OF THE SUPERVISORY BOARD: • **External fund** - FCPE Valoptec International SCRUTINEER: • **Essilor International and subsidiaries** - Essilor Korea Co. Ltd (South Korea) - Chemiglas (South Korea)

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Directorships held over the last five years were as follows

XAVIER FONTANET

Born September 9, 1948

Chairman and Chief Executive Officer (appointed May 6, 1996; current term ends 2007)

Director (elected June 15, 1992; current term ends 2007)

Number of Essilor International shares held: 102,360.

2006

Director:
L'Oréal
Crédit Agricole SA
Essilor of America, Inc. (USA)
Transitions Optical Inc. (USA)
EOA Holding Co, Inc. (USAs)
Shangai Essilor Optical Company Ltd (China)
Transitions Optical Holding BV (Netherlands)
Nikon-Essilor Co. Ltd (Japan)
Essilor Manufacturing India Private LTD (India) [a]

[a] Elected in 2006.

2005

Director:
L'Oréal
Crédit Agricole SA
Beneteau SA [a]
Essilor of America, Inc. (USA)
Transitions Optical Inc. (USA)
EOA Holding Co, Inc. (USA)
Shangai Essilor Optical Company Ltd (China)
Transitions Optical Holding BV (Netherlands)
Nikon-Essilor Co. Ltd (Japan)
IMS – Entreprendre pour la Cité (Association) [a]

[a] Term expired in 2005.

2004

Director:
L'Oréal
Crédit Agricole SA
Beneteau SA
Essilor of America, Inc. (USA)
Transitions Optical Inc. (USA)
EOA Holding Co, Inc. (USA)
Shangai Essilor Optical Company Ltd (China)
Transitions Optical Ltd (Ireland)
Transitions Optical Holding BV (Netherlands)
Nikon-Essilor Co. Ltd (Japan)
IMS – Entreprendre pour la Cité (Association)

2003

Director:
L'Oréal
Crédit Agricole SA
Beneteau SA
Essilor of America, Inc. (USA)
Transitions Optical Inc. (USA)
Essilor Laboratories of America Holding Co, Inc. (USA)
EOA Holding Co, Inc. (USA)
Shangai Essilor Optical Company Ltd (China)
Transitions Optical Ltd (Ireland)
Transitions Optical Holding BV (Netherlands)
Nikon-Essilor Co. Ltd (Japan)
IMS – Entreprendre pour la Cité

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2002

Director:
L'Oréal
Crédit Agricole SA
Beneteau SA
Essilor of America, Inc. (USA)
Transitions Optical Inc. (USA)
Essilor Laboratories of America Holding Co, Inc. (USA)
EOA Holding Co, Inc. (USA)
Shangai Essilor Optical Company Ltd (China)
Transitions Optical Ltd (Ireland)
Transitions Optical Holding BV (Netherlands)
Nikon-Essilor Co. Ltd (Japan)

PHILIPPE ALFROID

Born August 29, 1945.

Chief Operating Officer (appointed May 6, 1996; current term ends 2008).

Director (elected May 6, 1996; current term ends 2008).

Number of Essilor International shares held: 100,668.

2006

Director:
Bacou-Dalloz
Faiveley SA
Faiveley Transport
Essilor of America, Inc. (USA)
Gentex Optics, Inc. (USA)
EOA Holding Co, Inc. (USA)
EOA Investment Inc. (USA)
Omega Optical Holding, Inc. (USA)
Essilor Canada Ltee/Ltd (Canada)
Pro-Optic Canada Inc. (Canada)
Shangai Essilor Optical Company Ltd (China)

2005

Président : Bacou-Dalloz [a]

Director:
Bacou-Dalloz
Faiveley SA
Faiveley Transport
Essilor of America, Inc. (USA)
Gentex Optics, Inc. (USA)
Visionweb, Inc. (USA) [a]
EOA Holding Co, Inc. (USA)
EOA Investment Inc. (USA)
Omega Optical Holding, Inc. (USA)
Essilor Canada Ltee/Ltd (Canada)
Pro-Optic Canada Inc. (Canada)
Shangai Essilor Optical Company Ltd (China)

[a] Term expired in 2005.

2004

Chairman: Bacou-Dalloz

Director:
Bacou-Dalloz
Faiveley SA
Faiveley Transport
Essilor of America, Inc. (USA)
Gentex Optics, Inc. (USA)
Visionweb, Inc. (USA)
EOA Holding Co, Inc. (USA)
EOA Investment Inc. (USA)
Omega Optical Holding, Inc. (USA)
Essilor Canada Ltee/Ltd (Canada)
Pro-Optic Canada Inc. (Canada)
Shangai Essilor Optical Company Ltd (China)
Bacou-Dalloz USA, Inc (USA)

2002

Chief Operating Officer: Bacou-Dalloz

Director:
Abrium
Christian Dalloz Sunoptics
Dalloz Safety
Essidev
Faiveley SA
Essilor of America, Inc. (USA)
Gentex Optics, Inc. (USA)
Visionweb, Inc. (USA)
Essilor Laboratories of America Holding Co, Inc. (USA)
EOA Holding Co, Inc. (USA)
EOA Investment Inc. (USA)
Omega Optical Holding, Inc. (USA)
Shangai Essilor Optical Company Ltd (China)
Bacou-Dalloz AB (Sweden)

Permanent representative of Essilor International: Novisia

Permanent representative of Bacou-Dalloz: Dalloz Fall Protection

2003

Chairman: Bacou-Dalloz

Director:
Abrium
Christian Dalloz Sunoptics
Dalloz Safety
Essidev
Faiveley SA
Faiveley Transport
Essilor of America, Inc. (USA)
Gentex Optics, Inc. (USA)
Visionweb, Inc. (USA)
Essilor Laboratories of America Holding Co, Inc. (USA)
EOA Holding Co, Inc. (USA)
EOA Investment Inc. (USA)
Omega Optical Holding, Inc. (USA)
Essilor Canada Ltee/Ltd (Canada)
Pro-Optic Canada Inc. (Canada)
Shangai Essilor Optical Company Ltd (China)
Bacou-Dalloz AB (Sweden)

Permanent representative of Essilor International: Novisia

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ALAIN ASPECT

Born June 15, 1947.

Director (elected June 16, 1997; current term ends 2008)

Number of Essilor International shares held: 550.

Business address:

Institut d'Optique
Campus Polytechnique
RD 128
91127 Palaiseau Cedex

2006-2002

No directorships held outside Essilor International.

MICHEL BESSON

Born March 14, 1934.

Director (elected June 16, 1997; current term ends 2009).

Number of Essilor International shares held: 1,000.

Business address: Not applicable.

2006

Director: EOA, Inc. (USA)

National Chairman:
Association France - États-Unis

Chairman and member of the Supervisory Board:
SAS Club de Port-La-Galère

Chairman and member of the Board: Copropriété Club de Port-La-Galère

2005

Director: EOA, Inc. (USA)

Chairman and member of the Supervisory Board:
SAS Club de Port-La-Galère

Chairman and member of the Board: Copropriété Club de Port-La-Galère

2004

Director: EOA, Inc. (USA)

Chairman and member of the Supervisory Board:
SAS Club de Port-La-Galère [a]

Chairman and member of the Board: Copropriété Club de Port-La-Galère

Member of the Managing Board: SCI Club de Port-La-Galère [b]

[a] Elected in 2004.
[b] Term expired in 2004.

2003

Director: EOA, Inc. (USA)

Member of the Managing Board:
SAS Club de Port-La-Galère [a]
SCI Club de Port-La-Galère

Chairman and member of the Board: Copropriété Club de Port-La-Galère

[a] Elected in 2003.

2002

Director: EOA, Inc. (USA)

Member of the Managing Board: SCI Club de Port-La-Galère [a]

Member of the Board: Copropriété Club de Port-La-Galère [a]

[a] Elected in 2002.

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JUAN BOIX

Born September 26, 1941.

Director (appointed by the Board on January 26, 2006, appointment ratified by the Annual Shareholders' Meeting of May 12, 2006; resigned December 31, 2006).

Number of Essilor International shares held: 7,357.

Business address: Not applicable.

2006	2005-2002
Chairman of the Board of Directors: Valoptec Association [a]	**Director:** Valoptec Association
Director: AVS (Madrid, Spain)	

[a] Elected at the end of 2005; term expired at the end of 2006.

JEAN BURELLE

Born January 29, 1939.

Director (elected June 16, 1997; current term ends 2009)

Number of Essilor International shares held: 1,000.

Business address:

Burelle SA
1, rue François-1er
75008 Paris

2006	2005
Chairman and CEO: Burelle SA Burelle Participations SA	**Chairman and CEO:** Burelle SA Burelle Participations SA
Chairman: Sycovest 1	**Chairman:** Sycovest 1
Chief Executive Officer and Director: Sogec 2 SA	**Chief Executive Officer and Director:** Sogec 2 SA
Director: Remy Cointreau Compagnie Plastic Omnium SA Compania Plastic Omnium (Spain) Plastic Omnium International AG (Switzerland) Signal AG (Switzerland)	**Director:** Remy Cointreau Compagnie Plastic Omnium SA Compania Plastic Omnium (Spain) Plastic Omnium International AG (Switzerland) Signal AG (Switzerland)
Member of the Supervisory Board: Soparexo SCA HR Banque SCA	**Member of the Supervisory Board:** Soparexo SCA Société Financière HR SCA
Chairman: MEDEF International (Association) Harvard Business School Club de France (Association) [a]	**Chairman:** MEDEF International (Association)

[a] Elected in 2006.

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2004

Chairman and CEO:
Burelle SA
Burelle Participations SA

Chairman: Sycovest 1

Chief Executive Officer and Director: Sogec 2 SA

Director:
Compagnie Plastic Omnium SA
Compañía Plastic Omnium (Spain)
Plastic Omnium International AG (Switzerland)
Signal AG (Switzerland)

Permanent representative of Burelle Participations:
Sycovest 1

2003

Chairman and CEO:
Burelle SA
Burelle Participations SA

Chairman: Sycovest 1

Director:
Compagnie Plastic Omnium SA
Compañía Plastic Omnium (Spain)
Plastic Omnium International AG (Switzerland)
Signal AG (Suisse)
Sogec 2

Member of the Supervisory Board: Lapeyre

Permanent representative of Burelle Participations:
Sycovest 1

2002

Chairman and CEO:
Burelle SA
Burelle Participations SA

Chairman: Sycovest 1

Director:
Compagnie Plastic Omnium
Sofiparc
Compagnie Signature
Compañía Plastic Omnium (Spain)
Plastic Omnium International AG (Switzerland)
Signal AG (Switzerland)
Sogec 2
Cera 2

Member of the Supervisory Board: Lapeyre

Permanent representative of Burelle Participations:
Plastic Omnium Services

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YVES CHEVILLOTTE

Born May 16, 1943.

Director (elected May 14, 2004; current term ends 2007).

Number of Essilor International shares held: 749.

Business address: Not applicable.

2006

Vice Chairman of the Board of Directors: SA Soredic

Vice Chairman of the Supervisory Board: Finaref

Director and member of the Audit Committee: Crédit Lyonnais

2005

Vice Chairman of the Board of Directors: SA Soredic

Vice Chairman of the Supervisory Board: Finaref

Director and member of the Audit Committee: Crédit Lyonnais

2004

Chairman of the Supervisory Board: SA Soredic

Vice Chairman of the Supervisory Board: Finaref

Director and member of the Audit Committee: Crédit Lyonnais

Director: Sofinco

2003

Chairman of the Board of Directors:

Amica

Dynamust

Chairman of the Supervisory Board: Soredic

Director and Vice Chairman: Prédi Retraites

Chief Executive Officer: Caisse Régionale Alsace

Chief Operating Officer: Crédit Agricole SA

Director:

Answork

Banque Financière Groupama

Banque Gestion Privée Indosuez

Sacam Consommation 1

Sacam Consommation 2

Sacam Consommation 3

Sofinco

Member of the Supervisory Board: Finaref

Permanent representative of CNCA: AMACAM

2002

Chief Operating Officer: Crédit Agricole SA

Director and Vice Chairman:

Pacifica

Prédi Retraites

Prédica

Chairman: Uni-Editions

Director:

Cedicam

Europay France

Fondation du Crédit Agricole

Holding Eurocard

Sofinco

Member of the Executive Committee: Tlj SAS

Member of the Supervisory Board: Soredic

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PHILIPPE GERMOND

Born February 19, 1957.

Director (appointed by the Board on January 31, 2001, appointment ratified by the Annual Shareholders' Meeting of May 3, 2001; current term ends 2009).

Number of Essilor International shares held: 500.

Business address: Not applicable.

2006

Member of the Management Board: Atos Origin [a]

[a] Elected in 2006.

2005

Deputy CEO and director: Alcatel [a]

Director:

Ingenico [a]

Alcatel USA Inc. (USA) [a]

Member of the Supervisory Board:

Alcatel Deutschland GmbH (Germany) [a]

Atos Origin [b]

[a] Term expired in 2005.
[b] Term expired in 2006.

2004

Deputy Chief Executive Officer and director: Alcatel

Director:

Ingenico

Alcatel USA Inc. (USA)

Member of the Supervisory Board:

Alcatel Deutschland GmbH (Germany)

Atos Origin

2003

Chief Executive Officer and director: Alcatel

Director:

Ingenico

Alcatel USA Inc. (USA)

Member of the Supervisory Board:

Alcatel Deutschland GmbH (Germany)

Atos Origin

2002

Chief Executive Officer: Alcatel

Director: Ingenico

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MAURICE MARCHAND TONEL

Born February 14, 1944.

Director (appointed by the Board on November 22, 2006, appointment submitted to the Annual Shareholders' Meeting of May 11, 2007 for ratification; current term ends 2009, if ratified).

Number of Essilor International shares held: 500.

Business address: Not applicable.

2006

Chairman: European American Chamber of Commerce (France)

Director:

Faiveley Transport

Groupe Souchier

Laurene [a]

DT 2000

Financière Huysmans

European American Chamber of Commerce (Cincinnati, USA)

French American Chamber of Commerce (Chicago, USA)

[a] Term expires in 2007.

2005

Chairman European American Chamber of Commerce (France)

Director:

Faiveley Transport

Groupe Souchier

Laurene

DT 2000

Financière Huysmans

European American Chamber of Commerce (Cincinnati, USA)

French American Chamber of Commerce (Chicago, USA)

2004

Chairman: European American Chamber of Commerce (France)

Director:

Faiveley Transport

Groupe Souchier

Laurene

DT 2000

Financière Huysmans

European American Chamber of Commerce (Cincinnati, USA)

French American Chamber of Commerce (Chicago, USA)

2003

Chairman: European American Chamber of Commerce (France)

Director:

Faiveley Transport

Groupe Souchier

Laurene

DT 2000

Financière Huysmans

European American Chamber of Commerce (Cincinnati, USA)

French American Chamber of Commerce (Chicago, USA)

2002

Chairman: European American Chamber of Commerce (France)

Director:

Faiveley Transport

Groupe Souchier

Laurene

DT 2000

Financière Huysmans

European American Chamber of Commerce (Cincinnati, USA)

French American Chamber of Commerce (Chicago, USA)

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OLIVIER PECOUX

Born September 9, 1958.

Director (appointed by the Board on January 31, 2001, appointment ratified by the Annual Shareholders' Meeting of May 3, 2001; current term ends 2009).

Number of Essilor International shares held: 500.

Business address:

Rothschild et Cie
23 bis, avenue de Messine
75008 Paris

2006

Managing Partner:
Rothschild et Cie
Rothschild et Cie Banque

Director:
Rothschild Espana (Spain)
Rothschild Italia (Italy)

Member of the Supervisory Board:
Financière Rabelais
Rothschild GmbH (Germany)

2005

Managing Partner:
Rothschild et Cie
Rothschild et Cie Banque

Director:
Rothschild España (Spain)
Rothschild Italia (Italy)

Member of the Supervisory Board:
Financière Rabelais
Rothschild GmbH (Germany)

2004

Managing Partner:
Rothschild et Cie
Rothschild et Cie Banque

Director:
Rothschild Espana (Spain)
Rothschild Italia (Italy)

Member of the Supervisory Board:
Financière Rabelais
Rothschild GmbH (Germany)
2 BE Finance

2003

Managing Partner:
Rothschild et Cie
Rothschild et Cie Banque

Director:
Rothschild España (Spain)
Rothschild Italia (Italy)

Member of the Supervisory Board:
Financière Rabelais
Rothschild GmbH (Germany)

2002

Managing Partner:
Rothschild et Cie
Rothschild et Cie Banque

Director:
Rothschild España (Spain)
Rothschild Italia (Italy)

Member of the Supervisory Board:
Financière Rabelais
Rothschild GmbH (Germany)

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MICHEL ROSE

Born February 27, 1943.

Director (elected May 13, 2005; current term ends 2008).

Number of Essilor International shares held: 500.

Business address:

Lafarge SA
61, rue des Belles-Feuilles
75782 Paris Cedex 16

2006

Chief Operating Officer: Lafarge

Director:

Lafarge North America (USA)
Lafarge Maroc (Morocco)
Malayan Cement (Malaysia)
Neopost

Chairman: Fondation de l'École des Mines de Nancy

2005

Chief Operating Officer: Lafarge

Director:

Lafarge North America (USA)
Lafarge Maroc (Morocco)
Malayan Cement (Malaysia)
Neopost

Chairman: Fondation de l'École des Mines de Nancy

2004

Chief Operating Officer: Lafarge

Director:

Lafarge Ciments
Lafarge North America (USA)
Lafarge Maroc (Morocco)
Malayan Cement (Malaysia)
Asland (Spain)
Cementia (Switzerland)

Chairman: Fondation de l'École des Mines de Nancy

2003

Chief Operating Officer: Lafarge

Director:

Lafarge Ciments
Lafarge North America (USA)
Lafarge Maroc (Morocco)
Malayan Cement (Malaysia)
Asland (Spain)
Cementia (Switzerland)

Chairman: Fondation de l'École des Mines de Nancy

2002

Chief Operating Officer: Lafarge

Director:

Lafarge Ciments
Lafarge North America (USA)
Lafarge Maroc (Morocco)
Malayan Cement (Malaysia)
Asland (Spain)
Cementia (Switzerland)

Chairman: Fondation de l'École des Mines de Nancy

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ALAIN THOMAS

Born June 26, 1949.

Director (elected May 12, 2006; current term ends 2008).

Number of Essilor International shares held: 4,025.

Business address: Essilor

2006 - 2003

Director: Valoptec Association [a]

[a] Since December 2003.

2002

Not applicable.

SERGE ZINS

Born December 8, 1962.

Director (elected May 12, 2006; current term ends 2007).

Number of Essilor International shares held: 4,738.

Business address: Essilor

2006

Executive: Essilor Japan Co. Ltd (Japan) [a]

Director:
Valoptec Association
P.T. Essilor Indonesia (Indonesia) [b]
Aichi Nikon Co, Ltd (Japan)
Nasu Nikon Co, Ltd (Japan)
Essilab Philippines Inc. (Philippines)
Beauty Glass Private Ltd (India)
Vijay Vision Private Ltd (India)

Member of the Supervisory Board: FCPE Valoptec International

Scrutineer:
Essilor Korea Co, Ltd (South Korea)
Chemiglas (South Korea)

[a] Elected in 2006.
[b] Term expired in 2006.

2005

Member of the Board of Directors: Valoptec Association

Member of the Supervisory Board: FCPE Valoptec International

Director:
Essilor Asia Pacific Private Ltd (Singapore) [a]
Plasticplus (2003) Private Ltd (Singapore) [a]
Polylite Asia Pacific Private Ltd (Singapore) [a]
Polylite Singapore Private Ltd (Singapore) [a]
ETC S-E Asia Private Ltd (Singapore) [a]
Unique Ophtalmic Private Ltd (Singapore) [a]
Ekeh Private Ltd (Singapore) [a]
Essilor Hong Kong Ltd (China) [a]
Essilab Philippines Inc. (Philippines)
Bangkok Optical Distribution Co. Ltd (Thailand) [a]
Central Essilor Co. Ltd (Thailand)
Beauty Glass Private Ltd (India)
Vijay Vision Private Ltd (India)
P.T. Essilor Indonesia (Indonesia)

Internal Auditor: Nikon-Essilor Co. Ltd (Japan) [a]

Scrutineer: Chemiglas Corp (South Korea)

[a] Term expired in 2005.

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2004

Member of the Board of Directors: Valoptec Association

Member of the Supervisory Board: FCPE Valoptec International

Director:
Essilor Asia Pacific Private Ltd (Singapore)
Plasticplus (2003) Private Ltd (Singapore)
ETC S-E Asia Private Ltd (Singapore)
Unique Ophtalmic Private Ltd (Singapore)
EKEH Private Ltd (Singapore)
Essilor Hong Kong Ltd (China)
Essilab Philippines Inc. (Philippines)
Bangkok Optical Distribution Co. Ltd (Thailand)
Central Essilor Co. Ltd (Thailand)
Beauty Glass Private Ltd (Inde)
Vijay Vision Private Ltd (India)
P.T. Essilor Indonesia (Indonesia)

Internal Auditor: Nikon-Essilor Co. Ltd (Japan)

Scrutineer: Chemiglas Corp (South Korea)

2003

Member of the Board of Directors: Valoptec Association

Member of the Supervisory Board: FCPE Valoptec International [a]

Director:
Essilor Asia Pacific Private Ltd (Singapore)
Plasticplus (2003) Private Ltd (Singapore)
Essilor Hong Kong Ltd (China)
Essilab Philippines Inc. (Philippines)
Bangkok Optical Distribution Co. Ltd (Thailand)
Central Essilor Co. Ltd (Thailand)
P.T. Essilor Indonesia (Indonesia)

Internal Auditor: Nikon-Essilor Co. Ltd (Japan)

Scrutineer: Chemiglas Corp (South Korea)

[a] Elected in 2003.

2002

Member of the Board of Directors: Valoptec Association [a]

Director:
Essilor Asia Pacific Private Ltd (Singapore)
Plasticplus (2003) Private Ltd (Singapore)
Essilor Hong Kong Ltd (China)
Essilab Philippines Inc. (Philippines)
Bangkok Optical Distribution Co. Ltd (Thailand)
Central Essilor Co. Ltd (Thailande)
P.T. Essilor Indonesia (Indonesia)

Internal Auditor: Nikon-Essilor Co. Ltd (Japan)

[b] Elected in 2002.

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Directors' management expertise and experience

With general and practical business knowledge, expertise in a specific Essilor International business segment or several years of experience in managing international companies, the members of the Board of Directors contribute management expertise and/or experience to the Company in a variety of business areas.

No convictions for fraudulent offences, involvement in bankruptcies, public incrimination and/or sanctions

To the best of the Company's knowledge,

- None of the executive or non-executive directors has been convicted of a fraudulent offence in the last five years,
- In the last five years, none of the executive or non-executive directors has been involved in a case of bankruptcy, sequestration or liquidation as a member of a board, a management or supervisory body or as a Chief Executive Officer, and
- None of the executive or non-executive directors has been publicly incriminated or sanctioned by statutory or regulatory authorities (including designated professional bodies).

Absence of family ties between directors

To the best of the Company's knowledge, there are no family ties between directors.

14.1.2. Committees of the Board

In 1997, Essilor set up various Committees of the Board in accordance with corporate governance rules (Audit Committee, Remunerations Committee and Strategy Committee). Each Committee reports to the Board on its work and the resulting proposals.

14.1.2.1. Audit Committee: members and role

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

The Committee is chaired by Yves Chevillote, who was appointed as Chairman by the Board of Directors on May 14, 2004. As of December 31, 2006, the other members were Alain Aspect, Michel Besson, Juan Boix and Olivier Pécoux. Over two-thirds of the Committee members are independent directors.

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

To this end, the Audit Committee analyzes the procedures in place within the Group to ensure that:

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

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

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

Refer also to Appendix 1 – Chairman's Report on Corporate Governance and Internal Control, Section 1 – Preparation and organization of meetings of the Board of Directors, sub-section Audit Committee.

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14.1.2.2. Remunerations Committee: members and role

The Board's internal rules stipulate that the Remunerations Committee shall have at least three members, who must all be independent non-executive directors.

The Remunerations Committee is made up of Jean Burelle (Chairman), Michel Besson and Michel Rose. All members of the Committee are independent directors.

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

- Make recommendations concerning senior management compensation.
- Make recommendations concerning stock option grants and performance share grants.
- Review the Company's general compensation policies.
- Assist the Chairman and the Board with succession planning issues.
- Discuss the composition of the Board and recommend possible changes.

Refer also to Appendix 1 – Chairman's Report on Corporate Governance and Internal Control, Section 1 – Preparation and organization of meetings of the Board of Directors, sub-section Remunerations Committee.

14.1.2.3. Strategy Committee: members and role

The Board's internal rules stipulate that the Strategy Committee shall have at least five members, selected from among the directors.

As of December 31, 2006, the Strategy Committee was made up of Xavier Fontanet (Chairman), Philippe Alfroid, Michel Besson, Juan Boix, Jean Burelle, Philippe Germond, Olivier Pécoux and Maurice Marchand Tonel. Five of the eight members are independent directors.

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

Refer also to Appendix 1 – Chairman's Report on Corporate Governance and Internal Control, Section 1 – Preparation and organization of meetings of the Board of Directors, sub-section Strategy Committee.

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14.1.3. Executive Committee

14.1.3.1. Members of the Executive Committee

Members of the Executive Committee as of February 28, 2007:

Xavier Fontanet	Chairman and Chief Executive Officer
Philippe Alfroid	Chief Operating Officer
Thomas Bayer	President, Essilor European Network
Claude Brignon	Corporate Senior Vice President, Operations
Jean Carrier-Guillaumet	President, Essilor of America [a]
Patrick Cherrier	President, Asia Region
Bertrand de Limé	President, Latin America and Instruments
Didier Lambert	Corporate Senior Vice President, Information Systems
Fabienne Lecorvaisier	Chief Financial Officer [b]
Alain Pierre	President, BBGR
Patrick Poncin	Corporate Senior Vice President, Global Engineering
Thierry Robin	President of Essilor Canada
Bertrand Roy	Corporate Senior Vice President, Strategic Marketing
Hubert Sagnières	President, North America and Europe Regions
Jean-Luc Schuppiser	Corporate Senior Vice President, Research and Development
Laurent Vacherot	President, Essilor of America then Chief Financial Officer [b]
Henri Vidal	Corporate Senior Vice President, Human Resources
Carol Xueref	Corporate Senior Vice-President, Legal Affairs and Group Development

[a] President, Essilor of America since the end of January 2007.
[b] Fabienne Lecorvaisier is currently Chief Financial Officer; she will be replaced by Laurent Vacherot as from the second half of 2007.

MEMBERS OF THE EXECUTIVE COMMITTEE AS OF DECEMBER 31, 2006

As of December 31, 2006, the Executive Committee comprised all the members listed above except for Jean Carrier-Guillaumet, Alain Pierre and Patrick Poncin. As of that date, Laurent Vacherot was President, Essilor of America, and Fabienne Lecorvaisier was Chief Financial Officer.

14.1.3.2. Role of the Executive Committee

The Executive Committee meets once a month to review the Company's business performance and all short-term activities. It also reviews the outlook and the Company's medium and long-term objectives, as well as the strategies to be implemented to meet these objectives.

Chaired by Xavier Fontanet, the Committee is made up of the Company's top corporate and business executives, with either global responsibilities – for example lens manufacturing – or regional responsibilities (Europe, North America, Latin America, Asia).

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14.2. No potential conflicts of interest

To the best of the Company's knowledge, there are no potential conflicts of interest between Board members' duties to the Company and their private interests or other duties.

Information about any restrictions accepted by directors on the sale of their Essilor International shares is provided in Section 16.1.2.

14.3. Related party agreements

At its meeting on January 26, 2006, the Board of Directors authorized the signature of a liquidity contract between the Company and Rothschild & Cie Banque.

At its meeting on November 22, 2006, the Board of Directors noted the continued execution, on the same terms, of an agreement concerning top-hat pension plans for the two executive directors that was authorized by the Board on November 23, 2005. See Section 15.1. for more details.

The Auditors were informed of the authorizations and of the signature of the contracts within one month of the signature date. They were also informed of the ongoing execution of these agreements in a letter dated January 22, 2007, in accordance with Article 91 of the Decree of March 23, 1967.

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15 Compensation and Benefits

15.1. Compensation of the members of the Board of Directors and Senior Management

2006 compensation of executive directors (information disclosed in accordance with Article L. 225-102-1 of the Commercial Code)

The compensation paid to Xavier Fontanet, Chairman and Chief Executive Officer, and Philippe Alfroid, Chief Operating Officer, comprises a fixed salary and a variable bonus based on results. The variable bonus corresponds to a percentage of their salary, which may increase if they exceed their targets, up to a certain limit. The rules applied to determine their variable bonus are as follows:

- 100% of the target bonus if the results target is met.
- No bonus if results are 20% or more below target.
- Maximum of 150% of the target bonus, if the results target is exceeded by 20% or more.
- Proportional adjustment of the bonus if results are within the 20% corridor.
- The effects of changes in exchange rates are neutralized for the calculation of the bonus.

The results target is based on consolidated net profit excluding the effect of acquisitions.

For more information concerning the principles and rules adopted by the Board for the determination of the executive directors' compensation and benefits, refer to Appendix 1 – Chairman's Report on Corporate Governance and Internal Control, Section 1 – Preparation and organization of meetings of the Board of Directors, sub-section Remunerations Committee.

Breakdown of executive directors' compensation

(Gross amounts, before payroll and income tax)

Components of 2006 compensation
In €, except for performance share rights (in number of rights)

		Xavier Fontanet	Philippe Alfroid
Salary	Amount	419,242	372,583
Bonus	Amount	355,519 including 50,000 SAHF bonus [a]	208,585 including 50,000 SAHF bonus [a]
Exceptional compensation	Amount	—	—
	Calculation method and criteria	N/A	N/A
Benefits in kind	Car	2,195	2,195
	Unemployment insurance	14,429	—
	Other	—	—
Directors' fees	Amount	15,800	27,020 [b]
Performance share grants	2006 grants (number of rights)	29,250 Reference share price 82.92	22,500 Reference share price 82.92
Length-of-service award	Estimate	118,103	204,367
Pension benefits	Projected benefit obligation	2,263,680	1,986,392
Signing-on bonus	Amount	—	—
Termination benefit	Calculation method and criteria	2 years' salary	—

[a] SAHF: bonus for time spent working outside France.
[b] Including €11,220 in directors' fees received from Bacou-Dalloz in 2006.

Xavier Fontanet's target bonus for 2005 was set at 60% of his salary, based on the Company achieving consolidated net profit in line with the budget at €244.9 million. The bonus was paid in 2006, in the amount of €305,519. His target bonus for 2006 corresponds to 70% of his salary. It is covered by an accrual of €322,816.

Philippe Alfroid's target bonus for 2005 was set at 35% of his salary, based on the Company achieving consolidated net profit in line with the budget at €244.9 million. The bonus was paid in 2006, in the amount of €158,585. His target bonus for 2006 corresponds to 45% of his salary. It is covered by an accrual of €184,428.

Executive directors' compensation for the last three years

In €	Gross compensation [a] excluding directors' fees			Directors' fees			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Xavier Fontanet	792,385	753,498	670,347	15,800	14,000	11,300	808,185	767,498	681,647
Philippe Alfroid	583,363	512,988	498,917	27,020 [b]	24,992 [b]	22,908 [b]	610,383	537,980	521,825

[a] Corresponding to gross compensation before payroll taxes and income taxes. As stipulated by law, the reported amounts include the value of benefits in kind.
[b] Including directors' fees received from Bacou-Dalloz (€11,220 in 2006, €10,992 in 2005 and €11,608 in 2004).

Directors' fees

The Annual Shareholders' Meeting of May 12, 2006 voted to award directors' fees of €300,000. At its meeting the same day, the Board of Directors decided to allocate this sum as follows:

Directors' fees	Fixed fee	Variable fee based on attendance record
All directors	€3,800	€2,000 per meeting
Chairman of the Audit Committee	€20,000	€1,800 per meeting
Chairman of the Remunerations Committee	€10,000	€1,800 per meeting
Independent directors who are members of either the Audit Committee or the Remunerations Committee	Not applicable	€1,800 per meeting

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Directors' fees for 2006 and 2005

In €	Directors' fees 2006	Directors' fees 2005
Xavier Fontanet	15,800	14,000
Philippe Alfroid	27,020 [a]	24,992 [a]
Alain Aspect	23,000	21,200
Juan Boix	15,800	N/A
Michel Besson	22,800	23,000
Jean Burelle	31,200	19,700
Yves Chevillotte	41,000	29,000
Philippe Germond	15,800	14,000
Igor Landau	3,900	10,700
Louis Lesperance	5,900 [b]	12,200 [b]
Olivier Pécoux	19,000	19,400
Jean-Pierre Martin	5,900	14,000
Bertrand Roy	N/A	14,000
Dominique Reiniche	9,800	7,300
Michel Rose	17,400	6,150
Alain Thomas	10,550	N/A
Serge Zins	10,550	N/A

[a] Including directors' fees received from Bacou-Dalloz (€11,220 in 2006, €10,992 in 2005 and €11,608 in 2004).
[b] Exchange rate: €1 = CAD 1.43.

15.2. Contingent or deferred compensation, pension, retirement and other benefits

15.2.1. Directors' interests

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

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15.2.2. Stock options

- Stock options and performance shares granted to and exercised by executive directors in 2006 - Performance shares granted in 2006 by Essilor International or other Group companies	Total number	Price (in €)	Expiry date	Plan
Performance shares granted in 2006 by Essilor International or other Group companies				
Xavier Fontanet	29,250	-	Nov. 22, 2013	Nov. 22, 2006
Philippe Alfroid	22,500	-	Nov. 22, 2013	Nov. 22, 2006
Options levées durant l'exercice 2006 par chaque mandataire social (liste nominative)				
Xavier Fontanet	30,000	31.24	Nov. 14, 2011	Nov. 14, 2001
	31,257	40.67	Nov. 20, 2012	Nov. 20, 2002
Philippe Alfroid	9,500	31.24	Nov. 14, 2011	Nov. 14, 2001

For more information about performance shares, refer to Section 21.1.4.3. – Performance shares.

16 Board Practices

16.1. Expiration dates of terms of office and periods served by members of the Board of Directors

16.1.1. Expiration dates of terms of office and periods served

The expiration dates of the directors' current terms of office and periods served are presented in Section 14.1.1.

The following persons were appointed to the Board in 2006 or in early 2007:

- Maurice Marchand Tonel was appointed as director at the Board meeting on November 22, 2006 to replace Dominique Reiniche following her resignation.
- Aicha Mokdahi was appointed as director at the Board meeting on January 24, 2007 to replace Juan Boix following his resignation.

As stipulated by law and the bylaws, these appointments were made subject to ratification at the Annual Shareholders' Meeting of May 11, 2007 (see AMF Interpretation no.3).

16.1.2. Procedures of the Board of Directors and the Committees of the Board

The procedures of the Board of Directors and the Committees of the Board are governed by internal rules adopted by the Board on November 18, 2003, as amended on January 27, 2005 and January 24, 2007. The main provisions of the internal rules concerning the Board's procedures are as follows:

Information given to Directors

All necessary documents to inform the directors about the matters to be discussed at Board meetings shall be enclosed with the notice of meeting or sent or handed to directors reasonably in advance of the meeting.

Each director shall ensure that he or she has all essential information to enable the Board or the Committees of the Board to engage in an informed discussion and make informed decisions. If any information is not made available, or if the director believes that information may have been withheld, he or she shall ask for it to be supplied. The request shall be made to the Chairman of the Board (or the Chief Executive Officer if the two positions are separated), who is under the obligation to ensure that directors are able to fulfill their duties.

Between meetings, directors shall receive all useful information, including any critical comments, about all significant events or transactions in the life of the Company. In particular, they shall receive copies of all press releases published by the Company.

Board meetings

The Board shall meet as frequently as necessary in the Company's interest and at least five times per year. The dates of the following year's meetings shall be set no later than one month before the end of the year, except for special meetings.

Committees of the Board

On the recommendation of the Chairman, the Board may set up committees, deciding on their terms of reference and their membership. These Committees shall examine matters submitted to them by the Board, falling within their respective terms of reference, and shall make recommendations and proposals to the Board.

Annual self-assessment

Once a year, the Board shall perform a formal assessment of its procedures and take any appropriate measures to improve its efficiency. The Board shall inform shareholders of the results of the self-assessment in the Annual Report.

Changes to the internal rules

These internal rules may be amended by decision of the Board.

At its meeting on January 27, 2005, the Board amended the directors' charter adopted on November 18, 2003, which sets out the rights and obligations of Essilor directors, to take into account:

1. **The provisions of the Market Abuse Directive (framework directive 2003/6/EC dated January 28, 2003) on insider dealing and market manipulation, which came into effect on October 12, 2004. The charter states that:**

> Each director who has access to inside information may not trade in the Company's shares, directly or through a third party, or cause any other person to trade in the Company's shares on the strength of that information for as long as it has not been made public. In addition, in the same way as for Company executives who have access to inside information, directors are prohibited from trading in the Company's shares during the period preceding the publication of inside information of which they are aware and also during the 21-day period that precedes the announcement of the Company's annual and half-yearly results and quarterly revenue.

2. The new requirement for corporate officers to disclose any trading in the Company's shares by themselves or their close relations, which came into effect on November 25, 2004. The charter states that:

In accordance with Article 621-18-2 of the Monetary and Financial Code, introduced in Act 2003-706 dated August 1, 2003 (the Financial Security Act), Articles 222-14 and 222-15 of the regulations of the Autorité des Marchés Financiers (AMF), and the AMF's press release dated December 27, 2004, each director undertakes to report immediately to Essilor, through the Company's registrar, any and all transactions on the Company's shares or financial instruments carried out by him or her or by any close relation, in order to enable the Company to report these transactions to the AMF and to announce them in a press release, within the required timeframe.

16.2. Information about the service contracts of members of the Board of Directors: no service contracts

Neither the Chief Executive Officer nor the members of the Board of Directors have a service contract with Essilor or any of its subsidiaries providing for the payment of benefits at the end of the contract.

16.3. Information about the Audit Committee and the Remunerations Committee

Refer to Section 14.1.2.1. and Appendix 1 – Chairman's Report on Corporate Governance and Internal Control, Section 1 – Preparation and organization of meetings of the Board of Directors, sub-sections Audit Committee and Remunerations Committee.

16.4. Compliance by Essilor with France's corporate governance regime

The Company complies in all material respects with the corporate governance regime defined in the "Bouton" report.

17 Employees

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17.1. Human Resources: number of employees, by geographic location and category

For more information on Company employees, refer to the notes to the consolidated financial statements (Section 20.3.1.5., Note 28).

17.1.1. Average number of employees and employees as of December 31

As of December 31, 2006, Essilor had 29,288 employees worldwide (including the employees of proportionately consolidated companies on a 100% basis). The average number of employees for the year was 27,262 (employees corresponding to consolidated employee benefits expense for the year).

The number of employees at December 31, 2005 was 26,534 and the average for the year was 24,909.

There has been no material change in the number of employees since January 1, 2006.

As encouraged by European Union regulation 809/2004/EC, the Company does not employ a large number of temporary workers.

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17.1.2. Average number of employees by geographic location and category

17.1.2.1. Breakdown by region

	2006		2005		2004	
North America	9,291	34.1%	8,613	34.6%	7,986	34.0%
Europe	9,608	35.2%	9,517	38.2%	9,352	39.8%
Latin America / Asia-Pacific / Africa	8,363	30.7%	6,779	27.2%	6,182	26.3%

17.1.2.2. Employees by category

	2006		2005		2004	
Production	15,797	57.95%	14,875	59.72%	14,052	59.74%
Supervisory and administrative	7,772	28.51%	6,808	27.33%	6,453	27.44%
Management	3,692	13.54%	3,226	12.95%	3,015	12.82%

17.2. Employee shareholdings and stock options

17.2.1. Shares and stock options held by members of the Board of Directors as of December 31, 2006

		Essilor stock options						Rights
		Stock options (exercisable for new shares)						Performance shares
As of December 31, 2006	Essilor shares	Nov. 20, 2002	Nov. 18, 2003	Nov. 17, 2004	Jan. 27, 2005	Nov. 23, 2005	Nov. 22, 2006	Nov. 22, 2006
EXECUTIVE DIRECTORS								
FONTANET Xavier	102,360	25,743	45,000	55,000		60,000		29,250
ALFROID Philippe	100,668	44,000	35,000	43,000		47,000		22,500
BOIX Juan	7,357		1,168	64	2,267			
THOMAS Alain	4,025		97	95		80		36
ZINS Serge	4,738	2,000	2,000	2,000		2,000	2,500	

INDEPENDENT DIRECTORS

As of December 31, 2006, independent directors held 5,299 Essilor International shares. They did not hold any stock options or rights to performance shares.

For more information about performance shares, refer to Section 21.1.4.3. – Performance shares.

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17.2.2. Stock options and performance shares

17.2.2.1. Stock options and performance share rights granted and exercised during the year

- Stock options exercisable for new shares - Stock options exercisable for existing shares - Performance share rights granted to employees other than executive directors.	Total number	Weighted average exercise price (in €)	Expiry date	Plan
Total stock options granted in 2006 to the ten employees other than executive directors who received the greatest number of options	97,500	82.92	Nov. 22, 2013	Nov. 22, 2006
Total performance share rights granted in 2006 to the ten employees other than executive directors who received the greatest number of options	63,900	-	Nov. 22, 2013	Nov. 22, 2006
Total stock options exercised in 2006 by the ten employees other than executive directors who exercised the greatest number of options	98,548	36.99		March 15, 2000 Nov. 14, 2001 Nov. 20, 2002 Nov. 18, 2003

For more information about performance shares, refer to Section 21.1.4.3. – Performance shares.

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17.2.2.2. Stock option plans and performance share plans

Details of stock options and performance share rights granted and exercised under the Company's plans are presented in the table on the following page. Information is provided only for those plans for which options or rights are currently outstanding.

For more information about performance shares, refer to Section 21.1.4.3. – Performance shares.

Plan	Nov. 14, 2001	Nov. 14, 2001	Nov. 20, 2002	Nov. 18, 2003
Shareholder approval date	June 16, 1997	Jan. 18, 2001	Jan. 18, 2001	May 16, 2003
Grant date	Nov. 14, 2001	Nov. 14, 2001	Nov. 20, 2002	Nov. 18, 2003
Type of plan	Stock options exercisable for new shares	Stock options exercisable for new shares	Stock options exercisable for new shares	Stock options exercisable for new shares
Number of options/rights	160,660	670,250	812,580	804,570
- Held by executive directors	0	80 000	101 000	80 000
- Held by the top ten grantees (other than executive directors)	51,120	115,000	146,000	127,750
Start date of exercise period	Nov. 14, 2002	Nov. 14, 2002	Nov. 20, 2003	Nov. 18, 2004
Expiry date	Nov. 14, 2007	Nov. 14, 2011	Nov. 20, 2012	Nov. 18, 2010
Exercise price (in €)	31.240	31.240	40.670	40.730
Number of grantees	707	646	1,348	1,436
Exercise conditions	Non-residents: exercisable at the rate of 1/3 per year maximum from the 2nd year. Residents: exercisable from Nov. 14, 2005.	Non-residents: exercisable at the rate of 1/3 per year maximum from the 2nd year. Residents: exercisable from Nov. 14, 2005.	Non-residents: exercisable at the rate of 1/3 per year maximum from the 2nd year. Residents: exercisable from Nov. 20, 2006.	Non-residents: exercisable at the rate of 1/3 per year maximum from the 2nd year. Residents: exercisable from Nov. 18, 2007.
Shares subscribed as of December 31, 2006	109,756	455,367	313,468	129,914
Cancelled stock options and performance shares	10,556	19,013	20,907	19,424
Outstanding stock options and performance shares	40,348	195,870	478,205	655,232

(a) Capped options: the maximum profit that can be made by each grantee is capped at 100% of the value of the option grants.
(b) Capped performance options: capped performance options vest only if the share price reaches a certain level (in the same way as the performance shares described in Section 21.1.4.3.) and can be cancelled if the target is not met.

For more information about stock options and performance shares, refer to Section 21.1.4

Nov. 17, 2004	Jan. 27, 2005	Nov. 23, 2005	Nov. 22, 2006	Nov. 22, 2006	Jan. 24, 2007
May 16, 2003	May 16, 2003	May 13, 2005	May 13, 2005	May 13, 2005	May 13, 2005
Nov. 17, 2004	Jan. 27, 2005	Nov. 23, 2005	Nov. 22, 2006	Nov. 22, 2006	Jan. 24, 2007
Stock options exercisable for new shares [b]	Stock options exercisable for new shares [b]	Stock options exercisable for new shares [b]	Stock options exercisable for new shares [b]	Performance share rights	Performance share rights
893,900	15,750	998,440	465,370	Maximum: 263,556	Maximum: 24,576
98,000	0	107,000	0	51,750	0
156,000	15,750	187,000	97,500	63,900	80
Nov. 17, 2005	Jan. 27, 2006	Nov. 23/2006	Unknown	Unknown	Unknown
Nov. 17, 2011	Jan. 27, 2012	Nov. 23, 2012	Nov. 22, 2013	Nov. 22, 2013	Jan. 24, 2014
52.990	54.580	69.400	82.920	Unknown	Unknown
1,585	2	1,953	1,148	1,134	2,981
Non-residents: exercisable at the rate of 1/3 per year maximum from the 2nd year. Residents: exercisable from Nov. 17, 2008.	Non-residents: exercisable at the rate of 1/3 per year maximum from the 2nd year. Residents: exercisable from Jan. 27, 2009.	Non-residents: exercisable at the rate of 1/3 per year maximum from the 2nd year. Residents: exercisable from Nov. 23, 2009.	Non-residents: not exercisable until performance target met, then 1/2 maximum the third year and the balance in subsequent years. Cancellation possible. Residents: none.	Non-residents: none. Residents: forfeited if performance target not met. Cancellation possible. Can be sold from Nov. 22, 2013.	Non-residents: none. Residents: forfeited if performance target not met. Cancellation possible. Can be sold from Jan. 24, 2014.
43,687	1,133	5,830	0	0	0
15,130	0	9,550	0	0	0
835,083	14,617	983,060	465,370	263,556	24,576

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17.3. Arrangements for involving employees in Essilor's capital

17.3.1. Employee incentive plans: discretionary and statutory profit-sharing plans

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Plans for Essilor International employees

ADISCRETIONARY PROFIT-SHARING PLAN

The current discretionary profit-sharing agreement was renewed on March 14, 2004 for a three-year period expiring at the end of 2006.

The plan is governed by Articles L. 441 *et seq.* of the Labor Code.

Designed to improve employee information and awareness of the Company's earnings performance, the agreement represents a means of mobilizing employees in a concerted drive to meet the Company's targets.

Under the plan, profit shares are based on the ratio of actual operating profit to budgeted operating profit. The calculation formula is geared towards providing all employees with an incentive to help improve the Company's results and meet budget objectives, by offering them a form of variable compensation.

Profit shares are paid to all employees with at least three months' service. They are allocated as follows: 30% of the amount is based on the period of presence during the year and 70% is prorated to the reference salary.

The total amount distributed each year may not exceed 20% of the aggregate gross salaries paid to eligible employees.

Discretionary profit shares paid over the last five years were as follows:

- 2007: €4,318 thousand for 2006.
- 2006: €3,440 thousand for 2005.
- 2005: €3,251 thousand for 2004.
- 2004: €2,982 thousand for 2003.
- 2003: €2,168 thousand for 2002.

STATUTORY PROFIT-SHARING PLAN

In view of the level of Essilor International's equity, no amounts have been credited to the profit-sharing reserve for eligible employees.

17.3.2. Arrangement involving employees in Essilor's capital

Employee stock ownership

Essilor employees may become shareholders in two ways:

EMPLOYEE STOCK OWNERSHIP PLANS

By purchasing units in various stock ownership plans, directly held shares, corporate mutual fund units or shares held in trusts. These shares or units are generally purchased with a loan from the subsidiary concerned. The shares are either issued directly or bought back on the market for allocation to employees. They are subject to a lock-up period of 2 to 7 years, depending on the country.

- The corporate mutual funds include FCPE Valoptec International, the Essilor 5-year Corporate Mutual Fund, the Essilor 7-year Corporate Mutual Fund and the Essilor International Corporate Mutual Fund.
- The trusts include the Essilor Shareholding Plan in the United States and the Australian Shareholding Plan.
- Direct shareholding is possible with the Spanish Ahorro Plan.

For more information about employee share ownership, refer to Appendix 2 – Social and Environmental Policy (disclosures made in application of the "NRE" Act in France).

STOCK OPTIONS

Employees can also acquire shares by exercising stock options, financed in particular by funds released from the French employee stock ownership plan *(plan d'épargne d'entreprise)*. The shares are registered in the employee's name for the lock-up period.

PERFORMANCE SHARES

Refer to Section 21.1.4.3. – Performance shares.

18

Major Shareholders

18.1. Ownership structure and voting rights

To the best of the Company's knowledge, no shareholder other than the FCPE Valoptec International corporate mutual fund (see Section 17.3.) holds 5% or more of the voting rights directly, indirectly or in concert with a third party.

18.1.1. Ownership structure at December 31, 2006

At December 31, 2006, the total number of voting rights was 110,550,299 attached to 103,848,436 shares.

At December 31, 2006	Number of shares	%	Number of voting rights	%
EMPLOYEE SHAREHOLDERS (French and non-French)				
- FCPE Valoptec International	4,256,390	4.09	8,512,780	7.70
- Essilor 5 and 7-year Corporate Mutual Funds	2,419,009	2.33	4,452,668	4.03
- Funds for employees outside France	320,154	0.31	320,154	0.29
- Registered shares held directly by employees	1,585,359	1.53	2,729,406	2.47
SUB-TOTAL	**8,580,912**	**8.26**	**16,015,008**	**14.49**
TREASURY STOCK				
- Treasury stock	1,094,045	1.05		
- Liquidity contract	29,909	0.03		
SUB-TOTAL	**1,123,954**	**1.08**		
PUBLIC	94,143,570	90.66	94,535,291	85.51
TOTAL	**103,848,436**	**100**	**110,550,299**	**100**

Shareholder identification

Fully paid-up shares may be held in either registered or bearer form, at the shareholder's discretion.

The Company may, at any time, subject to compliance with the applicable laws and regulations, request information from the clearing organization about the identity of holders of shares and securities convertible, redeemable, exchangeable or otherwise exercisable for shares carrying rights to vote at General Shareholders' Meetings, as well as details of the number of securities held.

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18.1.2. Ownership structure at December 31, 2005 and December 31, 2004

The table showing Essilor's ownership structure at December 31, 2006 can be found in Section 18.1.1.

At December 31, 2005 and December 31, 2004, the Company's ownership structure was as follows:

At December 31, 2005	Number of shares	%	Number of voting rights	%
EMPLOYEE SHAREHOLDERS (French and non-French)				
- FCPE Valoptec International	4,464,371	4.32	8,928,742	8.11
- Essilor 5 and 7-year Corporate Mutual Funds	2,380,971	2.31	4,333,784	3.94
- Funds for employees outside France	327,292	0.32	327,292	0.30
- Registered shares held directly by employees	1,414,469	1.37	2,467,152	2.24
SUB-TOTAL	**8,587,103**	**8.32**	**16,056,970**	**14.59**
TREASURY STOCK				
- Treasury stock	1,253,630	1.21		
- Liquidity contract	70,000	0.07		
SUB-TOTAL	**1,323,630**	**1.28**		
PUBLIC	93,295,529	90.40	94,026,265	85.41
TOTAL	**103,206,262**	**100**	**110,083,235**	**100**

At December 31, 2004	Number of shares	%	Number of voting rights	%
EMPLOYEE SHAREHOLDERS (French and non-French)				
- FCPE Valoptec International	4,748,436	4.60	9,496,872	8.61
- Essilor 5 and 7-year Corporate Mutual Funds	2,402,307	2.33	4,400,165	4.00
- Funds for employees outside France	330,653	0.32	330,653	0.30
- Registered shares held directly by employees	1,297,382	1.26	2,376,746	2.16
SUB-TOTAL	**8,778,778**	**8.50**	**16,604,436**	**15.06**
TREASURY STOCK				
- Treasury stock	1,372,788	1.33		
- Liquidity contract	10,000	0.01		
SUB-TOTAL	**1,382,788**	**1.34**		
PUBLIC	93,148,917	90.16	93,647,369	84.94
TOTAL	**103,310,483**	**100**	**110,251,805**	**100**

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18.2. Different voting rights

Voting rights

As from June 22, 1974, double voting rights were attributed to all fully paid-up shares registered in the name of the same holder for at least two years.

The holding period was raised to five years at the Shareholders' Meeting of June 11, 1983 and reduced to two years at the Shareholders' Meeting of March 3, 1997.

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

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

If any registered shares are converted to bearer shares or transferred to another shareholder, the double voting right on those shares is forfeited.

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

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

Voting restrictions

As of December 31, 2006, the Company's bylaws did not contain any restrictions on the exercise of voting rights.

Concerning the extraordinary resolution tabled at the Annual Shareholders' Meeting of May 11, 2007, refer to Section 21.2.4.2., paragraph "Changes in the bylaws", second resolution.

18.3. No external control of the Company

To the best of the Company's knowledge, no other individuals or legal entities own or control the Company either directly or indirectly.

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18.4. Arrangements resulting in a change in control of the Company and shareholders' pacts

Contracts containing a Change of Control clause (Article L. 225-100-3 of the Commercial Code)

- The joint venture agreement with Nikon Corporation contains a clause allowing Nikon to acquire Essilor's 50% stake in the Nikon-Essilor joint venture or to require the joint venture to be wound up following a change of control of Essilor International, subject to certain conditions.
- The agreements covering the Company's bank facilities also include Change of Control clauses.

Other items that could have an impact on the event of a public tender offer (Article L. 225-100-3 of the Commercial Code)

- Employees hold 8.26% of the Company's capital and 14.49% of the voting rights. They may exercise these voting rights directly or give proxy to the representatives of the Essilor 7-year Corporate Mutual Fund and the Valoptec Association.
- The resolutions tabled at the Annual Shareholders' Meeting of May 11, 2007 that could have an impact on the event of a public tender offer are presented in Section 21.2.4.2.

To the best of the Company's knowledge, there are no shareholder pacts, pre-emptive rights agreements or other agreements that may at a subsequent date result in a change in control of the Company.

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19 Related Party Transactions

19.1. Nature and extent of major transactions

Related parties include the following:

Proportionately consolidated companies

- Nikon-Essilor, a 50/50 joint venture in Japan with the Nikon group.

  Nikon-Essilor distributes certain Essilor products in Japan, while Essilor distributes certain Nikon brand products made by Nikon-Essilor, mainly in Europe.

- Essilor Korea, a joint venture 50%-owned by Essilor and 50% by the South Korean group Samyung Trading.

  Essilor Korea distributes certain Essilor products in the South Korean market, while Essilor distributes certain products manufactured by Essilor Korea's Chemiglass subsidiary in the European market.

- GKB Rx Lens, a 50%-owned subsidiary of Essilor.

  GKB Rx manages a network of prescription laboratories and a distribution network covering the whole of India. The company sells its own products and transactions with other Essilor companies are therefore not material.

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Associates

- The Bacou-Dalloz subgroup, in which Essilor holds a 15.11% interest corresponding to 24% of the voting rights.

  Transactions between Essilor and Bacou-Dalloz are not material.
- VisionWeb, 44%-owned by Essilor.

  Essilor of America laboratories use the VisionWeb ordering system.
- The Transitions subgroup, 49%-owned by Essilor.

  Essilor sells stock lenses to the Transitions group, for transformation into variable-tint lenses. Essilor also distributes Transitions products across its networks.

Refer also to Note 29 to the consolidated financial statements – Related Party Transactions (Section 20.3.1.5.).

Further details on affiliates can be found in the notes to the consolidated financial statements (Section 20.3.1.5., Notes 31 to 34).

Financial information on companies consolidated by the proportionate or equity method and non-consolidated companies is presented in Notes 32 to 34 to the consolidated financial statements (Section 20.3.1.5.).

There are no related party agreements that are not on arm's length terms.

19.2. Amount or percentage to which related party transactions form part of the Company's revenue

Refer to Note 29 to the consolidated financial statements (Section 20.3.1.5.).

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Financial Information Concerning Essilor's Assets and Liabilities, Financial Position and Profits and Losses

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20.1. Historical financial information

Refer to Section 20.3. – Financial Statements.

20.2. Pro forma financial information

Not applicable.

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20.3. Financial statements (2006 consolidated financial statements and notes; parent company 2006 key figures and financial statements)

20.3.1. 2006 consolidated financial statements and notes

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

The Auditors' report on the consolidated financial statements is presented in Section 20.4.1.1. of this Registration Document.

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20.3.1.1. Consolidated income statement

€ thousands, except for per share data	Notes	2006	2005	2004 [a]
Revenue	3	2,689,958	2,424,323	2,202,528
Cost of sales		(1,123,078)	(1,034,529)	(960,457)
GROSS PROFIT		**(1,566,880)**	**(1,389,794)**	**(1,242,071)**
Research and development costs		(127,629)	(113,490)	(106,095)
Selling and distribution costs		(604,548)	(538,711)	(495,458)
Other operating expenses		(352,789)	(317,176)	(283,977)
CONTRIBUTION FROM OPERATIONS		**481,914**	**420,417**	**356,541**
Restructuring costs, net		(2,662)	(3,353)	(6,203)
Impairment losses		(2,929)	(11,256)	(2,539)
Compensation costs on share-based payments	5	(16,101)	(12,269)	(8,544)
Other income and expenses from operations, net		(68)	1,967	1,832
Gains and losses on asset disposals, net		(304)	(1,871)	(2,192)
OPERATING PROFIT	3	**459,850**	**393,635**	**338,895**
Finance costs		(30,510)	(28,021)	(26,288)
Income from cash and cash equivalents		20,090	18,993	18,095
Other financial income and expenses, net	6	(9,442)	(9,708)	(5,402)
PROFIT BEFORE TAX		**439,988**	**374,899**	**325,300**
Income tax expense	7	(137,331)	(108,292)	(90,044)
NET PROFIT OF FULLY-CONSOLIDATED COMPANIES		**302,657**	**266,607**	**235,256**
Share of profits of associates	14	28,499	22,457	9,837
PROFIT FOR THE PERIOD		**331,156**	**289,064**	**245,093**
Attributable to equity holders of Essilor International		**328,284**	**287,134**	**244,427**
Attributable to minority interests		2,872	1,930	666
Basic earnings per share (€)		3.21	2.82	2.41
Weighted average number of shares (thousands)	8	102,123	101,883	101,483
Diluted earnings per share (€)	9	3.11	2.72	2.32
Diluted weighted average number of shares (thousands)	9	108,169	108,455	107,854

[a] Excluding IAS 32 and IAS 39, applied as from January 1, 2005.

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20.3.1.2. Consolidated balance sheet

Assets

€ thousands	Notes	December 31, 2006	December 31, 2005	December 31, 2004 [a]
Goodwill	10	474,771	451,037	350,357
Other intangible assets	11	118,166	124,195	88,155
Property, plant and equipment	12	671,257	637,342	520,256
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, NET		**1,264,194**	**1,212,574**	**958,768**
Investments in associates	14	155,596	133,313	101,090
Other long-term financial investments	15	34,657	41,408	42,830
Deferred tax assets	7	34,655	36,612	40,099
Long-term receivables		9,338	9,189	4,087
Other non-current assets	20	1,370	0	0
OTHER NON-CURRENT ASSETS		**235,616**	**220,522**	**188,106**
TOTAL NON-CURRENT ASSETS, NET		**1,499,810**	**1,433,096**	**1,146,874**
Inventories	16	371,133	364,559	306,440
Prepayments to suppliers		7,698	9,614	7,634
Short-term receivables	17	551,013	515,460	447,420
Current income tax assets		7,929	16,054	4,015
Other receivables		6,558	7,851	5,872
Derivative financial instruments	23	3,174	2,650	0
Prepaid expenses		16,174	14,139	14,218
Own shares		0	0	449
Marketable securities		75,147		
Cash and cash equivalents	18	584,889	658,713	670,339
CURRENT ASSETS		**1,623,715**	**1,589,039**	**1,456,387**
Non-current assets held for sale		0	4,015	0
TOTAL ASSETS		**3,123,525**	**3,026,150**	**2,603,261**

[a] Excluding IAS 32 and IAS 39, applied as from January 1, 2005.

Equity and liabilities

€ thousands	Notes	December 31, 2006	December 31, 2005	December 31, 2004 [a]
Share capital		36,347	36,122	36,159
Additional paid-in capital		236,858	203,771	212,449
Retained earnings		1,331,761	1,133,089	949,031
Treasury stock		(71,502)	(81,979)	(63,695)
Oceane conversion option		35,489	40,752	
Revaluation and other reserves		1,935	(1,289)	
Translation reserve	19	(4,399)	63,266	(37,451)
Profit attributable to equity holders of Essilor International		328,284	287,134	244,427
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF ESSILOR INTERNATIONAL		**1,894,773**	**1,680,866**	**1,340,920**
Minority interests		11,032	7,000	4,515
TOTAL EQUITY		**1,905,805**	**1,687,866**	**1,345,435**
Provisions for pensions and other post-employment benefit obligations	20	95,793	90,848	81,430
Long-term borrowings	22	262,997	448,848	607,383
Deferred tax liabilities	7	1,267	2,163	1,878
Long-term payables		198	631	551
NON-CURRENT LIABILITIES		**360,255**	**542,490**	**691,242**
Provisions	21	23,350	26,321	32,010
Short-term borrowings	22	187,011	156,222	25,613
Customer prepayments		3,183	6,943	7,257
Short-term payables		554,693	522,505	439,114
Taxes payable		29,086	26,665	30,883
Other liabilities		50,591	38,897	23,551
Derivative financial instruments	23	2,221	9,267	
Deferred income		7,330	8,974	8,156
CURRENT LIABILITIES		**857,465**	**795,794**	**566,584**
TOTAL EQUITY AND LIABILITIES		**3,123,525**	**3,026,150**	**2,603,261**

[a] Excluding IAS 32 and IAS 39, applied as from January 1, 2005.

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20.3.1.3. Statement of changes in consolidated equity

€ 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, 2006	**36,122**	**203,771**	**(1,289)**	**40,752**	**1,133,089**	**63,266**	**(81,979)**	**287,134**	**1,680,866**	**7,000**	**1,687,866**
Issue of share capital:											
- To the corporate mutual funds	107	19,389							19,496		19,496
- On exercise of stock options	118	13,698							13,816		13,816
Cancellation of treasury stock											
Oceane buybacks				(5,263)	(7,237)				(12,500)		(12,500)
Share-based payments					16,101				16,101		16,101
Purchases and sales of treasury stock, net					(1,285)		10,477		9,192		9,192
Appropriation of profit					287,134			(287,134)			
Effect of changes in scope of consolidation										2,236	2,236
Dividends					(95,840)				(95,840)	(381)	(96,221)
TRANSACTIONS WITH SHAREHOLDERS	**225**	**33,087**	**0**	**(5,263)**	**198,873**	**0**	**10,477**	**(287,134)**	**(49,735)**	**1,855**	**(47,880)**
Gains and losses on remeasurement at fair value of derivative financial instruments, net of tax:											
- Cash flow hedges, effective portion			2,243						2,243		2,243
- Hedges of net investments in foreign operations, effective portion			1,587						1,587		1,587
Transfers to profit for the period, net of tax:											
- Cash flow hedges, effective portion			185						185		185
- Hedges of net investments in foreign operations, effective portion			(675)						(675)		(675)
Gains and losses on remeasurement at fair value of non-current financial assets, net of tax			(78)						(78)		(78)
Exchange differences on translating foreign operations and other			(38)		(201)	(67,665)			(67,904)	(695)	(68,599)
TOTAL INCOME AND EXPENSE FOR THE PERIOD RECOGNIZED DIRECTLY IN EQUITY (A)	**0**	**0**	**3,224**	**0**	**(201)**	**(67,665)**	**0**	**0**	**(64,642)**	**(695)**	**(65,337)**
Profit for the period (B)								328,284	328,284	2,872	(331,156)
TOTAL RECOGNIZED INCOME AND EXPENSE (A) + (B)	**0**	**0**	**3,224**	**0**	**(201)**	**(67,665)**	**0**	**328,284**	**263,642**	**2,177**	**265,819**
EQUITY AT DECEMBER 31, 2006	**36,347**	**236,858**	**1,935**	**35,489**	**1,331,761**	**(4,399)**	**(71,502)**	**328,284**	**1,894,773**	**11,032**	**1,905,805**

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€ 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, 2005 UNDER IFRS (OTHER THAN IAS 32 AND 39)	**36,159**	**212,449**			**949,031**	**(37,451)**	**(63,695)**	**244,427**	**1,340,920**	**4,515**	**1,345,435**
Oceane conversion option				40,752	(4,384)				36,368		36,368
Deferred taxes on Oceane convertible bonds					(12,704)				(12,704)		(12,704)
Deferred taxes on Oceane convertible bonds							(449)		(449)		(449)
Elimination of Essilor shares recorded in assets											
- Cash flow hedges			3		(240)				(237)		(237)
- Hedges of net investments in foreign operations			503		(27)				476		476
- Fair value hedges					23,445				23,445		23,445
- Derivative financial instruments not qualifying for hedge accounting					3,455				3,455		3,455
Put options granted to minority shareholders										(942)	(942)
IAS 39 adjustment to Bacou-Dalloz opening equity			(61)		32				(29)		(29)
Other											
Translation of foreign currency receivables and payables at the closing rate					(2,998)				(2,998)		(2,998)
EQUITY AT JANUARY 1, 2005 UNDER IFRS (OTHER THAN IAS 32 AND 39)	**36,159**	**212,449**	**445**	**40,752**	**955,610**	**(37,451)**	**(64,144)**	**244,427**	**1,388,247**	**3,573**	**1,391,820**
Issue of share capital:										379	379
- To the corporate mutual funds	121	16,729							16,850		16,850
- On exercise of stock options	157	14,876							15,033		15,033
Cancellation of treasury stock	(315)	(40,283)					40,598				
Share-based payments					12,269				12,269		12,269
Purchases and sales of treasury stock, net					(1,724)		(58,433)		(60,157)		(60,157)
Appropriation of profit					244,427			(244,427)			
Effect of changes in scope of consolidation										711	711
Dividends					(77,279)				(77,279)	(173)	(77,452)
TRANSACTIONS WITH SHAREHOLDERS	**(37)**	**(8,678)**	**0**	**0**	**177,693**	**0**	**(17,835)**	**(244,427)**	**(93,284)**	**917**	**(92,367)**

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€ 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
Gains and losses on remeasurement at fair value of derivative financial instruments, net of tax:											
- Cash flow hedges, effective portion			(2,232)						(2,232)	27	(2,205)
- Hedges of net investments in foreign operations, effective portion			(1,446)						(1,446)		(1,446)
Transfers to profit for the period, net of tax:											
- Cash flow hedges, effective portion			1,445						1,445		1,445
- Hedges of net investments in foreign operations, effective portion			399						399		399
Gains and losses on remeasurement at fair value of non-current financial assets, net of tax			235		(149)				86		86
Exchange differences on translating foreign operations and other			(135)		(65)	100,717			100,517	553	101,070
TOTAL INCOME AND EXPENSE FOR THE PERIOD RECOGNIZED DIRECTLY IN EQUITY (A)	**0**	**0**	**(1,734)**	**0**	**(214)**	**100,717**	**0**	**0**	**98,769**	**580**	**99,349**
Profit for the period (B)								287,134	287,134	1,930	289,064
TOTAL RECOGNIZED INCOME AND EXPENSE (A) + (B)	**0**	**0**	**(1,734)**	**0**	**(214)**	**100,717**	**0**	**287,134**	**385,903**	**2,510**	**388,413**
EQUITY AT DECEMBER 31, 2005	**36,122**	**203,771**	**(1,289)**	**40,752**	**1,133,089**	**63,266**	**(81,979)**	**287,134**	**1,680,866**	**7,000**	**1,687,866**

€ 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, 2004	**35,959**	**194,091**			**801,989**		**(47,459)**	**200,331**	**1,184,911**	**3,315**	**1,188,226**
Issuance of shares:											
- To the corporate mutual funds	134	15,496							15,630		15,630
- On exercise of stock options	346	32,006							32,352		32,352
Share-based payments					8,544				8,544		8,544
Cancellation of treasury stock	(280)	(29,144)					29,424				
Purchases and sales of treasury stock, net					(66)		(45,660)		(45,726)		(45,726)
Effect of changes in scope of consolidation										696	696
Appropriation of profit					200,331			(200,331)			
Dividends (including *précompte* withholding tax)					(61,841)				(61,841)	(129)	(61,970)
TRANSACTIONS WITH SHAREHOLDERS	**200**	**18,358**	**0**	**0**	**146,968**	**0**	**(16,236)**	**(200,331)**	**(51,041)**	**567**	**(50,474)**
Profit for the period								244,427	244,427	666	245,093
Exchange differences on translating foreign operations and other					74	(37,451)			(37,377)	(33)	(37,410)
TOTAL RECOGNIZED INCOME AND EXPENSE	**0**	**0**	**0**	**0**	**74**	**(37,451)**	**0**	**244,427**	**207,050**	**633**	**207,683**
EQUITY AT DECEMBER 31, 2004	**36,159**	**212,449**			**949,031**	**(37,451)**	**(63,695)**	**244,427**	**1,340,920**	**4,515**	**1,345,435**

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20.3.1.4. Consolidated cash flow statement

€ thousands	2006	2005	2004 [a]
PROFIT FOR THE PERIOD	**331,156**	**289,064**	**245,093**
Share of profits of associates, net of dividends received	(6,416)	4,567	37,368
Depreciation, amortization and other non-cash items	133,161	124,656	109,693
PROFIT BEFORE NON-CASH ITEMS AND SHARE OF PROFITS OF ASSOCIATES, NET OF DIVIDENDS RECEIVED	**457,901**	**418,287**	**392,154**
Provision charges (reversals)	4,328	(2,249)	6,510
Gains and losses on asset disposals, net	312	1,871	2,192
CASH FLOW AFTER INCOME TAX AND FINANCE COSTS, NET	**462,541**	**417,909**	**400,856**
Finance costs, net	10,134	9,028	8,193
Income tax expense (current and deferred taxes)	137,331	108,293	80,968
CASH FLOW BEFORE INCOME TAX AND FINANCE COSTS, NET	**610,006**	**535,230**	**490,017**
Income taxes paid	(127,553)	(132,067)	(82,976)
Interest (paid) and received, net	(4,543)	(1,272)	(9,274)
Change in working capital	(26,849)	(3,561)	(5,437)
NET CASH FROM OPERATING ACTIVITIES	**451,061**	**398,330**	**392,330**
Purchases of property, plant and equipment	(204,745)	(181,341)	(149,861)
Acquisitions of subsidiaries, net of the cash acquired	(44,024)	(106,737)	(54,916)
Purchases of available-for-sale financial assets	(2,135)	(10,658)	(7,978)
Other long-term financial investments	(4,829)	(697)	(2,328)
Proceeds from the sale of subsidiaries, net of the cash sold	(116)	0	0
Proceeds from the sale of other non-current assets	14,080	12,165	5,884
NET CASH USED IN INVESTING ACTIVITIES	**(241,769)**	**(287,268)**	**(209,199)**
Proceeds from the issue of share capital	33,312	31,883	47,982
(Purchases) and sales of treasury stock, net	9,192	(60,158)	(45,619)
Dividends paid to:			
- Equity holders of Essilor International	(95,840)	(77,300)	(61,841)
- Minority shareholders of subsidiaries	(381)	(173)	(129)
Repayments of borrowings other than finance lease liabilities	(138,426)	(19,019)	(42,054)
Purchases of marketable securities [b]	(75,147)		
Repayments of finance lease liabilities	(2,175)	(8,067)	(2,828)
Other movements	2,464	(1,713)	743
NET CASH USED IN FINANCING ACTIVITIES	**(267,001)**	**(134,547)**	**(103,746)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(57,709)**	**(23,485)**	**79,385**
Cash and cash equivalents at January 1	631,100	651,573	575,441
IAS 39 adjustments to opening cash and cash equivalents		253	
Effect of changes in exchange rates	(3,518)	2,759	(3,253)
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**569,873**	**631,100**	**651,573**
Cash and cash equivalents reported in the balance sheet	584,889	658,713	670,339
Short-term bank loans and overdrafts	(15,016)	(27,613)	(18,767)

[a] Excluding IAS 32 and IAS 39, applied as from January 1, 2005.
[b] Units in money market funds not qualified as cash equivalents under IAS 37.

20.3.1.5. Notes to the consolidated financial statements

Summary of significant accounting policies

NOTE 1 Summary of significant accounting policies

1.1 GENERAL INFORMATION

Essilor International (Compagnie Générale d'Optique) is a *société anonyme* (public limited 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 business consists of the design, manufacture and sale of ophthalmic lenses and ophthalmic optical instruments.

The consolidated financial statements are approved by the Board of Directors of Essilor International for presentation to the Annual Shareholders' Meeting for approval.

These financial statements were approved by the Board of Directors on March 7, 2007.

The consolidated financial statements are prepared on a going concern basis.

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

1.2 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. The estimates used by the Company are described in the corresponding notes to these consolidated financial statements.

1.3 BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with European Council regulation 1606/2002/EC of July 19, 2002, effective from January 1, 2005 the Company has adopted as its primary basis of accounting the International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and related interpretations adopted by the European Union as of the balance sheet date.

The consolidated financial statements for the year ended December 31, 2004 were prepared in accordance with French generally accepted accounting principles (French GAAP), including standard CNC 99-02 of the *Comité de réglementation comptable*, and the accounting policies described in Note 1 to the 2004 consolidated financial statements. To permit meaningful year-on-year comparisons, these consolidated financial statements include comparative financial information for 2004 prepared in accordance with IFRS. The impact on the 2004 consolidated financial statements of the first-time adoption of IFRS (other than IAS 32 and IAS 39) is described in Note 2 to the 2005 consolidated financial statements.

The Company elected to apply certain optional exemptions from full retrospective application of IFRS available to first-time adopters under IFRS 1, as follows:

- Business combinations recorded prior to January 1, 2004 were not restated.
- Cumulative translation adjustments at January 1, 2004 were transferred to retained earnings.
- Cumulative actuarial gains and losses at January 1, 2004 were recognized under "Provisions for pensions and other post-employment benefits" by adjusting equity at that date.
- IFRS 2 was applied only to stock options granted after November 7, 2002 that had not yet vested at January 1, 2005.
- IAS 32 and IAS 39 were adopted as from January 1, 2005.

IAS 32 and IAS 39 have been applied prospectively as from January 1, 2005 and the consolidated financial statements for the year ended December 2006 and 2005 are therefore not directly comparable with those for the year ended December 31, 2004 (see Note 1.4 below).

1.4 ADOPTION OF IAS 32 AND IAS 39 AS FROM JANUARY 1, 2005

The main changes resulting from the first-time adoption of IAS 32 and IAS 39 at January 1, 2005 are as follows:

FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (IAS 39)

In accordance with IAS 39, effective from January 1, 2005, financial instruments have been recognized and measured in accordance with the policy described in Note 1.17.

In the French GAAP financial statements, financial instruments designated as cash flow hedges were not recognized in the balance sheet but were disclosed as off-balance sheet commitments. Hedged transactions were measured at the hedging rate.

FAIR VALUE OF MARKETABLE SECURITIES (IAS 39)

In accordance with IAS 39, effective from January 1, 2005, marketable securities are measured at fair value, with changes in fair value recognized in profit under "Other financial income and expenses" ("Income from cash and cash equivalents").

In the French GAAP financial statements, marketable securities were measured at cost less any provisions for impairment.

OCEANE CONVERSION OPTION (IAS 32)

In 2003, Essilor issued bonds convertible or exchangeable for new or existing shares (Oceanes). In accordance with IAS 32, the portion of the issue price corresponding to the value of the conversion option at the issue date, estimated at €40.8 million, was deducted from the carrying amount of the related debt in the opening balance sheet at January 1, 2005, by adjusting opening equity.

The conversion option is being reclassified to profit, under "Finance costs", by the effective interest method. The amount reclassified to profit in 2006 was €5.1 million (2005: €5.4 million). The 2004 financial information under IFRS does not include any equivalent expense, as IAS 32 has been applied prospectively as from January 1, 2005.

The cumulative amount that would have been reclassified to profit over the period from the Oceane issue date (June 2003) to December 31, 2004 if IAS 32 had been applied retrospectively has been recognized in opening equity at January 1, 2005.

In the French GAAP financial statements, the value of the conversion option was included in debt.

PUT OPTIONS GRANTED TO MINORITY SHAREHOLDERS

Under IAS 32, when put options have been granted to minority shareholders of subsidiaries, their interest in the equity of the subsidiaries concerned must be reclassified from "Minority interests" to "Borrowings". The amount recognized in borrowings is measured at the present value of the option exercise price.

Current standards and interpretations do not contain specific guidance concerning the accounting treatment in the consolidated balance sheet of the difference between the present value of the option exercise price and minority interests in the equity of the subsidiaries concerned. As from the first-time adoption of IAS 32 on January 1, 2005, the Company has elected to report the difference in "Goodwill" and to report future changes in the recognized liability as an adjustment to goodwill.

Put options granted to minority shareholders were not recognized in the French GAAP accounts.

TREASURY STOCK

Essilor shares held under a liquidity contract, which were previously accounted for as assets, have been recorded as a deduction from equity in the IFRS balance sheet at January 1, 2005, in the amount of €0.4 million.

The Company elected to early adopt the amendment to IAS 39-Cash Flow Hedge Accounting of Forecast Intragroup Transactions, effective from January 1, 2005. Under this amendment, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that:

- The transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and
- The foreign currency risk will affect consolidated profit.

1.5 IFRSs, AMENDEMENTS TO IFRSs AND INTERPRETATIONS APPLICABLE FROM JANUARY 1, 2006

AMENDMENT TO IAS 19 – ACTUARIAL GAINS AND LOSSES, GROUP PLANS AND DISCLOSURES

This amendment is applicable as from January 1, 2006 at the latest. The main change concerns the option of recognizing actuarial gains and losses directly in equity. The Group has chosen not to apply this option and actuarial gains and losses have therefore been recognized by the corridor method in the consolidated financial statements for 2006, in the same way as in 2005 and 2004.

AMENDMENT TO IAS 39 – THE FAIR VALUE OPTION

The limited amendment to IAS 39 concerning use of the fair value option is applicable as from January 1, 2006 at the latest. This amendment has no impact on the consolidated financial statements.

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AMENDMENT TO IAS 21 – NET INVESTMENT IN A FOREIGN OPERATION

This amendment has no impact on the consolidated financial statements.

AMENDMENTS TO IAS 39 AND IFRS 4: FINANCIAL GUARANTEE CONTRACTS

The limited amendments to IFRS 4 – Insurance Contracts and IAS 39 – Financial Instruments: Recognition and Measurement of Financial Guarantee Contracts are applicable as from January 1, 2006 at the latest. These amendments have no impact on the consolidated financial statements.

IFRS 6 – EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

The Company is not concerned by this standard.

IFRIC 4 – DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE

Under IFRIC 4, determining whether an arrangement contains a lease depends on the substance of the transaction and requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. This amendment has no impact on the consolidated financial statements.

IFRIC 5 – RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

The Company is not concerned by this interpretation.

IFRIC 6 – LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET – WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

The Company is not concerned by this interpretation.

1.6 IFRSs, AMENDMENTS TO IFRSs AND INTERPRETATIONS APPLICABLE IN FUTURE PERIODS

The Company has decided not to early adopt the following standards, amendments and interpretations, whose application will be compulsory as from January 1, 2007 or a future date:

IFRIC 7 – APPLYING THE RESTATEMENT APPROACH UNDER IAS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES (APPLICABLE FOR ANNUAL PERIODS BEGINNING ON OR AFTER MARCH 1, 2006)

The Company is not concerned by this interpretation.

IFRIC 8 – SCOPE OF IFRS 2 (APPLICABLE FOR ANNUAL PERIODS BEGINNING ON OR AFTER MAY 1, 2006)

The Company does not expect this interpretation to have any impact on the consolidated financial statements.

IFRIC 9 – REASSESSMENT OF EMBEDDED DERIVATIVES (APPLICABLE FOR ANNUAL PERIODS BEGINNING ON OR AFTER JUNE 1, 2006)

The Company does not expect this interpretation to have a material impact on the reassessment of embedded derivatives, as the reassessment method currently applied complies with IFRIC 9.

IFRS 7 – DERIVATIVE FINANCIAL INSTRUMENTS: DISCLOSURES (applicable for annual periods beginning on or after january 1, 2007) AND AMENDMENT TO IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS: CAPITAL DISCLOSURES (applicable for annual periods beginning on or after January 1, 2007)

After assessing the impact of applying IFRS 7 and the amendment to IAS 1, the Company believes that the additional disclosures to be made will concern sensitivity to market risks and the capital disclosures required by IAS 1. IFRS 7 and the amendment to IAS 1 will be applied as from January 1, 2007.

1.7 BASIS OF CONSOLIDATION

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

Jointly-controlled companies are consolidated by the proportionate method.

Associates, defined as companies over which Essilor International exercises significant influence, are accounted for by the equity method.

The Transitions subgroup is accounted for by the equity method. Based on an analysis of the substance of transactions between Essilor and Transitions and of sales of Transitions products by Essilor to third parties:

- Revenue from transactions between Essilor and Transitions has been cancelled from consolidated revenue and cost of sales, in accordance with IAS 18.
- The cost of subcontracting services provided by Transitions to Essilor has been reallocated between cost of sales and Transition brand selling and distribution costs.

The criteria applied to determine the scope of consolidation are described in Note 2.2 – Changes in scope of consolidation.

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

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

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If Essilor International does not take up its share of a capital increase by a subsidiary, leading to a dilution of its percent interest, the operation is treated as a sale and the change in the share of the subsidiary's equity is recorded under "Gains and losses on asset disposals, net".

The cumulative profits of consolidated companies for the period between the date when control is acquired and the date when the subsidiary is first consolidated, net of dividends received during the period, are recognized in profit for the year in which the subsidiary is first consolidated.

All intragroup profits and transactions are eliminated in consolidation.

1.8 SEGMENT INFORMATION

The Company's primary segment reporting format is the geographical segment.

A geographical segment is a group of countries with comparable market structures in terms of the organization of distribution and the type of products sold, and comparable risks and returns. Information by geographical segment is presented based on the location of the related assets.

Because more than 95% of revenue is derived from ophthalmic lens sales, information analyzed by business segment would not be materially different from information for the Company as a whole. Consequently, the Company considers that it does not have any secondary segment reporting format.

1.9 CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement has been prepared by the indirect method, whereby profit is adjusted for the effects of transactions of a non-cash nature, 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 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, stock grants 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 changes in exchange rates between the beginning and end of the period and to the effect of 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 short-term bank loans and overdrafts. Marketable securities, consisting mainly of units in money market funds, are qualified as cash equivalents when the fund's management objectives fulfill the criteria specified by the French securities regulator (AMF) in its March 2006 press release.

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.

1.10 FOREIGN CURRENCY TRANSLATION

The financial statements of foreign subsidiaries are drawn up in the subsidiary's functional currency, defined as the currency of the primary economic environment in which the subsidiary operates.

Financial statement items measured in the functional currency are translated into euros as follows:

- Balance sheet items are translated at the closing rate.
- Income statement items and cash flows are translated at the average exchange rate for the period.

The difference between equity translated at the closing rate and the historical rate, and that resulting from the translation of net profit at the average rate for the period are recorded in equity, under "Translation reserve", and reclassified to profit when the foreign subsidiary is sold or wound up.

1.11 REVENUE

Revenue corresponds to revenue from the sale of products and the provision of services. It is stated net of volume discounts, cash discounts, returned goods and certain revenue-based commissions.

Revenue from product sales is recognized when the product has been delivered to and accepted by the customer and the related receivable is reasonably certain of being collected.

1.12 COST OF SALES

Cost of sales corresponds mainly to the cost of products sold, less any cash discounts received from suppliers.

1.13 CONTRIBUTION FROM OPERATIONS

Contribution from operations corresponds to revenue less cost of sales and operating expenses.

This new profit indicator has been added to make the income statement clearer and to maintain consistency with "operating income" reported in the French GAAP income statement.

1.14 SHARE-BASED PAYMENTS

STOCK OPTIONS AND PERFORMANCE SHARE GRANTS

IFRS 2 has been applied as from January 1, 2004 to stock options granted after November 7, 2002 that had not yet vested at January 1, 2005.

The fair value of stock options and performance share grants is determined as follows:

- Stock options without any vesting conditions based on the Essilor International share performance are measured using the Black & Scholes option pricing model.
- Performance stock options granted in 2006, which are subject to vesting conditions based on the Essilor International share performance, are measured using the Monte Carlo model.
- Performance shares granted in 2006, which are subject to vesting conditions based on the Essilor International share performance, are measured using the Monte Carlo model.

The fair value of stock options on the grant date is recognized as an expense over the option vesting period, taking into account the probability of the option being exercised early, with a corresponding adjustment to equity.

For performance shares, the vesting period is considered as being the most probable period over which the performance conditions will be fulfilled, determined using the Monte Carlo model.

The model parameters, as determined at the grant date, are as follows:

- Share price volatility is determined by reference to historical volatilities.
- The impact of dividends is taken into account in the model by applying a yield assumption determined by reference to the dividend paid in the previous year.
- The options' expected life is determined based on the vesting period and the exercise period.

At each period-end, the probability of options or performance shares being forfeited is assessed. The impact of any adjustments to these estimates is recognized in profit, with a corresponding adjustment to equity.

EMPLOYEE SHARE ISSUES

For employee share issues, the difference between the market price of the shares on the transaction date and the share purchase price is recognized directly in profit when the shares are issued.

IFRS 2 allows for the effect of any post-vesting transfer restrictions to be taken into account, but does not provide any guidance on measuring the corresponding discount. On December 21, 2004, the French accounting authorities *(Conseil national de la comptabilité)* issued a press release containing measurement guidelines. To date, the Company has not applied any discount for post-vesting restrictions on the transfer of shares.

1.15 FINANCE COSTS AND OTHER FINANCIAL INCOME AND EXPENSES, NET

Dividend income is recognized when the dividend amount has been approved by the Annual Shareholders' Meeting of the company making the distribution.

Interest receivable or payable is recognized on an accruals basis in the period in which it is earned or due, by the effective interest method.

1.16 FOREIGN CURRENCY TRANSACTIONS

On initial recognition of foreign currency transactions, the receivable or payable is translated into the entity's functional currency at the exchange rate on the transaction date. At the period-end, they are re-translated at the closing rate. The resulting gains and losses are recognized in "Other financial income and expenses".

Foreign currency income and expenses are measured at the exchange rate on the transaction date. When the foreign currency transaction is part of a hedging relationship qualifying as a cash flow hedge under IAS 39, the income or expense is adjusted for the effective portion of the gain or loss from remeasurement at fair value of the currency hedging instrument at the transaction date.

1.17 DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with IAS 39, effective from January 1, 2005 derivative instruments (including forward purchases and sales of foreign currencies) are initially recognized at cost and subsequently measured at fair value at each period-end.

The fair value of forward purchase and sale contracts is determined based on the forward exchange rate at the period-end. The fair value of interest rate swaps and cross-currency swaps corresponds to the present value of forecast future cash flows. Options are measured using the Black & Scholes option pricing model.

Changes in fair value of derivative financial instruments are accounted for as follows:

- Cash flow hedges: the effective portion of the gain or loss from remeasurement at fair value is recognized directly in equity, under "Revaluation reserves", and is reclassified to the income statement when the hedged transaction affects profit, as an adjustment to the income or expense on that transaction. The ineffective portion of the gain or loss is recognized in "Other financial income and expenses".
- Hedge of the net investment in a foreign operation: the effective portion of the gain or loss from remeasurement at fair value is recognized directly in equity, under "Other reserves" and transferred to the "Translation reserve" when the hedging instrument expires. The amount transferred to the "Translation reserve" is reclassified to profit when the investment in the foreign operation is sold or the entity is wound up. The ineffective portion of the gain or loss is recognized in "Other financial income and expenses".
- Fair value hedges: the gain or loss from remeasurement at fair value is recognized in profit on a symmetrical basis with the gain or loss from remeasurement at fair value of the hedged asset or liability.
- Financial instruments that do not form part of a hedging relationship: certain derivative instruments that in substance represent hedges do not qualify for hedge accounting under IAS 39. Gains and losses from remeasurement at fair value of these derivative instruments are recognized directly in profit, under "Other financial income and expenses".

1.18 INCOME TAX EXPENSE

Deferred taxes are recognized by the liability method for temporary differences between the carrying amount of assets and liabilities in the consolidated balance sheet and their tax base.

They are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Adjustments to deferred taxes resulting from changes in tax rates are recognized in profit; however, when the deferred tax relates to items recognized in equity, the adjustment is also recognized in equity.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred taxes are charged or credited directly to equity when the tax relates to items that are credited or charged directly to equity, such as gains and losses on cash flow hedges and hedges of certain financial assets, and the value of convertible bond conversion options.

Deferred tax assets and liabilities are set off when they are levied on the same taxable entity (legal entity or tax group) by the same taxation authority and the entity has a legally enforceable right of set off.

Deferred taxes are recognized for all temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company is subject to income tax in many jurisdictions with different tax rules and the determination of global income tax expense is based to a significant extent on estimates and assumptions that reflect the information available when the financial statements are drawn up.

1.19 EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

Basic earnings per share correspond to profit attributable to equity holders of Essilor International divided by the weighted average number of shares outstanding during the year, excluding treasury stock.

Performance share grants are taken into account to the extent that the performance criteria have been met before the balance sheet date.

DILUTED EARNINGS PER SHARE

Diluted earnings per share are calculated by taking into account dilutive potential shares, as follows:

- Stock options: the dilution arising from stock options is calculated based on the weighted average number of shares plus the number of shares that would be issued or sold if the options were issued at market price instead of at the adjusted exercise price.

  The adjusted exercise price corresponds to the exercise price as adjusted for the cost to be recognized in future periods for options that have not yet vested at the period-end, in accordance with IFRS 2 which has been applied as from January 1, 2004.

- Oceane convertible bonds: for convertible bonds, the profit used for the calculation is adjusted for the net of tax finance cost recognized during the period in respect of the convertible bonds and the weighted average number of shares is adjusted to include the shares to be issued or allocated on conversion of the bonds.
- Performance shares: the number of shares used for the calculation is determined based on the number of shares that would have been granted if the performance criterion had been applied at the balance sheet date.

1.20 RESEARCH AND DEVELOPMENT COSTS

Research costs are recognized as an expense for the period in which they are incurred.

Research and development costs recognized in operating expense include the operating costs of the Company's research centers and engineering costs for the development of new production processes. They are stated net of research tax credits.

Development costs are recognized as an intangible asset if, and only if, the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The Company's intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

Due to the risks and uncertainties concerning market developments and the large number of projects undertaken, the above criteria are considered as not being fulfilled for ophthalmic lens development projects. Consequently, development costs for these projects are recognized as an expense.

Instrument development costs are recognized as an intangible asset when the above criteria are fulfilled.

1.21 GOODWILL

DETERMINATION OF GOODWILL

Goodwill is the excess of the acquisition cost, including any directly attributable costs of the business combination, over the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date.

Business combinations recorded after the IFRS transition date (January 1, 2004) are recognized by the purchase method, in accordance with IFRS 3 – Business Combinations.

Under this method, the acquiree's identifiable assets, liabilities and contingent liabilities meeting the recognition criteria of IFRS 3 are recognized at their fair value at the acquisition date, with the exception of non-current assets classified as held-for-sale which are measured at fair value less costs to sell. Only identifiable liabilities that meet the criteria for recognition as a liability in the acquiree's accounts are recognized in the business combination. In line with this principle, a liability for terminating or reducing the activities of the acquiree is recognized as part of allocating the cost of the combination only when the acquiree has, at the acquisition date, an existing liability for restructuring.

When the initial accounting for a business combination is determined provisionally, due to the unavailability of independent valuations or because additional analyses are required, any adjustments to those provisional values made within twelve months of the acquisition date are recorded as a retrospective adjustment to goodwill. Any adjustments made more than twelve months after the acquisition date are recognized directly in profit, except when they correspond to corrections of errors.

The Company has elected not to restate business combinations recorded prior to January 1, 2004, as allowed under IFRS 1. Consequently, goodwill on these business combinations is treated as assets and liabilities of the first-time adopter and not of the acquirees, and is measured in the acquirer's functional currency.

For business combinations carried out since January 1, 2004, goodwill is measured in the currency of the acquiree and is not amortized. Goodwill arising on acquisition of associates is included in the carrying amount of the investment.

When put options have been granted to minority shareholders of subsidiaries, their interest in the equity of the subsidiaries concerned is reclassified from "Minority interests" to "Borrowings". The amount recognized in borrowings is measured at the present value of the option exercise price.

Current standards and interpretations do not contain specific guidance concerning the accounting treatment in the consolidated balance sheet of the difference between the present value of the option exercise price and minority

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interests in the equity of the subsidiaries concerned. As from the first-time adoption of IAS 32 on January 1, 2005, the Company has elected to report the difference in "Goodwill" and to report future changes in the recognized liability as an adjustment to goodwill.

IMPAIRMENT OF GOODWILL

Each year, the Company calculates the recoverable amount of the cash-generating units (CGUs) to which goodwill is allocated. The recoverable amount of a CGU corresponds to the higher of its fair value less costs to sell and value in use. Value in use is determined by the discounted cash flow method.

Future cash flows are estimated as follows:

- The reference year (Y) is the last fiscal year. Cash flows for Y+1 are based on the annual budget. Cash flows for the years Y+2 to Y+5 are estimated by applying to Y+1 data growth rates that are consistent with the Company's projections and with the budgeted Y+1 growth rate.
- The terminal value (in Y+5) is estimated by applying growth rates in perpetuity that are consistent with those of the Company's market (generally around 2%, except in the specific case of emerging markets).
- The estimate is based on net free cash flows, corresponding to cash flow net of tax and capital expenditure for the period. The acquiree's working capital is generally assumed to remain constant.
- The acquiree's net debt (before eliminating intragroup debt) is deducted from the calculated values.

The future cash flows determined as explained above are discounted. In the interest of long-term and inter-entity consistency, the discount rate applied in all cases is the Company's weighted average cost of capital (WACC). A risk premium is added to the WACC in some countries, to reflect local interest rates, and – for some acquirees – to take into account the acquiree's size.

Impairment tests are performed using after-tax discount rates and cash flows. Discounted cash flows calculated at an after-tax discount rate such as the one used by the Company are not materially different from the amounts that would be obtained using a pre-tax rate under the iterative process described in IAS 36.

The value determined by the discounted cash flows method is compared to the carrying amount of the CGU concerned.

Impairment tests are performed at the level of the CGU to which the goodwill is allocated. When goodwill corresponds to cash flows generated by several legal entities, it is allocated among these entities. If this is not possible, the legal entities are combined within a CGU and the test is performed at that level. CGUs corresponding to a group of marketing subsidiaries (or, in some cases, other subsidiaries) comprise the subsidiary concerned and part of the business of the logistics center that supplies the subsidiary.

Impairment tests are based on recoverable amounts in the local currency of the entity concerned or, in the case of CGUs comprising entities operating in several currencies, in US dollars for the Americas and Asia regions and in euros for the Europe region. These recoverable amounts are translated into euros at the closing rate and compared with the carrying amount of the goodwill or intangible asset in the consolidated financial statements.

Impairment tests are performed annually, at the time of the interim accounts closing at the end of June. All sensitive items are tested again at the year-end and any impairment losses are adjusted if necessary.

Impairment losses on goodwill are irreversible.

1.22 OTHER INTANGIBLE ASSETS

Other intangible assets consist mainly of trademarks, concessions, patents and licenses. Trademarks correspond to intangible assets recognized in business combinations.

Other intangible assets are initially recognized at cost and are amortized on a straight-line basis over the useful life of the assets, as follows:

- Software is amortized over periods ranging from 1 to 5 years.
- Patents are amortized over the period of legal protection.
- Trademarks with a finite life are amortized over periods ranging from 10 to 20 years.

Trademarks with an indefinite life are not amortized. They are considered as having an indefinite life when:

- It can be demonstrated, based on an analysis of the life of the underlying products, the market and the competition, that there is no foreseeable limit to the period over which the products sold under the trademark are expected to generate net cash inflows for the Company.
- The Company has the intention and ability to support the trademark.

Intangible assets with a finite life are tested for impairment when the occurrence of an event or a change of circumstances indicates that their recoverable amount may be less than their carrying amount.

Trademarks with an indefinite life are tested for impairment annually.

When the test shows that an asset's recoverable amount is less than its carrying amount, a provision for impairment is recorded. Recoverable amount is defined as the higher of fair value less costs to sell and value in use.

The directly attributable costs of producing identifiable and separable intangible assets are recognized as an intangible asset when they are controlled by the Company and it is probable that they will generate future economic benefits in excess of their cost over a period of more than one year.

1.23 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Finance leases, defined as leases that transfer to the Company substantially all of the risks and rewards of ownership of the asset, are recognized in assets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The leased assets are depreciated by the methods described below. The finance lease liability is included in debt.

Lease payments under operating leases, defined as leases where substantially all of the risks and rewards of ownership of the asset are retained by the lessor, are recognized as an expense on a straight-line basis over the lease term.

The directly attributable costs of producing identifiable and separable items of property, plant and equipment are recognized as property, plant and equipment when they are controlled by the Company and it is probable that they will generate future economic benefits in excess of their cost over a period of more than one year.

DEPRECIATION

Depreciation is calculated on a straight-line basis so as to write off the cost of the assets less any residual value over the assets' useful life.

The main useful lives are as follows:

Buildings	20 to 33 years
Fixtures and fittings	7 to 10 years
Machinery, equipment and tooling	3 to 10 years
Other	3 to 10 years

When an item of property, plant and equipment comprises several parts with different useful lives, each part is recognized as a separate item and depreciated over its useful life.

Useful lives and residual values are reviewed at each period-end, and any adjustments are accounted for prospectively as a change in accounting estimates.

When there are any internal or external indications that the value of an item of property, plant and equipment may be impaired, the recoverable amount of the CGU to which they belong is calculated. If the recoverable amount is less than the CGU's carrying amount, a provision for impairment is recorded. A review is carried out at each period-end to determine whether any such indications exist.

1.24 OTHER LONG-TERM FINANCIAL INVESTMENTS

In accordance with IAS 39, effective from January 1, 2005, investments in non-consolidated companies and other long-term financial investments qualifying as available-for-sale financial assets under IAS 39 are measured at fair value, with changes in fair value recognized directly in equity. The unrealized gains and losses recognized directly in equity are reclassified to profit when the asset is sold or when there is objective evidence of an other-than-temporary impairment in the asset's value.

The fair value of financial assets traded in an active market corresponds to their market price. The fair value of assets not traded in an active market is determined by reference to the market value of similar securities or the prices of recent arm's length transactions, or by the discounted cash flows method.

Loans and receivables are measured at amortized cost.

A provision is recorded for any other-than-temporary impairment in value or any collection risk.

Purchases and sales of financial assets are recognized on the transaction date.

1.25 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets that the Company intends to sell within twelve months of the period-end are classified as held-for-sale and measured at the lower of their carrying amount and their fair value less costs to sell. Assets classified as held-for-sale are not depreciated or amortized.

1.26 INVENTORIES

Inventories are measured at the lower of their weighted average cost and their net realizable value.

Net realizable value takes into account market prices, the probability of the items being sold and the risk of obsolescence, assessed by reference to objective inventory levels.

1.27 TRADE RECEIVABLES

Trade receivables due within one year are classified as current assets. Trade receivables due beyond one year are classified as non-current assets.

Provisions are recorded to cover any collection risk.

1.28 CASH AND CASH EQUIVALENTS

Cash and cash equivalents correspond to cash and marketable securities qualified as cash equivalents under IAS 7 and based on the criteria listed in the AMF's press release of March 2006.

Marketable securities that do not qualify as cash equivalents under IAS 37 are reported under "Marketable securities" and are taken into account for the calculation of net debt (see Note 22).

In accordance with IAS 39, effective from January 1, 2005, marketable securities are measured at fair value, with changes in fair value recognized in profit under "Other financial income and expenses".

1.29 EQUITY

ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital corresponds to the excess of the issue price of shares over their par value.

TREASURY STOCK

Treasury stock is deducted from equity at cost, including directly attributable transaction expenses.

Capital gains and losses on sales of treasury stock are recorded directly in equity, for their amount net of tax.

HEDGING AND REVALUATION RESERVES

Hedging reserves correspond to the effective portion of the gain or loss arising from remeasurement at fair value of financial instruments acquired as cash flow hedges or hedges of the net investment in foreign operations, net of deferred tax.

Revaluation reserves correspond to the difference between the cost of available-for-sale financial assets and their fair value, which is recognized directly in equity in accordance with IAS 39, net of deferred tax.

DIVIDENDS

Dividends are deducted from equity when they are approved by shareholders.

NEGATIVE EQUITY

If a consolidated company has negative equity, minority interests are treated as being attributable to Essilor International unless the minority shareholders are liable for their share of the losses and are capable of fulfilling this obligation.

MINORITY INTERESTS

Minority interests represent the portion of the net assets and net profit of a consolidated entity that is not attributable to the Company, directly or indirectly.

When put options have been granted to minority shareholders of subsidiaries, their interest in the equity of the subsidiaries concerned is reclassified from "Minority interests" to "Borrowings". The amount recognized in borrowings is measured at the present value of the option exercise price.

1.30 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.

In accordance with IAS 32, as from January 1, 2005 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 interest 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.

1.31 PENSION AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS

Essilor companies may have obligations for the payment of pensions, early-retirement benefits, length-of-service awards, jubilees and other post-employment benefits under the laws and practices applicable in their host country.

Where these benefits are payable under defined contribution plans, the contributions are expensed as incurred.

In the case of defined benefit plans, provisions are booked to cover the unfunded projected benefit obligation, as follows:

- The projected benefit obligation, corresponding to the vested rights of active and retired employees, is determined by the projected unit credit method, based on estimated final salaries. The actuarial assumptions used differ depending on the country (discount rate, inflation rate) and the company (staff turnover rates, rate of future salary increases).
- The discount rate corresponds to the prime interest rate in the country concerned for periods corresponding to the estimated average duration of the benefit obligation. Discounting adjustments are recognized in operating expense.
- In cases where all or part of the obligation is funded under an external plan, a provision is recorded for the difference between the projected benefit obligation and the fair value of the plan assets.
- Actuarial gains and losses resulting from changes in assumptions and experience-based adjustments are recognized in profit by the corridor method. This method consists of amortizing over the expected average remaining service lives of plan participants only the portion of the net cumulative gain or loss that exceeds the greater of 10% of either the projected benefit obligation or the fair value of the plan assets.
- When a company introduces a defined benefit plan or changes the benefit formula under an existing defined benefit plan and rights under the new or modified plan are unvested, the related change in the company's obligation is recognized in profit on a straight-line basis over the expected average remaining service lives of the plan participants. When rights under the new or modified plan vest immediately, the resulting change in the company's obligation is recognized in profit immediately.
- Provisions recorded in the balance sheet correspond to the projected benefit obligation less the fair value of any plan assets, the value of unrealized actuarial gains and losses and unrecognized past service cost.

1.32 PROVISIONS

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the balance sheet but are disclosed in the notes to the financial statements unless the probability of an outflow of resources embodying economic benefits is remote.

Provisions are determined based on facts and circumstances, historical risk data and the information available at the balance sheet date.

If the outflow of economic benefits will be offset or partly offset by income, an asset is recognized when realization of the income is virtually certain. Contingent assets are not recognized.

Restructuring provisions are recognized when the Company has a detailed formal plan for the restructuring and has announced its main features to those affected by it.

No provision is recognized for future operating losses.

Provisions for warranty costs are recognized when the products are sold. The corresponding charge is recognized in cost of sales.

NOTE 2 Exchange rates and scope of consolidation

2.1 EXCHANGE RATES OF THE MAIN FUNCTIONAL CURRENCIES

	Closing rate as of December 31			Average rate		
(for €1)	2006	2005	2004	2006	2005	2004
Canadian dollar	1.53	1.37	1.64	1.43	1.50	1.62
Pound sterling	0.67	0.69	0.71	0.68	0.68	0.68
Yen	156.93	138.90	139.65	146.81	136.89	133.91
U.S. dollar	1.32	1.18	1.36	1.26	1.24	1.25

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 €3 million, or
- Tangible assets 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.

NEWLY-CONSOLIDATED COMPANIES

The following companies were consolidated for the first time in 2006:

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
AR Coating	Argentina	April 1, 2006	Full	60.00	100.00
TEC Optik Pty. Ltd	Australia	September 1, 2006	Full	100.00	100.00
SDL	Canada	January 1, 2006	Full	90.00	100.00
Polylite Shanghai Optical Co. Ltd [a]	China	January 1, 2006	Full	51.00	100.00
Polylite Beijing Optical Co. Ltd [a]	China	January 1, 2006	Full	51.00	100.00
Essilor Optika d.o.o. [a]	Croatia	January 1, 2006	Full	100.00	100.00
Accu Rx Inc.	United States	January 1, 2006	Full	80.00	100.00
Eye Care Express Lab Inc.	United States	January 1, 2006	Full	80.00	100.00
AM Optical Co. Inc.	United States	March 1, 2006		Business acquisition	
PerfeRx Optical Co. Inc.	United States	April 1, 2006	Full	80.00	100.00
Uniscoat Inc.	United States	April 1, 2006	Full	100.00	100.00
Ozarks Optical Laboratories Inc.	United States	May 1, 2006	Full	80.00	100.00
Future Optics Inc.	United States	May 1, 2006	Full	80.00	100.00
Precision Optical Lab. (Tennessee)	United States	June 1, 2006	Full	80.00	100.00
Precision Optical Co. (Connecticut)	United States	July 1, 2006	Full	80.00	100.00
Homer Optical Inc.	United States	July 1, 2006	Full	100.00	100.00
Vision Star LLC	United States	August 1, 2006		Business acquisition	
SunStar Inc.	United States	September 1, 2006	Full	80.00	100.00
Dibok Inc. – Aspen Optical	United States	October 1, 2006	Full	80.00	100.00
Peninsula Optical Lab Inc.	United States	November 1, 2006	Full	80.00	100.00
OMI [a]	France	January 1, 2006	Full	100.00	100.00
GKB RX Lens	India	January 1, 2006	Proportionate	50.00	50.00
Delta CNC	India	March 17, 2006	Full	39.00	100.00
Polylite Hong Kong Ltd [a]	Hong Kong	January 1, 2006	Full	51.00	100.00
Optical Labs, New Zealand Ltd	New Zealand	April 1, 2006	Full	50.00	100.00
Prolab	New Zealand	April 1, 2006	Full	100.00	100.00
SC Varirom Srl.	Romania	February 1, 2006	Full	100.00	100.00
Polylite Asia Pacific Pte Ltd [a]	Singapore	January 1, 2006	Full	51.00	100.00
Essilor d.o.o. [a]	Slovenia	January 1, 2006	Full	100.00	100.00
Polylite Taiwan Optilab Co. Ltd [a]	Taiwan	January 1, 2006	Full	51.00	100.00

[a] Companies acquired or set up in prior years, consolidated for the first time in 2006.

The 2006 income statement also includes the full-year contribution of the following companies that were consolidated for the first time in 2005:

Name	Country	Consolidated from	Consolidation method	% interest	% consolidated
Vision Optique Group	Canada	April 1, 2005	Full	100.00	100.00
Hakim Group	Canada	April 1, 2005		Business acquisition	Business acquisition
Optical Software Inc.	Canada	September 1, 2005	Full	100.00	100.00
Jorgenson Optical Supply Cy.	United States	July 1, 2005	Full	80.00	100.00
Optical One	United States	July 1, 2005	Full	80.00	100.00
Focus Optical Lab.	United States	December 1, 2005	Full	80.00	100.00
M.G.M.	United States	September 1, 2005	Full	80.00	100.00
Midland Optical	United States	February 1, 2005	Full	80.00	100.00
National Optronics	United States	July 1, 2005		Business acquisition	
The Spectacle Lens Group (Johnson & Johnson)	United States	August 1, 2005		Business acquisition	
ACO Optical Lab.	United States	November 1, 2005		Business acquisition	
ATR MEC Optical	Italy	July 1, 2005	Full	100.00	100.00
Delta Lens Private Ltd	India	July 1, 2005	Full	51.00	100.00

OTHER MOVEMENTS

In 2006, the Company increased its interest in Hobart Optical (Australia) from 51% to 100%.

At the end of the year, the Company sold its interest in JD Montage (France).

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2.3 IMPACT OF CHANGES IN EXCHANGE RATES AND SCOPE OF CONSOLIDATION

The impact of changes in scope of consolidation on the financial statements is analyzed below:

€ thousands	Newly-consolidated companies
Intangible assets	475
Property, plant and equipment	13,167
Other non-current assets	596
Current assets	19,918
Cash and cash equivalents	9,233
TOTAL ASSETS ACQUIRED	**43,388**
Minority interests in equity	2,383
Long-term borrowings	2,047
Other non-current liabilities	1,040
Short-term borrowings	945
Other current liabilities	31,479
TOTAL LIABILITIES ASSUMED	**37,895**
NET ASSETS ACQUIRED	**5,493**
Acquisition cost	58,888
- Acquisitions for the year (paid in cash)	51,745
- Prior year acquisitions	7,144
Fair value of net assets acquired	5,493
EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED	**53,395**
Post-acquisition retained earnings	2,265
Recognized goodwill	55,660

In view of the characteristics of the acquired assets and assumed liabilities, their fair value is not materially different from their carrying amount.

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

If the companies included in the scope of consolidation during the year had been consolidated from January 1, 2006, consolidated revenue and profit attributable to equity holders of Essilor International would have represented the following amounts:

€ millions (Unaudited)	2006 pro-forma
Revenue	2,718
Profit attributable to equity holders of Essilor International	330

In December 2006, the Company sold its interest in JD Montage (France). JD Montage's loss for the period was included in the consolidated financial statements for €533 thousand. The disposal loss amounted to €480 thousand.

The net impact of the disposal on goodwill was a decrease of €95 thousand, corresponding to gross goodwill of €2,319 thousand less a €2,224 thousand impairment loss.

The overall effect of changes in scope of consolidation and exchange rates on 2006 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	11.0	(0.3)	3.2	8.1
Contribution from operations	14.6	(0.0)	1.0	13.6
OPERATING PROFIT	**16.8**	**(0.0)**	**1.7**	**15.1**

NOTE 3 Segment information

Revenue

	2006			2005			2004		
€ millions	Total revenue	Elimination of inter-segment revenue	External revenue	Total revenue	Elimination of inter-segment revenue	External revenue	Total revenue	Elimination of inter-segment revenue	External revenue
BY GEOGRAPHICAL SEGMENT									
Europe	1,293	85	1,208	1,203	82	1,121	1,172	94	1,078
North America	1,191	34	1,157	1,053	28	1,025	928	30	897
Rest of world	445	120	325	383	105	278	312	84	227
TOTAL	**2,929**	**239**	**2,690**	**2,639**	**215**	**2,424**	**2,411**	**209**	**2,203**
BY BUSINESS SEGMENT									
Corrective lenses			2,527			2,282			2,076
Other			163			142			127
TOTAL			2,690			2,424			2,203

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Acquisitions of property, plant and equipment and intangible assets

€ millions	2006	2005	2004
BY GEOGRAPHICAL SEGMENT			
Europe	75	84	74
North America	71	60	45
Rest of world	58	39	33
TOTAL	**203**	**183**	**152**

Depreciation and amortization

€ millions	2006	2005	2004
BY GEOGRAPHICAL SEGMENT			
Europe	57	56	55
North America	45	40	35
Rest of world	30	25	22
TOTAL	**132**	**121**	**112**

Contribution to operating profit

€ millions	2006	2005	2004
BY GEOGRAPHICAL SEGMENT			
Europe	198	178	164
North America	189	145	123
Rest of world	74	71	52
TOTAL	**460**	**394**	**339**

Share of profits of associates

€ millions	2006	2005	2004
BY GEOGRAPHICAL SEGMENT			
Europe	15	12	3
North America	11	8	5
Rest of world	3	2	2
TOTAL	**28**	**22**	**10**

Non-current assets and total assets

€ millions	2006 Non-current assets [a]	2006 Total assets	2005 Non-current assets [a]	2005 Total assets	2004 Non-current assets [a]	2004 Total assets
BY GEOGRAPHICAL SEGMENT						
Europe	386	1,616	376	1 579	329	1,516
North America	657	972	649	977	478	724
Rest of world	221	536	188	470	151	363
TOTAL	**1,264**	**3,124**	**1,213**	**3,026**	**959**	**2,603**

[a] Excluding non-current financial assets.

Provisions and current liabilities

€ millions	2006 Provisions	2006 Short-term borrowings and operating liabilities	2005 Provisions	2005 Short-term borrowings and operating liabilities	2004 Provisions	2004 Short-term borrowings and operating liabilities
BY GEOGRAPHICAL SEGMENT						
Europe	93	829	87	964	91	960
North America	22	163	26	164	19	111
Rest of world	5	107	4	93	4	74
TOTAL	**119**	**1,099**	**117**	**1,221**	**113**	**1,144**

Due to its current business and structure, the Company considers that it does not have any secondary segment reporting format (see Note 1.8).

NOTE 4 Employee benefits expense, depreciation and amortization

Employee benefits expense totaled €886 million in 2006 (2005: €810 million) (see Note 28).

Depreciation, amortization and provision expense amounted to €132 million in 2006 (2005: €121 million).

NOTE 5 Share-based payments

Compensation costs on share-based payments are measured by the method described in Note 1.14. They break down as follows:

€ thousands	2006	2005	2004
Stock options	10,621	8,057	4,637
Performance shares	606		
Employee share issues	4,874	4,212	3,907
COMPENSATION COSTS ON SHARE-BASED PAYMENTS	**16,101**	**12,269**	**8,544**

STOCK OPTIONS

Gains on options granted since 2004 (corresponding to the difference between the share price on the option exercise date and the exercise price) are capped at 100% of the exercise price.

Stock options granted in 2006 are subject to vesting conditions based on the Essilor International share performance over a period of 2 to 4 years, as well as to the 100% cap on gains.

The exercise price of stock options corresponds to the average of the prices quoted for Essilor International shares over the twenty trading days preceding the date of the Board meeting at which the grants are decided.

The main assumptions used to measure compensation costs on stock options are as follows:

- Share price volatility: 20% (2005: 23%, 2004: 26%)
- Risk-free interest rate: 3.63% (2005: 3.08%, 2004: 3.15%)
- Dividend yield: 1.31% (2005: 1.10%, 2004: 1.36%).

The following table analyzes changes in the number of outstanding options:

In €	Number of options	Weighted average exercise price
STOCK OPTIONS AT JANUARY 1, 2006	**3,711,378**	**50.27**
Options exercised during the period	(486,551)	38.00
Options cancelled and forfeited during the period	(22,412)	57.68
Options granted during the period	465,370	82.92
STOCK OPTIONS AT DECEMBER 31, 2006	**3.667,785**	**55.99**
STOCK OPTIONS AT JANUARY 1, 2005	**3,371,382**	**41.14**
Options exercised during the period	(654,923)	32.72
Options cancelled and forfeited during the period	(19,271)	43.69
Options granted during the period	1,014,190	69.17
STOCK OPTIONS AT DECEMBER 31, 2005	**3,711,378**	**50.27**
STOCK OPTIONS AT JANUARY 1, 2004	**3,572,122**	**35.60**
Options exercised during the period	(1,070,859)	32.64
Options cancelled and forfeited during the period	(23,781)	38.13
Options granted during the period	893,900	52.99
STOCK OPTIONS AT DECEMBER 31, 2004	**3,371,382**	**41.14**

The average remaining life of outstanding options at December 31, 2006 was 5.3 years (2005: 6 years).

The weighted average price of Essilor International shares in 2006 was €77 (2005: €60).

PERFORMANCE SHARES

In 2006, the Company launched performance share plan. The number of shares acquired by grantees at the end of the vesting period of two to four years ranges from 0 to 100% of the initial grant, depending on the performance of Essilor International shares compared with the reference price on the grant date (corresponding to the average of the prices quoted over the 20 trading days preceding the Board meeting when the grant is decided).

A total of 263,556 performance shares were granted under the 2006 plan, subject to the vesting conditions described above.

The main assumptions used to measure compensation costs on performance shares are as follows:

- Share price volatility: 20%
- Risk-free interest rate: 3.63%
- Dividend yield: 1.31%.

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NOTE 6 Other financial income and expenses, net

€ thousands	2006	2005	2004
BY NATURE			
Charges to provisions for impairment of available-for-sale financial assets, net	(2,363)	(3,105)	(4,438)
Loss on Oceane convertible bond buybacks	(1,687)		
Exchange gains and losses, net	(4,246)	24,812	(1,566)
Changes in fair value of derivative financial instruments	(1,442)	(31,695)	
Dividends from available-for-sale financial assets	321	252	471
Other financial income and expenses, net	(25)	28	131
TOTAL	**(9,442)**	**(9,708)**	**(5,402)**

The Company has applied IAS 32 and IAS 39 prospectively from January 1, 2005. Consequently, exchange gains and losses for 2006 and 2005 are not directly comparable with exchange gains and losses for 2004 (see Note 1.4).

Exchange gains and losses in 2006 and 2005 consist mainly of gains and losses on foreign currency loans made to subsidiaries, offset by losses and gains on the related fair value hedges.

NOTE 7 Income tax expense

INCOME TAX EXPENSE (BENEFIT) FOR THE PERIOD

€ thousands	2006	2005	2004
Current taxes	138,682	113,519	98,195
Deferred taxes	(1,351)	(5,226)	(8,151)
TOTAL	**137,331**	**108,292**	**90,044**

TAX PROOF

As a % of pre-tax profit	2006	2005	2004
Standard French income tax rate	34.4	34.4	35.4
Effect of differences in foreign tax rates and different rates in France	(2.6)	(4.0)	(7.6)
Effect of items taxed at reduced rates and permanent differences between book and taxable profit	(0.6)	(1.5)	(0.1)
EFFECTIVE INCOME TAX RATE	**31.2**	**29.0**	**27.7**

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CHANGE IN DEFERRED TAXES RECOGNIZED IN THE BALANCE SHEET

The change in net deferred taxes (assets - liabilities) recognized in the balance sheet can be analyzed as follows:

€ thousands	2006	2005	2004
AT JANUARY 1	**34,449**	**38,221**	**30,348**
Impact of first-time adoption of IAS 32/IAS 39 as from January 1, 2005		(15,662)	
Deferred taxes recognized in equity	(1,630)	1,209	
Deferred tax (expense) benefit for the period, net	1,351	5,226	8,151
Effect of changes in scope of consolidation and exchange rates, other movements	(782)	5,455	(277)
AT DECEMBER 31	**33,388**	**34,449**	**38,221**

UNRECOGNIZED DEFERRED TAX ASSETS

€ thousands	2006	2005	2004
Tax loss carryforwards	5,869	5,194	4,234
Other unrecognized deferred tax assets	70	6,082	8,639
UNRECOGNIZED DEFERRED TAX ASSETS	**5,939**	**11,276**	**12,873**

The tax rate used to calculate deferred taxes of French companies was 34.43% for 2006 (2005: 34.43%; 2004: 34.93%).

DEFERRED TAXES BY TYPE

€ thousands	2006	2005	2004
Elimination of intercompany profits on inventories	26,673	28,377	23,879
Differences in depreciation periods	(9,137)	(6,798)	(7,955)
Non-deductible provisions	28,671	27,560	24,254
Essilor Oceane convertible bond issue	(4,903)	(8,221)	1,920
Other	(7,916)	(6,469)	(3,877)
TOTAL	**33,388**	**34,449**	**38,221**

Other deferred taxes include miscellaneous temporary differences related to income and expenses not taxable or deductible in the current period, various adjustments to local financial statements to comply with Essilor International accounting policies (mainly concerning finance leases and untaxed provisions) and deferred tax assets related to tax loss carryforwards (mainly at the level of the French tax group).

TAX CONSOLIDATION

Essilor, Barbara, BBGR, BNL, Delamare, Essidev, Invoptic, Novisia, OMI, Optim, OSE (not consolidated), TAO, Varilux University (not consolidated) and VIP (not consolidated) file a consolidated tax return. The tax is paid by the parent company of the tax group. In 2006, the companies in the tax group generated a tax benefit of €2 million (2005:€1 million; 2004: €0.1 million).

NOTE 8 Change in outstanding shares

The shares have a par value of €0.35.

Change in outstanding shares	Actual number of shares 2006	2005 [a]	2004
ORDINARY SHARES, NET OF TREASURY STOCK, AT JANUARY 1	**101,882,632**	**101,927,695**	**101,470,271**
Number of treasury shares excluded from the calculation	1,323,630	1,382,788	1,269,837
Shares issued on exercise of stock options	337,041	450,247	987,533
Shares issued to the Essilor corporate mutual fund	305,133	345,532	382,842
Treasury shares allocated on conversion of Oceane convertible bonds	10,075		
Shares sold out of treasury on exercise of stock options	149,510	204,681	83,326
(Purchases) and sales of treasury stock, net	40,091	(1,045,523)	(986,277)
ORDINARY SHARES, NET OF TREASURY STOCK, AT DECEMBER 31	**102,724,482**	**101,882,632**	**101,937,695**
Number of treasury shares excluded from the calculation	**1,123,954**	**1,323,630**	**1,372,788**

[a] The number of treasury shares at January 1, 2005 includes 10,000 shares held under the liquidity contract, which were deducted from equity at January 1, 2005 on first-time adoption of IAS 32.

Change in average number of outstanding shares	Weighted average number of shares 2006	2005 [a]	2004
ORDINARY SHARES, NET OF TREASURY STOCK, AT JANUARY 1	**101,882,632**	**101,927,695**	**101,470,271**
Shares issued on exercise of stock options	53,193	92,819	290,285
Shares issued to the Essilor corporate mutual fund	97,041	112,642	115,384
Treasury shares allocated on conversion of Oceane convertible bonds	2,854		
Shares sold out of treasury on exercise of stock options	72,078	43,617	33,200
(Purchases) and sales of treasury stock, net	15,537	(293,447)	(426,486)
ORDINARY SHARES, NET OF TREASURY STOCK, AT DECEMBER 31	**102,123,335**	**101,883,326**	**101,482,654**

[a] The number of treasury shares at January 1, 2005 includes 10,000 shares held under the liquidity contract, which were deducted from equity at January 1, 2005 on first-time adoption of IAS 32.

A total of 900,000 treasury shares were canceled in 2005 (2004: 800,000).

At the Annual Shareholders' Meeting of May 13, 2005, the Board of Directors was given the following authorizations to issue shares (Article 225-100, Paragraph 4 of the French Commercial Code):

Annual Shareholders' Meeting May 13, 2005	Type of authorization	Duration	Expiration date	Utilization in 2005	Utilization in 2006
15th resolution	Stock option grants (up to 3% of the capital)	38 months	July 12, 2008	998,440 stock options granted by the Board on November 23, 2005	465,370 stock options granted by the Board on November 22, 2006
16th resolution	Stock grants (up to 1% of share capital)	38 months	July 12, 2008	Not used	263,556 performance shares granted by the Board on November 22, 2006
17th resolution	Blanket ceiling on stock options/share grants at 3% of share capital	38 months	July 12, 2008	998,440 shares (0.96% of the capital)	Cumulative utilizations: 1,727,366 shares (1.66% of the capital)
18th resolution	Issue of shares and share equivalents with pre-emptive subscription rights. Maximum: - Shares: €25 million - Debt securities: €800 million - Greenshoe option: 15%	26 months	July 12, 2007	Not used	Not used
19th resolution	Issue of shares and share equivalents without pre-emptive subscription rights,but – at the Board's discretion – a priority subscription period. Maximum: - Shares: €7 million - Debt securities: €800 million -Greenshoe option: 15%	26 months	July 12, 2007	Not used	Not used
21st resolution	Issue of bonus shares to be paid up by capitalizing reserves. Maximum €300 million	26 months	July 12, 2007	Not used	Not used
22nd resolution	Issue of shares to members of the Essilor employee shareholding plan or plans set up by related companies. Maximum: 3% of the capital	26 months	July 12, 2007	Issue of 345,532 €0.35 par value shares to the Essilor 5 and 7-year corporate mutual funds, representing a capital increase of €120,936.20	Issue of 305,133 €0.35 par value shares to the Essilor 5 and 7-year corporate mutual funds, representing a capital increase of €106,796.55. Cumulative utilizations: 650,665 shares (0.62% of the capital)

NOTE 9 Diluted earnings per share

Profit used for the calculation of diluted earnings per share is determined as follows:

€ thousands	2006	2005	2004
Profit attributable to equity holders of Essilor International	328,284	287,134	244,427
Cancellation of interest on the Oceane convertible bonds	11,603	12,652	9,173
Tax impact	(3,995)	(4,484)	(3,251)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF ESSILOR INTERNATIONAL, AFTER DILUTION	**335,892**	**295,302**	**250,349**

Due to the first-time adoption of IAS 32 as from January 1, 2005, total interest expense on the Oceane convertible bonds for 2006 and 2005 is not directly comparable with interest expense for 2004 (see Note 1.4).

The weighted average number of shares used to calculate diluted earnings per share is as follows:

	2006	2005	2004
Weighted average number of shares	102,123,335	101,883,326	101,482,654
Dilutive effect of convertible bonds	5,249,674	6,039,749	6,039,754
Dilutive effect of stock options	796,368	531,444	331,671
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	**108,169,377**	**108,454,519**	**107,854,079**

In accordance with IFRS 2, no dilution has been taken into account for the 2006 performance shares, because the average Essilor International share price for the period between the grant date and December 31, 2006 was below the reference share price on the grant date.

NOTE 10 Goodwill

€ thousands	At Jan. 1	Impact of first-time adoption of IAS 32 [(a)]	Changes in consolidation scope and acquisitions	Other movements	Translation adjustment	Impairment losses recognized in the period	At Dec. 31
2006							
Gross	464,526		53,341	11,459	(40,318)		489,008
Impairment losses	13,489		(2,224)		31	2,941	14,237
CARRYING AMOUNT	**451,037**	**0**	**55,565**	**11,459**	**(40,349)**	**(2,941)**	**474,771**
2005							
Gross	352,692	7,449	64,891	(4,269)	43,763		464,526
Impairment losses	2,335			317	(73)	10,910	13,489
CARRYING AMOUNT	**350,357**	**7,449**	**64,891**	**(4,586)**	**43,836**	**(10,910)**	**451,037**
2004							
Gross	325,353		42,893	339	(15,894)		352,692
Impairment losses	0				(216)	2,551	2,335
CARRYING AMOUNT	**325,353**		**42,893**	**339**	**(15,678)**	**(2,551)**	**350,357**

[(a)] Following the first-time adoption of IAS 32, effective from January 1, 2005, put options granted to minority shareholders of subsidiaries were recognized as a liability based on the option exercise price and the difference between the liability and the corresponding minority interests in the equity of the subsidiaries concerned was recognized in goodwill.

Other movements, in the amount of €11.4 million in 2006, consist mainly of the following:

- Fair value adjustments to assets acquired from Johnson & Johnson: goodwill recognized in 2005 on the acquisition of the Johnson & Johnson ophthalmic lens business was based on provisional fair values of the assets acquired and liabilities and contingent liabilities assumed, representing net assets of €36.7 million. In 2006, the fair value estimates were finalized, leading to a €6.4 million decrease in the fair value of the acquired property, plant and equipment and a corresponding increase in goodwill.
- Adjustment to the value of the put options granted to minority shareholders of subsidiaries.

The main increases in goodwill in 2006, 2005 and 2004 resulted from:

- In 2006, acquisitions in India (GKB Rx) and the United States (mainly Precision Optical Tennessee and Connecticut, Accu Rx and Homer Optical).
- In 2005, acquisition of the Johnson & Johnson Group's ophthalmic lens business (see Note 2.2).
- In 2004, acquisitions in Italy (LTL SpA) and the United States (mainly 21st century, Tri Supreme and Select Optical).

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

€ thousands	2006	2005	2004
Europe	61,145	62,615	60,479
North America	379,416	364,255	271,239
Rest of world	34,210	24,167	18,638
TOTAL	**474,771**	**451,037**	**350,357**

Goodwill was tested for impairment at June 30, 2006 and the results were reviewed at December 31, 2006, in line with the policies and methods described in Note 1.21.

The weighted average cost of capital used for impairment tests in 2006 was 8% (2005: 8%). Taking into account the risk premiums determined for each item of goodwill, the actual discount rates applied were as follows:

- Essilor of America subgroup: 8% (2005: 8%)
- Small European and North American acquisitions: 9% (2005: 9%)
- Japan: 9% (2005: 9%)
- Mexico and South Korea: 9% (2005: 10%).

The growth rate in perpetuity was conservatively estimated at 2% (2005: 2%).

Impairment tests at June 30, 2006 were based on actual 2005 results, estimated 2006 results and 2007 budgets. For the review at December 31, 2006, actual 2006 results were used in place of estimates.

Impairment losses were recognized in 2006 and 2005 on the following goodwill items:

2006:

- Europe: Jacques Denis: €0.38 million; BNL: €0.7 million; BBGR Svenska: €1.6 million.
- North America: Mexico group: €0.22 million.

2005:

- Europe: Jacques Denis: €1.83 million; BNL: €4.04 million; Holland Optical Corporation: €0.86 million.
- North America: Mexico group (Essilor Mexico and Vision Center): €4.18 million.

Total impairment losses for the year came to €2.9 million (2005: €10.9 million), representing 0.6% of gross goodwill at December 31, 2006.

A 1-point change in the discount rate would have the effect of increasing or reducing impairment losses for the period by approximately €1.1 million.

A 0.5-point change in the growth rate in perpetuity would have the effect of increasing or reducing impairment losses for the period by approximately €0.4 million.

NOTE 11 Other intangible assets

€ thousands	At Jan. 1	Changes in scope of consolidation, other movements	Acquisitions	Disposals	Translation adjustment	Amortization and impairment losses for the period	At Dec. 31
2006							
Trademarks	44,735				(4,025)		40,710
Patents and licenses	140,340	3,168	16,569	3,870	(7,298)		148,909
Other intangible assets	24,562	(3,011)	6,560	507	(958)		26,646
GROSS	**209,637**	**157**	**23,129**	**4,377**	**(12,281)**	**0**	**216,265**
Accumulated amortization	85,442	495		3,975	(4,367)	20,504	98,099
CARRYING AMOUNT	**124,195**	**(338)**	**23,129**	**402**	**(7,914)**	**(20,504)**	**118,166**
2005							
Trademarks	33,495	6,057			5,183		44,735
Patents and licenses	114,041	14,616	15,784	10,822	6,721		140,340
Other intangible assets	15,071	(298)	8,663	222	1,348		24,562
GROSS	**162,607**	**20,375**	**24,447**	**11,044**	**13,252**	**0**	**209,637**
Accumulated amortization	74,452	(908)		9,845	4,042	17,701	85,442
CARRYING AMOUNT	**88,155**	**21,283**	**24,447**	**1,199**	**9,210**	**(17,701)**	**124,195**
2004							
Trademarks	31,671	4,456	48		(2,680)		33,495
Patents and licenses	107,691	4,432	9,737	4,384	(3,435)		114,041
Other intangible assets	17,050	(6,576)	4,838	128	(113)		15,071
GROSS	**156,412**	**2,312**	**14,623**	**4,512**	**(6,228)**	**0**	**162,607**
Accumulated amortization	63,110	(289)		4,287	(1,715)	17,633	74,452
CARRYING AMOUNT	**93,302**	**2,601**	**14,623**	**225**	**(4,513)**	**(17,633)**	**88,155**

Intangible assets in progress amounted to €8.9 million at December 31, 2006 (2005: €7.1 million; 2004: €4.1 million), including €5.1 million (2005: 1.6 million) carried in the accounts of TAO, which has been managing European downstream system upgrade projects since 2005.

Trademarks were recognized mainly on acquisition of three American companies, The Spectacle Lens Group (corresponding to the former ophthalmic lens division of the Johnson & Johnson Group), Omega (renamed Essilor Laboratories of America, Inc. – Florida) and Nassau.

The carrying amount of trademarks with an indefinite useful life, corresponding solely to US brands, was €32 million at December 31, 2006 (2005: €36 million).

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NOTE 12 Property, plant and equipment

(including finance leases)

€ thousands	At Jan. 1	Changes in scope of consolidation, other movements	Acquisitions	Disposals	Translation adjustment	Depreciation and impairment losses for the period	At Dec. 31
2006							
Land	27,378	865	285	1,062	(1,043)		26,423
Buildings	353,933	23,093	24,416	20,729	(13,982)		366,731
Plant and equipment	954,624	31,110	70,284	53,858	(39,606)		962,554
Other	279,944	(28,036)	84,796	9,916	(10,746)		316,042
GROSS	**1,615,879**	**27,032**	**179,781**	**85,565**	**(65,377)**	**0**	**1,671,750**
Accumulated depreciation	978,537	(20,218)		69,502		111,676	1,000,493
CARRYING AMOUNT	**637,342**	**47,250**	**179,781**	**16,063**	**(65,377)**	**(111,676)**	**671,257**
2005							
Land	23,717	2,302	1,111	1,034	1,282		27,378
Buildings	319,463	(1,664)	19,246	4,364	21,252		353,933
Plant and equipment	796,575	53,474	76,289	37,335	65,621		954,624
Other	250,025	(36,589)	62,240	10,946	15,214		279,944
GROSS	**1,389,780**	**17,523**	**158,886**	**53,679**	**103,369**	**0**	**1,615,879**
Accumulated depreciation	869,524	(3,181)		45,843	54,597	103,440	978,537
CARRYING AMOUNT	**520,256**	**20,704**	**158,886**	**7,836**	**48,772**	**(103,440)**	**637,342**
2004							
Land	23,520	392	537	61	(671)		23,717
Buildings	308,895	7,802	13,278	1,589	(8,923)		319,463
Plant and equipment	749,360	43,603	70,226	42,774	(23,840)		796,575
Other	242,280	(27,298)	53,452	12,954	(5,455)		250,025
GROSS	**1,324,055**	**24,499**	**137,493**	**57,378**	**(38,889)**	**0**	**1,389,780**
Accumulated depreciation	834,183	14,400		50,933	(22,218)	94,092	869,524
CARRYING AMOUNT	**489,872**	**10,099**	**137,493**	**6,445**	**(16,671)**	**(94,092)**	**520,256**

Assets under construction amounted to €85.4 million at December 31, 2006 (2005: €54.1 million; 2004: €48.4 million).

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NOTE 13 Property, plant and equipment: finance leases

€ thousands	At Jan. 1	Changes in scope of consolidation, other movements	Acquisitions	Disposals	Translation adjustment	Depreciation and impairment losses for the period	At Dec. 31
2006							
Land	957	(107)					850
Buildings	14,970	664	312	375	(13)		15,558
Other	15,860	(965)	513	1,863	(849)		12,696
GROSS	**31,787**	**(408)**	**825**	**2,238**	**(862)**	**0**	**29,104**
Accumulated depreciation	23,091	(622)		1,248	(757)	1,161	21,625
CARRYING AMOUNT	**8,696**	**214**	**825**	**990**	**(105)**	**(1,161)**	**7,479**
2005							
Land	957						957
Buildings	26,946	(11,976)					14,970
Other	13,562	1,138	1,107		53		15,860
GROSS	**41,465**	**(10,838)**	**1,107**	**0**	**53**	**0**	**31,787**
Accumulated depreciation	23,248	(2,750)			43	2,550	23,091
CARRYING AMOUNT	**18,217**	**(8,088)**	**1,107**	**0**	**10**	**(2,550)**	**8,696**
2004							
Land	957						957
Buildings	26,946						26,946
Other	13,361	5,233	242	5,073	(201)		13,562
GROSS	**41,264**	**5,233**	**242**	**5,073**	**(201)**	**0**	**41,465**
Accumulated depreciation	23,918	1,923		4,497	(176)	2,080	23,248
CARRYING AMOUNT	**17,346**	**3,310**	**242**	**576**	**(25)**	**(2,080)**	**18,217**

The €11.9 million decrease in "Buildings" in 2005 was due to the exercise of the purchase option on the Charenton building.

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NOTE 14 Investments in associates

Details of associates are as follows:

		2006		2005		2004	
Company	Country	% interest	% voting rights	% interest	% voting rights	% interest	% voting rights
Transitions subgroup	[a]	49.00	49.00	49.00	49.00	49.00	49.00
Bacou-Dalloz subgroup	France	15.04	24.00	15.11	24.00	15.13	24.62
VisionWeb	United States	**44.03**	**44.03**	**44.03**	**44.03**	**44.95**	**44.95**

[a] See Note 33 for more details.

Essilor's share of these companies' equity - corresponding to the carrying amount of its investment – and of their after-tax profits is as follows:

	2006		2005		2004	
€ thousands	Share of equity	Share of profit	Share of equity	Share of profit	Share of equity	Share of profit
Groupe Transitions	80,593	22,196	58,091	17,707	36,887	15,851
Bacou-Dalloz subgroup	86,173	6,303	87,692	6,768	73,131	(1,651)
VisionWeb [a]	(11,170)	0	(12,470)	(2,018)	(8,928)	(4,362)
	155,596	**28,499**	**133,313**	**22,457**	**101,090**	**9,837**

[a] In addition to its original investment, the Company holds long-term interests that form an integral part of its net investment in VisionWeb.

Based on Bacou-Dalloz's December 29, 2006 share price of €101.40, the fair value of the Company's interest stands at €116.8 million. None of the other associates are listed.

ESSILOR INTERNATIONAL'S SHARE OF THE COMBINED BALANCE SHEET OF ASSOCIATES

€ thousands	December 31, 2006	December 31, 2005
Intangible assets and property, plant and equipment, net	128,931	136,529
Other non-current assets	14,020	26,184
Current assets	124,618	114,843
Non-current liabilities	38,137	48,436
Current liabilities	78,067	86,065

Net goodwill on associates amount to €4.9 million at December 31, 2006, 2005 and 2004, relating solely to the Bacou-Dalloz subgroup.

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NOTE 15 Other long-term financial investments

€ thousands	At Jan. 1	Changes in scope of consolidation, other movements	Additions, new loans	Disposals, repayments	Translation adjustment	Fair value adjust-ments	Impair-ment losses recognized in the period, net	At Dec. 31
2006								
LONG-TERM FINANCIAL INVESTMENTS AT FAIR VALUE	**19,618**	**(7,622)**	**2,150**	**328**	**(178)**	**(132)**	**(2,368)**	**11,140**
- Investments in non-consolidated companies	16,313	(7,622)	2,136	328	(102)	0	(2,603)	7,794
- Other available-for-sale financial assets	3,305		14	0	(76)	(132)	(235)	3,346
LONG-TERM FINANCIAL INVESTMENTS AT AMORTIZED COST	**21,790**	**(1,181)**	**7,024**	**2,205**	**(1,758)**	**0**	**(153)**	**23,517**
- Loans, including accrued interest	22,099	(1,187)	7,024	2,205	(1,758)			23,973
- Provisions	309	(6)					153	456
OTHER LONG-TERM FINANCIAL INVESTMENTS	**41,408**	**(8,803)**	**9,174**	**2,533**	**(1,936)**	**(132)**	**(2,521)**	**34,657**
2005								
LONG-TERM FINANCIAL INVESTMENTS AT FAIR VALUE	**23,274**	**(7,868)**	**10,668**	**3,557**	**141**	**398**	**(3,438)**	**19,618**
- Investments in non-consolidated companies	17,524	(7,867)	10,659	0	138	0	(4,141)	16,313
- Other available-for-sale financial assets	5,750	(1)	9	3,557	3	398	703	3,305
LONG-TERM FINANCIAL INVESTMENTS AT AMORTIZED COST	**19,556**	**(347)**	**3,464**	**2,741**	**1,705**	**0**	**153**	**21,790**
- Loans, including accrued interest	20,049	(348)	3,464	2,774	1,708			22,099
- Provisions	493	(1)		33	3		(153)	309
OTHER LONG-TERM FINANCIAL INVESTMENTS	**42,830**	**(8,215)**	**14,132**	**6,298**	**1,846**	**398**	**(3,285)**	**41,408**
2004								
LONG-TERM FINANCIAL INVESTMENTS AT FAIR VALUE	**20,931**	**(1,533)**	**9,870**	**2,097**	**(56)**	**0**	**(3,841)**	**23,274**
- Investments in non-consolidated companies	14,251	(1,533)	8,067	230	(41)		(2,990)	17,524
- Other available-for-sale financial assets	6,680		1,803	1,867	(15)		(851)	5,750
LONG-TERM FINANCIAL INVESTMENTS AT AMORTIZED COST	**20,670**	**(469)**	**3,775**	**3,110**	**(906)**	**0**	**(404)**	**19,556**
- Loans, including accrued interest	20,727	(437)	3,775	3,110	(906)			20,049
- Provisions	57	32					404	493
OTHER LONG-TERM FINANCIAL INVESTMENTS	**41,601**	**(2,002)**	**13,645**	**5,207**	**(962)**	**0**	**(4,245)**	**42,830**

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NOTE 16 Inventories

€ thousands	2006	2005	2004
Raw materials and other supplies	132,052	137,223	114,564
Goods for resale	71,278	87,487	68,579
Finished and semi-finished products and work in progress	167,803	139,849	123,297
CARRYING AMOUNT	**371,133**	**364,559**	**306,440**

NOTE 17 Short-term receivables

Trade receivables

€ thousands	2006	2005	2004
Gross	538,440	504,965	435,749
Provisions	(39,294)	(37,911)	(31,990)
CARRYING AMOUNT	**499,146**	**467,054**	**403,759**

Other short-term receivables

€ thousands	2006	2005	2004
Gross	52,014	49,109	44,288
Provisions	(147)	(702)	(627)
Carrying amount	51,867	48,407	43,661
TOTAL SHORT-TERM RECEIVABLES, NET	**551,013**	**515,460**	**447,420**

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NOTE 18 Cash and cash equivalents

Cash and cash equivalents break down as follows:

€ thousands	2006	2005	2004
Cash	126,851	110,289	97,824
SICAV money market funds qualifying as cash equivalents	399,879	243,924	495,837
FCP funds	0	0	187
Retail certificates of deposit (maturing in less than 3 months)	50,696	300,738	69,784
Other	7,463	3,762	6,707
TOTAL	**584,889**	**658,713**	**670,339**

NOTE 19 Translation reserve

The translation reserve breaks down as follows by currency:

€ thousands	2006	2005	2004
U.S. dollar	(19,534)	31,806	(18,799)
Brazilian real	13,222	14,957	611
Thai bath	4,613	1,524	(4,608)
Philippine peso	(2,190)	(1,036)	(8,898)
Yen	(6,111)	(1,324)	(1,165)
Canadian dollar	2,392	8,770	(359)
Chinese yuan	(407)	2,111	(1,853)
Pound sterling	1,052	230	(324)
Singapore dollar	546	541	(35)
Indian rupee	(2,289)	124	(228)
Polish zloty	1,140	1,090	411
Korean won	2,983	3,641	683
Other currencies	184	832	(2,887)
TOTAL	**(4,399)**	**63,266**	**(37,451)**

NOTE 20 Provisions for pensions and other post-employment benefits

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 break down as follows at December 31:

€ thousands	2006	2005	2004
Projected benefit obligation			
- Fully or partially funded plans	115,739	100,251	90,905
- Unfunded plans	66,370	64,174	55,205
Fair value of plan assets	(61,180)	(49,906)	(46,079)
Deferred items			
- Unrecognized actuarial gains and losses	(20,982)	(17,415)	(13,482)
- Unrecognized past service cost	(5,524)	(6,256)	(5,119)
NET PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS	**94,423**	**90,848**	**81,430**
Of which provisions (plan deficits)	95,793	90,848	81,430
Of which non-current assets (plan surpluses)	1,370	0	0

Provisions for pensions and other post-employment benefits at December 31, 2006 break down as follows:

€ thousands	Projected benefit obligation	Plan assets	Deferred items	Provision
Pensions (supplementary and top-hat plans)	137,354	(55,347)	(21,390)	60,617
Length-of-service awards	30,959	(5,833)	(5,115)	20,011
Other benefits	13,795			13,795
TOTAL	**182,108**	**(61,180)**	**(26,505)**	**94,423**

Changes in net pension and other post-retirement benefit obligations can be analyzed as follows:

€ thousands	2006	2005	2004
NET PROVISION AT JANUARY 1	**90,848**	**81,430**	**73,850**
Increases, net	6,231	6,965	8,254
Translation adjustments	(1,646)	1,758	(946)
Changes in scope of consolidation	0	695	673
Other movements	(1,010)		(401)
NET PROVISION AT DECEMBER 31	**94,423**	**90,848**	**81,430**

The net expense recognized in the income statement breaks down as follows:

Income (expense) *€ thousands*	2006	2005	2004
Service cost	(7,578)	(8,026)	(9,412)
Interest cost	(7,270)	(6,193)	(6,097)
Expected return on plan assets	2,995	2,256	2,217
Actuarial gains and losses	(780)	(1,206)	(763)
Amortization of past service cost	(860)	(588)	(457)
Other	(20)	(155)	(260)
EXPENSE FOR THE PERIOD	**(13,513)**	**(13,912)**	**(14,772)**
Contributions to plan assets	4,857	2,685	2,357
Paid benefits	2,425	4,262	4,161
NET EXPENSE	**(6,231)**	**(6,965)**	**(8,254)**

The following table analyses the change in the projected benefit obligation:

€ thousands	2006	2005
PROJECTED BENEFIT OBLIGATION AT JANUARY 1	**164,425**	**146,110**
Service cost	7,578	8,026
Interest cost	7,270	6,193
Employee contributions	983	718
Paid benefits	(8,188)	(7,447)
Actuarial gains and losses	2,389	5,514
Past service cost		1,895
Other movements	9,739	360
Changes in scope of consolidation		690
Translation adjustment	(2,087)	2,366
PROJECTED BENEFIT OBLIGATION AT DECEMBER 31	**182,109**	**164,425**

The main discount rates used to measure these obligations in 2006 were as follows:

- Euro zone countries: 4.50% for long-term plans (2005: 4.50%; 2004: 4.75%) and 4.25% for jubilees in France (2005: 4.25%; 2004: 4.75%).
- United Kingdom: 5% (2005: 5%).
- United States: 5.75% (2005: 5.50%; 2004: 5.75%).

Final salary assumptions are based on a weighted average rate of salary increases of 2.9% in 2006 (2005: 2.6%; 2004: 2.8%).

Recognized actuarial gains and losses correspond to experience adjustments (difference between assumptions and actual data) and changes in assumptions. In 2006, actuarial gains and losses corresponding to experience adjustments represented 0.7% of the projected benefit obligation (2005: 1.1%).

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Changes in the fair value of plan assets are as follows:

€ thousands	2006	2005
FAIR VALUE OF PLAN ASSETS AT JANUARY 1	**49,906**	**46,079**
Contributions to plan assets	5,840	3,403
Paid benefits	(5,763)	(3,186)
Expected return on plan assets	2,995	2,256
Actuarial gains and losses	(1,135)	1,247
Other movements	9,887	(438)
Changes in scope of consolidation		
Translation adjustment	(550)	545
FAIR VALUE OF PLAN ASSETS AT DECEMBER 31	**61,180**	**49,906**
Actual return on plan assets	1,860	3,503

Assumptions for 2006 are based on an expected weighted average return on plan assets of 4.6% (2005: 4.9%; 2004: 5.2%), as follows:

- Euro zone countries: 4.50% to 5% (2005: 4.50% to 5%).
- United Kingdom: 6.3% (2005: 6.6%).

The breakdown of plan assets at December 31, 2006 is as follows:

- Equities: 29%
- Bonds: 39%
- General insurance funds: 21%
- Property: 1%
- Other: 10%.

"Other movements" in the tables analyzing changes in the projected benefit obligation and plan assets, for €9.7 million and €9.9 million respectively, mainly correspond to the simultaneous and matching impact of taking into account the projected benefit obligation towards retirees participating in the pension plan in the Netherlands and the related plan assets.

In Sweden, Essilor participates in a multi-employer defined benefit plan. As the insurance company that manages the plan is unable to determine Essilor's share, it has been treated as a defined contribution plan in accordance with IAS 19.

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NOTE 21 Provisions

€ thousands	At January 1	Charges	Utilizations	Reversals of surplus provisions	Translation adjust-ments	Changes in scope of consoli-dation	Other movements	At December 31
2006								
Provisions for losses in subsidiaries and affiliates	502		(217)					285
Restructuring provisions	7,737	737	(5,737)	(240)	(307)		(5)	2,183
Other [a]	18,082	8,981	(6,523)	(467)	(989)	315	1,482	20,882
TOTAL	**26,321**	**9,718**	**(12,477)**	**(707)**	**(1,296)**	**315**	**1,477**	**23,350**
2005								
Provisions for losses in subsidiaries and affiliates	647	123	(268)					502
Restructuring provisions	10,480	670	(4,597)	(812)	548	1,473	(25)	7,737
Other [a]	20,883	7,543	(9,794)	(529)	1,287	689	(1,997)	18,082
TOTAL	**32,010**	**8,336**	**(14,659)**	**(1,341)**	**1,835**	**2,162**	**(2,022)**	**26,321**
2004								
Provisions for losses in subsidiaries and affiliates	503	144						647
Restructuring provisions	11,514	5,083	(6,022)		(121)		26	10,480
Other [a]	22,221	8,347	(6,528)	(3,024)	(500)	411	(44)	20,883
TOTAL	**34,238**	**13,574**	**(12,550)**	**(3,024)**	**(621)**	**411**	**(18)**	**32,010**

[a] Mainly provisions for warranty costs and miscellaneous contingencies.

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NOTE 22 Net debt and borrowings

22.1. NET DEBT

Net debt can be analyzed as follows:

€ thousands	2006	2005	2004 [a]
Oceane convertible bonds	252,794	282,508	310,860
Other long-term borrowings	10,203	166,340	296,523
Short-term borrowings	168,340	121,970	
Short-term bank loans and overdrafts and accrued interest	18,671	34,252	25,613
TOTAL BORROWINGS	**450,008**	**605,070**	**632,996**
Marketable securities [b]	75,147		
Cash equivalents	458,038	548,424	572,515
Cash	126,851	110,289	97,824
TOTAL ASSETS	**660,036**	**658,713**	**670,339**
NET DEBT	**(210,028)**	**(53,643)**	**(37,343)**

[a] Before first-time application of IAS 32 and IAS 39 (adopted as of January 1, 2005).
[b] Marketable securities not qualifying as cash equivalents, that the Company considers as qualifying for inclusion in the calculation of net debt (see Note 1.28).

On first-time adoption of IAS 32, as from January 1, 2005, the carrying amount of Oceane convertible bonds was reduced by €36.4 million, corresponding to the value of the conversion option recognized in equity, net of amortization for the period from the issue date.

22.2 BORROWINGS

Borrowings can be analyzed as follows by maturity:

€ thousands	2006	2005	2004
Due within one year	187,011	156,222	25,613
Due in 1 to 5 years	262,543	448,296	296,362
Due beyond 5 years	454	552	311,021
TOTAL	**450,008**	**605,070**	**632,996**

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Borrowings can be analyzed as follows by currency:

€ thousands	2006	2005	2004
U.S. dollars	10	183	185
Euros	423	415	439
Yen	1	1	1
Canadian dollars		0	1
Other currencies	16	7	7
TOTAL	**450**	**605**	**633**

The fair value of borrowings at December 31, 2006 and 2005 was as follows:

€ thousands	2006	2005
Oceane convertible bonds	431,261	440,298
Other long-term borrowings	10,203	166,340
Short-term borrowings	168,340	128,548
Short-term bank loans and overdrafts and accrued interest	18,671	34,252
TOTAL	**628,475**	**769,438**

The fair value of Oceane convertible bonds corresponds to their market value. This is not directly comparable with their carrying amount, which excludes the value of the conversion option recognized in equity.

Short-term borrowings at December 31, 2005 included a bond issue that was hedged by a cross-currency swap and interest rate swaps. The fair value of the bonds at December 31, 2005 was measured as the present value of future cash flows, without taking into account the fair value of the swaps which were recognized under "Derivative financial instruments" (see Notes 23 and 25). The bonds were redeemed in 2006.

FINANCE LEASE LIABILITIES

	2006		2005		2004	
€ thousands	Principal	Interest	Principal	Interest	Principal	Interest
Due within one year	1,728	106	1,800	178	3,589	389
Due in 1 to 5 years	2,203	224	4,143	371	7,957	285
Due beyond 5 years	454	35	511	36	162	6
TOTAL FINANCE LEASE LIABILITIES	**4,385**	**365**	**6,454**	**585**	**11,708**	**680**

OCEANE CONVERTIBLE BONDS

In July 2003, the Company issued €309 million worth of bonds convertible into new shares or exchangeable for existing shares (Oceanes) due July 2010, with early redemption possible in July 2008. The main characteristics of the bonds are as follows:

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

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

In February 2006, Essilor bought back 780,000 Oceane bonds due 2010, representing 13% of the initial issue, for €57.5 million.

Oceane bonds are convertible into or exchangeable for new or existing Essilor shares and the transaction was part of the strategy deployed since 2003 to reduce dilution from equity instruments carried in the balance sheet. Until the February 2006 transaction, this active management strategy had always involved buying back shares to offset dilution from stock option plans.

Because the Oceanes are convertible at a price of €53.55, the 26.80% rise in Essilor's share price in 2005 made conversion increasingly probable. The Company therefore decided to buy back 780,000 Oceanes. Compared to share buybacks, this has the added advantage of reducing interest expense and improving the balance sheet structure. Moreover, as the buyback concerned less than 20% of the outstanding bonds, it will not have a material impact on the issue's liquidity.

The impact of the buyback on the 2006 consolidated financial statements was as follows:

- Net profit: negative impact of €1.7 million before tax, €1.1 million after tax.
- Equity: negative impact of €13.6 million (including the buyback loss).
- Net debt: increase of €14.9 million.

(see description of accounting policies in Note 1.30).

In addition, annual interest costs on the Oceanes will be around €1.7 million lower.

The closing price of the Oceanes on December 29, 2006 was €82.15 (2005: €72.90).

At December 31, 2006, 5,249,674 bonds were outstanding (2005: 6,039,749).

NOTE 23 Fair value of derivative financial instruments

The Company adopted IAS 39 prospectively, as from January 1, 2005.

Under IAS 39, certain derivatives and certain types of transactions that in substance represent hedges do not qualify for hedge accounting under IAS 39. Gains and losses from remeasurement at fair value of these derivative instruments are recognized directly in profit, under "Other financial income and expenses".

Net asset (liability) € thousands	December 31, 2006	December 31, 2005	January 1, 2005
Cash flow hedges:			
- Forward exchange contracts	1,846	(1,907)	48
Fair value hedges:			
- Forward exchange contracts	(116)	0	0
- Cross-currency swaps (currency portion)	0	0	0
Hedges of net investments in foreign operations:			
- Forward exchange contracts	470	(958)	732
Instruments not qualifying for hedge accounting:			
- Forward exchange contracts	(1,939)	(3,355)	(28)
- Currency options	692	(982)	1,248
- Cross-currency swaps (currency portion)		(1,928)	21,407
- Interest rate swaps		2,513	5,621
FAIR VALUE OF DERIVATIVE INSTRUMENTS	**953**	**(6,617)**	**29,028**
Derivative financial instruments recognized in assets	3,174	2,650	37,228
Derivative financial instruments recognized in liabilities	(2,221)	(9,267)	(8,200)

Details of derivative financial instruments are provided below:

- **Sales of foreign currencies against local currency**

€ thousands	Foreign currency		Local currency	Notional amount	Fair value at December 31, 2006
Sale	AUD	Purchase	EUR	3,962	(48)
Sale	CAD	Purchase	EUR	12,376	777
Sale	CHF	Purchase	EUR	7,060	165
Sale	DKK	Purchase	EUR	1,445	0
Sale	EUR	Purchase	PLN	600	(3)
Sale	GBP	Purchase	EUR	37,957	(332)
Sale	JPY	Purchase	EUR	4,067	160
Sale	NOK	Purchase	EUR	1,789	16
Sale	NZD	Purchase	EUR	1,351	(35)
Sale	PLN	Purchase	EUR	19,480	13
Sale	SEK	Purchase	EUR	9,879	(239)
Sale	USD	Purchase	EUR	323,109	1,264
Sale	USD	Purchase	SGD	9,064	60
Sale	ZAR	Purchase	EUR	3,578	(25)
SUB-TOTAL: SALES OF FOREIGN CURRENCIES				**435,716**	**1,773**

- **Purchases of foreign currencies against local currency**

€ thousands	Foreign currency		Local currency	Notional amount	Fair value at December 31, 2006
Purchase	AUD	Sale	EUR	205	(1)
Purchase	AUD	Sale	NZD	0	0
Purchase	CAD	Sale	EUR	846	(6)
Purchase	CHF	Sale	EUR	1,537	(18)
Purchase	DKK	Sale	EUR	52	0
Purchase	EUR	Sale	GBP	21,560	(186)
Purchase	EUR	Sale	NOK	990	9
Purchase	EUR	Sale	ZAR	246	(9)
Purchase	GBP	Sale	EUR	19,892	94
Purchase	JPY	Sale	AUD	0	0
Purchase	JPY	Sale	CAD	6,124	(34)
Purchase	JPY	Sale	EUR	20,951	(1,449)
Purchase	JPY	Sale	NZD	0	0
Purchase	JPY	Sale	SGD	0	0
Purchase	JPY	Sale	THB	3,869	(189)
Purchase	JPY	Sale	USD	5,626	(82)
Purchase	JPY	Sale	ZAR	24	(2)
Purchase	MXN	Sale	USD	9,809	102
Purchase	NOK	Sale	EUR	737	(10)
Purchase	PLN	Sale	EUR	852	24
Purchase	SEK	Sale	EUR	4,259	3
Purchase	SGD	Sale	EUR	1,702	7
Purchase	USD	Sale	EUR	24,442	(455)
Purchase	USD	Sale	AUD	9,697	(445)
Purchase	USD	Sale	BRL	3,930	(95)
Purchase	USD	Sale	CAD	27,180	983
Purchase	USD	Sale	GBP	365	(18)
Purchase	USD	Sale	IDR	114	(2)
Purchase	USD	Sale	JPY	1,634	42
Purchase	USD	Sale	KRW	1,503	(28)
Purchase	USD	Sale	MXN	609	(1)
Purchase	USD	Sale	NZD	0	0
Purchase	USD	Sale	ZAR	129	(11)
Purchase	ZAR	Sale	EUR	265	0
Divers					264
SUB-TOTAL: PURCHASES OF FOREIGN CURRENCIES				**169,149**	**(1,512)**
SUB-TOTAL: FORWARD EXCHANGE CONTRACTS				**604,865**	**261**

- **Currency options**

€ thousands	Foreign currency		Local currency	Notional amount	Fair value at December 31, 2006 [a]
Purchased puts					
Purchase	GBP	Sale	EUR	14,706	34
Purchase	USD	Sale	EUR	15,779	671
SUB-TOTAL: PURCHASED PUTS				**30,485**	**706**
Sold calls					
Purchase	GBP	Sale	EUR	15,038	(7)
Purchase	USD	Sale	EUR	16,129	(6)
SUB-TOTAL: SOLD CALLS				**31,167**	**(14)**
SUB-TOTAL: CURRENCY OPTIONS				**61,652**	**692**

€ thousands	Notional amount	Fair value at December 31, 2006 [a]
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	**666,517**	**953**

[a] The fair value of options is taken to be their market value at December 31, 2006 (and not the gain or loss as was the case in prior years).

NOTE 24 Off-balance sheet commitments

€ thousands	2006	2005	2004
COMMITMENTS GIVEN			
Guarantees	235,131	227,636	141,444
Debt collateral			
Debt	3,904	5,435	1,673
Net book value of collateral	8,959	3,667	4,647
COMMITMENTS RECEIVED			
Guarantees	433	360	588

Commitments under non-cancelable operating leases (minimum future lease payments)

€ thousands	2006	2005	2004
Within one year	16,437	14,236	11,594
In 1 to 5 years	46,412	34,822	34,188
Beyond 5 years	14,878	12,821	21,066
TOTAL	**77,727**	**61,879**	**66,848**

NOTE 25 Market risks

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

LIQUIDITY/FINANCING RISK

The Company's financing strategy is designed to ensure that borrowing needs are met at all times, in terms of both amounts and duration. This is achieved by diversifying sources of financing, through a mix of bank facilities and debt issues on the financial markets.

Borrowings against confirmed facilities (convertible bonds, structured loans) totaled €403 million at December 31, 2006. The Company also has two multi-currency syndicated lines of credit expiring in 2009 and 2012 respectively, for a total of €1,300 million. These two facilities were not utilized in 2006 and the total amount is currently available. The facility agreements do not include any covenants based on financial ratios.

The July 1996 €122 million bond issue was redeemed at maturity in July 2006. No new financing facilities were set up during the year.

As a general rule, Essilor International negotiates with its banking partners the facilities required to finance the business and meets substantially all the financing needs of subsidiaries through intercompany loans.

When intercompany loans are denominated in foreign currency, the currency risk is systematically hedged.

At December 31, 2006, loans to subsidiaries totaled €366 million, including the equivalent of €300 million in foreign currency loans hedged by forward exchange contracts.

INTEREST RATE RISK

Essilor International raises financing for its own needs as well as for substantially all of the needs of subsidiaries and interest rate risks are therefore managed at corporate level.

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

SENSITIVITY TO CHANGES IN INTEREST RATES AT DECEMBER 31, 2006

(In accordance with the recommendation of the French securities regulator – AMF – variable rate assets and liabilities have been classified as maturing within one year, corresponding to the period to the next interest reset date, whatever their actual maturity)

€ millions	Overnight to one year	1 to 5 years	Beyond 5 years	Total
Variable rate financial liabilities [a]	197			197
Variable rate financial assets	(660)			(660)
NET VARIABLE RATE POSITION	**(463)**	**0**	**0**	**(463)**
Fixed rate financial liabilities [b]		253		253
NET FIXED RATE POSITION	**0**	**253**	**0**	**253**

[a] Including local facilities and finance lease liabilities for €47 million.
[b] Convertible bonds.

A 1%-point change in interest rates would have the effect of increasing or reducing finance costs by €4.63 million.

Borrowings include private placement notes for €150 million, bonds for €253 million and miscellaneous lines of credit for €47 million.

At December 31, 2006, 56% of borrowings under confirmed facilities – including the Oceane convertible bonds – were at fixed rates (2005: 67%; 2004: 67%). The Company did not have any interest rate swaps at December 31, 2006.

The weighted average rate of interest on debt was 4.46% at December 31, 2006. This compares with an effective interest rate of 4.42% in 2005 and a pro forma rate of 4.18% in 2004 determined as if IAS 32 had been applied from January 1, 2004.

COUNTERPARTY RISK

Available cash is invested in accordance with the two overarching principles of security and liquidity.

The net cash provided from operations is more than sufficient to pay down debt, leading to an increase in cash reserves. For the investment of these funds, strict limits are applied in terms of investment period, counterparties and risk exposures.

Counterparty banks must be rated investment grade by Moody's and Standard & Poor's. They are selected primarily from among the Company's banking partners.

At December 31, 2006, cash reserves were invested in 23 money market funds and in short-term retail certificates of deposit issued by banks. They were spread among 13 different counterparties.

Eighty-five percent of the investments qualify as cash equivalents, according to the guidance issued by the French securities regulator (AMF). The remaining 15% is invested in products with volatilities and sensitivities of less than 1.5.

CURRENCY RISK

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

Substantially all currency risks are positioned and managed at the level of Essilor International, the parent company. All currency transactions are subject to position limits, in order to optimize the protection afforded by the hedges.

Currency risks on intercompany and external commercial transactions, as well as on intercompany dividends, royalties and management fees are systematically hedged based on 80 to 100% of the identified exposure.

Currency risks on financial transactions (purchases and sales of investments, share issues) are managed on a case-by-case basis, according to the degree of certainty that the transaction will take place, using the most appropriate products.

Direct intercompany transactions not involving Essilor International that give rise to a material currency risk are hedged locally or through Corporate Treasury by the subsidiary that incurs the exposure. Local hedges are set up with the support and approval of Corporate Treasury, to cover 80 to 100% of the identified exposure. The instruments used consist of forward or spot purchases and sales of foreign currencies. Position data are reported to Corporate Treasury on a regular basis. However, the total amount of currency hedges held in the subsidiaries and not managed by Essilor International remains marginal.

Although, in substance, all the contracts correspond to hedging positions, they do not necessarily qualify for hedge accounting under IFRS. The Company applies hedge accounting whenever possible, but cannot do so in all cases.

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CONSOLIDATED EXPOSURE TO CURRENCY RISK ON ASSETS AND LIABILITIES AT DECEMBER 31, 2006

€ thousands

Currency 1	EUR	GBP	JPY	USD	Other	Total
Currency 2						
AUD				1,752		1,752
BRL	(196)		(8)	(916)		(1,120)
CAD	(83)		270	896		1,084
CHF	(332)					(332)
CNY	(784)		(548)	(879)	(15)	(2,225)
CZK	(126)					(126)
EUR		2,554	(697)	4,020	743	6,620
GBP	842		(3)	92		930
HKD	(7)		(14)	(752)	(74)	(846)
HRK	(226)					(226)
HUF	(470)					(470)
IDR			(4)	(381)	(89)	(475)
INR	(107)		(34)	(428)	(36)	(604)
JPY	(144)	145		(305)	1,099	795
KRW	(2)		(82)	1,343	(1)	1,258
MXN				(3,084)		(3,084)
NOK	491	(40)		(1)		450
NZD			(60)	(32)	(112)	(204)
PHP	(90)		(487)	2,788	(8)	2,203
PLN	1,688			(7)		1,682
RON	(60)					(60)
SEK	41			(20)		20
SGD	461		2,930	8,784	(56)	12,119
THB			(765)	5,254		4,490
TWD					(1,225)	(1,225)
USD					173	173
ZAR	(114)		1	(122)		(235)
TOTAL	**783**	**2,659**	**499**	**18,003**	**399**	**22,343**

Currency 1: risk currency. Currency 2: functional currency of the company exposed to the risk. Sign convention: "–" Net seller of Currency 1 (liability); "+" Net buyer of Currency 1 (asset).

Note: This table is a compilation of net balance sheet positions after hedging (Assets - Liabilities +/- Off-balance sheet positions related to 2006 transactions) in the main functional currencies of companies included in the scope of consolidation at December 31, 2006.

For example, companies whose functional currency is the Singapore dollar are net buyers of US dollars in an amount equivalent to €8,784 thousand, while the companies whose functional currency is the Mexican peso are net sellers of U.S. dollars in an amount equivalent to €3,084 thousand.

The total net currency exposure at December 31, 2006 represented an amount equivalent to some €22,343 thousand.

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NOTE 26 Environmental risks

The Company is not exposed to any material environmental risks.

NOTE 27 Claims and litigation

The Company is not aware of any claims or litigation outstanding or pending that could have a material adverse effect on its consolidated financial position.

NOTE 28 Average number of employees and employee benefits expense

Number of employees	2006	2005	2004
AVERAGE NUMBER OF EMPLOYEES			
Management	3,692	3,226	3,015
Supervisory and administrative	7,772	6,808	6,453
Production	15,797	14,875	14,052
TOTAL AVERAGE NUMBER OF EMPLOYEES FOR THE PERIOD	**27,261**	**24,909**	**23,520**

€ thousands	2006	2005	2004
EMPLOYEE BENEFITS EXPENSE (salaries, payroll taxes and compensation costs on share-based payments)	**886,530**	**810,152**	**743,211**

Number of employees	2006	2005	2004
NUMBER OF EMPLOYEES AT DECEMBER 31	**29,288**	**26,534**	**24,793**
including employees of proportionately consolidated companies (on a 100%-basis)	2,890	1,966	1,780

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NOTE 29 Related party transactions

MANAGEMENT COMPENSATION

€ thousands	2006	2005	2004
Total compensation and benefits paid to the Executive Committee [a]	5,734	5,250	4,171
Directors' fees paid to the Executive Committee	43	53	34
TOTAL MANAGEMENT COMPENSATION	**5,777**	**5,303**	**4,205**

[a] Gross amount before payroll and other taxes.

POST-EMPLOYMENT BENEFITS FOR EXECUTIVE DIRECTORS

- Pension obligations: €4,250 thousand at December 31, 2006 (2005: €4,423 thousand).
- Length-of-service awards payable on retirement: €322 thousand at December 31, 2006 (2005: €318 thousand).

These benefits are payable under group plans set up by Essilor International for all employees or certain employee categories. The obligations are funded under insured plans, with any unfunded portion covered by provisions.

STOCK OPTIONS AND PERFORMANCE SHARES GRANTED TO EXECUTIVE DIRECTORS

Compensation costs for executive directors' stock options recognized in the 2006 accounts came to €1,137 thousand. The cumulative cost of executive directors' stock options granted since November 2002 amounted to €2,972 thousand at December 31, 2006.

Compensation costs in 2006 for performance shares granted to executive directors in November 2006 amounted to €67 thousand.

These costs are measured by the method described in Note 1.14.

RELATED PARTY TRANSACTIONS

Related parties include the following:

- **Proportionately consolidated companies**
  - Nikon-Essilor, a 50/50 joint venture in Japan with the Nikon group.
    Nikon-Essilor distributes certain Essilor products in Japan, while Essilor distributes certain Nikon brand products made by Nikon-Essilor, mainly in Europe.
  - Essilor Korea, a joint venture 50%-owned by Essilor and 50% by the South Korean group Samyung Trading.
    Essilor Korea distributes certain Essilor products in the South Korean market, while Essilor distributes certain products manufactured by Essilor Korea's Chemiglass subsidiary in the European market.
  - GKB Rx Lens, a 50%-owned subsidiary of Essilor.
    GKB Rx manages a network of prescription laboratories and a distribution network covering the whole of India. The company sells its own products and transactions with other Essilor companies are therefore not material.
- **Associates**
  - The Bacou-Dalloz subgroup, in which Essilor holds a 15% interest corresponding to 24% of the voting rights.
    Transactions between Essilor and Bacou-Dalloz are not material.
  - VisionWeb, 44%-owned by Essilor.
    Essilor of America laboratories in the United States use an order system that is managed by VisionWeb.
  - The Transitions subgroup, 49%-owned by Essilor.
    Essilor sells stock lenses to the Transitions group, for transformation into variable-tint lenses. Essilor also distributes Transitions products across its networks.

RELATED PARTY BALANCES AND TRANSACTIONS

€ thousands	2006	2005	2004
Product sales	145,151	139,165	128,533
Product purchases	(346,645)	(327,165)	(296,126)
Trade receivables	26,616	31,473	26,500
Trade payables	50,732	52,928	41,468

NOTE 30 Subsequent events

ACQUISITIONS

In early 2007, Essilor made several acquisitions.

In France, the Company has acquired a majority stake in the Novacel group, expanding its international network of wholesale distributors. Founded in 1994, Novacel distributes a full range of lenses under its own brands in France and other European markets and operates a prescription laboratory.

The company, which has 280 employees, reported 2006 revenue of approximately €39 million.

In the United States, Essilor acquired:

- Beitler McKee Optical Company, based in Pittsburgh, Pennsylvania, which has annual revenue of some $13 million with 78 employees.
- Personal Eyes, a company based in Minneapolis, Minnesota, with annual revenue of $2 million and 14 employees.

ESSILOR OF AMERICA DEBT REFINANCING

On February 22, part of Essilor of America's intragroup debt was refinanced through a €250 million structured finance facility set up at the level of the subsidiary.

JANUARY 2007 PERFORMANCE SHARE GRANTS

On January 24, the Board of Directors decided to make performance share grants to all employees in France who did not receive grants in November 2006. A total of 24,576 grants were made, corresponding to a maximum of eight shares per employee.

NOTE 31 List of fully-consolidated companies

Company	Country	% voting rights	% interest
FRANCE			
Barbara	France	100	100
BBGR	France	100	100
BNL Eurolens	France	100	100
Delamare Sovra	France	100	100
Essidev	France	100	100
Invoptic	France	100	100
Novisia	France	100	100
OMI	France	100	100
Optim	France	100	100
TAO	France	100	100
EUROPE			
BBGR GmbH	Germany	100	100
Essilor GmbH	Germany	100	100
Rupp & Hubrach Optik GmbH	Germany	100	100
Essilor Austria GmbH	Austria	100	100
Essilor Belgium SA	Belgium	100	100
Essilor Croatia	Croatia	100	100
Essilor Danmark A.S.	Denmark	100	100
BBGR Lens Iberia SA	Spain	100	100
Essilor Espana SA	Spain	100	100
Essilor OY	Finland	100	100
BBGR United Kingdom	United Kingdom	100	100
Essilor Ltd	United Kingdom	100	100
Essilor European Shared Service Center Ltd	United Kingdom	100	100
Essilor Optika Kft	Hungary	100	100
Essilor Ireland (succursale)	Ireland	100	100
Essilor Ireland (Sales) Ltd	Ireland	100	100
Organic Lens Manufacturing (succursale)	Ireland	100	100
ATR MEC Optical Milano s.r.l.	Italy	100	100
Essilor Italia S.p.A.	Italy	100	100

Company	Country	% voting rights	% interest
EUROPE			
LTL S.p.A.	Italy	100	100
Optilens Italia s.r.l.	Italy	100	100
Essilor Norge A.S.	Norway	100	100
Essilor Nederland B.V.	Netherlands	100	100
Essilor Nederland Holding B.V.	Netherlands	100	100
Holland Optical Corp. B.V.	Netherlands	100	100
Holland Optical Instruments B.V.	Netherlands	74	74
Essilor Optical laboratory Polska Sp. Z.o.o.	Poland	100	100
Essilor Polonia	Poland	100	100
Essilor Portugal	Portugal	100	100
Essilor Romania SRL	Romania	100	100
Essilor D.O.O Slovenia	Slovenia	100	100
Essilor AB	Sweden	100	100
BBGR Svenska AB	Sweden	100	100
Essilor (Suisse) SA	Switzerland	100	100
Vaco Holding SA	Switzerland	100	100
Essilor Optika Spol s.r.o.	Czech Republic	100	100
NORTH AND CENTRAL AMERICA			
Aries Optical Ltd	Canada	100	100
BBGR Optique Canada Inc.	Canada	100	100
Canoptec Inc.	Canada	100	100
Custom Surface Ltd	Canada	100	100
Eastern Optical Laboratories Ltd	Canada	100	100
Essilor Canada Ltd	Canada	100	100
groupe Vision Optique	Canada	100	100
K & W Optical Ltd	Canada	100	100
Metro Optical Ltd	Canada	100	100
Morrison Optical	Canada	100	100
OK Lenscraft Laboratories Ltd	Canada	100	100
OPSG Ltd	Canada	100	100
Optical Software Inc.	Canada	100	100
Optique de l'Estrie Inc.	Canada	100	100

Company	Country	% voting rights	% interest
NORTH AND CENTRAL AMERICA			
Optique Lison Inc.	Canada	100	100
Perspectics	Canada	100	100
Pioneer Optical Inc.	Canada	100	100
Pro Optic Canada Inc.	Canada	100	100
R & R Optical Laboratory Ltd	Canada	100	100
SDL	Canada	90	90
21st Century Optics Inc.	United States	100	80
Accu Rx Inc.	United States	100	80
Dibok_Aspen Optical	United States	100	80
Dunlaw Optical Laboratories Inc.	United States	100	80
ELOA California Acquisition Corp.	United States	100	100
EOA Investment Inc.	United States	100	100
Essilor Latin America & Caribbean Inc.	United States	100	100
Essilor Laboratories of America Corporation	United States	100	100
Essilor Laboratories of America Holding Co Inc.	United States	100	100
Essilor Laboratories Of America Holding II	United States	100	100
Essilor Laboratories of America, Inc. (including Laboratoires US)	United States	100	100
Essilor Laboratories of America, LP (including Avisia, Omega, Duffens)	United States	100	100
Essilor of America Holding Co. Inc.	United States	100	100
Essilor of America Inc.	United States	100	100
Eye Care Express Lab Inc.	United States	100	80
Focus Optical Labs, Inc.	United States	100	80
Future Optics Inc.	United States	100	80
Gentex Optics Inc.	United States	100	100
Homer Optical	United States	100	100
Jorgenson Optical Supply Cy.	United States	100	80
MGM	United States	100	80
Midland Optical	United States	100	80

Company	Country	% voting rights	% interest
NORTH AND CENTRAL AMERICA			
Nassau Lens Co Inc.	United States	100	100
NOA	United States	100	100
Omega Optical General Inc.	United States	100	100
Omega Optical Holdings Inc.	United States	100	100
Opal Lite Inc.	United States	100	80
Optical One	United States	100	80
Optical Suppliers Inc. (Hawaii)	United States	100	80
Optifacts Inc.	United States	100	100
Ozarks Optical Laboratories	United States	100	80
Perferx Optical Co. Inc.	United States	100	80
Peninsula Optical Lab.	United States	100	80
Précision Optical Lab. (Tennessee)	United States	100	80
Précision Optical Co. (Connecticut)	United States	100	80
Select Optical Inc.	United States	100	80
Speciality Lens Corp.	United States	100	100
Stereo Optical Co. Inc.	United States	100	100
SunStar Inc.	United States	100	80
Tri Supreme Optical LLC	United States	100	80
Uniscoat Inc.	United States	100	100
Vision-Craft Inc.	United States	100	80
Essilor Mexico	Mexico	100	100
Sofi de Chihuahua	Mexico	100	100
Vision Center SA de C.V.	Mexico	100	100
OTHER			
Essilor South Africa (Pty) Ltd	South Africa	100	100
Essilor Argentine SA	Argentina	100	100
AR Coating SA	Argentina	60	60
City Optical Pty Ltd	Australia	50	50
Essilor Australia Pty Ltd	Australia	100	100
Essilor Laboratory South Australia Pty Ltd	Australia	100	100
Essilor Laboratories of Australia Pty Ltd	Australia	100	100

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Company	Country	% voting rights	% interest
OTHER			
Essilor Laboratory Western Australia	Australia	100	100
Essilor Lens Australia Pty Ltd	Australia	100	100
Hobart Optical	Australia	100	100
Tec Optik	Australia	100	100
Brasilor Participacoes Sc Ltda.	Brazil	100	100
Essilor Da Amazonia Industria e Commercio Ltda.	Brazil	100	100
Multi Optica Distribuidora Ltda.	Brazil	100	100
Sudop Industria Optica Ltda.	Brazil	100	100
Polylite Beijing	China	51	51
Polilyte Shanghai	China	51	51
Shanghaï Essilor Optical Co. Ltd	China	100	100
Essilor Hong Kong	Hong Kong	100	100
Polylite Hong Kong	Hong Kong	51	51
Beauty Glass Pvt Ltd	India	88	88
Delta CNC	India	51	39
Delta Lens Pvt Ltd	India	51	51
Essilor India Pvt Ltd (ex-Essilor SRF Optics Ltd)	India	100	100
Essilor Manufacturing India Pvt Ltd (ex- Indian Ophtalmic Lenses Manuf.)	India	100	100
Vijay Vision Pvt Ltd	India	88	88
P.T. Essilor Indonesia	Indonesia	100	100

Company	Country	% voting rights	% interest
OTHER			
P.T Essilor Technology Centre Indonesia	Indonesia	70	70
Essilor Malaysia Sdn Bhd	Malaysia	100	100
Direct Optical Supplies New Zealand Ltd	New Zealand	100	100
Essilor Laboratories New Zealand Ltd (ex OHL Lenses Ltd)	New Zealand	100	100
Essilor New Zealand Ltd	New Zealand	100	100
Optical Laboratories	New Zealand	50	50
Prolab	New Zealand	100	100
Xtra Vision Ltd	New Zealand	100	100
Essilor Manufacturing Philippines Inc.	Philippines	100	100
Optodev	Philippines	100	100
Essilor Asia Pacific Pte Ltd	Singapore	100	100
ETC South East Asia Pte Ltd	Singapore	70	70
Polilyte Asia Pacific Pte Ltd	Singapore	51	51
Plasticplus Pte Ltd	Singapore	92	92
Polylite Taiwan Optilab	Taiwan	51	51
Essilor Manufacturing (Thailand) Co. Ltd	Thailand	100	100

NOTE 32 List of proportionately-consolidated companies

Company	Country	% voting rights	% interest
Nikon Optical Canada Inc.	Canada	50	50
Tech-Cite Laboratories Co. Ltd [a]	Canada	25	25
Chemilens	China	50	43
Chemiglas	South Korea	50	43
Essilor Korea	South Korea	50	50
GKB RX	India	50	50
Aichi Nikon Company	Japan	50	50
Nasu Nikon Company	Japan	50	50
Nikon-Essilor Company Ltd	Japan	50	50
Nikon Optical United Kingdom	United Kingdom	50	50

[a] 50%-owned by Nikon Optical Canada.

COMBINED CONTRIBUTION OF PROPORTIONATELY CONSOLIDATED COMPANIES

€ thousands	December 31, 2006	December 31, 2005	December 31, 2004
Intangible assets and property, plant and equipment, net	47,564	40,610	37,756
Other non-current assets	4,285	4,613	3,104
Current assets	60,032	50,565	39,612
Non-current liabilities	5,048	5,317	3,949
Current liabilities	20,300	18,493	17,323

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NOTE 33 List of associates

Company	Country	% voting rights	% interest
Transitions subgroup			
- Transitions Optical Pty Ltd	Australia	49	49
- Transitions Optical Do Brazil Limitada	Brazil	49	49
- Transitions Optical Inc.	United States	49	49
- Transitions Optical Limited	Ireland	49	49
- Transitions Optical Holdings BV	Netherlands	49	49
- Transitions Optical Philippines Inc.	Philippines	49	49
- Transitions Optical Thailand	Thailand	49	49
Bacou-Dalloz subgroup	France	24	15
VisionWeb	United States	44	44

NOTE 34 List of non-consolidated companies

COMBINED FINANCIAL DATA FOR NON-CONSOLIDATED COMPANIES

Combined financial data for the main non-consolidated companies held by consolidated companies are as follows:

				Carrying amount of the shares	
€ thousands	Equity	Revenue	Net profit	Gross	Net
Total non-consolidated companies	17,948	19,617	(3,235)	21,792	7,791

Note: As allowed under Paragraph 11 of Article 24 of French decree 83.1020 of November 29, 1983, detailed information by subsidiary is not provided as its disclosure would be prejudicial to the Company's interests.

LIST OF NON-CONSOLIDATED COMPANIES

Company	Country	% voting rights
FRANCE		
Distrilens	France	100
Optical Supply of Europe	France	100
Varilux University	France	100
VIP	France	100
EUROPE		
Essilor Logistik GmbH	Germany	100
AVS	Spain	25
Mec & Ciesse Optical	Italy	100
One Optical	Italy	70
Oftalma s.r.l.	Italy	100
OOO "Essilor Optika"	Russia	100
Essilor Optics d.o.o	Serbia	100
Essilor Slovakia s.r.o.	Slovakia	100
NORTH AMERICA		
Essilor Transfer Corporation	United States	100
Micro Optical	United States	12
Nikon Optical US	United States	50
REST OF THE WORLD		
Deko Vision	South Korea	50
Tianjing vx Technical School	China	100
Transition Optical India	India	49
Essilor Japan K.K.	Japan	100
Transition Optical Japan	Japan	49
Essilab Philippines Inc.	Philippines	40
Eyeland	Philippines	49
Optoland	Philippines	100
Unique Ophtalmic	Singapore	80
Polilyte Taiwan Co. Ltd	Taiwan	12

20.3.2. Parent company: 2006 key figures and financial statements

The 2006 financial statements comprise the income statement, balance sheet, cash flow statement and notes, presented below in Sections 20.3.2.2. to 20.3.2.5.

The Auditors' report on the Company's financial statements is presented in Section 20.4.1.3. of this Registration Document.

20.3.2.1. Key Financial Data, year ended December 31, 2006

€ thousands, except for per share data	2006	2005	2004
INCOME STATEMENT			
Revenue	695,890	670,959	658,024
Operating profit	68,940	71,493	63,288
Profit before non-operating items and tax	201,761	179,654	178,700
Net profit	168,746	163,519	163,638
BALANCE SHEET			
Share capital	36,347	36,122	36,159
Equity	1,333,368	1,220,944	1,143,281
Net debt	(105,477)	42,526	24,855
Non-current assets, net	1,312,816	1,328,461	1,209,775
Total assets	2,137,095	2,176,342	2,062,560
Dividend per ordinary share, in €	1.10	0.94	0.76

Parent company revenue grew 3.7% in 2006. Lens sales in France rose compared with 2005 and instrument sales were sharply higher. Logistics center revenues from deliveries to subsidiaries held firm compared with the previous year, while the Puerto Rican branch's revenue continued to decline, due to lower 1.5-index lens sales in North America.

Operating profit was down 3.6%. Positive factors for the year included the very favorable product mix and the success of the new Varilux Physio lens in France, increased revenues from subsidiaries – corresponding to royalties for the use of production processes owned by Essilor International and fees for the use of computer applications developed by the Company for the entire Group – and tight overall control over operating costs. However, these factors did not entirely offset the lower profits from the Puerto Rican branch and the increased costs resulting from action to strengthen R&D, engineering and support teams.

The increase in net interest income was attributable to higher dividends from subsidiaries, lower impairment losses than in 2005 and a decrease in finance costs, mainly due to the repayment of a €122 million loan in the middle of the year. Non-operating costs mainly concerned the early-2006 buyback of 780,000 Oceane convertible bonds.

Income tax expense declined compared with 2005, reflecting the deductible loss on the buyback of Oceane convertible bonds and higher research tax credits. Net profit for the period was up 3% at €168.7 million.

20.3.2.2. Income statement, year ended December 31, 2006

€ thousands	Notes	2006	2005	2004
Revenue	2	695,890	670,959	658,024
Production transferred to inventory		36	(3,308)	(4,952)
Production of assets for own use		2,831	4,570	4,417
PRODUCTION		**698,757**	**672,221**	**657,489**
Purchases of materials and change in inventory		287,224	266,853	262,924
Other purchases		187,488	174,288	171,015
ADDED VALUE		**224,045**	**231,080**	**223,550**
Taxes other than income tax		20,163	18,058	15,660
Personnel expenses	15	212,500	204,165	191,062
EBITDA		**(8,618)**	**8,858**	**16,827**
Depreciation, amortization and provisions, net	11	(736)	(3,727)	(13,918)
Other income (expenses), net		78,294	66,363	60,378
OPERATING PROFIT		**68,940**	**71,493**	**63,288**
NET INTEREST INCOME	3.1.	132,821	108,161	115,412
PROFIT BEFORE NON-OPERATING ITEMS AND TAX		**201,761**	**179,654**	**178,700**
NET NON-OPERATING INCOME (EXPENSE)	4	(25,986)	723	(1,933)
Income tax expense	5	7,029	16,858	13,129
NET PROFIT	**15**	**168,746**	**163,519**	**163,638**

20.3.2.3. Balance sheet at December 31, 2006

Assets

€ thousands	Notes	2006 Cost	2006 Depreciation, amortization, provisions	2006 Net	2005 Net	2004 Net
Intangible assets	*6*	77,783	38,594	39,189	42,200	18,546
Property, plant and equipment	*7*	256,024	161,993	94,031	84,917	65,468
Investments and other non-current assets	*8*	1,223,837	44,240	1,179,596	1,201,344	1,125,760
NON-CURRENT ASSETS, NET		**1,557,644**	**244,828**	**1,312,816**	**1,328,461**	**1,209,775**
Inventories	*9.1.*	75,847	18,819	57,028	59,419	63,004
Supplier prepayments	*9.2.*	5,071	8	5,063	6,102	5,160
Trade receivables	*9.2.*	158,775	1,251	157,524	159,064	145,696
Other operating receivables	*9.2.*	19,443	0	19,443	17,286	14,777
Other receivables	*9.2.*	35,717	147	35,570	34,996	30,438
Marketable securities	*9.3.*	528,424	0	528,424	550,239	566,829
Bond redemption premiums	*12.2.*	3,174	0	3,174	6,004	8,940
Cash		11,205	0	11,205	9,875	11,100
Prepaid expenses	*9.4.*	6,599	0	6,599	4,860	6,536
CURRENT ASSETS		**844,253**	**20,225**	**824,028**	**847,844**	**852,480**
Deferred charges	*9.4.*	0	0	0	0	0
Conversion losses		250	0	250	36	306
TOTAL ASSETS		**2,402,147**	**265,053**	**2,137,095**	**2,176,342**	**2,062,560**

Equity and liabilities (before appropriation of profit)

€ thousands	Notes	2006	2005	2004
Share capital	10.1.	36,347	36,122	36,159
Additional paid-in capital		236,858	203,771	212,449
Legal reserve		3,616	3,616	3,596
Untaxed reserves		0		845
Other reserves		867,008	800,008	711,172
Retained earnings		4,431	3,752	6,786
Net profit		168,745	163,519	163,638
Government grants		36	41	10
Untaxed provisions	11.2.	17,948	9,813	10,696
Translation reserve		(1,621)	302	(2,070)
EQUITY BEFORE APPROPRIATION OF PROFIT	10.2.	**1,333,368**	**1,220,944**	**1,143,281**
PROVISIONS FOR CONTINGENCIES AND CHARGES	11.1.	**59,312**	**55,305**	**60,460**
Convertible bonds	12.2.	283,065	325,685	325,711
Other bonds		11	125,010	125,283
Bank borrowings	150,665	151,626	151,337	
Other borrowings		410	318	454
TOTAL BORROWINGS	12	**434,151**	**602,640**	**602,785**
Advances and deposits from customers	0			
Trade payables	12.1.	103,211	101,984	82,202
Accrued taxes and personnel expenses	12.1.	49,547	45,584	38,307
Other operating liabilities	12.4.	75,037	66,949	64,063
Other liabilities	12.1.	80,961	82,261	70,278
Deferred income		1,207	431	1,082
Total liabilities		309,962	297,210	255,934
Conversion gains		302	244	103
TOTAL EQUITY AND LIABILITIES		**2,137,095**	**2,176,342**	**2,062,560**

20.3.2.4. Cash flow statement, year ended December 31, 2006

€ thousands	2006	2005	2004
Cash flow	214,559	203,350	199,762
Change in working capital [a]	8,772	24,809	24,711
NET CASH FROM OPERATING ACTIVITIES	**223,331**	**228,159**	**224,473**
Purchases of property, plant and equipment	(28,744)	(66,190)	(25,362)
Deferred charges	0	0	(272)
Acquisitions of shareholdings and new loans extended	(2,652,246)	(1,560,748)	(1,206,926)
Proceeds from disposals of assets	(16,713)	(4,764)	7,333
Repayment of loans	2,683,171	1,468,516	1,160,687
NET CASH USED IN INVESTING ACTIVITIES	**(14,532)**	**(163,185)**	**(64,540)**
Issue of share capital	225	279	480
Increase in reserves	31,165	(6,412)	16,760
Dividends paid	(95,840)	(77,452)	(61,841)
Repayment of borrowings	(165,720)	(43)	(60,007
New borrowings raised	2,092	54	134
NET CASH USED BY FINANCING ACTIVITIES	**(228,078)**	**(83,574)**	**(104,474)**
Change in cash and cash equivalents	(19,279)	(18,600)	55,459
Cash and cash equivalents at January 1	558,568	577,168	521,709
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**539,289**	**558,568**	**577,168**

Cash and cash equivalents correspond to cash and short-term deposits, less short-term bank loans and overdrafts

[a] Change in working capital.

€ thousands	2006	2005	Change
Prepayments to suppliers	5,063	6,102	1,039
Inventories	57,028	59,419	2,391
Operating receivables	176,967	176,350	(617)
Other receivables	35,570	34,996	(574)
Accrued interest on loans and dividends receivable	1,468	258	(1,210)
Advances and deposits from customers	0	0	0
Operating liabilities	(227,795)	(214,517)	13,278
Other liabilities	(80,961)	(82,261)	(1,300)
Accrued interest	(2,323)	(5,439)	(3,116)
Deferred income, prepaid expenses and conversion gains and losses	5,340	4,221	(1,119)
WORKING CAPITAL	**(29,643)**	**(20,871)**	**8,772**

20.3.2.5. Notes to the parent company financial statements for the year ended December 31, 2006

The following notes provide additional information about items reported in the balance sheet at December 31, 2006 which shows total assets of €2,137,095 thousand.

The income statement shows net profit of €168,745 thousand.

The financial statements cover the 12-month period from January 1 to December 31, 2006.

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

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

Summary of the notes to the parent company financial statements for the year ended December 31, 2006

SIGNIFICANT EVENTS OF THE YEAR

BUSINESS REVIEW

In 2006, the Company performed well in the French market, helped by the success of the new Varilux Physio progressive lens launched during the year. Revenue from lens deliveries by the logistics center to the European distribution entities held firm compared with 2005.

The Puerto Rican branch continued to suffer from lower unit sales of Orma lenses in the US market.

FINANCIAL AND EXTERNAL GROWTH TRANSACTIONS

On February 28, Essilor bought back 780,000 Oceane convertible bonds due 2010, for €57.4 million.

Oceane bonds are convertible into or exchangeable for new or existing Essilor shares and the transaction was part of the strategy deployed since 2003 to reduce dilution from equity instruments carried in the balance sheet.

The total pre-tax impact of the buyback was an expense of €16.4 million which has been recognized in the income statement in the Company accounts; in the consolidated financial statements this amount has been restated by adjusting equity.

As part of its external growth strategy, Essilor International acquired Varirom, a Romanian distribution company, and Australia's Tec Optik. In addition, the Company set up a new distribution subsidiary in Serbia, Essilor Optics.

JD Montage, a custom lens mounting company, was divested on December 27.

HUMAN RESOURCES

On November 22, the Board of Directors decided to make 263,556 performance share grants. The shares vest in two to four years, provided that the Essilor International share price is above €82.92. A €7.9 million provision has been recorded in the accounts for the related cost.

The Company's employee benefit obligations were fully provided for at the year-end.

NOTE 1 Summary of significant accounting policies

1.1 GENERAL INFORMATION

The Company financial statements have been prepared in accordance with the French 1999 General Accounting Plan and generally accepted accounting principles.

1.2 INTANGIBLE ASSETS

Intangible assets correspond primarily to purchased goodwill, concessions, patents, licenses and software. They are stated at cost and amortized by the straight-line method over 3 to 10 years. Legally-protected purchased goodwill is not amortized.

1.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition or production cost. Assets acquired prior to December 31, 1976 and included in the 1976 legal revaluation are stated at revalued cost.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the assets.

In accordance with the new standards relating to assets applied prospectively as from January 1, 2005, property, plant and equipment purchased after that date are recognized and depreciated by the components method.

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

Differences between straight-line depreciation and reducing balance depreciation charged for tax purposes are included in untaxed provisions on the liabilities side of the balance sheet.

1.4 INVESTMENTS AND OTHER NON-CURRENT ASSETS

Shares in subsidiaries and affiliates are stated at acquisition cost. The cost of investments acquired prior to December 31, 1976, which were included in the 1978 legal revaluation, corresponds to revalued cost. The revaluation difference originally credited to reserves was transferred to the capital account in 1980.

At each period-end, the carrying amount of investments is compared to their fair value. The fair value of listed shares is determined by reference to the market price and that of unlisted shares is estimated on the basis of market values for similar companies, recent transactions or discounted future cash flows. A provision for impairment is recorded if necessary.

1.5 INVENTORIES

Raw materials and goods inventories are stated at weighted average cost. Finished products, semi-finished products and work in progress are stated at standard production cost.

Provisions are recorded against inventories, taking into account market prices, sales prospects and the risk of obsolescence, assessed on the basis of objective inventory levels.

1.6 RECEIVABLES AND PAYABLES

Receivables and payables in euros are stated at their nominal value. Foreign currency receivables and payables are converted into euros at the year-end exchange rate or the hedging rate. Provisions are recorded to cover any risk of non-recovery, based on the age of receivables.

1.7 MARKETABLE SECURITIES

Marketable securities, consisting primarily of Sicav and FCP mutual funds and retail certificates of deposit, are stated at cost.

A provision is recorded if the net asset value of the units represents less than their cost. This item also includes Essilor International shares acquired under the Company's liquidity contract.

1.8 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used only to hedge risks on commercial transactions and identified foreign currency receivables and payables. They include forward exchange contracts and currency options.

The Company uses financial instruments solely for hedging purposes. All currency transactions are subject to pre-determined position limits designed to optimize the protection afforded by the hedges.

The Company's interest rate management policy consists of hedging interest rate risks.

Gains and losses on currency instruments are recognized in the year in which they arise. They are based on the forward rate at the balance sheet date for the remaining period to maturity. If hedging positions at the year-end exceed the currency positions reflected in the balance sheet, a provision is recorded for the estimated cost of unwinding the hedges.

1.9 FOREIGN CURRENCY TRANSACTIONS

Substantially all foreign currency transactions are hedged and are converted into euros at the hedging rate.

Foreign currency receivables and payables are converted at the hedging rate or the year-end rate if they are not hedged. Foreign currency bank balances are converted at the month-end exchange rate.

1.10 PENSION AND OTHER POST-EMPLOYMENT BENEFIT OBLIGATIONS

EMPLOYEE PLANS

The Company's obligations for length-of-service awards payable to employees on retirement are funded under an insured plan. The difference between the projected benefit obligation and the fair value of plan assets is covered by a provision. The projected benefit obligation takes into account years of service, mortality and staff turnover rates, future salary levels and an appropriate discount rate.

The Company's obligations for the payment of top-hat pensions to managers and certain other long-serving employees are funded under an insured plan (see Note 13.4.).

The unfunded portion of these supplementary pension benefit obligations is covered by a provision.

SENIOR EXECUTIVE PLANS

Refer to Section 15.1. of this Registration Document.

1.11 FOREIGN CURRENCY TRANSLATION

The financial statements of the foreign branch, Essilor Industries – which is considered as representing an independent entity – are translated into euros as follows:

- Income statement items are translated at the average hedging rate for the year.
- Balance sheet items are translated at the exchange rate ruling on December 31, except for:
  - Reserves, which are translated at the historical rate
  - Net profit, which is translated at the hedging rate

The difference arising on translation is recorded in equity under "Translation reserve".

1.12 CORPORATE INCOME TAX (GROUP RELIEF)

Essilor International files a consolidated tax return with BBGR, Optim, VIP, Invoptic, Varilux University, Novisia, Essidev, OSE, Barbara, BNL Eurolens, TAO, Delamare Sovra and OMI and pays the corporate income tax due by the tax group.

Each company in the tax group records the income tax charge that would apply if it were not a member of the tax group. This has no impact on the parent company accounts.

In 2006, the corporate income tax due by the tax group amounted to €13,282 thousand.

1.13 RECOGNITION AND MEASUREMENT OF PROVISIONS

UNTAXED PROVISIONS

These mainly comprise provisions for excess tax depreciation.

PROVISIONS FOR WARRANTIES AND RETURNED ITEMS

A provision is set up at the time of sale to cover the estimated cost of guaranteeing corrective lenses and optical instruments.

PROVISIONS FOR TREASURY SHARES

STOCK OPTIONS EXERCISABLE FOR EXISTING SHARES

Essilor International shares held by the Company for allocation on exercise of stock options are carried at cost under "Other long-term investments". Where appropriate, a provision is recorded to cover the difference between the option exercise price and the weighted average price of the shares held in treasury at the year-end.

PERFORMANCE SHARE GRANTS

A provision is recorded for the cost of performance shares, corresponding to the estimated number of shares that are expected to vest multiplied by the weighted average price of the Essilor International shares held in treasury at the year-end. The estimate takes into account staff turnover rates and share price assumptions.

OTHER PROVISIONS FOR CONTINGENCIES AND CHARGES

These provisions are set up to cover any other commitments that are outstanding at the year-end.

NOTE 2 Revenue

NET REVENUE BY BUSINESS SEGMENT

2006 € thousands	France	Export	Total	% change /2005
Corrective lenses	296,839	214,870	511,709	2.04%
Optical instruments	30,363	56,030	86,394	12.56%
Industrial equipment	3,320	46,113	49,433	2.88%
Other	12,398	35,956	48,354	8.21%
TOTAL	**342,920**	**352,970**	**695,890**	**3.72%**

2005 € thousands	France	Export	Total	% change /2004
Corrective lenses	281,168	220,300	501,469	0.37%
Optical instruments	27,161	49,594	76,755	5.96%
Industrial equipment	3,389	44,661	48,051	7.95%
Other	12,736	31,948	44,684	7.76%
TOTAL	**324,455**	**346,504**	**670,959**	**1.97%**

2004 € thousands	France	Export	Total	% change /2003
Corrective lenses	273,233	226,372	499,605	0.81%
Optical instruments	24,879	47,562	72,441	1.19%
Industrial equipment	6,598	37,913	44,511	(19.70%)
Other	12,089	29,379	41,467	50.27%
TOTAL	**316,799**	**341,225**	**658,024**	**1.20%**

BREAKDOWN BETWEEN INTERCOMPANY AND EXTERNAL SALES, FRANCE AND EXPORT

€ thousands	2006	2005	2004	Variation % 2006/2005
France:				
- Intercompany	43,059	44,152	45,462	(2.48%)
- External	299,861	280,303	271,337	6.98%
Sub-total	342,920	324,455	316,799	5.69%
Export:				
- Intercompany	295,188	292,845	286,139	0.80%
- External	57,782	53,659	55,086	7.68%
Sub-total	352,970	346,504	341,225	1.87%
TOTAL	**695,890**	**670,959**	**658,024**	**3.72%**

NOTE 3 Net interest income

3.1 NET INTEREST INCOME

€ thousands	2006	2005	2004
Interest expense	(13,238)	(14,897)	(17,947)
Interest income	164,812	152,823	145,553
Net discounts	(2,824)	(2,705)	(2,551)
Provisions for losses on subsidiaries	(16,309)	(24,780)	(11,066)
Exchange gains and losses, net	1,291	972	(491)
Other	(911)	(3,253)	1,912
TOTAL	**132,821**	**108,161**	**115,412**

3.2 RELATED PARTY TRANSACTIONS

	Net amounts concerning			
€ thousands	Related parties	Other companies with which Essilor has capital ties	Unrelated parties	Total
INCOME STATEMENT				
Interest expense	10,685	954	40,187	51,826
Interest income	134,867	26,573	23,207	184,647

NOTE 4 Non-operating items

€ thousands	2006	2005	2004
REVENUE TRANSACTIONS	**(3,122)**	**(6,908)**	**(2,124)**
Other income and expenses from revenue transactions	(1,393)	(2,797)	(1,129)
Restructuring costs	(1,729)	(4,110)	(996)
CAPITAL TRANSACTIONS	**(19,628)**	**(6,149)**	**(23,298)**
Disposals of investments	(19,095)	(5,425)	(23,574)
Other income and expenses from capital transactions	(533)	(724)	(277)
PROVISION MOVEMENTS	**(3,237)**	**13,780**	**23,489**
Tax provisions	(8,135)	3,206	1,557
Restructuring provisions	1,912	4,903	(1,752)
Provisions for impairment in value of intangible assets			
Provisions for impairment in value of investments	2,874	5,440	24,303
Other	113	231	(620)
TOTAL	**(25,987)**	**723**	**(1,933)**

NOTE 5 Income tax expense

5.1 PROFIT BEFORE ENTRIES RECORDED FOR TAX PURPOSES

€ thousands	2006	2005	2004
Net profit	168,745	163,519	163,638
Income tax expense	7,029	16,858	13,129
Pre-tax profit	175,774	180,377	176,767
Change in untaxed provisions	8,135	(883)	880
Profit before tax and entries recorded for tax purposes	183,909	179,494	177,647

Profit for 2006 includes €135.34 million worth of dividends and €38.5 million worth of royalties that are taxed at a reduced rate.

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5.2 ANALYSIS OF INCOME TAX EXPENSE

Income tax expense breaks down as follows between operating and non-operating items:

€ thousands	Before tax	Tax	After tax
2006			
Profit before non-operating items and tax	201,760	(16,500)	185,260
Non-operating income (expense), net	(25,986)	9,471	(16,515)
NET PROFIT			**168,745**

€ thousands	Before tax	Tax	After tax
2005			
Profit before non-operating items and tax	179,654	(17,099)	162,555
Non-operating income (expense), net	723	241	964
NET PROFIT			**163,519**

€ thousands	Before tax	Tax	After tax
2004			
Profit before non-operating items and tax	178,700	(13,712)	164,988
Non-operating income (expense), net	(1,933)	583	(1,350)
NET PROFIT			**163,638**

5.3 DEFERRED TAXES

Assets

€ thousands	2006	2005	2004
Provisions for vacation pay [a]	9,813	9,424	9,043
CSS surtax	1,294	1,192	1,141
End-of-career paid leave	4,388	4,237	3,797
Impact of the "Fillon" Pension Reform Act	1,781	1,694	935
Length-of-service awards payable on retirement	13,120	11,548	10,170
Arial top-hat pension plan	18,190	0	0
Convertible bonds (amortization of redemption premiums)	9,373	8,431	5,495
Other	10,981	912	3,071
TOTAL	**68,940**	**37,438**	**33,651**
Unrecognized deferred tax asset (34.43% tax rate)	23,736	12,890	**11,754**

[a] The Company has elected to apply the provisions of article 8 of the 1987 French Finance Act, allowing the deduction of vacation pay on a cash basis. The provision is therefore not deductible, giving rise to a future tax saving.

Equity and liabilities

No deferred taxes are recognized in the balance sheet. Recognition of deferred taxes on timing differences would have the effect of increasing income tax expense by €3,393 thousand as follows:

€ thousands	At Dec. 31, 2004	Increase 2005	Decrease 2005	At Dec. 31, 2005	Increase 2006	Decrease 2006	At Dec. 31, 2006
Provisions for:							
- Excess tax depreciation	10,696	4,670	5,554	9,813	10,526	2,391	17,948
- Other	10	37	6	41	59	6	95
TOTAL	**10,706**	**4,707**	**5,560**	**9,854**	**10,585**	**2,397**	**18,043**
Unrecognized deferred tax liability (34.43% tax rate)	3,739			3,393			6,212

NOTE 6 Intangible assets

€ thousands	At January 1	Acquisitions	Disposals	Other movements	Amortization and impairment losses for the period	At December 31
2006						
Development costs	1,649		169			1,480
Concessions	66,221	3,153	1	3,308		72,682
Purchased goodwill	434					434
Other intangible assets	4,937	1,567		(3,317)		3,187
GROSS	**73,241**	**4,721**	**170**	**(9)**	**0**	**77,783**
Amortization and provisions	31,041				7,553	38,594
CARRYING AMOUNT	**42,200**					**39,190**
2005						
Development costs	66	1,583				1,649
Concessions	48,757	27,546	12,278	2,196		66,221
Purchased goodwill	434					434
Other intangible assets	3,363	3,684		(2,110)		4,937
GROSS	**52,620**	**32,813**	**12,278**	**86**	**0**	**73,241**
Amortization and provisions	34,074				(3,033)	31,041
CARRYING AMOUNT	**18,546**					**42,200**
2004						
Development costs		66				66
Concessions	46,117	1,708	375	1,307		48,757
Purchased goodwill	435					435
Other intangible assets	1,691	2,646	22	(953)		3,363
GROSS	**48,243**	**4,420**	**397**	**354**	**0**	**52,620**
Amortization and provisions	27,974				6,100	34,074
CARRYING AMOUNT	**20,269**					**18,546**

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NOTE 7 Property, plant and equipment

€ thousands	At January 1	Acquisitions	Disposals	Other movements	Depreciation and impairment losses for the period	At December 31
2006						
Land	8,351	142	8	172		8,656
Buildings	90,434	3,174	59	2,502		96,051
Plant and equipment	88,209	10,008	7,558	2,516		93,176
Other	40,714	833	961	2,934		43,521
Assets under construction	13,920	10,031	259	(9,676)		14,015
Advance payments to suppliers	611	333	0	(340)		604
GROSS	**242,238**	**24,521**	**8,844**	**(1,891)**		**256,023**
Depreciation and provisions	157,322				4,671	161,993
CARRYING AMOUNT	**84,916**					**94,030**
2005						
Land	6,948	1,402				8,351
Buildings	79,492	6,734	2,153	6,361		90,434
Plant and equipment	79,197	11,131	6,803	4,684		88,209
Other	40,969	2,569	1,299	(1,525)		40,714
Assets under construction	9,416	10,659		(6,155)		13,920
Advance payments to suppliers	1,050	611		(1,050)		611
GROSS	**217,072**	**33,105**	**10,255**	**2,315**		**242,238**
Depreciation and provisions	151,604				5,718	157,322
CARRYING AMOUNT	**65,468**					**84,916**
2004						
Land	6,421	432	61	156		6,948
Buildings	75,324	2,530	338	1,977		79,492
Plant and equipment	74,422	7,362	3,874	1,287		79,197
Other	40,071	1,996	2,187	1,089		40,969
Assets under construction	6,606	8,417		(5,607)		9,416
Advance payments to suppliers	616	1,032		(598)		1,050
GROSS	**203,459**	**21,768**	**6,459**	**(1,696)**		**217,072**
Depreciation and provisions	146,675				4,929	151,604
CARRYING AMOUNT	**56,784**					**65,468**

NOTE 8 Investments and other non-current assets

8.1 ANALYSIS

€ thousands	At January 1	Acquisitions	Disposals	Other movements	Impairment losses for the period	At December 31
2006						
Shares in subsidiaries and affiliates	787,928	6,917	13,501	28,142		809,486
Loans to subsidiaries and affiliates	382,804	2,666,596	2,680,473	(28,200)		340,727
Other long-term investments	80,108	1	8,140	0		71,969
Loans	1,226	0	1,140	0		86
Other non-current assets	1,487	92	10	0		1,569
GROSS	**1,253,552**	**2,673,606**	**2,703,264**	**(57)**		**1,223,837**
Provisions	52,208				(7,967)	44,240
CARRYING AMOUNT	**1,201,344**					**1,179,596**
2005						
Shares in subsidiaries and affiliates	757,224	28,532	2,812	4,984		787,928
Loans to subsidiaries and affiliates	329,162	1,479,268	1,421,073	(4,553)		382,804
Other long-term investments	72,534	63,612	56,038			80,108
Loans	1,226	20	20			1,226
Other non-current assets	1,347	140	1			1,486
GROSS	**1,161,493**	**1,571,572**	**1,479,944**	**431**		**1,253,552**
Provisions	35,733				16,475	52,208
CARRYING AMOUNT	**1,125,760**					**1,201,344**
2004						
Shares in subsidiaries and affiliates	747,862	38,612	30,025	774		757,224
Loans to subsidiaries and affiliates	337,092	1,129,662	1,137,592			329,162
Other long-term investments	58,986	50,128	35,560	(1,019)		72,534
Loans	1,228		2			1,226
Other non-current assets	1,239	266	158			1,347
GROSS	**1,146,407**	**1,218,668**	**1,203,338**	**(245)**		**1,161,493**
Provisions	55,725				(19,993)	35,733
CARRYING AMOUNT	**1,090,681**					**1,125,760**

8.2 SUBSIDIARIES AND AFFILIATES

Investments with a gross carrying value representing: € thousands	Share capital	Reserves	Book value Gross	Book value Net	Loans and advances made by the Company	Guarantees given by the Company	Last published net revenue	Last published profit	Dividends received during the year
MORE THAN 1% OF THE COMPANY'S CAPITAL									
French companies	79,873	795,772	177,837	171,421	3,820	25,714	226,525	61,979	23,454
International companies	201,111	579,815	630,312	593,056	301,234	193,145	3,307,295	281,172	107,746
LESS THAN 1% OF THE COMPANY'S CAPITAL									
French companies	80	829	80	80		657	15,168	1,049	2,000
International companies	11,155	9,596	1,254	1,120	3,861	694	57,985	3,595	2,136

Note: As allowed under Paragraph 11 of Article 24 of French decree 83.1020 of November 29, 1983, detailed information by subsidiary is not provided as its disclosure would be prejudicial to the Company's interests.

Additional information is provided in the consolidated financial statements, by geographic area.

8.3 RELATED PARTY TRANSACTIONS

€ thousands	Net amounts concerning: Related parties	Net amounts concerning: Other companies with which Essilor has capital ties	Other	Total
INVESTMENTS (NET)				
Shares in subsidiaries and affiliates	639,651	126,027		765,678
Loans to subsidiaries and affiliates	338,568	1,691	148	340,407
TOTAL INVESTMENTS (NET)	**978,219**	**127,718**	**148**	**1,106,085**

8.4 ANALYSIS OF LONG-TERM LOANS AND RECEIVABLES BY MATURITY

€ thousands	2006	2005	2004
More than one year	1,655	2,713	124,999
Less than one year	340,727	382,804	206,736
TOTAL	**342,382**	**385,517**	**331,735**

NOTE 9 Current assets

9.1 INVENTORIES

€ thousands	2006	2005	2004
Raw materials and other supplies	35,687	37,983	34,853
Goods for resale	7,025	8,801	7,757
Finished and semi-finished products and work in progress	33,135	33,110	36,386
Sub-total	75,847	79,894	78,996
Provisions	(18,819)	(20,475)	(15,993)
TOTAL	**57,028**	**59,419**	**63,003**

9.2 ANALYSIS OF OPERATING RECEIVABLES BY MATURITY

€ thousands	2006	2005	2004
More than one year	2,432	4,189	
Less than one year	216,574	215,717	199,233
TOTAL	**219,006**	**219,906**	**199,233**

9.3 MARKETABLE SECURITIES

	2006		2005		2004	
€ thousands	Cost	Net	Cost	Net	Cost	Net
SICAV mutual funds	475,026	475,026	243,924	243,924	495,837	495,837
FCP mutual funds and money market securities	0	0	0	0	187	187
Quoted securities	2,426	2,426	4,818	4,818	449	449
Currency options	277	277	760	760	572	572
TOTAL	**477,728**	**477,728**	**249,502**	**249,502**	**497,046**	**497,046**

The following table compares the book value of marketable securities other than retail certificates of deposit with their fair value:

€ thousands	2006	2005	2004
Book value	477,728	249,502	497,046
Fair value	478,030	249,482	497,226
Unrealized gain/(loss)	302	(20)	180

	2006		2005		2004	
€ thousands	Brut	Net	Brut	Net	Brut	Net
Retail certificates of deposit	50,696	50,696	300,738	300,738	69,784	69,784
TOTAL RETAIL CERTIFICATES OF DEPOSIT	**50,696**	**50,696**	**300,738**	**300,738**	**69,784**	**69,784**
TOTAL MARKETABLE SECURITIES	**528,424**	**528,424**	**550,239**	**550,239**	**566,829**	**566,829**

9.4 ACCRUALS

€ thousands Prepaid expenses	2006	2005	2004
Operating expenses	6,549	4,899	6,260
Interest expense	50	(39)	276
TOTAL	**6,599**	**4,860**	**6,536**

€ thousands Deferred charges	2006	2005	2004
NET AT JANUARY 1			**1,240**
Additions			272
Amortization			1,513
NET AT DECEMBER 31	**0**	**0**	**0**

9.5 RELATED PARTY TRANSACTIONS

	Net amounts concerning			
€ thousands	Related parties	Other companies with which Essilor has capital ties	Other	Total
CURRENT ASSETS (NET)				
Trade receivables	69,186	4,917	83,420	157,523
Other receivables	22,077	1,388	31,548	55,013
TOTAL CURRENT ASSETS (NET)	**91,263**	**6,305**	**114,968**	**212,536**

9.6 ACCRUED INCOME

€ thousands	2006	2005	2004
INVESTMENTS AND OTHER NON-CURRENT ASSETS			
Loans to subsidiaries and affiliates	38	3,323	166
RECEIVABLES			
Trade receivables	10,832	8,443	7,080
Other receivables	2,010	2,520	1,726
TOTAL	**12,880**	**14,286**	**8,972**

NOTE 10 Equity

10.1 SHARE CAPITAL

	Number of shares					
	At January 1	Issued	Canceled	Exchanged	At December 31	Par value in €
Ordinary shares	103,206,262	642,174	0		103,848,436	0.35
Preferred, non-voting shares	0				0	
TOTAL	**103,206,262**	**642,174**	**0**	**0**	**103,848,436**	**0.35**

o/w treasury stock:

Number of shares	At January 1	Bought back	Canceled	Allocated on exercise of stock options	Allocated on conversion of	At December 31
Treasury stock	1,253,630	0	0	(149,510)	(10,075)	1,094,045
Shares held in the liquidity account	70,000	(40,091)				29,909
TOTAL	**1,323,630**	**(40,091)**	**0**	**(149,510)**	**(10,075)**	**1,123,954**

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10.2 CHANGES IN EQUITY

€ thousands

Equity before appropriation of profit	2006	2005	2004
EFFECT OF CHANGES IN STRUCTURE			
Total equity at January 1	1,220,944	1,143,281	1,023,367
Share capital	225	(36)	200
Additional paid-in capital	33,087	(8,679)	18,358
Legal reserve	0	20	2
Untaxed reserves	0	(845)	845
Other reserves	67,000	88,836	62,000
Retained earnings	679	(3,034) [a]	19,115
OTHER CHANGES			
Net profit for the period	5,226	(119)	19,835
Government grants	(6)	32	(5)
Untaxed provisions	8,135	(883)	881
Translation reserve	(1,923)	2,372	(1,318)
TOTAL	**1,333,368**	**1,220,944**	**1,143,281**

[a] See below, section dealing with 2005.

2006

The capital was increased to €36,347 thousand through the issuance of 642,174 ordinary shares, including 305,133 shares issued to the Essilor Corporate Mutual Fund and 337,041 shares issued on exercise of stock options.

The new shares carried dividend and voting rights as from January 1, 2006.

2005

The capital was increased to €36,122 thousand, corresponding to the net issuance of 795,779 ordinary shares. A total of 345,532 shares were issued to the Essilor Corporate Mutual Fund, 450,247 shares were issued on exercise of stock options, and 900,000 shares held in treasury stock were canceled.

The new shares carried dividend and voting rights as from January 1, 2005.

[a] In accordance with the new standards relating to assets applicable from January 1, 2005, as of that date internally generated brands are no longer recognized as intangible assets. The effect of this change of method was recognized in opening equity at that date, in the amount of €1,382 thousand.

2004

The capital was increased to €36,159 thousand, corresponding to the net issuance of 570,375 ordinary shares. A total of 382,842 shares were issued to the Essilor Corporate Mutual Fund, 987,533 shares were issued on exercise of stock options, and 800,000 shares held in treasury stock were canceled.

The new shares carried dividend and voting rights as from January 1, 2004.

NOTE 11 Provisions

11.1 PROVISIONS FOR CONTINGENCIES AND CHARGES

€ thousands	At January 1	Charges	Utilizations	Releases (surplus provisions)	At December 31
2006					
Provisions for pensions and other post-employment benefits [a]	30,804	2,759	392	80	33,091
Provisions for losses in subsidiaries and affiliates	9,196	8,326	3,091		14,431
Provisions for restructuring	3,279	56	1,729	240	1,366
Other provisions for contingencies and charges	12,026	5,088	6,671	19	10,424
TOTAL	**55,305**	**16,229**	**11,883**	**338**	**59,313**
2005					
Provisions for pensions and other post-employment benefits [a]	28,769	2,421	385		30,804
Provisions for losses in subsidiaries and affiliates	9,007	3,611	3,422		9,196
Provisions for restructuring	8,182	8	4,110	801	3,279
Other provisions for contingencies and charges	14,502	6,284	8,256	504	12,026
TOTAL	**60,460**	**12,323**	**16,173**	**1,305**	**55,305**
2004					
Provisions for pensions and other post-employment benefits [a]	27,185	1,630	47		28,769
Provisions for losses in subsidiaries and affiliates	4,476	4,776	244		9,007
Provisions for restructuring	6,430	4,068	2,316		8,182
Other provisions for contingencies and charges	14,206	9,243	6,223	2,725	14,502
TOTAL	**52,297**	**19,717**	**8,830**	**2,725**	**60,460**

[a] The €17,869 thousand provision recorded in 2003 was charged against retained earnings.

11.2 UNTAXED PROVISIONS

€ thousands	At January 1	Charges	Releases	At December 31
2006				
UNTAXED PROVISIONS	**9,813**	**10,526**	**2,391**	**17,948**
Excess tax depreciation	9,813	10,526	2,391	17,948
2005				
UNTAXED PROVISIONS	**10,696**	**4,670**	**5,554**	**9,813**
Excess tax depreciation	10,696	4,670	5,554	9,813
2004				
UNTAXED PROVISIONS	**9,816**	**3,565**	**2,684**	**10,696**
Excess tax depreciation	9,816	3,565	2,684	10,696

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11.3 PROVISIONS FOR IMPAIRMENT IN VALUE

€ thousands	At January 1	Charges	Releases	At December 31
2006				
PROVISIONS FOR IMPAIRMENT IN VALUE	**75,141**	**31,119**	**41,795**	**64,465**
Inventories	20,475	18,819	20,475	18,819
Receivables	2,450	921	1,974	1,397
Shares in subsidiaries and affiliates	50,668	11,379	17,919	44,128
Other investments	1,540	0	1,427	113
Other	8			8
2005				
PROVISIONS FOR IMPAIRMENT IN VALUE	**54,889**	**42,587**	**22,335**	**75,141**
Inventories	15,993	20,475	15,993	20,475
Receivables	3,154	103	808	2,450
Shares in subsidiaries and affiliates	31,155	22,009	2,496	50,668
Other investments	4,579		3,038	1,541
Other	8			8
2004				
PROVISIONS FOR IMPAIRMENT IN VALUE	**74,074**	**25,337**	**44,522**	**54,889**
Inventories	14,543	15,993	14,543	15,993
Receivables	3,797	627	1,270	3,154
Shares in subsidiaries and affiliates	50,360	8,485	27,690	31,155
Other investments	5,366	232	1,019	4,579
Other	8			8

NOTE 12 Liabilities

12.1 MATURITIES OF LIABILITIE

Analysis of total liabilities by maturity and by category

€ thousands	2006	2005	2004
DUE WITHIN ONE YEAR	458,567	421,066	262,308
Borrowings	153,084	129,272	7,457
Operating liabilities	227,795	214,517	184,573
Other liabilities	77,688	77,277	70,278
DUE IN ONE TO FIVE YEARS	284,341	476,789	271,959
Borrowings	281,068	473,368	271,959
Operating liabilities			
Other liabilities	3,273	3,421	
DUE BEYOND FIVE YEARS	0	1,563	323,368
Borrowings	0	0	323,368
Operating liabilities			
Other liabilities		1,563	
TOTAL	742,907	899,418	857,635

Analysis by maturity (total liabilities)

€ thousands	2006	2005	2004
2002			
2003			
2004			
2005			262,308
2006		421,066	121,959
2007	458,567	150,855	150,000
2008	855	855	
2009	855	855	
2010	281,923	324,223	323,368
Beyond 2010	708	1,563	

Analysis by currency (borrowings)

€ thousands	2006	2005	2004
EUR	434,151	427,383	427,348
USD		175,257	175,436
GBP			

12.2 CONVERTIBLE BONDS

	2006	2005	2004
Number of bonds issued	6,040,212	6,040,212	6,040,212
Number of bonds converted	790,538	463	458
Number of bonds outstanding	5,249,674	6,039,749	6,039,754
Nominal value (in €)	51.15	51.15	51.15
Annual interest (in € thousands)	3,713	4,608	4,647

Note: The €14 million redemption premium on these bonds is being amortized by the reducing balance method over seven years.

12.3 RELATED PARTY TRANSACTIONS

€ thousands	Net amounts concerning: Related parties	Net amounts concerning: Other companies with which Essilor has capital ties	Other	Total
LIABILITIES				
Trade payables	29,606	4,109	69,496	103,211
Other operating liabilities	768		123,815	124,584
Other liabilities	75,792		5,169	80,961
TOTAL LIABILITIES	**106,166**	**4,109**	**198,480**	**308,755**

12.4 ACCRUED CHARGES

€ thousands	2006	2005	2004
Accrued interest	2,627	6,053	6,375
Advances and deposits from customers			
Trade payables			
(goods and services received but not yet invoiced)	32,674	29,860	21,811
Accrued taxes and personnel expenses			
- Vacation pay	23,421	21,202	20,091
- Discretionary profit-sharing	4,317	3,438	3,247
- Other	13,074	11,829	7,997
Other liabilities	75,037	66,198	63,525
TOTAL	**151,150**	**138,579**	**123,047**

NOTE 13 Off-balance sheet commitments

13.1 FINANCIAL COMMITMENTS

Commitments given and received

€ thousands	2006	2005	2004
COMMITMENTS GIVEN			
Guarantees	233,684	225,466	138,767
COMMITMENTS RECEIVED			
Guarantees	433	360	588

FORWARD EXCHANGE CONTRACTS

At December 31, 2006, forward sales of foreign currencies, excluding cross-currency swaps, totaled **€426,052 thousand** and forward purchases amounted to **€73,101 thousand**.

In €	Forward equivalent of notional	Equivalent at market rate on December 31, 2006	Fair value at December 31, 2006 [a]
Foreign currency sell position	426,051,806	424,336,31	1,715,475
Foreign currency buy position	(73,101,269)	(71,338,704)	(1,762,565)
TOTAL			**(47,090)**

[a] Fair values are determined based on the difference between the forward rates at the inception date and at the end of the year. The impact of discounting is not taken into consideration, as it is not material due to the short maturities of the contracts

CURRENCY OPTIONS

At December 31, 2006, currency options were as follows:

In €	Forward equivalent of notional (strike price)	Premiums paid/ received at inception	Mark-to-market adjustment at December 31, 2006	Mark-to-market gains/(losses) since inception at December 31, 2006
Purchases of puts	30,485,036	(494,412)	(705,582)	(211,171)
Sales of puts [a]				
Purchases of calls				
Sales of calls [a]	(31,166,626)	217,609	13,500	204,109
	TOTAL	**(276,803)**	**(692,082)**	**415,279**

[a] All written options are hedged by purchased options (collars or cancellations of purchased options).

INTEREST RATE SWAP

Following the 2006 redemption of the €122 million 10-year bond issue set up in 1996, Essilor International did not hold any interest rate swaps at December 31, 2006.

The cross-currency swap on the bonds also expired in 2006 and Essilor International did not hold any cross-currency swaps at December 31, 2006.

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13.2 COMMITMENTS UNDER FINANCE LEASES

€ thousands

2006 Assets acquired under finance leases	Cost at inception of the lease	Depreciation For the year	Depreciation Accumulated	Carrying amount
Land	0	0	0	0
Buildings	0	0	0	0
Other				0
TOTAL	**0**	**0**	**0**	**0**

Lease commitments	Lease payments For the year	Lease payments Cumulative	Future minimum lease payments Due within 1 year	Future minimum lease payments Due in 1 to 5 years	Future minimum lease payments Due beyond 5 years	Future minimum lease payments Total	Total residual value
Land	0	0	0	0	0	0	0
Buildings	0	0	0	0	0	0	0
Other						0	0
TOTAL	**0**	**0**	**0**	**0**	**0**	**0**	**0**

2005 Lease commitments	Cost at inception of the lease	Depreciation For the year	Depreciation Accumulated	Carrying amount
Land	0	0	0	0
Buildings	0	0	0	0
Other				0
TOTAL	**0**	**0**	**0**	**0**

Lease commitments	Lease payments For the year	Lease payments Cumulative	Future minimum lease payments Due within 1 year	Future minimum lease payments Due in 1 to 5 years	Future minimum lease payments Due beyond 5 years	Future minimum lease payments Total	Total residual value
Land	0	0	0	0	0	0	0
Buildings	6,805	14,843	0	0	0	0	0
Other							
TOTAL	**6,805**	**14,843**	**0**	**0**	**0**	**0**	**0**

2004 Immobilisations en crédit-bail		Cost at inception of the lease	Depreciation For the year	Depreciation Accumulated	Carrying amount
Land		97			97
Buildings		12,542	627	2,822	9,720
Other					0
TOTAL	2,015 9,350	**12,639**	**627**	**2,822**	**9,817**

Lease commitments	Lease payments For the year	Lease payments Cumulative		Future minimum lease payments Due within 1 year	Future minimum lease payments Due in 1 to 5 years	Future minimum lease payments Due beyond 5 years	Future minimum lease payments Total	Total residual value
Land	3	192	0	0	0	0	0	0
Buildings	2,012	9,158		1,338	5,148		6,486	5,148
Other							0	
TOTAL	**2,015**	**9,350**		**1,338**	**5,148**	**0**	**6,486**	**5,148**

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13.3 COMMITMENTS UNDER NON-CANCELABLE OPERATING LEASES AND OTHER CONTRACTS

Contractual obligations at December 31, 2006 € thousands	Future minimum payments Due within 1 year	Due in 1 to 5 years	Due beyond 5 years	Total
Software licenses	855	3,273		4,129
Non-cancelable operating leases				
Lease on Vincennes facility	2,843	11,372	8,529	22,745
TOTAL	**3,698**	**14,646**	**8,529**	**26,873**

13.4 EMPLOYEE BENEFIT COMMITMENTS

SUPPLEMENTARY PENSIONS

The Company's obligations under supplementary pension plans in favor of management and certain other long-serving employees were revalued in 2006, using the projected unit credit method, based on a 3.0% rate of salary increases and a discount rate of 4.50% (higher than inflation).

The total obligation at December 31, 2006 stood at €31,531 thousand, including €11,109 thousand funded under insured plans at that date.

Since 2003, the unfunded portion of supplementary pension obligations is recognized in the Company accounts

€ thousands	2006	2005	2004
Application of a discount rate	Yes	Yes	Yes
Projected benefit obligation	31,531	33,386	30,215
Fair value of plan assets	11,109	11,174	11,767
Provision recorded in the accounts	18,190	17,562	17,664
UNFUNDED OBLIGATION	**0**	**0**	**0**

LONG-SERVICE AWARDS

The Company's obligation for the payment of statutory long-service awards, in application of French labor laws, collective bargaining agreements and trade union agreements, was estimated at €2,257 thousand at December 31, 2006. This amount, which corresponds to the discounted present value of the obligation, determined by applying an above-inflation discount rate (4.25%), has been recognized in the balance sheet at that date.

NOTE 14 Employee data

14.1 AVERAGE NUMBER OF EMPLOYEES

Analysis of average number of employees	2006	2005	2004
Management	948	899	850
Supervisory and administrative	1,328	1,312	1,325
Production	1,267	1,355	1,392
TOTAL	**3,543**	**3,566**	**3,567**

14.2 MANAGEMENT COMPENSATION

In accordance with Article 24-18 of the Decree of November 29, 1983, no loans or advances have been granted to senior management.

Total compensation and benefits paid to directors and senior management amounted to:

- €1,407 thousand in 2006.
- €1,295 thousand in 2005.
- €1,135 thousand in 2004.

NOTE 15 Five-year financial summary

€ thousands	2006	2005	2004	2003	2002
CAPITAL AT YEAR-END					
Share capital	36,347	36,122	36,159	35,959	35,939
Number of ordinary shares outstanding	103,848,436	103,206,262	103,310,483	102,740,108	102,683,613
o/w treasury stock:	1,123,954	1,323,630	1,382,788	1,269,837	1,450,645
Number of preferred, non-voting shares outstanding	0	0	0	0	0

€ thousands	2006	2005	2004	2003	2002
RESULTS OF OPERATIONS					
Net revenue	695,890	670,959	658,024	650,196	637,588
Profit before tax, depreciation, amortization and provisions	201,312	216,222	189,912	190,554	196,165
Income tax expense	7,029	16,858	13,129	10,611	4,889
Employee profit-sharing	-	-	-	-	-
Net profit	168,745	163,519	163,638	143,803	149,247
Total dividends	112,997	95,770	77,465	56,823	50,616

In €	2006	2005	2004	2003	2002
PER SHARE DATA					
Earnings per share after tax and employee profit sharing, before depreciation, amortization and provisions, excluding treasury stock	1.89	1.96	1.73	1.77	1.89
Earnings per share, excluding treasury stock	1.64	1.60	1.61	1.42	1.47
Net dividend per ordinary share	1.10	0.94	0.76	0.56	0.50
Net dividend per preferred, non-voting share	-	-	-	-	-

€ thousands, except for the average number of employees	2006	2005	2004	2003	2002
EMPLOYEE DATA					
Average number of employees	3,543	3,566	3,567	3,529	3,487
Total payroll	134,445	131,717	123,702	118,661	116,276
Total benefits	65,249	61,827	58,252	54,879	52,465

NOTE 16 Subsequent events

ACQUISITIONS

In early 2007, the Company acquired a majority stake in the Novacel group, expanding its international network of wholesale distributors. Founded in 1994, Novacel distributes a full range of lenses under its own brands in France and other European markets and operates a prescription laboratory.

The company, which has 280 employees, reported 2006 revenue of approximately €39 million.

JANUARY 2007 PERFORMANCE SHARE GRANTS

On January 24, the Board of Directors decided to make performance share grants to all employees in France who did not receive grants in November 2006. A total of 24,576 grants were made, corresponding to a maximum of eight shares per employee. The vesting and lock-up rules applicable to these performance shares are those of the January 2007 plan.

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20.4. Audit of the historical annual financial information

20.4.1. Statements by the Auditors and fees paid to the Auditors and the members of their networks

20.4.1.1. Report of the Auditors on the consolidated financial statements

Year ended December 31, 2006

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report, together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Essilor International SA for the year ended December 31, 2006.

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

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and financial position of Essilor International and its subsidiaries at December 31, 2006 and the consolidated results of operations for the year then ended, in accordance with IFRS as adopted by the European Union.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we draw to your attention the following matters:

Note 1.14 to the consolidated financial statements describes the accounting treatment of share-based payments.

As part of our assessment of the Company's accounting principles and policies, we verified the appropriateness of the above method and of the information disclosed in the notes to the consolidated financial statements. We also obtained assurance that this method had been properly applied.

Note 1.31 to the consolidated financial statements describes the method used to measure pension and other post-employment benefit obligations. These obligations are estimated by independent actuaries.

We examined the underlying data, assessed the assumptions applied for the valuation and checked that appropriate information was disclosed in Notes 1.31 and 20 to the consolidated financial statements.

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The Company performs impairment tests on goodwill at each year-end and on all non-current assets whenever there is an indication that they may be impaired. The method used is described in Note 1.21 to the consolidated financial statements. We examined the impairment testing procedure, cash flow forecasts and underlying assumptions, and obtained assurance that the estimates were reasonable. We assessed the reasonableness of the Company's estimates.

These assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III. SPECIFIC VERIFICATION

We have also performed specific verifications of the information concerning the Company given in the management report. We have no comments to make concerning the fairness of this information and its consistency with the consolidated financial statements.

Paris and Neuilly-sur-Seine – March 15, 2007
The Statutory Auditors

Cabinet Dauge et Associés
Gérard Dauge

PricewaterhouseCoopers Audit
Jacques Denizeau

20.4.1.2. Fees paid to the Auditors and the members of their networks

Years covered: 2006, 2005.

	PricewaterhouseCoopers				Cabinet Dauge			
	Amount (net of VAT)		Percentage of total (%)		Amount (net of VAT)		Percentage of total (%)	
(€ thousands, except for percentages)	2006	2005	2006	2005	2006	2005	2006	2005
AUDIT								
Statutory and contractual audit services:								
- Parent company	582	569	17%	16%	172	169	65%	62%
- Consolidated subsidiaries	2,051	2,051	59%	59%	93	81	35%	29%
Audit-related services:								
- Parent company	100		3%	0%		24	0%	9%
- Consolidated subsidiaries	328	725	9%	21%			0%	0%
SUB-TOTAL	**3,061**	**3,345**	**88%**	**97%**	**265**	**274**	**100%**	**100%**
OTHER SERVICES PROVIDED TO CONSOLIDATED SUBSIDIARIES								
Legal and tax advice	435	105	12%	3%			0%	0%
Other		5	0%	0%			0%	0%
SUB-TOTAL	**435**	**110**	**12%**	**3%**	**0**	**0**	**0%**	**0%**
TOTAL	**3,496**	**3,455**	**100%**	**100%**	**265**	**274**	**100%**	**100%**

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20.4.1.3. Report of the Auditors on the financial statements of the Company

Year ended December 31, 2006

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report, together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2006, on:

- The audit of the accompanying financial statements of Essilor International;
- The justification of our assessments;
- The specific verifications and information required by law.

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

I. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities, at December 31, 2006, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we draw to your attention the following matters:

Note 1.4 to the financial statements describes the accounting treatment of investments.

As part of our assessment of the Company's accounting principles and policies, we verified the appropriateness of the policies and methods applied to investments and of the information disclosed in the notes to the financial statements. We also obtained assurance that these policies and methods had been properly applied.

These assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no comments concerning:

- The fair presentation and the conformity with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.
- The fairness of the information given in the management report of the Board of Directors about the compensation and benefits of executive directors and the commitments given to them at the time of or after their appointment, the termination of their appointment or any change in their functions.

As required by law, we obtained assurance that information about the acquisition of controlling and other interests and the identity of shareholders is disclosed in the management report of the Board of Directors.

Paris and Neuilly-sur-Seine – March 15, 2007
The Statutory Auditors

Cabinet Dauge et Associés	**PricewaterhouseCoopers Audit**
Gérard Dauge	Jacques Denizeau

20.4.1.4. Special report of the Auditors on related party agreements in 2006

To the shareholders,

In our capacity as Statutory Auditors of Essilor International, we are required to report on certain contractual agreements with certain related parties of which we have been advised.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article 92 of the March 23, 1967 decree, it is the responsibility of shareholders to determine whether the agreements are appropriate and should be approved.

AGREEMENTS AND COMMITMENTS AUTHORIZED DURING THE YEAR

We were not informed of any agreements or commitments entered into during the year that would be covered by Article L.225-38 of the French Commercial Code *(Code de commerce)*.

AGREEMENTS AND COMMITMENTS AUTHORIZED IN PREVIOUS YEARS THAT REMAINED IN FORCE DURING 2006

Under the provisions of the March 23, 1967 decree, we were informed that the following agreements and commitments, authorized in previous years, remained in force in 2006.

Purpose: Top-hat pension plan

Persons concerned: Xavier Fontanet and Philippe Alfroid, Executive directors

Essilor International provides its senior executives with pension benefits under a group defined-benefit plan.

Government-sponsored pension plans do not grant executives any benefits on the "tranche D" portion of their salary (between 8 and 16 times the Social Security contribution ceiling). A top-hat pension plan has therefore been set up for grade III C and "ungraded" executives, corresponding to the "tranche D" portion of their salary.

The additional benefit is equal to 1.5% of the "tranche D" portion of their salary per year of service between 10 and 20 years, subject to a cap of 5% of the reference salary as defined in the plan rules, and the entire pension benefit is capped at 65% of this benchmark.

The top-hat pension plan for executive directors is a form of additional compensation governed by Article L.255-42 of the French Commercial Code instituted by the July 25, 2005 "Breton Act".

Purpose : Liquidity contract signed on November 18, 2004, renewed on September 28, 2005 and amended on January 27, 2006

Person concerned: Olivier Pécoux, Managing partner of Rothschild & Cie Banque, Director of Essilor International

Under the terms of this contract, Essilor has retained the services of Rothschild & Cie Banque to trade in Essilor International shares on the market, on an independent basis on the Company's behalf, to promote a liquid market for the shares and stabilize the share price. Capital assigned to this contract represents approximately €12 million. Effective from 2006, Rothschild & Cie Banque charges the Company an annual fee of €380,000 for its services (€280,000 previously).

We conducted our review in accordance with the standards of our profession applicable in France. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source document.

Paris and Neuilly-sur-Seine – March 15, 2007
The Statutory Auditors

Cabinet Dauge et Associés	**PricewaterhouseCoopers Audit**
Gérard Dauge	Jacques Denizeau
Compagnie Régionale de Paris	Compagnie Régionale de Versailles

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20.4.2. Description of audited information

Refer to the Auditors' report on the consolidated financial statements, in Section 20.4.1.1. of this Registration Document.

20.4.3. Unaudited financial information

Not applicable.

20.5. Age of the latest financial information

The latest audited financial information corresponds to the years 2005 and 2006 (from January 1, 2005 to December 31, 2005 and from January 1, 2006 to December 31, 2006).

20.6. Interim and other financial information

20.6.1. Quarterly and half yearly financial information

Refer to Section 3.2. of this Registration Document for more information on this topic.

20.6.2. Interim financial information covering the first six months of the year

Not applicable.

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20.7. Dividend policy

The Company has not established a dividend policy. Every year, the dividend is recommended by the Board for approval by vote of the Annual Shareholders' Meeting.

2006 dividend

In 2007, the Board will recommend a 17% increase in the net dividend to €1.10 per share for 2006 from €0.94 per share for 2005.

The recommended dividend represents over one third of consolidated net profit attributable to equity holders of Essilor International, which is in line with the average payout rate among quoted companies. It reflects the Company's solid performance in 2006.

The dividend will be paid as from May 15, 2007, in cash only.

Historical payout rates

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

€ millions	Profit attributable to equity holders of Essilor International	Total dividend	Payout ratio
2006 IFRS	328	113	34%
2005 IFRS	287	96	33%
2004 IFRS	244	77	32%
2004 (French GAAP)	227	77	34%
2003 (French GAAP)	200	57	28%
2002 (French GAAP)	182	51	28%

Dividend history

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

In €	2006	2005	2004	2003	2002	2001
ORDINARY SHARES						
Net dividend	1.10	0.94	0.76	0.56	0.50	0.41 [a]
Tax paid in advance [b]	-	-	-	0.28	0.25	0.20 [a]
Total revenue	1.10	0.94	0.76	0.84	0.75	0.61 [a]
Paid on	May 15, 2007	May 16, 2006	May 18, 2005	May 18, 2004	May 20, 2003	May 28, 2002

[a] Adjusted for the 2001 10-for-1 stock-split.
[b] The *précompte* dividend equalization tax was abolished in 2004 (dividend paid in 2005).

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

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Paying agent

The name and address of the paying agent are as follows:

CACEIS Corporate Trust - 14, rue Rouget de Lisle – 92862 Issy-les-Moulineaux - France
Phone: 01 57 78 34 44 - Fax: 01 57 78 34 27 - Email:actionnariat.ge@caceis.com

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20.8. Legal and arbitration proceedings

Refer to Section 4.2. – Legal Risks.

20.9. Significant change in Essilor's financial or trading position

No significant change in Essilor's financial or trading position has occurred since December 31, 2006.

Refer to Note 30 to the consolidated financial statements (Section 20.3.1.5.).

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Additional Information

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21.1. Share capital

21.1.1. Subscribed capital, changes in share capital and Essilor International shares

21.1.1.1. Amount of share capital

a) Number of shares authorized:

See Section 21.1.8. – Authorized, unissued capital, and Section 21.1.4.3. – Bonds convertible into or exchangeable for new or existing shares (Oceanes).

b) and c) Number of shares issued and fully paid, number of shares issued but not fully paid, and par value per share:

At December 31, 2006, the Company's share capital amounted to €36,346,952.60, represented by 103,848,436 ordinary shares, each with a par value of €0.35 and all fully paid.

Taking into account (i) the double voting rights on shares registered in the name of the same holder for two years and (ii) the impact of treasury shares which are stripped of voting rights, the total number of voting rights attached to the Company's shares at December 31, 2006 amounted to 110,550,299.

d) Reconciliation of the number of shares outstanding at the beginning and end of the year, and capital paid:

Refer to Note 8 to the consolidated financial statements (Section 20.3.1.5.) and Note 10 to the Company financial statements (Section 20.3.2.5.).

21.1.1.2. Changes in share capital in 2006

Changes in share capital in 2006 were as follows:

- €117,964.35 increase, excluding premiums, corresponding to the issue of 337,041 new shares on exercise of stock options.
- €106,796.55 increase, excluding premiums, corresponding to the issue of 305,133 new shares to the Essilor 5 and 7-year corporate mutual funds (FCPE Essilor).

At December 31, 2006, the Company's share capital amounted to €36,346,952.60, represented by 103,848,436 ordinary shares, each with a par value of €0.35 and all fully paid.

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Ownership structure at December 31, 2006

At December 31, 2006	Number of shares	%	Number of voting rights	%
EMPLOYEE SHAREHOLDERS (in France and abroad)				
- Valoptec International Corporate Mutual Fund	4,256,390	4.09	8,512,780	7.70
- Essilor 5 and 7-year Corporate Mutual Funds	2,419,009	2.33	4,452,668	4.03
- Funds for employees outside France	320,154	0.31	320,154	0.29
- Registered shares held directly by employees	1,585,359	1.53	2,729,406	2.47
SUB-TOTAL	**8,580,912**	**8.26**	**16,015,008**	**14.49**
TREASURY STOCK				
- Treasury stock	1,094,045	1.05		
- Liquidity contract	29,909	0.03		
SUB-TOTAL	**1,123,954**	**1.08**		
PUBLIC	94,143,570	90.66	94,535,291	85.51
TOTAL	**103,848,436**	**100**	**110,550,299**	**100**

To the best of the Company's knowledge, no shareholder other than the Valoptec International corporate mutual fund (see Section 17.3.) holds 5% or more of the voting rights directly, indirectly or in concert with a third party.

A table showing changes in share capital over the last five years is presented in Section 21.1.7.

Changes in outstanding stock options and performance share rights are presented below (information limited to plans for which options or performance share rights were outstanding at December 31, 2006).

Stock options (options on new shares)

	At December 31, 2006	o/w in 2006
Options granted [a]	4,151,270	465,370
Options canceled [a]	75,567	22,412
Options exercised [a]	603,788	337,041
Options outstanding [a] and [b]	3,471,915	-

[a] Options granted under the November 14, 2001 plan and subsequent plans (no stock options granted under earlier plans were outstanding at December 31, 2006). Historical information about stock option plans is provided in Section 17.2.2.2.
[b] Representing the equivalent of 3.34% of shares outstanding at December 31, 2006.

The exercise price of all of the above options has been determined by reference to the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the Board of Directors' decision to grant the options.

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Stock options (options on existing shares)

	At December 31, 2006	o/w in 2006
Options granted [a]	670,250	0
Options canceled [a]	19,013	0
Options exercised [a]	455,367	149,510
Options outstanding [a] and [b]	195,870	-

[a] All of these options were granted under the November 14, 2001 plan. Historical information about stock option plans is provided in Section 17.2.2.2.
[b] Representing the equivalent of 0.19% of shares outstanding at December 31, 2006.

The exercise price of all of the above options has been determined by reference to the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the Board of Directors' decision to grant the options.

Performance share rights

	At December 31, 2006	o/w in 2006
Rights granted [a]	263,556	263,556
Rights canceled [a]	0	0
Rights exercised [a]	0	0
Rights outstanding [a] and [b]	263,556	-

[a] All of these rights were granted under the November 22, 2006 plan, representing the Company's first performance share plan. Historical information about performance share plans is provided in Section 17.2.2.2.
[b] Representing the equivalent of 0.25% of shares outstanding at December 31, 2006.

For more information about performance shares, refer to Section 21.1.4.3. – Performance shares.

21.1.1.3. Essilor International shares

The market for the Company's securities

Essilor has two kinds of securities: ordinary shares and bonds convertible or exchangeable for new or existing shares (Oceanes). For more information on Oceanes, refer to Section 21.1.4.4.

Essilor International shares

Essilor International shares are listed on the Eurolist by Euronext Paris (local stocks – compartment A), under ISIN code FR0000121667.

The shares are eligible for the "SRD" deferred settlement service. At December 31, 2006, a total of 103,848,436 fully paid-up ordinary shares, each with a par value of €0.35, were issued and outstanding.

Indices

- Stock indices

  Essilor International is included in the CAC 40 index and the Euronext 100 index.

- SRI indices

  Essilor International is also included in the ASPI socially responsible investment index based on Vigeo ratings, and the FTSE4Good Europe Index and Global Index, based on ratings from Ethifinance, the French representative of Ethical Investment Research Services (EIRIS).

- Employee stock ownership index

  Essilor International is included in the Euronext FAS IAS [3] index launched by Euronext and the Fédération Française des Associations d'Actionnaires Salariés et d'Anciens Salariés (FAS). It is composed of all SBF 250 companies with a significant employee shareholder base (i.e. companies where at least 3% of the share capital is held by employees representing over one quarter of the total workforce).

[3] *The Euronext FAS IAS index is owned by FAS and Euronext.*

For more information about employee share ownership, refer to Appendix 2 - Social and Environmental Policy (disclosures made in application of the "NRE" Act in France), at the end of the Social Policy section under "Responsible shareholders and employee share ownership".

Sales of shares (Article 11 of the Bylaws)

The shares are freely negotiable and indivisible vis-à-vis the Company.

21.1.1.3.1. SHARE PRICES

(Source: Euronext)

	Price (in €)				
	High	Low	Price on December 31	Shares outstanding at December 31	Market capitalization at December 31 (€ millions)
2006	85.35	66.65	81.45	103,848,436	8,430
2005	71.95	52.30	68.20	103,206,262	7,012
2004	57.75	39.20	57.65	103,310,483	5,932
2003	42.50	30.85	41.00	102,740,108	4,188
2002	45.57	31.20	39.25	102,683,613	3,975

21.1.1.3.2. HIGH AND LOW SHARE PRICES AND TRADING VOLUME

(Source: Euronext)

	Trading volume (number of shares)	Trading volume (in € millions)	High and low share prices (in €)	
			High	Low
2005				
September	10,195,062	682.02	70.20	63.15
October	6,903,543	469.12	69.80	65.55
November	5,937,701	415.47	71.65	68.00
December	5,956,724	417.46	71.95	68.05
2006				
January	10,346,507	722.02	74.00	66.65
February	6,281,259	459.24	74.70	71.85
March	7,469,654	545.90	74.70	70.75
April	7,143,098	539.22	79.95	71.55
May	13,610,524	1,075.17	83.85	74.15
June	7,985,474	614.87	79.75	74.65
July	6,450,473	500.27	79.25	75.00
August	5,677,011	446.18	81.40	75.90
September	7,679,497	612.78	82.30	77.20
October	6,710,859	547.02	83.00	78.90
November	5,479,178	453.53	85.35	80.15
December	6,585,481	537.78	84.25	79.50
2007				
January	8,536,433	709.35	87.20	80.20
February	6,916,167	603.34	89.65	84.15

21.1.2 Shares not representing capital

Not applicable.

21.1.3. Treasury stock

Essilor held 1,323,630 treasury shares at December 31, 2005 including 70,000 under the Company's liquidity contract. During 2006, 149,510 shares were sold on exercise of stock options at a price of €31.24 per share, and 10,075 shares were sold on conversion of bonds at a price of €51.15 per share. Treasury shares bought and sold during the year under the liquidity contract represented a net sale of 40,091 shares, reducing the number of shares held under the contract to 29,909 at December 31, 2006.

Following these movements, at December 31, 2006, Essilor held 1,123,954 shares in treasury, representing 1.08% of the capital. The aggregate par value of these shares was €393,384, and their book value was €71,503 thousand.

21.1.3.1. Share buyback programs

Special report on share buybacks (Article 225-209, Paragraph 2 of the French Commercial Code) and description of the buyback program (Article 241-2 I of the AMF's General Rules)

In May 2006, the Annual Shareholders' Meeting authorized the Board of Directors to buy back Essilor International shares representing up to 10% of the Company's capital on the date of purchase, as allowed under Articles 225-209 *et seq.* of the French Commercial Code. The authorization was given for a period of 18 months expiring on November 10, 2007.

In application of Article 225-209, Paragraph 2 of the French Commercial Code, the Board of Directors reports below on the use made of the authorizations given by the Annual Shareholders' Meetings of May 13, 2005 and May 12, 2006. Apart from transactions under the liquidity (market making) contract that was signed during the same period, no shares were bought back between January 1 and December 31, 2006 and no shares were sold.

On November 18, 2004, the Company entered into a liquidity contract with Rothschild & Cie Banque. The contract complied with the Code of Ethics issued by the AFEI (French Association of Investment Firms) endorsed on April 10, 2001 by the Commission des Opérations de Bourse (COB), the predecessor of the AMF. In September 2005, the contract was aligned with the new AFEI Code of Ethics endorsed by the AMF on March 22, 2005 and instituted as part of the transposition of the EU Market Abuse Directive into French law. Through the liquidity contract, the Company acquired 1,573,769 shares between January 1 and December 31, 2006 at an average price of €77.48, and sold 1,613,860 shares at an average price of €77.60 over the same period. A total of 29,909 shares were held under this contract at December 31, 2006. Transactions were conducted in compliance with the principles outlined in the AMF decision of March 22, 2005 recognizing liquidity contracts as an acceptable market practice and endorsing the latest AFEI Code of Ethics.

The Annual Shareholders' Meeting of May 13, 2005 authorized the Board of Directors to reduce share capital by canceling all or some of shares held by the Company, provided that the number of shares canceled during any 24-month period does not exceed 10% of total share capital. At its July 12, 2005 meeting, the Board of Directors decided to use this authorization to cancel 900,000 shares, leading to a €315,000 capital reduction. No shares were canceled in 2006.

At December 31, 2006, the Company held 1,123,954 shares in treasury (including 29,909 shares under the liquidity contract), representing 1.08% of the capital at that date. These shares were acquired at an average net cost of €63.62 per share.

During 2006, shares acquired under earlier buyback programs, which were intended to be canceled to offset the dilutive impact of stock options, were reassigned for allocation on exercise of performance share rights granted by the Board of Directors on November 22, 2006.

Renewal of the authorization to implement a share buyback program proposed at the Annual Shareholders' Meeting of May 11, 2007

In accordance with the provisions of the Market Abuse Directive (framework directive 2003/6/EC dated January 28, 2003) on insider dealing and market manipulation, which came into effect on October 12, 2004 and was transposed into AMF regulations, the Annual Shareholders' Meeting of May 11, 2007 will be asked to renew the authorization to buy back shares for the following purposes only (listed in declining order of strategic importance – the actual order will depend on need and opportunities):

70% of the program will be used:

- For allocation on exercise of stock options and other share grants, including share grants governed by Articles L.225-197-1 *et seq.* of the French Commercial Code, made to Company employees and management.
- To buy back shares for cancellation, in order to offset the dilutive impact of stock options granted to management and employees of the Company.

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The Company also reserves the right to use 30% of the program for the following purposes:

- To ensure the liquidity of the Company's shares under a liquidity contract that complies with the AFEI Code of Ethics endorsed by the AMF.
- For allocation on exchange of debt securities convertible or exchangeable for shares of the Company.
- For delivery or exchange in connection with future external growth transactions.

Main characteristics of the new buyback program:

- Securities: Essilor International ordinary shares (traded on Eurolist by Euronext Paris in Compartment A).
- Maximum percentage of shares that may be held in treasury according to the resolution tabled at the Annual Shareholders' Meeting of May 11, 2007: 10%, or 10,384,843 shares.
- Maximum percentage of share capital that may be bought back, taking into account the number of shares held in treasury as of February 28, 2007: 8.88% of the capital, or 10,384,843 - 1,162,440 = 9,222,403 shares.
- Maximum purchase price per share: €130.
- Minimum sale price per share: €30, as adjusted if necessary to take into account the effects of any corporate actions.

The shares may be purchased, sold or transferred and paid for by any appropriate method on the organized market or over-the-counter (including through straight purchases, or the use of financial instruments or derivatives or the implementation of options strategies). The entire share buyback program may be carried out through a block purchase.

The authorization is being sought for a period of 18 months expiring on November 10, 2008.

Other authorizations to be put to the vote at the Annual Shareholders' Meeting of May 11, 2007 (extraordinary resolutions)

The financial authorizations to be put to the vote at the Annual Shareholders' Meeting of May 11, 2007 (renewals of existing authorizations and new authorizations) are presented in Section 21.1.9. "Financial authorizations to be put to the vote at the Annual Shareholders' Meeting of May 11, 2007 (extraordinary resolutions)".

Previous share buyback program

Transactions conducted between April 1, 2006 [a] and February 28, 2007:

Percentage of shares held directly or indirectly in treasury: 1.12%

Number of shares canceled over the last 24 months: 900,000

Number of shares held in treasury [b]: 1,162,440

Book value of treasury stock: €75,427,688

Fair value of treasury stock [c]: €100,248,826

[a] First day after the end date of the previous buyback program.
[b] These shares are earmarked:
- First of all, for allocation on exercise of stock options granted under the 2001 plan (184,265 shares)
- For the liquidity account (80,000 shares)
- For allocation on exercise of performance share rights granted by the Board of Directors on November 22, 2006 and January 24, 2007 as well as for future stock option and performance share plans (898,175 shares).
[c] Based on the closing price on February 28, 2007.

No shares have been bought back since April 1, 2006 other than under the liquidity contract.

Transactions under the liquidity contract

Transactions under the liquidity contract [a]	Transactions in the period from April 1, 2006 to February 28, 2007		Open positions at February 28, 2007					
	Purchases	Sales	Open purchases			Open sales		
			Purchased calls	Sold puts	Forward purchases	Purchased calls	Sold puts	Forward sales
Number of shares	1,405,989	1,394,489						
Average transaction price, in €	81.09	80.93	-	-	-	-	-	-
Total amount, in €	114,011,911	112,860,733	-	-	-	-	-	-

[a] Net purchase of 11,500 shares.

21.1.3.2 Share cancellations and capital reductions

The Annual Shareholders' Meeting of May 13, 2005 authorized the Board of Directors to reduce the capital by canceling all or some of shares held by the Company, provided that the number of shares canceled during any 24-month period does not exceed 10% of total share capital. At its July 12, 2005 meeting, the Board of Directors decided to use this authorization to cancel 900,000 shares, leading to a €315,000 capital reduction. No shares were canceled in 2006.

On February 28, 2006, Essilor bought back 780,000 Oceane bonds due 2010, representing 13% of the initial issue, for €57.5 million.

Oceane bonds are convertible into or exchangeable for new or existing Essilor shares and the transaction was part of the strategy deployed since 2003 to reduce dilution from equity instruments carried in the balance sheet. Until the February 28, 2006 transaction, this active management strategy had always involved buying back shares to offset dilution from stock option plans.

Because the Oceanes are convertible at a price of €53.55, the 26.80% rise in Essilor's share price in 2005 made conversion increasingly probable.

The Company therefore decided to buy back 780,000 Oceanes. Compared to share buybacks, this had the added advantage of reducing interest expense and improving the balance sheet structure.

Moreover, as the buyback concerned less than 20% of the outstanding bonds, it will not have a material impact on the issue's liquidity.

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21.1.4. Convertible securities, exchangeable securities or securities with warrants, stock options and rights to performance shares

21.1.4.1. Stock options (options on new shares)

21.1.4.1.1. STOCK OPTIONS ON NEW SHARES OUTSTANDING AT DECEMBER 31, 2006 AND FEBRUARY 28, 2007

Date granted	Number of options granted	o/w options granted to Executive Committee members	Exercise price (in €)	Number of options outstanding at December 31, 2006	Number of options outstanding at February 28, 2007
November 14, 2001	160,660	30,000	31.240	40,348	38,096
November 20, 2002	812,580	243,000	40.670	478,205	434,891
November 18, 2003	804,570	220,000	40.730	655,232	630,836
November 17, 2004 [a]	893,900	268,940	52.990	835,083,	820,069
January 27, 2005 [a]	15,750	12,350	54.580	14,617	14,617
November 23, 2005 [a]	998,440	340,000	69.400	983,060	978,228
November 22, 2006 [b]	465,370	64,000	82.920	465,370	464,400
TOTAL	**4,151,270**	**1,178,290**		**3,471,915**	**3,381,137**

[a] Capped plans.
[b] Capped performance options.

The exercise price of all of the above options has been determined by reference to the average of the opening prices quoted for the Company's shares over the twenty trading days preceding the Board of Directors' decision to grant the options.

Under capped plans, the maximum profit that can be made by each grantee is capped at 100% of the value of the option grants.

Capped performance options vest only if the share price reaches a certain level (in the same way as the performance shares described in Section 21.1.4.3.) and can be cancelled if the target is not met.

21.1.4.1.2. CHANGES IN OUTSTANDING STOCK OPTIONS ON NEW SHARES IN THE PERIODS TO DECEMBER 31, 2006 AND FEBRUARY 28, 2007

Changes in outstanding stock options on new shares are presented below (information limited to plans for which options were outstanding at December 31, 2006).

	At December 31, 2006	o/w in 2006	At February 28, 2007	o/w in 2007
Options granted [a]	4,151,270	465,370	4,151,270	0
Options canceled [a]	75,567	22,412	77,948	2,381
Options exercised [a]	603,788	337,041	692,185	88,397
Options outstanding [a] and [b]	3,471,915	-	3,381,137	-

[a] Options granted under the November 14, 2001 plan and subsequent plans (no stock options granted under earlier plans were outstanding at December 31, 2006). Historical information about stock option plans is provided in Section 17.2.2.2.
[b] Representing the equivalent of 3.34% of shares outstanding at December 31, 2006.

21.1.4.1.3. EXERCISE OF STOCK OPTIONS (OPTIONS ON NEW SHARES)

The exercise of all the stock options exercisable for new shares that were outstanding at December 31, 2006 would result in the issuance of 3,471,915 shares.

21.1.4.2. Stock options (options on existing shares)

21.1.4.2.1. STOCK OPTIONS ON EXISTING SHARES OUTSTANDING AT DECEMBER 31, 2006 AND FEBRUARY 28, 2007

Date granted	Number of options granted	o/w options granted to Executive Committee members	Exercise price (in €)	Number of options outstanding at December 31, 2006	Number of options outstanding at February 28, 2007
November 14, 2001	670,250	200,000	31.24	195,870	184,265
TOTAL	**670,250**	**200,000**		**195,870**	**184,265**

The exercise price of these options was equal to the average of the opening prices quoted for the Company's shares over the twenty trading days that preceded the Board of Directors' decision to grant the options on November 14, 2001.

The first stock option plan under which options were exercisable for existing shares of the Company acquired on the market was authorized at the combined Ordinary and Extraordinary Shareholders' Meeting of January 18, 2001. This authorization was used by the Board of Directors on November 14, 2001.

The Board of Directors did not grant any new options on existing shares in 2002, 2003 or 2004. The authorization, which was given for a period of three years, expired in 2004.

21.1.4.2.2. CHANGES IN OUTSTANDING STOCK OPTIONS ON EXISTING SHARES IN THE PERIODS TO DECEMBER 31, 2006 AND FEBRUARY 28, 2007

Changes in stock options on existing shares were as follows:

	At December 31, 2006	o/w in 2006	At February 28, 2007	o/w in 2007
Options granted [a]	670,250	0	670,250	0
Options canceled [a]	19,013	0	19,013	0
Options exercised [a]	455,367	149,510	466,972	11,605
Options outstanding [a] and [b]	195,870	-	184,265	-

[a] All of these options were granted under the November 14, 2001 plan. Historical information about stock option plans is provided in Section 17.2.2.2.
[b] Representing the equivalent of 0.19% of shares outstanding at December 31, 2006.

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21.1.4.2.3. EXERCISE OF STOCK OPTIONS (OPTIONS ON EXISTING SHARES)

Upon exercise of these options, option holders will be allocated Essilor International shares held in treasury stock for this purpose.

21.1.4.3. Performance shares

At its meeting on November 22, 2006, the Board of Directors decided to set up the Company's first performance share plan. The decision was preceded by an assessment of the benefits of this type of plan. The conclusions from this assessment were as follows:

- The dilutive impact of performance shares is less than half that of stock options offering an equivalent potential gain.
- The grant system makes it easier for grantees to keep their shares, compared with shares acquired on exercise of stock options, some or all of which are almost always sold by the grantees to finance the exercise price.
- The decision was made to restrict the plan to employees resident in France, with non-residents continuing to receive stock options.
- In light of this restriction, the terms of the performance share grants are designed to ensure that the potential gain for grantees is as close as possible to that for holders of stock options. The performance shares are subject to vesting conditions based on growth in the Company's share price, to ensure that the interests of grantees converge with those of shareholders.

The performance shares granted in 2006 and early 2007 are governed by the performance share plan rules, the main terms of which are as follows:

- Grantees who are resident in France are allocated a maximum number of conditional performance share rights for an initial period of two years (the "allocation period").
- If the average opening price of Essilor International shares for the three months preceding the second anniversary of the allocation date exceeds the initial benchmark price, the two-year allocation period is followed by a two-year vesting period, during which the rights may vest (i.e. the grantees may acquire title to the shares).
- If none of the average opening prices for the successive three-month periods between the second and fourth anniversaries of the allocation date (i.e. the vesting period) exceeds the initial benchmark price, the performance share rights do not vest and are canceled.
- If the vesting conditions are met:
  - The number of shares received by grantees is determined proportionately, based on the average annual increase in the share price.
  - The acquired shares are subject to a lock-up period ending seven years after the original allocation date of the conditional rights.
- As an exception to the above principle, performance shares will vest early in the case of a takeover bid for Essilor International.

Refer to Note 5 to the consolidated financial statements (Section 20.3.1.5).

21.1.4.3.1. PERFORMANCE SHARE RIGHTS OUTSTANDING AT DECEMBER 31, 2006 AND FEBRUARY 28, 2007

Date granted	Number of rights granted	o/w rights granted to Executive Committee members	Initial benchmark share price (used to assess performance) (in €)	Number of rights outstanding at December 31, 2006	Number of rights outstanding at February 28, 2007
November 22, 2006	263,556	105,750	82.92	263,556	263,556
January 24, 2007	24,576	0	82.92	0	24,576
TOTAL	**288,132**	**105,750**		**263,556**	**288,132**

21.1.4.3.2. CHANGES IN PERFORMANCE SHARE RIGHTS IN THE PERIODS TO DECEMBER 31, 2006 AND FEBRUARY 28, 2007

Changes in performance share rights were as follows:

	At December 31, 2006	o/w in 2006	At February 28, 2007	o/w in 2007
Rights granted [a]	263,556	263,556	288,132	24,576
Rights canceled [a]	0	0	0	0
Rights exercised [a]	0	0	0	0
Outstanding rights [a] and [b]	263,556	-	288,132	-

[a] As from the November 22, 2006 plan, representing the Company's first performance share plan. Historical information about performance share plans is provided in Section 17.2.2.2.
[b] Representing the equivalent of 0.25% of shares outstanding at December 31, 2006.

21.1.4.3.3. VESTING OF PERFORMANCE SHARES

If the performance shares vest, grantees will be allocated either existing or new Essilor International shares.

21.1.4.4. Oceanes (bonds convertible into or exchangeable for new or existing shares)

In July 2003, Essilor issued bonds convertible into or exchangeable for new or existing shares (Oceanes) in the amount of €309 million. The seven-year bonds are redeemable at the holders' option after five years.

The Oceanes have been listed on the Euronext Paris market since July 2, 2003 under ISIN code FR0000189276. At December 31, 2006, a total of 5,249,674 Oceanes were outstanding, each with a nominal value of €51.15.

21.1.4.4.1. OCEANE PRICES

(Source: Euronext)

	Price (in €)			Number of Oceanes outstanding at December 31
	High	Low	Closing price	
2006	89.10	59.00	82.15	5,249,674
2005	74.75	58.25	72.90	6,039,749
2004	66.80	55.00	62.00	6,039,754

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21.1.4.4.2. HIGH AND LOW PRICES AND TRADING VOLUME

(Source: Euronext; data may not include off-market block trades.)

	Trading volume (number of Oceanes)	Trading volume (in € millions)	High and low prices (in €)	
			High	Low
2005				
September	59,277	3.97	72.00	63.00
October	31,215	2.17	72.00	68.10
November	1,308	0.09	72.10	66.50
December	481	0.03	74.75	67.50
2006				
January	9,525	0.69	74.00	59.00
February	1,435	0.11	74.90	67.00
March	93	0.01	74.10	67.50
April	209	0.01	79.90	68.50
May	1,299	0.10	82.60	68.80
June	180	0.01	79.00	77.00
July	132	0.01	78.00	77.10
August	137	0.01	80.00	77.00
September	2,752	0.22	89.10	80.00
October	36,782	3.05	83.00	80.00
November	1,030	0.09	87.00	80.00
December	6,493	0.54	87.00	80.00
2007				
January	251	0.02	90.20	82.00
February	189	0.02	89.00	82.80

21.1.4.4.3. OCEANE CONVERSIONS

Conversion of Oceanes results in the issuance of new shares, unless Essilor International prefers to exchange all or some of them for existing shares.

The potential number of shares to be created on conversion of these bonds was 5,249,674 at December 31, 2006.

Under the third authorization given by the Annual Shareholders' Meeting of May 16, 2003, the Board of Directors decided on June 11, 2003 to issue 5,252,359 bonds convertible into or exchangeable for new or existing shares, at a price based on a reference Essilor International share price of €36.0216, without pre-emptive subscription rights but with a priority subscription period for issues carried out in France. The issue included a 15% greenshoe option. The greenshoe option was exercised and a total of 6,040,212 Oceanes were therefore issued with a nominal value of €51.15, for a total nominal amount of €308,956,843.80, representing a 42% premium to the reference Essilor International share price on the date the final terms were set. Any unconverted bonds will be redeemed in full on July 2, 2010 (or the next business day) at a price of €53.54 each, representing around a 4.7% premium to par. Bond holders can ask for their bonds to be converted or exchanged for shares at a ratio of one Essilor International share for one bond. Essilor International may choose to issue new shares or allot existing shares for the bonds.

Since the issue date, 10,538 bonds have been converted, including 10,075 in 2006. In addition, 780,000 bonds were bought back by the Company for cancellation in February 2006.

21.1.4.4.4. BUYBACK OF 780,000 OCEANE CONVERTIBLE BONDS

Refer to Note 22 to the consolidated financial statements (Section 20.3.1.5.).

21.1.5. Information about and terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital

Not applicable.

21.1.6. Capital of any member of the Company under option or agreed to be put under option

Within the framework of its acquisitions strategy and in order to build loyalty among the management teams of the acquired companies, Essilor International generally starts by acquiring 75 to 90% of the companies in question and then establishes reciprocal put and call options on the remaining shares, exercisable over periods ranging from three to five years.

This policy was followed for the majority of prescription laboratory acquisitions in the United States in the last three years, as well as for the acquisition of France's Novacel on January 3, 2007.

The call options are recognized in the consolidated balance sheet at their exercise price (see Section 20.3.1.2.).

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21.1.7. Changes in share capital

Changes in share capital over the last five years *€ thousands*	Number of shares issued	Par value	Premium	New issued capital	New number of shares outstanding
SHARE CAPITAL AT DECEMBER 31, 2001				**35,377**	**101,075,891**
Issuance of shares to the Essilor Corporate Mutual Funds	374,562	131	12,413	35,508	101,450,453
Issuance of shares on exercise of stock options	1,233,160	431	27,374	35,939	102,683,613
SHARE CAPITAL AT DECEMBER 31, 2002				**35,939**	**102,683,613**
Issuance of shares to the Essilor Corporate Mutual Funds	438,733	154	12,968	36,093	103,122,346
Issuance of shares on exercise of stock options	417,762	146	13,169	36,239	103,540,108
Cancellation of treasury stock	(800,000)	(280)	(21,720)	35,959	102,740,108
SHARE CAPITAL AT DECEMBER 31, 2003				**35,959**	**102,740,108**
Issuance of shares to the Essilor Corporate Mutual Funds	382,842	134	15,496	36,093	103,122,950
Issuance of shares on exercise of stock options	987,533	346	32,006	36,439	104,110,483
Cancellation of treasury stock	(800,000)	(280)	(29,144)	36,159	103,310,483
SHARE CAPITAL AT DECEMBER 31, 2004				**36,159**	**103,310,483**
Issuance of shares to the Essilor Corporate Mutual Funds	345,532	121	16,728	36,280	103,656,015
Issuance of shares on exercise of stock options	450,247	158	14,876	36,437	104,106,262
Cancellation of treasury stock	(900,000)	(315)	(40,283)	36,122	103,206,262
SHARE CAPITAL AT DECEMBER 31, 2005				**36,122**	**103,206,262**
Issuance of shares to the Essilor Corporate Mutual Funds	305,133	107	19,389	36,229	103,511,395
Issuance of shares on exercise of stock options	337,041	118	13,699	36,347	103,848,436
Cancellation of treasury stock					103,848,436
SHARE CAPITAL AT DECEMBER 31, 2006				**36,347**	**103,848,436**

Details of changes in share capital in 2006 are presented in Section 21.1.1.2.

21.1.8. Authorized, unissued capital

Refer to Note 8 to the consolidated financial statements (Section 20.3.1.5.).

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21.1.9. Financial authorizations to be put to the vote at the Annual Shareholders' Meeting of May 11, 2007 (extraordinary resolutions)

The financial authorizations sought by the Board of Directors at the Annual Shareholders' Meeting of May 11, 2007 are as follows:

- Authorization to cancel shares held in treasury stock, leading to a reduction in capital of no more than 10%. The purpose of the share cancellations would be to reduce the dilutive impact of stock option and bonus share grants.
- 26-month authorization to issue new shares for cash and to grant newly-issued shares or share equivalents without consideration to employees, in accordance with the law including Articles L.225-129, L.225-129-6 and L.225-138 of the French Commercial Code and Article L.443-5 of the French Labor Code. These issues and grants would be made to members of an Employee Stock Ownership Plan set up by Essilor International or a related company, within the meaning of Article 225-180 of the Commercial Code. Shares issued under this authorization would not exceed the equivalent of 3% of the shares outstanding at the issue date.
- 38-month authorization to grant stock options on the equivalent of up to 3% of capital stock, and to grant shares representing up to 3% of capital stock (corresponding to either shares held in treasury or newly-issued shares) to employees and officers of the Company and/or of any companies that are at least 10%-owned by the Company, directly or indirectly, without consideration. The above 3% ceilings will not be cumulative.
- Renewal of earlier financial authorizations given to the Board of Directors, as follows:
  - 26-month authorization to issue shares and securities convertible, redeemable, exchangeable or otherwise exercisable for shares, with pre-emptive subscription rights (share issues capped at €25 million, debt issues capped at €800 million).
  - 26-month authorization to issue shares and securities convertible, redeemable, exchangeable or otherwise exercisable for shares, without pre-emptive subscription rights but with a priority subscription right at the Board's discretion (share issues capped at €25 million, debt issues capped at €800 million). Issues carried out under this authorization would be deducted from the maximum amount available under the authorization to issue shares and securities with pre-emptive subscription rights.
  - Greenshoe option, allowing the Board to increase by up to 15% any issues that are oversubscribed, with the same restrictions as for the original issue.
  - 26-month authorization to increase the capital by up to €500 million, by capitalizing retained earnings, income, additional paid-in capital or other capitalizable amounts.
- Authorization to carry out a two-for-one stock-split.
- 26-month authorization to issue shares in payment for shares or other equity instruments of another company, in connection with a merger or an acquisition (capped at 10% of the current capital).

For information about the proposed renewal of the buyback program, presented at the Annual Shareholders' Meeting of May 11, 2007, refer to Section 21.1.3.1. – Share Buyback Programs.

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21.2. Bylaws (memorandum and articles of association)

21.2.1. Corporate purpose

See Section 5.1.4.

21.2.2. Provisions relating to members of the Board of Directors and senior management

See Section 16.1.2.

21.2.3. Rights, preferences and restrictions attaching to each class of shares

See Section 18.2.

21.2.4. Changing shareholders' rights

21.2.4.1. Dividend and voting rights

See Section 18.2. for information on voting rights and Section 20.7. for information on dividends.

21.2.4.2. Resolutions related to shareholders' rights tabled at the Annual Shareholders' Meeting of May 11, 2007

We are committed to maintaining a high quality shareholder base and creating value for external and employee shareholders.

In line with this commitment, we are proposing two changes to the bylaws and a resolution that are designed to support the continued implementation of our business model in a competitive, deregulated environment.

The proposed changes are as follows:

- **Changes to the bylaws**

  The following two changes to the bylaws will be put to the vote at the Annual Shareholders' Meeting:

  - Amendment of Article 10 of the bylaws, lowering the disclosure threshold for interests acquired by shareholders acting in concert, directly or indirectly, to 1% of the voting rights (versus 1.5% previously), reducing the time limit for making the disclosure to 5 days (versus 15 previously) and extending the disclosure requirements to all acquisitions of shares representing a multiple of 2% of the total voting rights outstanding.
  - Amendment of Article 24.6 of the bylaws limiting the voting rights exercisable by (i) an individual shareholder or (ii) a group of shareholders acting in concert, directly or indirectly, that holds less than 50% of the voting rights, to 12% of total voting rights for shares with single voting rights or 24% for shares with double voting rights. This measure is designed to prevent a shareholder that does not hold a significant interest from exercising decisive control within the Company by voting at Shareholders' Meetings. It is considered necessary due to the limited number of shareholders who take part in the Meetings.

- **Takeover defense**

  We are also presenting a resolution authorizing the Board to issue stock warrants in the case of a takeover bid for the Company (so-called "Breton warrants"). The warrants would be issued to shareholders without consideration, on the basis

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of one warrant per share. The total number of warrants would not be exercisable for shares representing more than 25% of the issued capital. The warrants would be exercisable on preferred terms for new Essilor International shares. In the case of a takeover bid for the Company, this measure would enable the Board of Directors – the majority of whose members are independent directors – to negotiate with the bidder or bidders in the best interests of shareholders.

Refer to Section 18.4. for information on:

- Arrangements resulting in a change in control of the Company
- Shareholder pacts
- Contracts containing a change of control clause (Article L.225-100-3 of the Commercial Code)

21.2.5. General Shareholders' Meetings

21.2.5.1. Notice of meetings

All holders of ordinary shares are entitled to participate in General Shareholders' Meetings, however many shares they own, provided such shares have been paid up to the extent called.

General Shareholders' Meetings are called and conduct business in accordance with the applicable laws and regulations.

21.2.5.2. Participation in meetings

To participate in a General Shareholders' Meeting in person or by proxy:

- Holders of registered shares must be listed as the shareholder of record in the Company's share register at midnight CEST on the third business day before the Meeting date ("record date").
- Holders of bearer shares must be listed as the shareholder of record at midnight CEST on the third business day before the Meeting date ("record date"). Ownership of the shares will be evidenced by a certificate of ownership issued by the bank or custodial institution that keeps the shareholder's securities account, to be submitted with the postal voting form/proxy or the request for an attendance card issued in the shareholder's name. A certificate of ownership may also be issued to shareholders wishing to attend the Meeting who have not received their attendance card by midnight CEST on the third business day before the date of the Meeting.

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

Shareholders who have sent in a postal voting form or proxy or requested an attendance card via their bank or custodial institution can nevertheless sell all or some of their shares before the Meeting. In this case, the bank or custodial institution will be required to notify the Company or the Company's registrar of the transaction, including all necessary information.

However, the bank or custodial institution will not be authorized to notify the Company or the registrar of any transactions carried out after midnight CEST on the third business day preceding the Meeting and no such transactions will be taken into account by the Company, regardless of any agreement to the contrary.

Shareholders who are not resident in France, within the meaning of Article 102 of the French Civil Code, may ask their bank or custodial institution to transmit their votes in accordance with the applicable laws and regulations.

21.2.5.3. 2007 Annual Shareholders' Meeting

The Annual Shareholder's Meeting will be called on May 2, 2007 and held on second call on May 11, 2007.

For details of the financial authorizations to be put to the vote at the Meeting (extraordinary resolutions), see Section 21.1.9.

For information about the proposed renewal of the share buyback program, see Section 21.1.3.1. – Share Buyback Programs.

For information about the proposed changes in the disclosure threshold provisions of the bylaws, see Section 21.2.7.

Refer also to Section 22, which includes information about certain resolutions to be put to the vote at the Meeting.

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21.2.6. Provisions relating to a change in control of the Company

Refer to Sections 18.4., 21.2.4.2. and 21.2.7.

21.2.7. Provisions governing the ownership threshold

At December 31, 2006

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

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

Changes to the bylaws

At the Annual Shareholders' Meeting of May 11, 2007, two resolutions will be presented amending the disclosure threshold and voting provisions of the bylaws, as follows:

- Amendment of Article 10 of the bylaws, lowering the disclosure threshold for interests acquired by shareholders acting in concert, directly or indirectly, to 1% of the voting rights (versus 1.5% previously), reducing the time limit for making the disclosure to 5 days (versus 15 previously) and extending the disclosure requirements to all acquisitions of shares representing a multiple of 2% of the total voting rights outstanding.
- Amendment of Article 24.6 of the bylaws limiting the voting rights exercisable by (i) an individual shareholder or (ii) a group of shareholders acting in concert, directly or indirectly, that holds less than 50% of the voting rights, to 12% of total voting rights for shares with single voting rights or 24% for shares with double voting rights. This measure is designed to prevent a shareholder that does not hold a significant interest from exercising decisive control within the Company by voting at Shareholders' Meetings. It is considered necessary due to the limited number of shareholders who take part in the Meetings.

21.2.8. Conditions governing changes in capital

The Company's bylaws do not contain any restrictions over and above the applicable legal provisions in relation to capital increases.

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22 Material Contracts

See Section 6.4. – Dependence on patents, licenses, contracts and manufacturing processes.

Refer also to Section 18.4. – Arrangements resulting in a change in control of the Company.

23

Third Party Information, Statement by Experts and Declarations of any Interest

23.1. Expert statements and reports

Not applicable.

23.2. Information from a third party

When information has been sourced from a third party, it has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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24 Documents on Display

The documents designated in Article 135 of the decree of March 23, 1967 or copies thereof may be inspected at Company headquarters: 147, rue de Paris, 94220 Charenton-le-Pont, France.

Paper copies of the last three years' Registration Documents and Annual Reports are available on request from the Investor Relations & Financial Communications Department at the Company's headquarters. Paper copies of the 2006 Registration Document and Annual Report will be available as of the date of the Annual Shareholders' Meeting on May 11, 2007.

Essilor regularly provides its shareholders with transparent, accessible information about the Company, its activities and its financial results via a large range of resources.

Information published by the Company in the past year includes:

- Documents published in the *Bulletin des AnnoncesLégales Obligatoires* (BALO), which are available (in French only) by searching under Essilor International or the Company's SIREN (registration) number – 712049618 –at

  http://balo.journal-officiel.gouv.fr/

- Comprehensive information available on the Company's website (http://www.essilor.com), in the Shareholders/ Investors section and elsewhere:
  - Regulatory information as defined by the French securities regulator (Autorité des Marchés Financiers), available under "Regulatory information"

    (http://www.essilor.com/InvestorRelations/AMFIR).
  - AMF filings that are required to be published on the corporate website, available under "AMF Filings"

    (http://www.essilor.com/InvestorRelations/AMFFilings).
  - Analyst presentations and webcasts of certain analyst meetings, available in the Library section

    (http://www.essilor.com/InvestorRelations/Library/Slides.htm).

    Financial news releases for 2006 and 2007, with archives going back to 2003, available in the New Releasessection

    (http://www.essilor.com/InvestorRelationsNewsReleases/ Archives_2006/2006list.htm and

    http://essilor.com/InvestorRelations/NewsReleases/ 2007list.htm). Where applicable, the news releases give details of how to listen to webcasts of analyst conference calls held to provide additional information on the Company's financial news.

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- Annual Reports and Registration Documents (containing historical financial information) for the last five years, which can be downloaded from the Library section under "Annual Reports"

  (http://www.essilor.com/InvestorRelations/Library/ra.htm)

- Information about the Company's sustainable development policies and initiatives, available in the Sustainable Development section

  (http://www.essilor.com/AboutEssilor Sustainabledevelopment.htm)

- Information on General Shareholder's Meetings, including meeting notices, draft resolutions, instructions on how to attend meetings and results of voting on resolutions, available at:

  http://www.essilor.com/InvestorRelations/Shareholdermeeting.htm (forthcoming or most recent meeting)

  http://www.essilor.com/InvestorRelations/Shareholdermeeting/History.htm (meetings held in prior years).

25 Information on Holdings

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See Notes 31 to 34 to the consolidated financial statements in Section 20.3.1.5.

APPENDICES

to the 2006 Registration Document

Appendix I

Chairman's Report on Corporate Governance and Internal Control and related Auditors' Report

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In accordance with Article 117 of France's Financial Security Act (Act no. 2003-706), Article 62 III of the French Employee Stock Ownership Act (Act no. 2006-1770) and Article 621-18-3 of the French Monetary and Financial Code, and in application of Article L.225-37, paragraphs 6 and 7, of the French Commercial Code, I present below my report describing:

- The preparation and organization of the work of the Board of Directors during the year ended December 31, 2006,
- The principles and rules applied by the Board of Directors for the determination of the executive directors' compensation and benefits,
- The Company's internal control procedures, and
- Any restrictions on the powers of the Chief Executive Officer decided by the Board of Directors,

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

This report was prepared after certain procedures had been performed, in particular by the Corporate Senior Vice President, Legal Affairs. Section 2 was prepared in close collaboration with the Internal Audit department based on written consultations and discussions with the heads of the various departments involved in internal control at the corporate level. It was submitted to the Audit Committee before being presented to the Board of Directors, to enable senior management to validate the description of the Company's priorities and the work underway, and to ensure that internal control is afforded the importance it deserves within the Company. In preparing the report, we referred to the principles described in the internal control framework for listed companies recommended by the work group of the Autorité des Marchés Financiers (AMF).

1. Preparation and organization of meetings of the Board of Directors

Frequency of Board meetings

In 2006, the Board of Directors met six times. The average duration of the meetings was two-and-a-half hours and the average attendance rate was more than 90%.

Five of the meetings were held at the Company's headquarters, on the dates set in the timetable drawn up in 2005 (January 26, March 8, July 12, September 6 and November 22), and the sixth meeting took place at the Paris Stock Exchange, Palais de la Bourse, after the Annual Shareholders' Meeting on May 12.

Calls to meeting

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

Information given to directors

All necessary documents to inform the directors about the matters to be discussed at Board meetings are enclosed with the notice of meeting or sent or handed to directors reasonably in advance of the meeting.

Minutes of Board meetings

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

Committees of the Board

In 1997, based on a recommendation by the Chairman, Essilor set up three Committees of the Board – the Audit Committee, Remunerations Committee and Strategy Committee – tasked with making recommendations to the Board in their respective areas of competence. The rules governing these Committees' membership and terms of reference are set out in the internal rules adopted on November 18, 2003, which are regularly updated – most recently at the Board meeting held on January 24, 2007. Extracts from the internal rules are presented in Sections 14 and 16 of the Registration Document.

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AUDIT COMMITTEE

The Audit Committee is responsible for monitoring the process for the preparation of financial information, and for overseeing the effectiveness of the Company's internal control, internal audit and risk management processes. The Audit Committee met on September 4, 2006 to review the interim consolidated financial statements and on March 5, 2007 to review the annual consolidated financial statements. The Chief Financial Officer and the external Auditors attended both of these meetings, to present the accounts and answer the Committee's questions.

The Chairman of the Committee had lengthy discussions with the Chief Financial Officer prior to each of these meetings to review the consolidated financial statements and operating highlights in detail.

The Audit Committee also met on June 19 and December 11, 2006 to examine the following issues:

- The Committee's roles and responsibilities
- Information system risks and contingency plans
- The steps taken to ensure continuity of supplies (manufacturing strategy, supply safeguards).

At the Committee's meetings in March, June, September and December 2006, the Vice President, Internal Audit presented the 2006 internal audit program to the Committee and provided it with an update on measures taken to improve internal control, as well as outlining the results of the internal audits performed during the period. The 2007 internal audit program was presented to the Audit Committee in December 2006.

With the appointment of the Auditors due to expire in 2007, a call for bids for audit services was launched in September 2006 at the Audit Committee's request. Contacts with the various audit firms were handled by the Finance and Internal Audit departments, which presented a status report to the Audit Committee on December 11. In January 2007, the Chairman of the Audit Committee and the Chief Operating Officer interviewed representatives of the four short-listed firms. The choice of auditors to be presented to shareholders for approval at the May 2007 Annual Shareholders' Meeting was made by the Board on March 7, 2007.

The Committee's work was presented to the Board of Directors by the Chairman of the Committee, Yves Chevillotte.

The average attendance rate at Audit Committee meetings in 2006 was 88%.

REMUNERATIONS COMMITTEE

The Remunerations Committee met three times during the year – on January 16, November 16 and November 22 – to determine the executive directors' bonuses for 2006, based on the principles decided in 2005, to review their compensation packages for 2007 (salary, bonus, pensions and benefits in kind) and to examine the proposed senior management performance share plan. The average attendance rate at Remunerations Committee meetings was 77% in 2006 versus 66% the previous year.

The Chairman, Jean Burelle, presented the Committee's report to the Board of Directors at the meeting of November 22, 2006, at which the details of senior management compensation packages for 2007 were decided in accordance with Article L.225-37 Paragraph 7 of the French Commercial Code, introduced by the Employee Stock Ownership Act of December 30, 2006.

The Committee decided to recommend increasing each executive director's salary by 7.5% and incorporating their foreign travel allowance into their salary, following the abolition of the related tax benefit. The Committee also proposed that the Board should apply the same principles as in 2006 for the determination of the executive directors' bonuses, as follows:

- 100% of the target bonus if the results target is met.
- No bonus if results are 20% or more below target.
- Maximum of 150% of the target bonus, if the results target is exceeded by 20% or more.
- Proportional adjustment of the bonus if results are within the 20% corridor.
- Neutralization of the effects of changes in exchange rates for the calculation of the bonus.

The target bonuses were maintained at 70% of salary for Xavier Fontanet and 45% for Philippe Alfroid, with a higher bonus payable if they exceed their targets, up to a certain limit. They were based on a target of 2006 consolidated net profit of €316.7 million excluding acquisitions. The 2007 profit target will be set at a later date.

The Committee decided to propose that Xavier Fontanet and Philippe Alfroid should also receive further performance share grants.

TOP-HAT PENSION PLAN

Essilor International provides its senior executives with pension benefits under a group defined-benefit plan complying with Article 39 of the French General Tax Code.

The plan, which covers grade III C and "ungraded" executives, provides for the payment of additional pension benefits over and above the benefits received under the Social Security and government-sponsored ARRCO and AGIRC schemes, equal to 10% of their reference salary plus 1% of their reference salary per year of service between 10 and 20 years.

Xavier Fontanet, Chairman and Chief Executive Officer, and Philippe Alfroid, Chief Operating Officer, qualify as senior executives of the Company and are both eligible to participate in the plan.

Government-sponsored pension plans do not grant executives any benefits on the "tranche D" portion of their salary (between 8 and 16 times the Social Security contribution ceiling). A top-hat pension plan has therefore been set up for executives in these categories who retire during or after 2006, based on the "tranche D" portion of their salary. The additional benefit is equal to 1.5% of the "tranche D" portion per year of service between 10 and 20 years, capped at 5% of the reference salary as defined in the plan rules, with the total pension benefit under Essilor plans capped at 65% of the reference salary.

The top-hat pension plan for the Chairman and Chief Executive Officer and the Chief Operating Officer is a form of additional compensation governed by Article L.255-42-I of the French Commercial Code instituted by the July 25, 2005 "Breton Act", and therefore qualifies as a related party agreement subject to prior approval in accordance with Article L.225-38 of the Commercial Code.

STRATEGY COMMITTEE

The Strategy Committee met in July 2006 to perform a comprehensive strategic and competitive review of the various segments of the ophthalmic optics market (lenses, contact lenses and surgical instruments).

The Committee was also consulted about various strategic external growth opportunities in the ophthalmic optics market and related markets. A summary of the Strategy Committee's work was presented to the Board of Directors by the Committee's Chairman.

The attendance rate at Strategy Committee meetings was 100%.

Matters submitted to the Board and related decisions

In 2005, the Board reviewed for the first time the situation of each director with regard to the independence criteria established in the AFEP-MEDEF's 2003 corporate governance report. The Board determined that all of the directors were independent, except for Xavier Fontanet and Philippe Alfroid, who are both executive directors, and the directors representing employee shareholders, who are members of Valoptec. No new review was performed in 2006, as the Board decided that it would be better to wait until the second half of 2007, in light of the changes in the Board's membership that took place in late 2006 and early 2007, and the re-elections of directors to be proposed at the Annual Shareholders' Meeting in May 2007.

Following the formal self-assessment of Board procedures conducted in 2004, which found that these procedures are satisfactory and that important issues are appropriately prepared and discussed, the 2005 self-assessment focused on directors' needs in the areas of information and training.

In 2006, a new formal self-assessment exercise was carried out, based on a detailed questionnaire. The main results of the self-assessment were as follows:

- Membership of the Board: the directors considered that the Board's make-up was generally satisfactory but that it could be useful to include members with international experience and to have at least one woman on the Board.
- Information given to directors: the directors considered that they were given adequate information before and during Board meetings. However, certain directors suggested that information on complex issues could be made available a bit earlier.
- Issues discussed during Board meetings: several directors suggested that presentations should be made to the Board on various issues such as:
  - Succession plans and other human resources issues.
  - Changes in the shareholder base and the Essilor International share price.
  - Business performance by region; changes in distribution.
  - R&D strategies.
  - Impact of higher airfreight costs on the Company's organization.
- Discussions between directors during and outside of Board meetings: The directors considered that exchanges of views and experience during Board meetings and meetings of the Committees of the Board were very useful and constructive. They strongly recommended that site visits should be organized to help them gain a better understanding of the business and create additional opportunities for exchanges of views and information.
- Level of directors' commitment: The majority of directors considered that all directors continue to demonstrate a high level of commitment, particularly at the level of the Committees of the Board, and all directors considered that the Board worked well as a team.
- Matters to be considered in 2006-2007:

  Possible action to improve or strengthen the Board's practices, particularly communications:
  - Among all directors
  - Between directors and management
  - Between directors and shareholders.

Jean Burelle informed the Board of certain recommendations made by directors and the results of the self-assessment were discussed at the Board meeting of November 22, 2006. However, the directors agreed that the issue required further consideration.

At the time of the self-assessment, certain directors made a point of stating that the Board is extremely effective, thanks in no small measure to management's commitment to transparency.

The matters examined by the Board during 2006 and the decisions taken covered a wide range of areas, including:

- The Company's business performance
- Competition
- Strategic choices

- The interim and annual financial statements and financial forecasts
- The annual budget
- The Company's dividend policy
- Reports to shareholders
- Acquisitions and other strategic projects
- Internal restructuring plans
- Related party agreements to be authorized and disclosed
- The new Essilor of America structured finance facility
- The amount of guarantees given by the Company, including in relation to the Essilor of America structured finance facility
- Employee share issues and matching payments by the Company
- Performance share and stock option grants
- The share buyback program
- The appointment of new directors to replace directors who had resigned
- Senior management compensation
- Allocation of directors' fees
- Corporate governance issues, including transactions in the Company's shares by directors and officers
- Employee-related issues
- Press articles and financial analysts' research reports
- Delegations of authority to be given to the Chairman and Chief Executive Officer and the Chief Operating Officer
- Presentations and reports by the Audit Committee and the Remunerations Committee
- The new employee stock ownership plan in the United Kingdom
- The dates of Board meetings and the Annual General Meeting in 2007
- Possible takeover defenses to be put in place following the enactment of the Act of March 31, 2006 transposing the European Takeover Bids Directive (directive no. 2004/25/EC dated April 21, 2004) into French law.

Additional information on corporate governance and the Board of Directors' internal rules is presented in Sections 14, 15 and 16 of the Registration Document.

2. Report on Essilor International S.A. internal control procedures

2.1. Internal control objectives

Internal control is a process designed to provide reasonable assurance regarding the achievement of the following objectives:

- Compliance with the applicable laws and regulations.
- Application of senior management strategies and guidelines.
- Efficient operation of internal processes, particularly those contributing to the protection of assets.
- Reliable financial information.

More generally, internal control contributes to the disciplined management of the business, the effectiveness and efficiency of operations and the efficient use of resources. Our internal control system is geared to the Company's situation. The parent company ensures that adequate systems of internal control exist within the subsidiaries. These systems are developed based on each subsidiary's individual characteristics and on relations between the parent company and the subsidiaries.

In practice, the purpose of internal control is to ensure that:

- All acts of management, all transactions, and the behavior of all Company employees, comply with the general strategic guidelines established by the Board of Directors, the applicable laws and regulations, and the Company's corporate values, standards and internal rules.
- All accounting, financial, legal and management information reported to the Board of Directors, the regulatory authorities, shareholders or the public gives a true and fair view of the Company's business and financial position.
- The Company's internal policies and procedures provide reasonable assurance that the business is managed efficiently and effectively.

One of the objectives of internal control is to prevent and manage business, financial and legal risks, including the risk of errors and fraud, to which the Company and its subsidiaries are exposed in France and abroad. However, no system of controls can provide an absolute guarantee that all such risks have been completely eliminated or entirely brought under control. This is because the probability of meeting these objectives depends on a number of factors such as the uncertain external environment, the exercise of judgment or malfunctions due to human error or straightforward mistakes.

Additional information on risks is provided in Section 4 of the Reference Document.

At Essilor, the system of internal control is underpinned by a culture of integrity and openness, as well as by our core values of trust, co-destiny, responsiveness, teamwork and consistent encouragement of ethical behavior.

The charter of Valoptec, an association made up of active and retired employees of Essilor, states that the association's purpose is to "promote the adoption by group companies of sound business practices and human resources management policies." The charter upholds the values of respect and trust among individuals. Although employees are not asked to sign the charter, its principles permeate the Essilor corporate culture. The members of Valoptec and other employee shareholders together hold 14.49% of the Company's voting rights.

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

2.2. Internal control principles

Our system of internal control is rooted in:

- Clear definitions of responsibilities, backed by the necessary resources and skills, appropriate information systems, procedures and processes, tools and practices.
- Internal communication of all the information needed to enable each individual to fulfill his or her responsibilities.
- The identification and analysis of the main risks that could prevent the Company from fulfilling its objectives, and the implementation of procedures to manage these risks.
- Control procedures that are proportionate to the risks associated with each process and are designed to provide assurance that measures are taken to limit and, to the extent possible, manage the risks that could prevent the Company from fulfilling its objectives.
- Supervision of the internal control process and regular reviews of its effectiveness.

The Board of Directors and senior management consider that an effective system of internal control is of critical importance and this is borne out by the Audit Committee's attention to internal control issues and the wide range of matters examined by multidisciplinary teams. Senior management defines the general principles of internal control and ensures that they are fully implemented within the Company. Support is provided by the various staff and line executives who are members of the Executive Committee, based on their respective areas of competence and according to an organization structure by country, by region and by technical area. The Chief Financial Officer and the Corporate Senior Vice President, Legal Affairs, who have front-line responsibility for internal control, are members of the Executive Committee.

2.3. Overall organization of internal control

Internal control is a process that ensures that the standards and procedures defined at corporate level are consistent with the strategies followed by senior management.

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

INTERNAL AUDIT

The Vice President, Internal Audit reports to the Chairman and Chief Executive Officer, ensuring the independence and objectivity necessary to his task. He has no authority over, or responsibility for, the audited operations. The department is organized on a decentralized basis, with teams based at Company headquarters (responsible for auditing corporate units and operations in Europe and South America), in the United States (covering North America) and in Singapore (covering the Asia-Pacific region).

The main role of the internal auditors is to ensure that internal control procedures are properly applied throughout the organization, by checking that practices comply with internal rules and procedures, verifying the reliability of accounting information and reviewing the efficiency of internal processes.

Internal audits are planned on the basis of identified process risks, according to a cycle covering all subsidiaries, with special audits added to the program at the request of Company senior management or a regional President. Certain audits are carried out by multidisciplinary teams comprising internal auditors, tax and legal specialists. The annual audit program is approved by Company senior management and the Audit Committee.

Internal audits are carried out according to the same methodology in all host countries. At the end of each audit, a report is issued setting out the internal auditors' findings and recommendations for improvement. The audited units are responsible for implementing the recommendations. The internal auditors ensure that their recommendations are acted upon, by reviewing implementation of the action plans decided jointly with the management of the audited units.

A copy of their report is given to the management of the audited unit, the regional President, Company senior management and the Chief Financial Officer, as well as to the heads of the operating and corporate units concerned. Each year, a summary of the internal auditors' findings and recommendations is presented to the Chairman and Chief Executive Officer and the Audit Committee.

The responsibilities, powers and objectives of the internal audit team are set out in an internal audit charter, which describes the rules of professional conduct that internal auditors have to follow, as well as the methodology to be used when auditing a unit. According to the charter, the Internal Audit department can audit any of the Company's activities, corporate functions or legal entities.

The Internal Audit department is also overseeing an internal control self-assessment process that began in 2004 in various Company units.

CONSOLIDATION

The Consolidation department is responsible for defining consolidation rules and methods complying with the applicable standards, to be applied throughout the Company, and preparing quarterly and annual consolidated income statements and balance sheets in accordance with the Company's general policies. It also leads and coordinates the financial reporting activities of the consolidated companies.

It produces the consolidated financial statements based on the accounts of the various subsidiaries, as adjusted to comply with Essilor accounting policies, and analyzes quarterly accounting data for each legal entity included in the scope of consolidation. Regular reconciliations of statutory and management reporting data help to guarantee the consistency of financial information and also to swiftly identify and resolve any errors or inconsistencies.

The Consolidation department informs all consolidated companies on a timely basis of new and amended rules affecting the preparation of the financial statements.

ACCOUNTING CONTROL

Each Group unit has its own management accounting team responsible for analyzing the unit's performance, with guidance from the regional or divisional management accounting department. Corporate Accounting Control performs consistency tests on management reporting data, to check the overall reliability of the information. It also oversees a network of management accountants, provides decision-making guidance and monitors the monthly management results of each entity or business unit. Corporate Accounting Control produces the monthly consolidated management accounts and the consolidated budget, performs monthly variance analyses and checks the consistency of transfer prices. The accounting controllers report to both line and staff management.

SUSTAINABLE DEVELOPMENT

This cross-functional department is responsible for anticipating and influencing foreseeable changes in the business, and analyzing the economic, human and environmental consequences, to enable the Company, its stakeholders and the community to benefit from the opportunities that arise and to warn management of possible risks. The department is also responsible for producing the Company's non-financial disclosures.

WORKPLACE HEALTH AND SAFETY

Reporting to Human Resources, this department is responsible for setting up an appropriate organization structure to implement and improve Company-wide policies to ensure the safety of people and goods, prevent risks and achieve high standards of workplace health and safety, as well as high environmental standards.

LEGAL AFFAIRS

The Legal Affairs department offers advice and assistance to all departments of the Company and its subsidiaries in preventing claims and litigation. It is responsible for negotiating and drafting contracts and other legal documents relating in particular to business acquisitions, as well as for ensuring that the Company's intellectual property is protected. It also plays a key role in legal and regulatory compliance programs. The department advises the Company and the Board of Directors on best practices in the area of corporate governance, ensures that senior executives are aware of potential liability risks and proposes legal solutions that contribute to strengthening the control environment. It provides answers to all legal questions raised by the various departments of the Company in an international legal and regulatory environment that is increasingly complex and burdensome. It ensures that the Company fulfills its contractual obligations, with the help of a contracts database that is constantly updated. It keeps an up-to-date list of claims and litigation and posts information memoranda on its intranet site announcing changes in legislation and legal practice. Lastly, to help enhance the reliability and quality of legal and financial information on the many subsidiaries, the department is currently integrating new web-enabled application to manage and update this information. The insurance department, which is part of Legal Affairs, implements a policy that combines prevention, in the form of regular site visits and audits, with protection, in the form of international insurance programs.

QUALITY

This department is responsible for establishing and upgrading a quality system designed to continuously enhance customer satisfaction. It is organized on a decentralized basis for maximum responsiveness and aims to constantly:

- Increase product quality
- Improve service quality
- Guarantee that products are available when they are needed by the customer
- Optimize costs

STRATEGIC PLANNING AND ACQUISITIONS

Reporting to the Chief Financial Officer, the Strategic Planning and Acquisitions department defines the Company's external growth strategies and coordinates the strategic growth initiatives undertaken by subsidiaries. It also analyzes, monitors and validates the financial aspects of proposed business acquisitions, and approves the financial terms of proposed acquisitions and divestments. No entity can decide to acquire or sell another company, or part of a company, without prior authorization. All acquisition projects must be submitted to the Board of Directors for approval.

CORPORATE TREASURY

This department manages all significant financing requirements for all of the subsidiaries. Essilor companies may not take out a loan or borrow from local banks without prior approval from Corporate Treasury. The department manages the Company's cash position, as well as its currency and interest rate hedging programs, financing and liquidity programs, and banking relations. It also provides advice and assistance to subsidiaries on all matters related to cash management and interest rate and currency risks. It works alongside the Consolidation department to monitor compliance with the procedures related to the application of the IFRSs dealing with currency and interest rate hedging.

2.4. Internal control standards and procedures

a) The Administration and Finance Manual (MAF) sets out the mandatory policies and procedures to be followed by all Essilor units and departments in such areas as purchasing, communication, finance, legal affairs, operations, R&D and human resources.

The procedures are organized by process, including fixed assets, inventories, sales/receivables, treasury, purchasing, on and off-balance sheet commitments, tax, R&D and start-up costs, production accounting, fraud prevention, insurance, human resources, legal affairs, consolidation and acquisitions of companies, assets and businesses. Available for on-line consultation on the Company's intranet, in French and English, the Finance Manual provides essential guidelines for the preparation of the accounts and to maintain an appropriate control environment at all units. It is regularly updated to take into account changes in regulations and the Company's needs, as well as to incorporate new international standards applicable to the Company.

The manual includes a section devoted to the Company's principles of ethical business practice, focusing on four main areas: human rights, working conditions, the environment and the fight against corruption. The finance director of each entity or business unit is responsible for ensuring that these rules and procedures are fully and properly applied.

b) The quality and reliability of financial information is guaranteed by the use of an integrated management and statutory reporting system, Figures. Local accounting data are entered in the system either directly or via an interface, according to a detailed reporting timetable issued by Corporate Finance at the beginning of each year. Consolidation procedures guarantee the consistency of financial information. The Figures manual includes a glossary describing the information to be entered for each module in accordance with Company rules (income statement, balance sheet, notes, treasury, inventory, capital expenditure) and defining accounting flows and business segments.

The glossary and all reporting instructions are available for consultation on the Company's intranet. They are updated each time a change is made and when new standards are adopted.

Local and corporate finance managers are responsible for ensuring that the data reported in Figures comply with Company accounting policies and procedures. The use of Figures guarantees consistent accounting treatment of transactions and enables us to exercise close control over the preparation of the accounts of the various units.

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

d) Essilor International is included in two sustainable development indices, ASPI and FTSE4Good.

e) Essilor supports the Global Compact initiative and is committed to embracing and enacting its ten universal principles within its sphere of influence. The Company regularly reports its achievements and progress to the Global Compact Office at UN Headquarters in New York.

f) All fifteen Essilor plants (excluding Nikon-Essilor) have ISO 9001-certified quality management systems and ISO 14001-certified environmental management systems. Twelve of these plants (80%) also have OHSAS 18001 and ISO 9001-certified occupational health and safety management systems.

2.5. Description of internal control systems

Internal controls are based on an organization structure and specific methodologies. They concern all Essilor entities and are monitored by the individuals or structures responsible for control activities, in accordance with Company standards and procedures, enabling the Company to classify the various strategic risks and opportunities in order to set priorities.

A five-year business plan is prepared each year. As part of the process, an overall risk management strategy is developed based on analyses performed by each department of the specific risks associated with its activities. Essilor is capable of reacting swiftly to any change of circumstances or any incident that could severely affect the Company's ability to fulfill its objectives, by adjusting the overall strategy or the strategy followed in a given area. At local level, identifying risks is the responsibility of the regional Presidents and the management of the subsidiaries. All information about risks and related protection is reported to the members of the Executive Committee.

We have some 200 legal entities, the majority of which are direct subsidiaries of Essilor International. Levels of authority and accountability are clearly defined for each management level, with very strong cross-functional relations. Certain Corporate functions, such as Purchasing, Internal Audit, Accounting Control, Legal Affairs and Human Resources, have a dual reporting relationship, with local management and with the Corporate Senior Vice President who heads the department concerned. On the operations side, each plant manager reports to the regional Production Director who in turn reports to the Corporate Senior Vice President, Operations. On the sales side, the manager of each subsidiary reports to the regional President.

As from 2006, the internal audit team in North America reports to the Corporate Vice President, Internal Audit.

The various reporting packages and the various monthly or quarterly external controls enable us to monitor and control the activities of subsidiaries in the areas of finance, sales, workplace accidents, occupational health and safety audits, APAVE inspections, ISO certification, sustainable development, logistics (monthly reporting), insurance claims, other claims, etc.

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

As explained above, each operating division draws up its own five-year business plan setting strategic objectives based on the overall strategy decided by the Company's senior management. The business plan submitted to senior management reflects these strategic objectives and the related action plans. The key points of the business plan are presented to the Strategy Committee.

The budgeting process begins in July, with significant input from the regional units, which provide analyses of transaction volumes between the central marketing unit, the logistics unit and the regions. Each entity's budget is prepared on the basis of objectives and guidelines issued by the regional or operating division, and of the entity's own strategy for the coming year.

The budgets are presented to the Company's senior management at budget review meetings held at the end of the year. The consolidated budget is produced at the end of November and the final budget is issued in December.

The annual budget is updated in August of the budget year and again in November, when the following year's budget is prepared.

The process, which concerns all Essilor units, is led and monitored by Corporate Accounting Control, in order to ensure that all budgets are prepared on the same basis and are consistent with the Company's overall strategic objectives.

Actual performance is analyzed on a monthly basis via the Figures reporting system, which is used not only for management reporting but also for the statutory consolidation. All units are managed by the system, including entities that are not consolidated, to maintain strict control over accounting and financial information.

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

The aims of consolidation procedures are to:

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

Specific instructions are issued to reporting entities before each consolidation exercise, including a detailed reporting timetable.

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

The budgeting process and consolidation procedures enable us to constantly monitor the performance of the various units and to swiftly identify any variances from budget in order to take immediate corrective action.

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

Lastly, the external Auditors are responsible for expressing an opinion as to whether the financial statements have been properly prepared and give a true and fair view of the assets and liabilities, financial position and results of operations of Essilor, in accordance with generally accepted accounting principles. The accounts of all consolidated and non-consolidated entities are audited by local auditors, most of whom are members of the networks of the accounting firms that audit the Company's consolidated accounts.

2.7. Internal audits carried out in 2006 and future developments

Essilor has launched a phased project to assess the level of compliance of its internal procedures. Overseen by the Internal Audit department, the project began at the end of 2003 with a review of the control environment and was pursued in 2004 with the introduction of a self-assessment process at certain entities. The project continued in 2005, with the definition of new processes.

The various stages of the project include:

- Identifying critical processes within the organization
- Analyzing the risks associated with these processes
- Identifying the controls required to manage these risks
- Testing the controls (internal auditors)
- Identifying control points that need to be improved and determining the necessary corrective measures

The six processes defined in 2004 and 2005 (purchases, sales, inventories, fixed assets, reporting) were re-assessed in 2006. The six self-assessment questionnaires describing some 500 control points were distributed to all consolidated subsidiaries via an intranet-based Web tool, which allows respondents to answer each question, attach any necessary documentation corresponding to each control point and describe action plans for those controls that require improvement.

The internal auditors checked the reliability of the answers and the quality of the action plans of a certain number of selected units.

An executive summary by subsidiary was sent to each subsidiary concerned and a Company-level executive summary was presented to the Chairman and Chief Executive Officer and to the Audit Committee.

In 2006, the internal auditors paid particular attention to ensuring that action plans had been implemented to address any weaknesses revealed by the self-assessment exercise. The results will be presented to the Audit Committee and the Chairman and Chief Executive Officer in 2007. A new process (business combinations) has been defined and will be assessed in 2007, increasing the number of control points analyzed to over 500.

This approach, which forms part of a process of continuous improvement, helps us to guarantee the quality and reliability of financial information by strengthening procedures applied throughout the organization on a consistent basis.

All the identified processes will be analyzed in the coming years, ultimately allowing us to report conclusively on the quality of internal control.

3. Powers of the Chief Executive Officer

At its meeting on May 14, 2004, the Board of Directors decided not to separate the functions of Chairman and Chief Executive Officer and not to place any restrictions on the Chairman and Chief Executive Officer's executive powers. The Chairman and Chief Executive Officer is assisted by a Chief Operating Officer.

Charenton, March 7, 2007

Xavier Fontanet

Auditors' Report on the Chairman's Special Report

prepared in accordance with Article L.225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Directors of Essilor International on the internal control procedures relating to the preparation and processing of financial and accounting information.

Year ended December 31, 2006

Free translation of the original French language report.

To the shareholders,

In our capacity as statutory auditors of Essilor International, and as required by Article L.225-235 of the French Commercial Code, we report to you on the report prepared by the Chairman of the Company in accordance with Article L.225-37 of the Commercial Code for the year ended December 31, 2006.

It is the responsibility of the Chairman to give an account, in his report, notably of the conditions in which the activities of the Board of Directors are prepared and organized and of the internal control procedures in place within the Company. It is our responsibility to report our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- Obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report.
- Obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report prepared in accordance with Article L.225-37 of the Commercial Code.

Paris and Neuilly-sur-Seine – March 15, 2007
The Statutory Auditors

Cabinet Dauge et Associés	PricewaterhouseCoopers Audit
Gérard Dauge	Jacques Denizeau

Appendix II

Social and Environmental Policy (Disclosures Made in Application of France's "NRE" Act)

For maximum consistency with the Company's social data report (*bilan social*), the information on social and environmental policy given below in accordance with France's NRE Act mainly concerns Essilor International, the parent company, Information on companies outside France that are included in the scope of consolidation was disclosed in the Company's 2005 Annual Report. For 2006, this information is provided in "Seeing the World Better /2006/Our Contribution to Sustainable Development", representing our second Sustainable Development report which, exceptionally, is presented separately from the Annual Report.

Social Policy

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

1) a) Employees

Number of employees of the parent company: 3,169 permanent employees **+ 157** employees under fixed-term contracts **= 3,326** (total France) + **218** (Essilor Industries) = **3,544.**

Out of the **157** people hired under fixed-term contracts at December 31, 2006, **125 (80%)** were students taken on under work-study schemes with qualifications ranging from vocational diplomas to post-graduate degrees.

Number of new hires: 159 permanent employees + **124** employees under fixed-term contracts = **283.**

Terminations: No lay-off plans involving more than 9 employees were implemented in France in 2006. **Sixteen** employees were terminated for other reasons (poor performance, medical unfitness or misconduct) and **4** due to the elimination of their jobs.

Overtime: In 2006, employees in France worked a total of **8,752** hours overtime.

Temporary staff and use of subcontractors: In France, temporary employees represented the equivalent of **284** full-time employees in 2006, calculated on a monthly average basis. 56% of these employees replaced permanent employees on leave of absence and 44% were taken on to cope with surges in the order flow. **One** temporary employee was subsequently hired under a fixed-term contract and **36** under permanent contracts.

In addition, **331** employees of subcontractors worked for the Company in 2006. They included **107** facilities maintenance employees, **86** IT engineers, **44** security guards, **17** company restaurant staff, **1** security officer **and 76** persons performing other functions.

1) b) Information about lay-off plans and measures to protect jobs, transfer employees to other positions, take back staff previously laid off and support employees who are being terminated

Not applicable. No lay-off plans involving more than 9 employees were carried out in France in 2006.

2)

Organization of working hours

Working hours at Essilor are defined in the "35-hour week" agreement of March 30, 2000, which came into effect on September 1, 2000.

Working hours

The **1,344** monthly-paid employees work a 36-hour week, the **804** shift-workers work a 33 1/2-hour week and the **228** hourly-paid employees work a 38 1/2-hour week (in all cases not including rest periods). Employees in all three categories are also entitled to **6** "RTT" days off per year and their average working week, determined on an annual basis, is therefore 35 hours, 32 1/2 hours and 37 1/2 hours respectively. The **805** employees whose working time is determined on the basis of days rather than hours work **217** days per year and are entitled to between 9 and 13 "RTT" days off, depending on the year. Senior executives and sales representatives – representing **145** people in total – are not covered by working hours legislation but are entitled to **10** days off per year in addition to their paid vacation. **315** employees work part time, including **109** employees on a progressive retirement scheme.

Absenteeism

In 2006, the absenteeism rate was **5.8%.** The causes, in declining order of importance, were sick-leave of less than 6 months (**72.4%**); maternity leave (**14.1.%**), authorized leaves of absence (**6.4%**), leaves of absence for personal reasons (**3.5%**) workplace accidents (**2.4%**), accidents on the way to or from work (**1.1%**), and absences for non-work-related obligations (**0.1%**).

3)

Compensation

The total payroll in 2006 amounted to **€134,445 thousand**.

Payroll taxes (other than on discretionary profit-sharing): **€65,249 thousand.**

Compensation increases: Average compensation increases – all employee categories combined – stood at **4.8%** in 2005 and 2006.

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

Gender equality: Each year, a report on gender equality is prepared by each facility and submitted to the facility's works council at the same time as the social data report (*bilan social*). In 2006, a set of indicators comparing the situations of men and women was presented to employee representatives.

4)

Labor relations

In France, the following five trade unions are represented at Essilor: **CFDT, CFE-CGC, CFTC, CGT** and **CGT-FO.**

Corporate agreements: The following corporate agreements were signed in 2006:

- **Addendum to the discretionary profit-sharing agreement**
- **Agreement on the employment of people with disabilities**

  This agreement follows on from the charter for the prevention of all forms of unlawful discrimination within the Company, part of which refers specifically to people with a disability and to Essilor's commitment to "implementing effective and practical measures to promote employment of the disabled". Its purpose is to develop an assertive process to encourage hiring of the handicapped. The agreement was preceded by an in-depth diagnostic review conducted jointly with Agefiph (the French association responsible for managing the fund to promote employment of the disabled), and by the creation of cross-functional working groups made up of line managers, workplace health professionals and trade union representatives. Led by the Disability Project Leader appointed by the Company, the working groups expanded and refined the results of the diagnostic review and prepared the content of the agreement, which falls within the scope of France's People With Disabilities Act.

- **Agreement on the development and enhancement of the third phase in employees' careers**

  Subtitled "Essiboomers, being 50 and over at Essilor", the agreement identifies the specific and individual measures available to support career management for the over-50s. It introduces mentoring and counseling programs, as well as the principle of helping managers to prepare for retirement by shifting to part-time working. It also includes a series of health and working conditions measures. Lastly, the agreement represents an opportunity to remind all managers that age should never be a factor of discrimination in annual performance reviews, in selecting team members for training or in determining pay rises.

- **Addendum to the corporate agreement on health, death and disability insurance**

  The purpose of this addendum is to align the December 10, 1981 agreements with the latest legal and regulatory texts, and to improve coverage in two areas.

- **Agreement for the reduction of the terms of office of employee representatives**

  Under this agreement, the terms of office of employee representatives and Works Council representatives have been maintained at 2 years.

- **Addendum to the end-of-career management agreement**

  This addendum to the end-of-career management agreement of June 1, 2004 extends the benefit of the agreement to employees born in 1949 and the benefit of the Fillon Pension Reform Act to employees born in 1951.

- **Agreement on the definition of units qualifying for a local works council, electoral colleges and membership of the Central Works Council**

  The purpose of this agreement was to change the number of units and the allocation of seats on the Central Works Council among the various electoral colleges.

Development of job mobility

The "Internal Mobility Principles and Applications" document was distributed as planned in early 2006. Subtitled "Developing internal mobility to support the success of Essilor and its employees", the document presents Essilor's job mobility principles (career planning, publication of vacancies, confidentiality and fairness,

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short-listing of job applicants based on order of priority), the means of promoting internal mobility (identifying needs, managing the skills base, internal hiring procedures, broad communication of opportunities, procedures for processing internal applications), and the practical measures to implement the policy (formal expression of employees' mobility wishes, earmarking of positions reflecting these wishes, adaptation period and procedures to process unsolicited applications).

Workplace health and safety

Two of our three production facilities are already OHSAS 18001-certified and in 2006, we continued to implement the workplace health and safety management system at the remaining facility, with the aim of obtaining OHSAS 18001 certification in 2007. (For information about the other OHSAS 18001-certified facilities, see the section entitled Environmental Policy – 9. Objectives set for foreign subsidiaries.)

5)

Workplace accidents

In 2006, **32** lost-time accidents and **27** accidents without lost time were reported involving Essilor employees in France, together with **8** lost-time accidents and **10** accidents without lost time involving temporary staff.

Occupational illnesses

13 cases of occupational illness were reported in France in 2006. Twelve cases were "Table 57" illnesses (joint disorders caused by certain working gestures or positions) and the other was a "Table 65" illness (eczema caused by allergies).

6) Training

In 2006, the training budget for all French units represented **4.7%** of the total payroll, up from the **4%** rate observed in recent years. The significant increase in 2006 attests to our commitment to arming our Company for success by offering employees opportunities to move up the career ladder and equipping them to meet the new challenges facing our business.

Our general training policy focuses on providing both group and individual training sessions to increase employees' skill sets and their employability, in order to support the implementation of our strategy. The programs cover:

a. Specific job-related skills, such as techniques and technology, as well as language and computer skills

b. Shared methodologies, such as project management and experience pooling

c. Innovation and sustainable development

d. Management and communication skills, an indispensable component of Essilor's matrix-based structure

e. Cross-functional knowledge of Essilor's fields of expertise

Change management is another key training topic and encompasses managing change from both an individual perspective, in the case of job mobility for example, and on a group level, such as adapting to new technology and organization methods.

2,280 employees in France (**68.8%** of the total) participated in at least one training session during the year. Nearly **66,000** hours of training were organized. The various units were assisted in better anticipating their training needs and developing more effective training plans based on their business strategy and skills needs. This led to an exceptionally productive year on the training front. The sharp rise in training hours compared with prior years reflected major initiatives in the areas of technology, marketing and services, to support product launches, as well as in communication and management skills training. Considerable emphasis was also placed on workplace safety and the prevention of accidents, particularly at the production facilities, with an especially large number of employees receiving training in this area during the year.

Lastly, **32** requests for personal training plans were received, mainly from employees in the production area, under France's "Droit Individuel à la Formation" legislation which gives employees the right to sign up for a certain number of hours' training each year in an area of their choice, subject to their employer's agreement.

In 2006, our training programs focused on six main areas: Communication/Management Skills (**18%** of training hours, **14%** of trainees), Administration/Sales/Management (**17%** of training hours, **16%** of trainees), Essilor Technologies and Techniques (**16%** of training hours, **14%** of trainees), Environmental Protection/Quality/Workplace Health and Safety (**13%** of training hours, **30%** of trainees), Language Skills (**12%** of training hours, **11%** of trainees) and Information Technology and Office Systems (**10%** of training hours, **11%** of trainees).

44 employees attended work-study courses and obtained qualifications (over **12%** of training hours).

22 skills assessments were finalized during the year.

As well as training our permanent employees, we also employed **184** people under work-study programs, including **172** apprentices. **81** new contracts were signed in 2006, including **30** continuing education contracts. These figures attest to our commitment over more than fifteen years to helping students to gain work experience.

In 2006, we also took action to improve the quality of training given to apprentices, in line with the commitment given at the end of 2005 with the signature of our apprenticeship charter by Essilor's Chairman and Chief Executive Officer.

7) Disabled workers

The French Act on equal rights and opportunities for people with a disability has led to a significant change in the method of counting disabled employees and determining the percentage of disabled employees in the workforce. Under the new legislation, only disabled employees who have worked for the Company for at least six months are taken into account. We present below data calculated by the new method and, in parentheses, by the former method.

In 2006, we employed **107** disabled workers in France (former method: 124 in 2006 vs. 130 in 2005), including **80** administrative and production employees (former method: 94 in 2006 vs. 100 in 2005) and **27** managers and supervisors (former method: 30 in 2006 vs. 30 in 2005), of which **7** are management grade (former method: 7 in 2006 vs. 6 in 2005).

8) Welfare programs

In France in 2006, we paid **€5,118,500** to employee benefit plans (health insurance, death/disability insurance) and **€2,559,029** to supplementary pension plans.

The Company's statutory contribution to employee commuting costs amounted to **€2,214,063** and the cost of meal vouchers issued to employees was **€1,082,598**.

The total budget awarded to the various Works Councils to finance employee leisure activities was **€1,357,508**, representing 1.15% of the total payroll in France, and a further **€236,745** were paid to cover the Works Councils' administrative costs.

Match-funding payments to the Vacation Vouchers plan covering **748** employees amounted to **€528,653**.

The 0.45% government housing levy came to **€501,435**.

The cost of employee medical check-ups was **€285,039**.

We also supply optical equipment to employees, according to specific rules, and pay the cost of long-service awards and optical industry long-service awards, adding a further bonus determined according to a set scale. Lastly, the Company pays days off granted to fathers or mothers to take care of a sick child, according to specific rules.

9) Impact on regional employment and development, use of subcontractors, compliance by subsidiaries with the fundamental conventions of the International Labor Organization (ILO)

In early 2003, Essilor pledged support for the Global Compact initiative, which was launched by the United Nations with the aim of enabling all communities to reap the benefits of globalization and uniting global markets around the key values and practices necessary to meet the world's socio-economic needs.

As part of the initiative, the UN Secretary General asked private sector companies and their directors to embrace, support and enact ten universal principles relating to human rights, labor, the environment and anti-corruption. These principles were derived from four different texts: the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention Against Corruption.

Although the fundamental conventions of the International Labor Organization (ILO) have not all been ratified in all of our host countries, we promote compliance with these principles through our international coordination of human resources at the highest level (Executive Committee) and our regional and business-level management structure. We also monitor the Global Reporting Initiative (GRI) indicators HR4, HR5, HR6 and HR7, which correspond to the four fundamental ILO conventions that inspired four of the ten Global Compact principles.

We participate in the development of the regions where our facilities and laboratories are located, enhancing the skills and quality of life of the men and women employed by the Company and those of their families. More generally, we also contribute to the advancement of the people working and living in our host communities through local sourcing of part of our product and service needs.

Lastly, all production facilities manage human resources information according to the same structure as the social data report (*bilan social*) in France.

In 2006, payments to sub-contractors represented **12.5%** of purchases.

Essilor European Dialogue and Information Committee

Our European Dialogue and Information Committee (EEDIC) comprises 18 representatives from the European Union countries where the Company conducts direct operations. In 2006, the EEDIC's annual plenary session was held at the Essilor subsidiary's site in Freiburg, Germany. Senior management presented the Company's 2005 results and its 2006 outlook. Human Resources reported on topics discussed regularly with EEDIC members, including the development of training and employee stock ownership in Essilor's European subsidiaries. The potential benefits of drawing up a Company-wide code of ethics were also discussed. The EEDIC's executive committee, composed of five members representing the five major European regions, held three meetings during the year, including one in Belgium where a separate meeting was held with the local subsidiary's employee representatives to review the Company's organization in Benelux. The executive committee also launched a review of the EEDIC's communication tools and decided to create an intranet site providing on-line access to information about the EEDIC's activities.

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Responsible shareholders and employee share ownership

Represented and managed independently and autonomously throughout the world by Valoptec, a French non-profit association, Essilor's strong network of active employee shareholders provides the Company with major leverage to achieve sustainable performance, strategic alignment and operating excellence.

We actively encourage employee share ownership, proposing various options to employees according to the country in which they work.

More than **6,000** employees worldwide currently hold Essilor shares.

Environmental Policy

Essilor is committed to participating in sustainable development initiatives by helping to protect the environment and promoting recyclable products, and to complying fully with all applicable environmental regulations in all host countries throughout the world.

By its very nature, our business has only a limited impact on the environment. Nevertheless, a voluntary process has long been in place to accurately determine the environmental impact, however slight, of our activities. We manage around a quarter of a million product references and our products must be kept dust-free throughout the production process. By keeping premises clean and orderly, our environmental management systems contribute significantly to plant efficiency.

We do not operate any "Seveso sites" governed by Article 225-102-2 of the French Commercial Code.

1) Consumption of natural resources, waste, discharges and disamenities

Water: 382,549 cubic meters (2005: 388,028 cubic meters).

Water consumption data for 2006 includes our administrative offices in the Paris area, which account for 4.3% of total consumption. Excluding these offices, water consumption fell by 5.6% despite sustained business levels during the year.

Raw materials

The main raw materials used by Essilor in France in 2006 were 1.5-index monomers (**740** metric tons vs. 801 in 2005) and polycarbonate pellets (**470** metric tons vs. 600 in 2005). The declines were due to lower production volumes, mainly of Airwear lenses for which output was increased significantly in 2005 to meet strong demand.

Energy: 102.0 GWh (Electricity: **73.7** GWh, Gas: **27.9** GWh, Fuel oil: **0.4** GWh) (2005: 86.4 GWh).

Energy consumption data for 2006 includes our administrative offices in the Paris area, which account for 9.6% of total consumption. Excluding these offices, energy consumption rose by 6.7%, in line with business growth.

Selective waste disposal

All of our facilities in France have selective waste disposal systems, in addition to compulsory systems to separate ordinary industrial waste from potentially harmful waste.

Waste water treatment

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

Toxic matter retention

All chemicals are stored in a manner to prevent polluting products from leaking into the soil or the aquatic environment in case of an accident.

Noise

No complaints concerning noise were received in France in 2006.

Odors

No complaints concerning odors were received in France in 2006.

2) Biological balance, natural environment, and protected species

Our environmental management systems include measures to avoid upsetting the biological balance, or harming the natural environment or protected animal and plant species.

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3) Certifications

The three plants in France have ISO 14001-certified environmental management systems (See other ISO 14001 certifications below, under 9 - Objectives set for foreign subsidiaries).

4) Compliance

Our certified environmental management systems include measures to guarantee compliance with all applicable environmental laws and regulations.

5) Environmental expenditure

Expenditure made in 2006 to prevent any damage to the environment totaled €**1,666,800** (2005: €1,852,000).

6) Environmental organization and management systems:

The **Corporate Health, Safety and Environment department** provides assistance to the network of local correspondents by telephone, fax and via its intranet site. The department is staffed with experts in the environment, health, safety and ergonomics. With English as its working language, it provides support, assistance and coordination services to all Essilor entities on these issues.

In line with our decentralized management policy, which focuses on empowering local front-line managers, the individual entities have their own health, safety and environment experts. In 2006, these experts came together at the international Health, Safety and Environment forum to develop a medium-term plan for the period to 2012 setting out proposals and action plans in these areas.

One of the first initiatives under the plan has been the creation of a work group to examine the European regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and establish any necessary procedures to effectively monitor compliance with this regulation.

Annual target-based action plans are drawn up to help prevent and reduce environmental risks. Lastly, despite the very low risk, each site has set up a structure to deal with pollution incidents that could have consequences – however small – on the environment beyond the site perimeter.

The ISO 14001 program provides for the introduction of an environmental policy at each site. One of the recurring aims of this policy is to improve internal communication and education on environmental issues.

7) Provisions and guarantees

We were not required to record any provisions for environmental risks in 2006. These risks are self-insured.

8) Indemnities

We have not been required to pay any court-ordered indemnities for environmental damage and are not required to conduct any rehabilitation work.

9) Objectives set for foreign subsidiaries

The main objective for foreign subsidiaries is to comply fully with the applicable regulations.

Following our program to set up environmental management systems at our 15 upstream production facilities worldwide (excluding Nikon-Essilor), all of these plants – Brazil (**1**), China (**1**), the United States (**2**), France (**3**), India (**1**), Ireland (**2**), Mexico (**1**), the Philippines (**2**), Thailand (**1**) and Puerto Rico (**1**) – were ISO 14001-certified as of December 31, 2005 and 2006. None of these certifications came up for renewal in 2006 and therefore, no pre-renewal audits were carried out. With the environmental management systems at all of our 15 plants now certified, we have a **100%** certification rate.

We are also setting up workplace health and safety management systems at our 15 upstream plants (excluding Nikon-Essilor). Twelve of the plants – in Brazil (**1**), China (**1**), the United States (**1**), France (**2**), India (**1**), Ireland (**2**), Mexico (**1**), the Philippines (**2**) and Thailand (**1**) – were OHSAS 18001-certified as of December 31, 2006, representing an **80%** certification rate (versus 73% in 2005), which is in line with our target. In 2006, monitoring audits were carried out but no certifications came up for renewal and therefore no pre-renewal audits were required. Diagnostic reviews and risk management assessments are performed using Verisafe [4] software.

Quality management systems at all of our plants are ISO 9001:2000-certified, representing a **100%** certification rate.

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[4] *The Verisafe trademark is owned by Bureau Veritas.*

The Registration Document and the Annual Report were prepared by
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