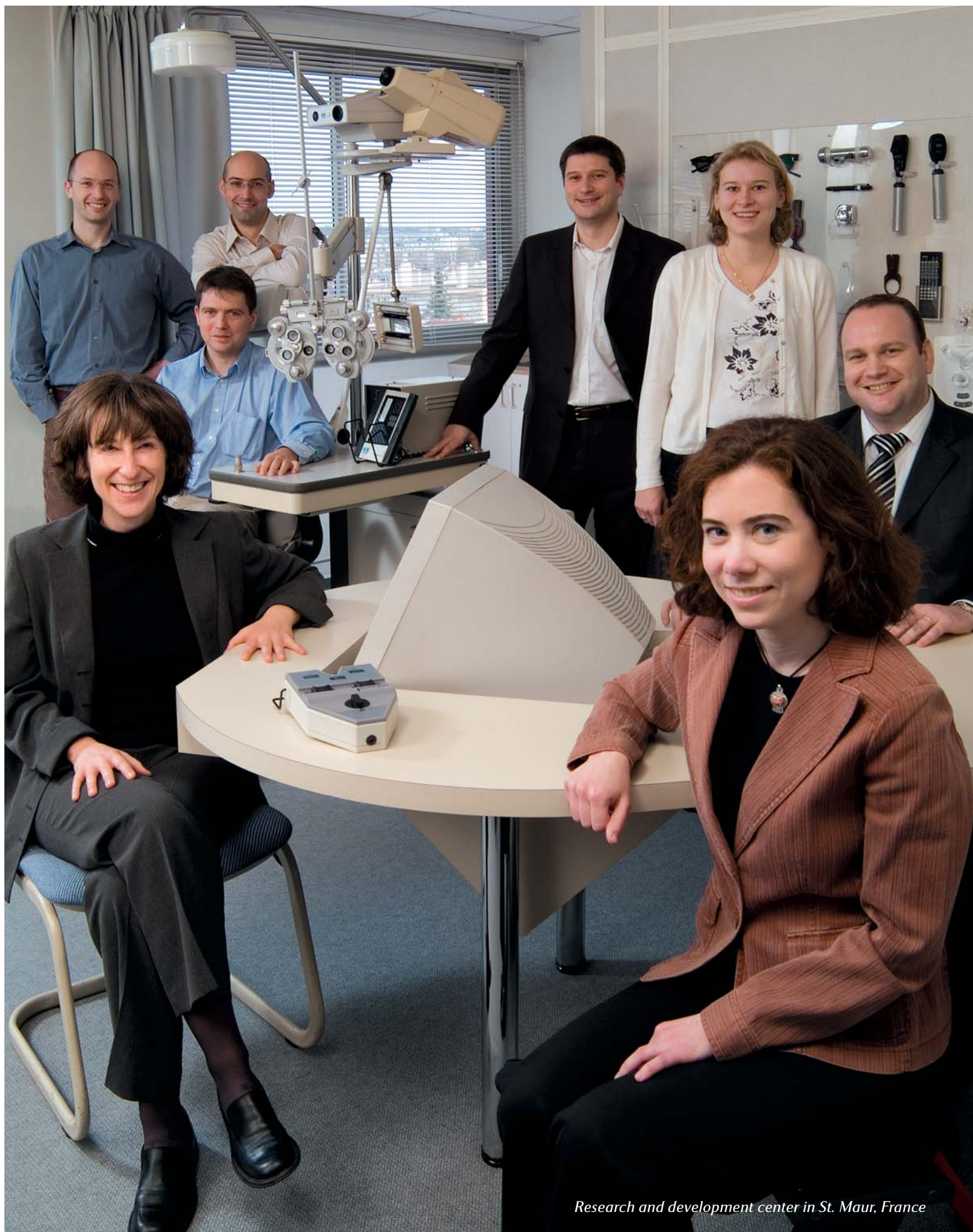


2005 Annual Report

Different cultures, the same mission





Research and development center in St. Maur, France

4

RESEARCH AND DEVELOPMENT CENTERS, DRIVING SCIENTIFIC PROGRESS

From the invention of the first Varilux lens in 1953 to the launch of the Varilux Physio in 2006, Essilor has always been on the leading edge of innovation. Allocating nearly 5% of revenue to research and development, the Company holds 3,300 patents in its Lens and Instruments businesses.

Investment in research, development and engineering*

(in € millions)



* Net of royalties

Number of new products



50% of revenue is generated by products that are less than five years old and 30% by innovations less than three years old.



Bataan plant in the Philippines

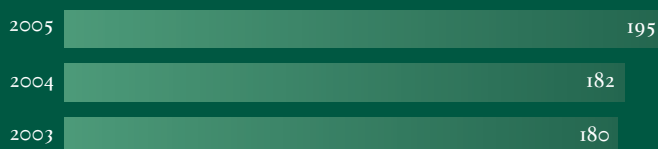
16

PRODUCTION FACILITIES PREPARED TO MEET THE CHALLENGE OF MASS CUSTOMIZATION

With 290,000 different stock-keeping units to manage and 195 million lenses produced in 2005, Essilor must respond to new challenges every day. To do so, the Company is supported by highly competitive production facilities and a supply chain unlike any other in the world.

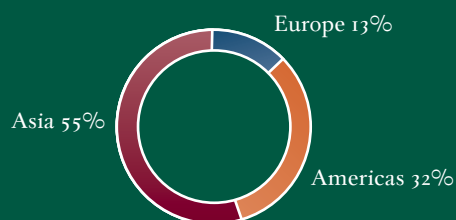
Number of lenses produced

(in millions)



2005 production by region

(as a %)



Production facilities by region





Prescription laboratory in Warsaw, Poland

215

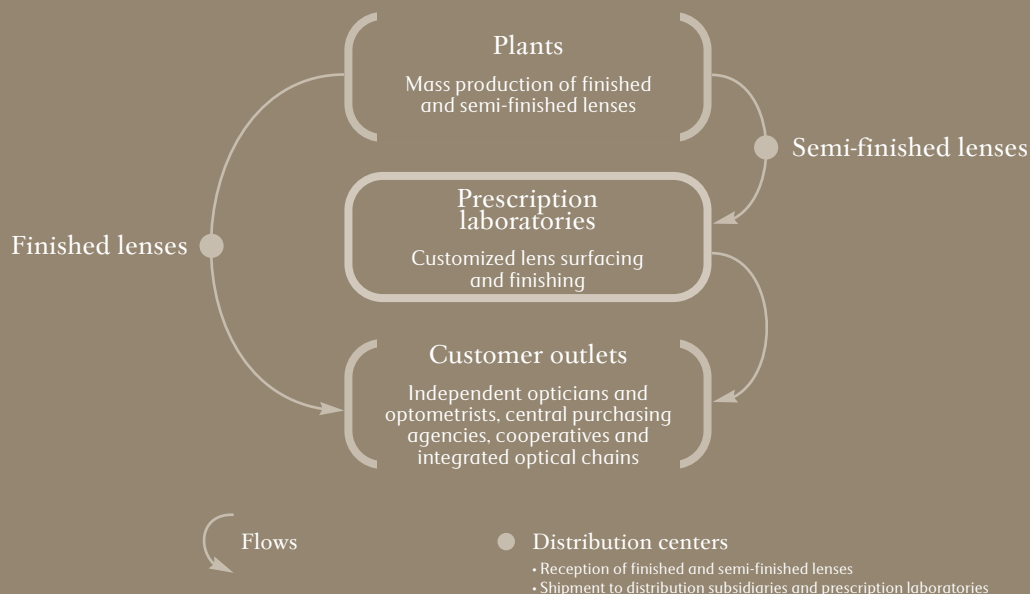
PRESCRIPTION LABORATORIES LEVERAGING A FULL RANGE OF TECHNOLOGIES

To customize and coat nearly 200,000 lenses a day, Essilor deploys a broad range of technologies and skills within its prescription laboratories. They constitute a vital link between production plants and eye care professionals who place orders with them for personalized lenses.

Prescription laboratories by region



Laboratories: a key step in lens customization and finishing





Distribution center, Columbus, Ohio (US)

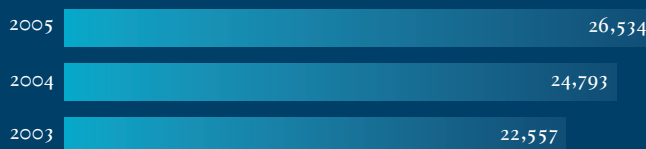
26,534

EMPLOYEES

AND NEARLY AS MANY VISIONS OF THE WORLD

With operations in around 100 countries on all continents, Essilor is a multi-cultural company in every sense of the word. Its human capital represents a key advantage in responding to the local needs of both consumers and eye care professionals.

Employees*



* Excluding Transitions Optical Inc.

2005 employees by region

(number and percentage of workforce)





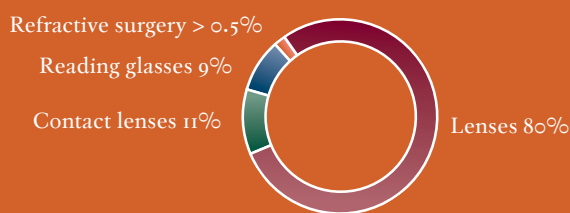
In an optics store in Rio de Janeiro, Brazil

906,000

EYE CARE PROFESSIONALS AROUND THE WORLD

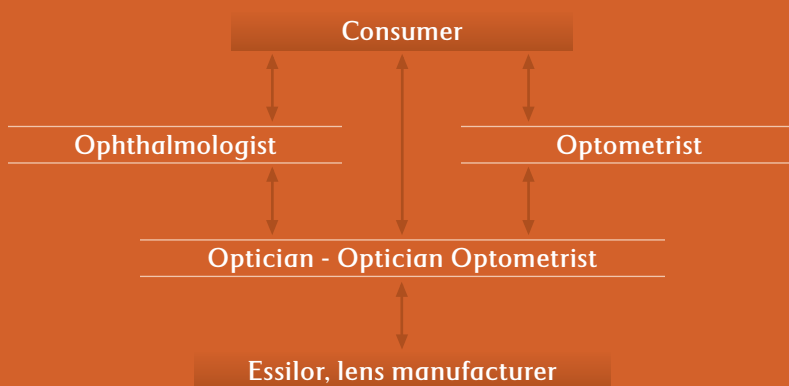
Essilor's ability to deliver personalized optics solutions and its flawless logistics have made it a benchmark for eye care professionals around the world. Ophthalmic lenses are chosen by 80% of people in need of vision correction.

Three wearers out of four choose optical lenses



From the wearer to Essilor

1,600 lenses are sold every minute by Essilor and its subsidiaries around the world.







1 mission

TO PRESERVE AND CORRECT THE EYESIGHT
OF EACH AND EVERY PERSON, AROUND THE WORLD

This mission is even greater in scope, given that longer life expectancy in developed countries and improved living standards in different parts of the world have created greater and more diversified demand for vision correction solutions.



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“ We’re proud of our highly talented team members, who are driving Essilor’s success ”

The broad diversity of capabilities and cultures within our Company has made it an incredible melting pot. With nearly 27,000 employees on six continents, the languages, cultures and attitudes found within our organization differ widely. And that’s exactly what makes Essilor strong: a team of individuals sharing the same skills and expertise—ophthalmic lenses—and pursuing the same mission of serving customers and satisfying lens wearers.

Thanks to their drive and dedication, 2005 was another year of strong results and heightened productivity in which Essilor prepared for the future.

2005: ESSILOR’S BEST YEAR EVER

Our strong 2005 performance saw increases of 10% in revenue, outpacing growth in the ophthalmic lens market, 18% in operating profit, led by a very rich product mix and improved operational efficiency, and 17.5% in net profit. In addition, our balance sheet at year-end was debt-free and our financial position was healthy.

This growth was led by the success of new products, consumer demand for value-added lenses, market share gains in all parts of the world and acquisitions of new prescription laboratories to bring us even closer to customers. For all of these reasons, 2005 successfully illustrated our long-term strategic focus on innovation and expansion in the global marketplace. In line with that focus, Essilor stepped up its strategy of entering new markets and saw sales increases of 30% in China and 50% in India, two countries where the marketing approach is tailored to local needs in terms of both products and purchasing power.

LAUNCHING PROJECTS FOR THE FUTURE

Watching the development of Essilor and its people is an immense source of satisfaction for us. Our role is to ensure that this development is pursued in a smooth, orderly fashion, which is why we need to constantly optimize our organization. In 2005, we launched a number of projects designed to improve service to customers around the world, regardless of their size and needs. With technologies advancing very quickly, we reorganized our engineering department, which is responsible for global product launches, in order to shorten the time

it takes to bring new lenses to the market, anywhere in the world. We also overhauled the information programs that manage business relations between our European subsidiaries and their customers. Lastly, we revamped our research organization to position it favorably on areas and in countries that are making the greatest strides.

TWO MAJOR LAUNCHES IN 2006

In 2005, we introduced 50 new products, among them the Essilor Anti-Fatigue, a truly innovative single vision lens. We also prepared for the rollout of the Varilux Physio, currently in the launch phase. Our teams spent five years developing this progressive lens with its revolutionary design based on wave optics and manufactured using advanced digital surfacing, an extremely precise production technology. We have high hopes for this new product that, once again, enhances the performance of the progressive lens—an Essilor invention.

Backed by these achievements and projects, we have begun 2006 with confidence. We are proud of all our employees, across the organization and around the world. We know that they are highly motivated and committed to their jobs and to Essilor.

We’d like to close with a message for our customers. We are fully aware of the vital role they play in helping the industry to move forward. We also want to thank them for their unwavering loyalty—year after year—to Essilor products.

XAVIER FONTANET
Chairman and Chief
Executive Officer

PHILIPPE ALFROID
Chief Operating Officer



Philippe ALFROID, Chief Operating Officer - Xavier FONTANET, Chairman and Chief Executive Officer

Profitable Growth and a Solid Financial Position

<i>in € millions</i>	2005 IFRS	2004 IFRS	% change 2005/2004
Revenue	2,424.3	2,202.5	10.1%
Gross margin	1,389.8	1,242.1	11.9%
<i>As a % of revenue</i>	57.3%	56.4%	–
Operating expense	969.4	885.6	9.5%
Contribution from operations ⁽¹⁾	420.4	356.5	17.9%
<i>As a % of revenue</i>	17.3%	16.2%	–
Operating profit	393.6	338.9	16.1%
<i>As a % of revenue</i>	16.2%	15.4%	–
Net profit attributable to equity holders of Essilor International	287.1	244.4	17.5%
<i>Net margin</i>	11.8%	11.1%	–
Net cash position	54	74	–

(1) Operating profit before share-based payments, restructuring costs and other non-recurring items, and goodwill impairment.

- On a like-for-like basis, **revenue** rose 5.2%, with growth accelerating between the first half (4.7%) and the second (5.7%). This reflects an increase of around 3% in unit sales of lenses and an improvement in the product mix.

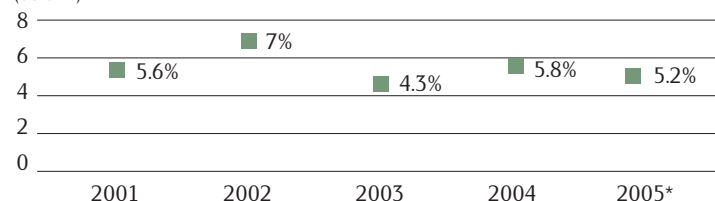
Companies acquired in 2004 and 2005 contributed 3.4% of growth. The currency effect (1.5%), which was negative early in the year, became favorable thanks to the rise of the US and Canadian dollars against the euro and the very good resilience of the Brazilian real.

- Gross margin** (revenue, less cost of sales) widened by 0.9 points thanks to an enhanced product mix and productivity gains.

- Operating expense** comprised €113.5 million in R&D and engineering costs (including a €1.7 million tax credit), €538.7 million in selling and distribution costs, and €317.2 million in other operating expense.

Organic growth in revenue, 2001-2005

(as a %)



* Growth in 2005 is not directly comparable to 2004 because of the changeover to IFRS.

Earnings per share

Dividend per share

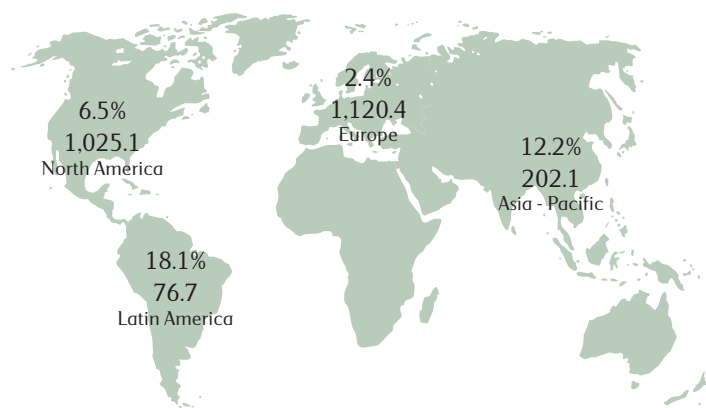
(in €)



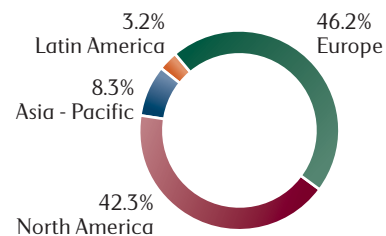
- Contribution from operations**, which consists of operating profit before share-based payments, restructuring costs and other non-recurring items, and goodwill impairment, was up for the year. The increase reflected a strong gross margin, effective control over operating expense, which declined by 0.2 points as a percentage of sales, and wider margins in all host regions. As a percentage of sales, contribution from operations stood at 17.3%, an all-time high. It has increased every year since 2000.

- Earnings per share** grew by 17% and the **dividend** was up 23.7%, representing a payout rate of 33.3% of consolidated net profit.

2005 revenue and organic growth in revenue by region (in € millions and as a %)



2005 revenue by region



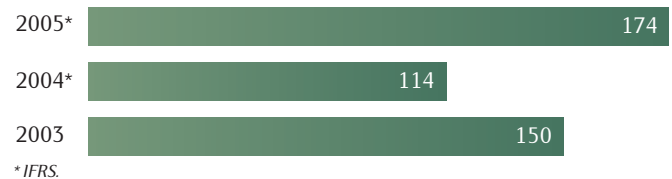
Capital expenditure net of proceeds from asset sales (in € millions and as a % of revenue)



* IFRS.

In 2005, roughly 60% of **capital expenditure** was used to equip prescription laboratories, mainly with anti-reflection machines as well as with the digitally controlled machines needed to implement advanced digital surfacing technology. Around 30% went to increase plant capacity, especially in Mexico and Thailand, and roughly 10% to various uses in Research and Development and Instruments.

Financial investments net of proceeds from disposals (in € millions)



* IFRS.

In 2005, **net financial investments** included €115.7 million for the 18 acquisitions made during the year and €58.4 million invested in buying back shares to be cancelled, less the proceeds from the exercise of stock options.

A Balanced Corporate Governance System

Essilor believes that compliance with corporate governance recommendations creates opportunities for improvement, in line with its commitment to greater transparency and more effective control procedures. This is why the Company abides by the principles of corporate governance presented in the AFEP/MEDEF report published in October 2003 and has implemented all its recommendations.

THE BOARD OF DIRECTORS

In accordance with the Company's bylaws, adopted by the Board of Directors in November 2003, one-third of the Board's member must be independent. Based on the criteria stipulated in France's Bouton report on corporate governance, nine of the Board's 14 members are independent, well more than the required minimum. Directors are elected to renewable, three-year terms and are required to hold at least 500 shares in the Company.

The Directors' Charter, also adopted in 2003, describes directors' rights and obligations. It was modified in 2005 to take into account, in particular, provisions of the Market Abuse Directive (2003/6/EC) on insider trading and market manipulation, which came into effect on October 12, 2004, and new requirements for corporate officers to disclose any trading in the Company's shares.

Several changes occurred in 2005: Philippe Alfroid, Chief Operating Officer, was re-elected to the Board of Directors; Dominique Reiniche and Michel Rose were elected to the Board as new members at the combined Annual and Extraordinary Shareholders' Meeting on May 13, 2005; and Bertrand Roy resigned from the Board, effective January 1, 2006.

During the year, the Board of Directors met six times, with an average attendance rate of more than 90%, slightly higher than in 2004.

In 2004, the Board's formal self-assessment concluded that its operating procedures were satisfactory. In 2005, the assessment process focused on Director's needs in the areas of information and training.

In 1997, Essilor set up three Committees: an Audit Committee, a Remunerations Committee and a Strategy Committee. Each Committee reviews matters referred to it by the Board and reports to the Board on its work, recommendations and proposals.

THE STRATEGY COMMITTEE

The Strategy Committee's main mission is to support the Board by reviewing the Company's product, technology, geographic and marketing strategies.

Chaired by Xavier Fontanet in 2005, its other members were Philippe Alfroid, Michel Besson, Jean Burelle, Philippe Germond, Igor Landau, Olivier Pécoux and Bertrand Roy. Five of the eight members are independent directors.

The Committee met three times in 2005 to consider Essilor's prospects for development, particularly in the low vision market, as well as strategic acquisition opportunities. It also reviewed the quarterly consolidated financial statements (which are not released), R&D programs with the Corporate Senior Vice President Research and Development, and the production and technology strategy with the Corporate Senior Vice President Operations.

THE REMUNERATIONS COMMITTEE

The Remunerations Committee's main purpose is to:

- Make recommendations concerning senior management remunerations and stock option grants.
- Review the Company's general compensation policies.
- Assist the Chairman and the Board in preparing executive succession plans.
- Discuss the composition of the Board and recommend possible changes.

Chaired by Jean Burelle in 2005, its other members were Michel Besson and Michel Rose, all three independent directors. The Committee met twice during the year to discuss the definition of an independent director, remunerations of corporate officers for 2006, and shareholder-approved management stock option plans.

THE AUDIT COMMITTEE

The Audit Committee's role is to ensure that senior management has the resources to identify business, financial and legal risks facing the Company and to examine the procedures implemented to anticipate, analyze and manage these risks.

Chaired by Yves Chevillotte in 2005, its other members were Alain Aspect, Michel Besson and Bertrand Roy. Three of its four members are independent directors.

Meeting three times in 2005, and once in 2006 to review the 2005 consolidated financial statements, the Audit Committee reviewed:

- The interim and full-year financial statements.
- The currency hedging strategy.
- The Group insurance program.
- Statutory Auditors' fees, as part of a benchmarking exercise with other CAC 40 and SBF 120 companies.
- Issues relating to the first-time adoption of IFRS and the restatement of the 2004 consolidated financial statements.
- A summary of the findings of the internal audits conducted in 2005 and the audit plan for 2006.

THE EXECUTIVE COMMITTEE

The Executive Committee is made up of senior corporate and operational executives who exercise either worldwide responsibility in, for example, research and development, series production or laboratory engineering, or regional responsibility for a market (Europe, North America, Asia or Latin America). Chaired by Xavier Fontanet, the Executive Committee meets once a month to discuss the Company's long-term strategic objectives, review its short-term performance and coordinate global operations.

The Board of Directors

Founding Chairmen

RENÉ GRANDPERRET - *Alternative Chairman from 1972 to 1980*
ANATOLE TEMKINE - *Alternative Chairman from 1972 to 1980*

Honorary Chairmen

BERNARD MAITENAZ - *Chairman from 1980 to 1991*
GÉRARD COTTET - *Chairman from 1991 to 1996*

The Board of Directors - membership at December 31, 2005 (date first elected - date current term ends)



XAVIER FONTANET

Chairman and Chief Executive Officer (1996-2007)

Xavier Fontanet, 57, is Chairman and Chief Executive Officer of Essilor. He began his career as Vice President of the Boston Consulting Group and was appointed Chief Executive Officer of Bénéteau in 1981. He managed food service operations for the Wagons-Lits Group from 1986 until 1991, when he joined Essilor as Chief Executive Officer. He has been Chairman and Chief Executive Officer since 1996.



MICHEL BESSON

Independent director (1997-2006)

Michel Besson, 71, was Executive Vice President of Compagnie de Saint-Gobain from 1994 until his retirement in December 1997. He joined Saint-Gobain in 1962 and was appointed head of the Paper/Wood division in 1976. In 1980, he moved to the United States where he served as Chairman of Certainteed Corp., the Norton Company and, from 1990 to 1996, Saint-Gobain Corp.



PHILIPPE ALFROID

Chief Operating Officer (1996-2008)

Philippe Alfroid, 60, is Chief Operating Officer of Essilor. He began his career with PSDI in Boston before joining Essilor in 1972. He has held executive positions in different operational departments, including contact lenses and frames. He was appointed Vice President Financial Control in 1987 and promoted to Chief Financial Officer in 1991. He was appointed Chief Operating Officer in 1996.



JEAN BURELLE

Independent director (1997-2006)

Jean Burelle, 66, has been Chairman and Chief Executive Officer of Burelle SA since 2001. He began his career with L'Oréal and joined Burelle-Plastic Omnium in 1967, serving as division Director, then Director of Development and, beginning in 1981, Chairman and Chief Executive Officer. In 1987, he was appointed Chairman and Chief Executive Officer of Plastic Omnium SA and Vice Chairman and Chief Executive Officer of Burelle SA.



ALAIN ASPECT

Independent director (1997-2008)

Alain Aspect, 58, is head of research at France's National Scientific Research Center (CNRS) and a professor at the Ecole Polytechnique engineering school. Since 1993, he has managed the Atom Optics group in the Laboratoire Charles Fabry at the Institut d'Optique in Orsay, France. Before then, he conducted experiments on the quantum properties of light (1974-1984) then on the laser cooling of atoms (1985-1993). A member of the Académie des Sciences and the Académie des Technologies, Alain Aspect was awarded a gold medal by the CNRS in 2005.



YVES CHEVILLOTTE

Independent director (2004-2007)

Yves Chevillotte, 62, was Executive Vice President of Crédit Agricole SA from 2002 until his retirement in 2004. He joined Crédit Agricole in 1969 and was appointed head of the bank's regional branches in 1985. In 1999, he joined the national office as Executive Vice President for Market Development.

**PHILIPPE GERMOND***Independent director (2001-2006)*

Philippe Germond, 48, was Deputy Chief Executive Officer and a Member of the Executive Committee of Alcatel from 2003 until April 2005. He started his career with Hewlett Packard in France and abroad, before joining SFR, serving as Chief Executive Officer beginning in 1995 and Chairman and Chief Executive Officer beginning in 1997. He was appointed Chairman and Chief Executive Officer of Cegetel in 2000.

**OLIVIER PÉCOUX***Independent director (2001-2006)*

Olivier Pécoux, 47, joined Rothschild & Cie in 1991. Today, he is a Managing Partner, sharing responsibility for the Group's investment banking business in Europe. He began his career at Peat Marwick and then served as a financial advisor at Schlumberger in Paris and New York. In 1986, he joined Lazard Frères in Paris and was named Vice President of the investment bank's New York office in 1988.

**IGOR LANDAU***Independent director (2001-2006)*

Igor Landau, 61, was formerly Chairman of the Aventis Management Board and, since the merger with Sanofi in August 2004, has been a member of the Sanofi-Aventis Board of Directors. He began his career with McKinsey & Co. in Paris. In 1975, he joined Rhône-Poulenc's health care division, of which he was named President in 1980. Appointed Rhône-Poulenc Chief Executive Officer in 1992, he became a member of the Aventis Management Board in 1999 and was elected Chairman in 2002. He also serves on the Board of Directors of a number of companies in France and Germany.

**DOMINIQUE REINICHE***Independent director (2005-2008)*

Dominique Reiniche, 50, has been President and Chief Operating Officer of the European Union Group of The Coca-Cola Company since May 1, 2005. She began her career with Procter & Gamble in 1978, and was appointed Director of Marketing and Strategy at Kraft Jacobs Suchard in 1986. She joined Coca-Cola Enterprises in France in 1992 as Director of Marketing. She was appointed Executive Vice President in 1997 and General Manager of France for Coca-Cola Enterprises the following year. In January 2003, she was named President of Coca-Cola Enterprises Europe.

**LOUIS LESPERANCE***Director representing employee shareholders (2004-2007)*

Louis Lesperance, 47, has been head of the new prescription lens surfacing platform in Dallas since August 2005. After joining Essilor Canada Ltd. in 1977, he first managed the surfacing unit, then the production operations for the Montreal prescription laboratory. He was later appointed head of production for Essilor laboratories in British Columbia and Alberta.

**MICHEL ROSE***Independent director (2005-2008)*

Michel Rose, 62, is Chief Operating Officer, Cement Division, Lafarge S.A. He joined Lafarge in 1970 as an engineer and has held various positions with the company. He headed Group activities in Brazil, served as Executive Vice President Human Resources, and was later named Chairman and Chief Executive Officer of Orsan S.A., a former Lafarge subsidiary. He was promoted to Senior Executive Vice President in 1989 and served as Chairman and Chief Executive Officer of Lafarge North America from 1992 to 1996, when he was appointed to head the company's operations in emerging markets.

**JEAN-PIERRE MARTIN***Director representing employee shareholders (1994-2008)*

Jean-Pierre Martin, 55, joined Essilor in 1972. After several years in Instruments production and the prototypes workshop, he was made a shop manager in 2000.

**BERTRAND ROY***Director representing employee shareholders**Chairman of the Valoptec Association (2001-2008)*

Bertrand Roy, 50, was named head of strategic marketing at Essilor in late 2005. After ten years with Renault, he joined Essilor in 1987 as head of planning and financial control before moving to Essilor of America as Senior Vice President Administration, in charge of finance, logistics and information systems. He was appointed Chief Executive of Transitions Optical in 1992, then head of Essilor France in 1999.

The Executive Committee



From left to right:

THOMAS BAYER, President, Essilor Europe Network - PATRICK CHERRIER, President, Asia - PHILIPPE ALFROID, Chief Operating Officer - LAURENT VACHEROT, President, Essilor of America - XAVIER FONTANET, Chairman and Chief Executive Officer - THIERRY ROBIN, President, Essilor Canada - CAROL XUEREF, Corporate Senior Vice President, Legal Affairs and Development - BERTRAND DE LIMÉ, President, Latin America and Instruments



From left to right:

CLAUDE BRIGNON, Corporate Senior Vice President, Operations - HENRI VIDAL, Corporate Senior Vice President, Human Resources -
FABIENNE LECORVAISIER, Chief Financial Officer - JEAN-LUC SCHUPPISER, Corporate Senior Vice President, Research and
Development - BERTRAND ROY, Corporate Senior Vice President, Strategic Marketing - DIDIER LAMBERT, Corporate Senior Vice
President, Information Systems - HUBERT SAGNIÈRES, President, North America and Europe Regions

A Strong Link Between Vision and Development

Vision helps both people and societies to improve by facilitating access, not only to education, science and culture, but also to the satisfaction of everyday gestures and movements. Essilor's operations therefore play a useful role in society. A pair of glasses is the easiest, most economical way of ensuring good eyesight, while also guaranteeing the safety, health and integrity of the human eye. In this way, Essilor's products and services express the values inherent in the sustainable development process. They also have a very limited impact on the environment.

Summed up in our tagline—"Seeing the world better"—Essilor's corporate mission naturally integrates a focus on rational, carefully managed growth over the very long term.

OUR ENVIRONMENTAL CONTRIBUTION: SYSTEMATICALLY PURSUING A COMMITMENT TO EXCELLENCE

- Reducing the environmental impact—however small—of our operations

Ophthalmic lens manufacturing is a light industry whose environmental challenges have nothing in common with other types of industry. Nonetheless, the deployment and maintenance of environmental management systems is important to Essilor, and managing roughly 290,000 SKUs requires operating excellence. Moreover, product quality depends on keeping production areas dust-free.

Upstream, all Essilor production facilities have installed and maintain their own ISO 14001-certified environmental management systems.

Downstream, prescription laboratories that finish lenses to wearer specifications are not confronted with the same manufacturing constraints. Since they all deliver the same services, environmental considerations are identical from one laboratory to another.

Although less critical for these units, a program to install and maintain shared environmental management systems was successfully launched in four pilot laboratories in Europe during the year.

- Involving all project teams in the eco-design and eco-efficiency process

In addition to solutions implemented to limit the environmental impact of its operations, Essilor introduced an awareness program for R&D, engineering and strategic marketing teams around the world in 2004 with the goal of integrating eco-design and eco-efficiency criteria into the initial stages of product development.

As of year-end 2005, more than 450 engineers, managers and researchers had taken part in a training program based on an actual life-cycle analysis and using the *Project Health, Safety and Environment Guide*. Organized into 16 main topics, the guide makes it possible to anticipate the impact of new products and manufacturing processes and suggests alternative solutions.

OUR SOCIAL CONTRIBUTION: INVOLVING EMPLOYEES AND HELPING THEM TO IMPROVE

- Encouraging dialogue and employee participation

During the year, the European Committee for Dialogue and Information Sharing within Essilor (CEDIE) met with its newly elected members in Paris. At the meeting, Chairman and Chief Executive Officer Xavier Fontanet and Corporate Senior Vice President Human Resources Henri Vidal reviewed Essilor's current situation and future outlook.

Employee share-ownership is a long-standing tradition at Essilor, with employees holding 50% of the Company's capital when it was founded in 1972. As Essilor has expanded around the world, the practice has gradually been extended to all units. Employee stock ownership plans are managed locally and the global network of employee and retired employee shareholders is led by Valoptec Association.

At December 31, 2005, employees held over 8% of the Company's shares and nearly 15% of its voting rights.

- Promoting training

Operating in an industry shaped by high technological content, Essilor is keenly aware of the need for training programs that enhance existing employee skills and develop new areas of expertise. These programs may cover a specific technological field, shared project management methods, communication and management capabilities, or a cross-functional approach to the Company's skills and expertise.

Based on the Company's skills needs in the coming years and integrated into development plans, training budgets generally average around 1.5% of total payroll.

FACILITATING ACCESS TO GOOD EYESIGHT TO SUPPORT THE DEVELOPMENT OF INDIVIDUALS AND SOCIETIES

- Adopting innovative methods in emerging countries

With a market of several billion potential lens wearers, the world's emerging countries represent a crucial driver of future growth for Essilor. While the same approach to marketing is used with eye care professionals around the world, Essilor finds innovative ways of reaching the general population in these markets. In India, for example, a unique "rural marketing" department has been created. It is based on a retail distribution network organized around an urban center, which may be a hospital that performs cataract operations, offers ophthalmologic services and has an optical equipment manufacturing unit. Essilor India is involved in a number of ways—ensuring training and skills transfers, organizing and managing the day-to-day production of a large volume of personalized lenses, delivering services and supplying lenses.

- Supporting the sustainable development of entrepreneurs in emerging markets

Eye care professionals are vital partners in Essilor's growth. In emerging countries, where the process of launching and developing a business is often more problematic, Essilor provides financial and other kinds of support to help entrepreneurs get off the ground.

As part of this commitment, Essilor has acquired an equity stake in **Investisseur et Partenaire pour le Développement (I&P)**, a private finance company established in 2002 by a group of French entrepreneurs with background in private equity, business and consultancy. I&P focuses on two areas:

- **Microfinance institutions.** These local "micro-banks" provide loans (often very small ones) to people excluded from the traditional banking system, thus enabling them to launch or grow their business.

- **Medium-sized enterprises in Africa.** I&P provides support and advice to entrepreneurs who already have a project within the formal economy.

- Special Olympics: partnering the disabled

People suffering from intellectual disabilities can take part in sports activities, which give them a sense of well-being, promote their integration into society and open new prospects. Thanks to Essilor's partnership with Special Olympics Lions Club International Opening Eyes®, disabled athletes can get comprehensive eye screenings at sports events and receive corrective lenses if necessary. At Special Olympics events around the world, Essilor involves employees, prescribing physicians, customers and suppliers in the cause. These events also provide an opportunity to show how corrective lenses help to ensure the eye's health, safety and integrity.

SUMMARY TABLE OF SUSTAINABLE DEVELOPMENT INDICATORS

• Reporting system

Non-financial reporting requires the same high standards as financial reporting.

Essilor has implemented a non-financial data reporting system that uses the same software as its financial reporting system, a more effective solution than installing a dedicated system because:

- Sustainable development is a cross-functional program that is fully integrated into our strategy as well as our day-to-day operations.
- Essilor's commitment to sustainable development indicators requires buy-in on the part of all units across the organization. By assigning social and environmental data reporting to finance managers, Essilor ensures their reliability and demonstrates that it considers financial and non-financial data to be equally important.
- Using an existing system avoids a tedious deployment process and reduces training and maintenance costs.

• Scope of reporting

Environmental indicators mainly concern production sites but we have also integrated data from the biggest prescription laboratories. The scope of environmental and social reporting has changed little from last year, with the addition of one distribution center and two prescription laboratories. In all, facilities reporting data in 2005 accounted for 71.4 % of employees worldwide.

Environmental indicators

GRI environmental indicator

EN 1

Total raw materials use other than water, by type.

Note: data rounded up to the nearest hundred. Concerns only production sites.

EN 3

Direct energy used, segmented by primary source.

EN 5

Total water use.

EN 7

Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, fresh-water and marine environments.

EN 11

Total amount of waste by type and destination.

EN 13

Significant spills of chemicals, oils and fuels in terms of total number and total volume

EN 14

Significant environmental impacts of principal products and services.

Essilor indicator	2004	2005 comparable scope	2005 expanded scope
Total raw materials use other than water, by type.			
- Raw material, standard index.	4,500 T	4,400 T	4,400 T
- Raw material, other indices.	5,400 T	5,300 T	5,300 T
Direct energy used, segmented by primary source.			
- Electricity	268.0 GWh.	253.6 GWh.	260.5 GWh.
- Gas	33.9 GWh.	29.9 GWh.	29.9 GWh.
- Liquid fuel	2.9 GWh.	4.6 GWh.	4.6 GWh.
Total water use.	2,167,399 cu.m	2,133,513 cu.m	2,208,081 cu.m
Description of the major impacts of activities on biodiversity.	<p>No reported impact.</p> <p>As part of the ISO 14001 certification process, measures have been taken to prevent and avoid any harm to the biological balance, natural environment and protected animal and plant species, wherever environmental studies indicate the existence of even a minor risk.</p>		
- Total quantity of solid waste.	7,947 T	22,614 T ⁽¹⁾	23,055 T ⁽¹⁾
- Number of production sites that sort waste.	89%	100%	100%
- Significant spills of chemicals, oils and fuels.	0	1 ⁽²⁾	1 ⁽²⁾
- Production sites equipped with retention equipment.	76%	100%	100%
Products that have a significant impact on the environment.	<p>Using materials and technological processes that break with the industry's traditional methods, Airwear® lenses are made with optimized formula thermoplastics that are recyclable. Their refraction index makes it possible to produce a thinner, lighter lens that nonetheless offers outstanding impact resistance. Airwear® lenses pave the way for used lens recovery and recycling systems each time new lenses are delivered by eye care professionals.</p>		

(1) The significant increase from one year to the next comes essentially from the exceptional amount of about 13,500 T of solid waste generated by the demolition of the premises of the production site at Park Street, USA, closed in 2004 and secured in 2005.

(2) Outflow of some 750 liters of cooling solution (Propylene Glycol based) caused by the breakdown of an injection molding machine.

Social indicators

GRI social indicators	Essilor indicator	2004	2005 comparable scope	2005 expanded scope
LA 1 Breakdown of workforce, where possible, by region/country, status (employee/non-employee), employment type (full time/part time), and by employment contract (...) by region/country.	Breakdown of workforce - Women - Men - Total	10,210 (56%) 8,092 (44%) 18,302	10,473 (56%) 8,268 (44%) 18,741	10,582 (56%) 8,371 (44%) 18,953
LA 3 Percentage of employees represented by independent trade union organizations or other bona fide employee representatives broken down geographically OR percentage of employees covered by collective bargaining agreements broken down by region/country.	Employee representation	Employees are represented by a variety of structures: Employee Committees, Activity Committees, Welfare Committees, Safety Committees, Communication Committees, Factory Committees, etc... and organizations among which: in Brazil Union of the Workers of the Industries of Glass, Crystal, Mirrors, Ceramic Wares and Porcelain of Manaus, in China Trade Union Committee, in France C.F.D.T., C.F.E.-C.G.C., C.F.T.C., C.G.T., C.G.T.-F.O., in India Karmika Sangha, in Ireland Services Industrial Professional Technical Union, in The Philippines Confederation of the Filipino Workers.		
LA 7 Standard injury, lost day, and absentee rates and number of work-related fatalities (including subcontracted workers).	Industrial accidents - Lost-time accidents - Accidents without lost time - Days lost - Absentee rate	198 374 4,634 4.1%	160 459 3,867 5.3%	172 479 3,905 5.3%
LA 9 Average hours of training per year per employee by category of employee.	- Number of training hours for operators - Number of training hours for managers	178,868 66,813	112,809 101,295	130,640 101,864
HR 4 Description of global policy and procedures/programs preventing all forms of discrimination in operations, including monitoring systems and results of monitoring.	Description of policy prohibiting all forms of illegal discrimination in the company.	Essilor and its subsidiaries respect the fundamental conventions of the International Labor Organization regarding discrimination, freedom of association, child labor and forced labor. Compliance with these conventions is ensured by global coordination of human resources at the Executive Committee level, supported by correspondents in the regions or businesses, as well as by the follow-up of the four sustainable development indicators covering the present headings.		
HR 5 Description of freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures/programs to address this issue.	Description of policy regarding freedom of association.			
HR 6 Description of policy excluding child labor as defined by ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programs to address this issue, including monitoring systems and results of monitoring.	Description of policy prohibiting child labor.			
HR 7 Description of policy to prevent forced and compulsory labor and extent to which this policy is visibly stated and applied, as well as description of procedures/programs to address this issue, including monitoring systems and results of monitoring.	Description of policy designed to prohibit forced labor.			



BBGR sales agency in La Voulzie, France



A Strategy of Sustainable, Global Growth

Because of its exclusive focus on ophthalmic lenses, Essilor is naturally committed to covering all segments in all countries around the world.

Ophthalmic lenses have two highly advantageous features. First, they invariably move users upmarket. Glasses wearers who try a lighter, more transparent lens that provides sharper vision never go back to their previous lens. As a result, the process of constantly enhancing and upgrading lenses has long had a powerful impact in all markets.

Second, ophthalmic lenses—including the most advanced models—are by far the most widely used, least expensive corrective solution for vision needs. Their use has expanded naturally, not only in developed countries where the product mix is rich but also in emerging countries where they enable a large number of people to improve their eyesight.

From these observations, Essilor has developed a very straightforward strategy. Its focus is a sustained commitment to innovation, with the goal of improving all aspects of lens performance and expanding into all corners of the global marketplace through organic growth and acquisitions.

Essilor's market has real potential in terms of both value and volume. Thanks to the many technological advances that are driving today's global economy, Essilor can see the path it must follow in the years ahead to further improve lens materials and optical designs and enhance the value-added they deliver. The Company's performance in 2005 and now in 2006 is clearly demonstrating that this path is being actively pursued.

Outstanding Market Potential

Understanding the market is at the heart of Essilor's strategy. By anticipating wearer needs, the Company is able to innovate in the three components of corrective lenses: materials, optical design and surface treatments.

Product replacements account for 90% of the corrective lens market. Nonetheless, volume growth is being driven mainly by people in emerging countries who need glasses as well as by the overall aging of the world's population.

AN ENORMOUS NEED FOR CORRECTIVE LENSES

Although an estimated 65% of the world's 6.5 billion people need corrective eyewear, only 23% use some kind of visual correction. The percentage varies greatly by region, from a high of 71% in Taiwan to just 7% in India. While people in North America, Japan, Australia and Western Europe are generally well equipped (54%), a high proportion of the population in Eastern Europe, Latin America and Asia are still in need of correction. These countries represent a major source of growth for Essilor in the decades ahead.

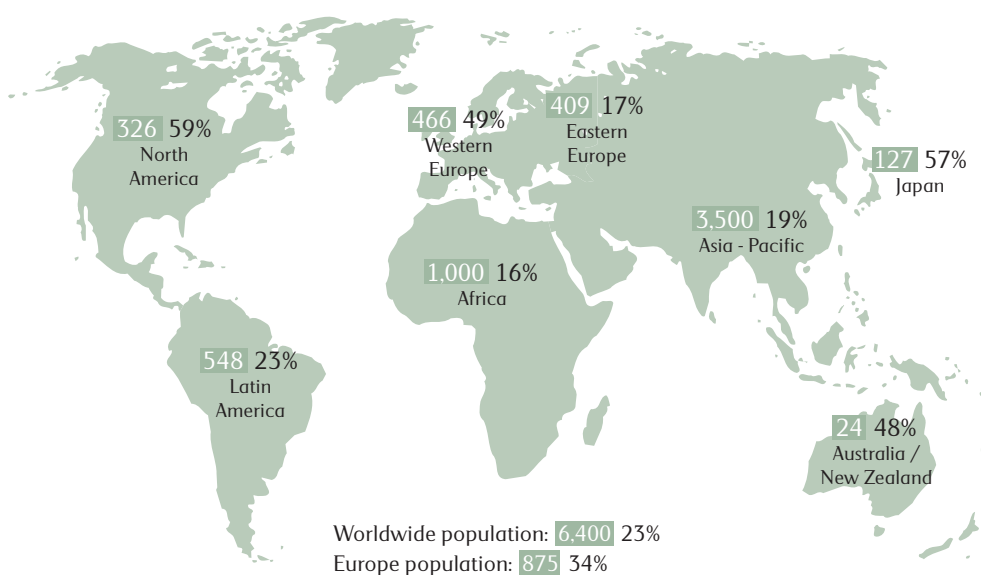
A CONSTANTLY AGING POPULATION

Another factor driving growth in the corrective lens market is the increase in the number of people over 45 years old who need lenses to correct presbyopia. This age bracket is growing by an estimated 2.3% a year, compared to 1% annual growth for the population as a whole. From 23% in 2000, the percentage of the world's population age 45 and over will increase to 32% in 2025 and 40% in 2050.

Corrective Lenses

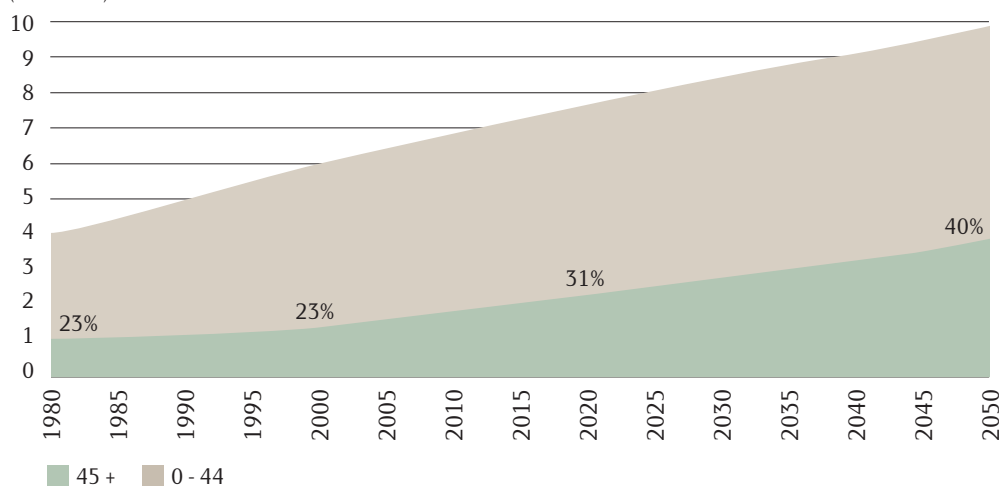
Market size	in volume	800-900 million lenses per year
	in value	€7-9 billion in sales
Growth potential	in volume	Estimated annual growth: 1 to 2%
	in value	Estimated annual growth: 3 to 4%
Features	90% replacement market with lenses generally replaced every 3 to 4 years	

Population by region and percentage using visual correction solutions (in millions and as a %)



Aging of the world's population

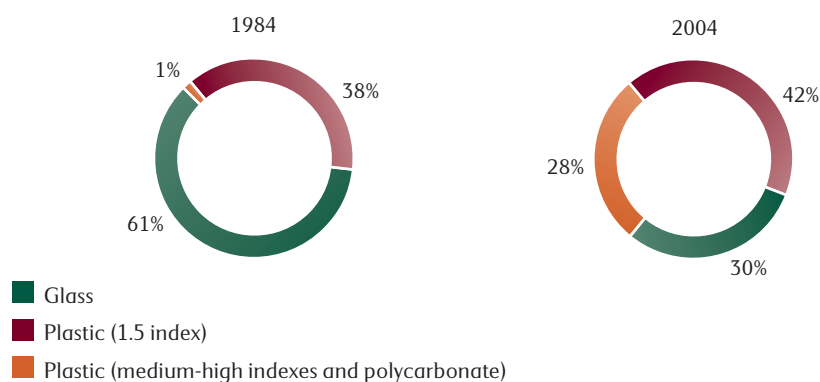
(in billions)



Material	Refraction index *
Glass	1.5 - 1.9
Plastic (low and medium indexes)	1.5 - 1.56
Polycarbonate	1.59
Plastic (high and very high indexes)	1.6 - 1.74

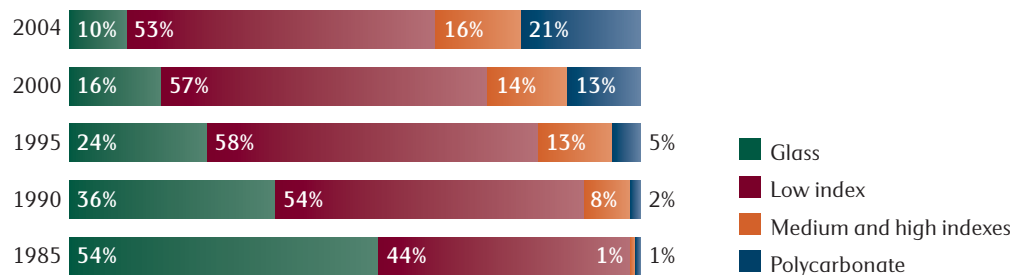
* The refraction index measures the angle of deviation of light as it travels through the material. The higher the index, the wider the angle. As a result, for a given correction, it is possible to make a thinner lens with a higher index material.

Plastic and polycarbonate lenses: 20 years of growth

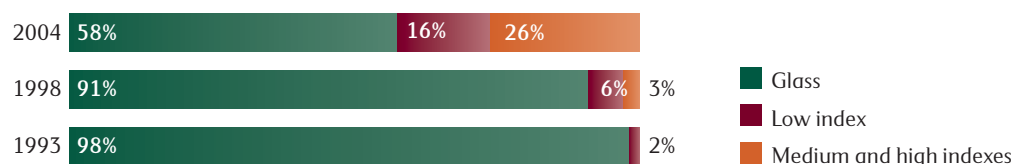


Lens sales by material (in volume)

Western Europe, United States and Japan



China and India



MATERIALS

A corrective lens is made of plastic, polycarbonate or glass. The choice of material determines the lens's lightness, thinness, transparency, shock resistance and protection against UV rays.

RIISING DEMAND FOR PLASTIC AND POLYCARBONATE LENSES

Since Essilor's launch of the first organic (plastic) lens in 1953, the transition from glass to plastic has gradually gained speed, reaching nearly 100% in countries like the United States, the United Kingdom and Japan.

In recent years, the global market share for low and medium-index glass lenses has leveled off or declined, even in countries like China, as they are replaced by lenses made of more resistant polycarbonate and high and very high-index materials that allow for thinner lenses.

Responding proactively to market trends, Essilor has considerably developed its range of polycarbonate lenses, a segment in which it is the global leader, as well as its medium and high-index materials with the 1.67 and 1.74, the world's highest index material.

OPTICAL DESIGN

The optical design (or surface) imparts the optical correction to the material that must sharpen the wearer’s vision as much as possible.

Given the infinite number of eyesight corrections, there are an almost infinite number of designs.

In terms of surface design, the lens market breaks down as follows: 75% for unifocal (single vision) lenses, 14% for bifocals and trifocals and 11% for progressive lenses.

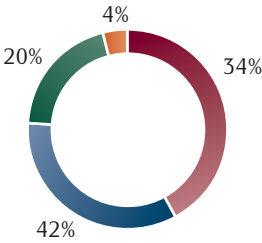
These percentages vary greatly depending on the type of market. In Europe and Japan, where single vision and progressive lenses are used to correct presbyopia, bifocal and trifocal lenses have virtually disappeared from the market. Although bifocal lenses still hold a significant share of some of the major markets, they are, year after year, giving way to progressive lenses. Lastly, in Asia, where most of the population is very myopic and the number of presbyopes is still relatively small, the market for progressive lenses is in an early stage of development.

In all markets, the progressive lens segment enjoys high potential for growth, because of the general aging of the population and demand for products that deliver greater comfort and better correction regardless of vision distance.

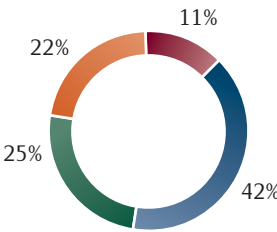
Designs	Description	Correction
Unifocal or single vision lens	Identical correction regardless of vision distance.	Ametropia, such as: Myopia, Hypermetropia, Astigmatism
Bifocal lens	The lens has two separate correction areas. A segment of the lower half corrects for near vision; the rest of the lens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

Optical design by region (in volume)

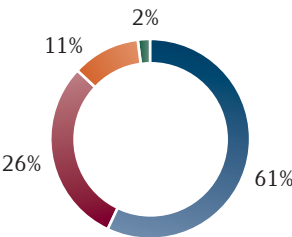
Western Europe and Japan



United States, Canada, Australia, New Zealand, United Kingdom



Asia



- Single vision lenses (ametropia)
- Bifocal lenses (presbyopia)
- Progressive lenses (presbyopia)
- Near vision unifocal lenses (presbyopia)

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

SURFACE TREATMENTS/COATINGS

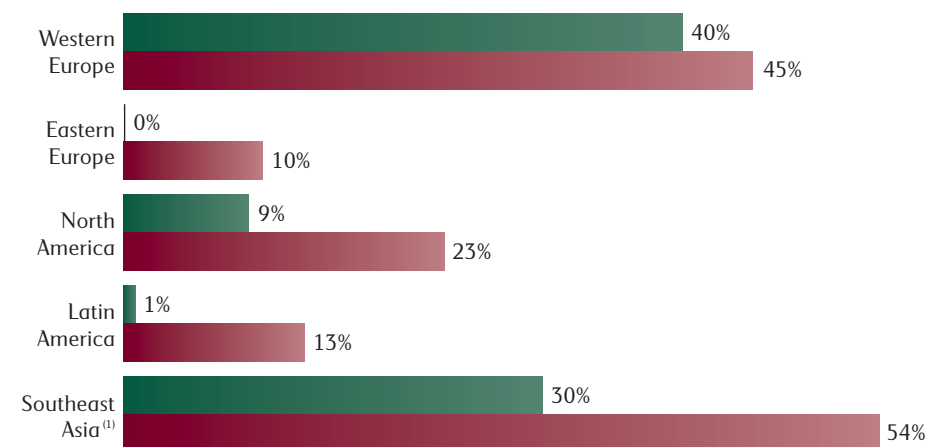
Surface treatments are applied to the front and back of the lens to enhance visual comfort and protect lenses. They also help to improve durability, ease of maintenance and eye protection, while reducing eyestrain.

GROWING DEMAND FOR SURFACE TREATMENTS

Although anti-reflective coatings are applied to only 45% of plastic lenses sold worldwide, in Japan the figure is 98%.

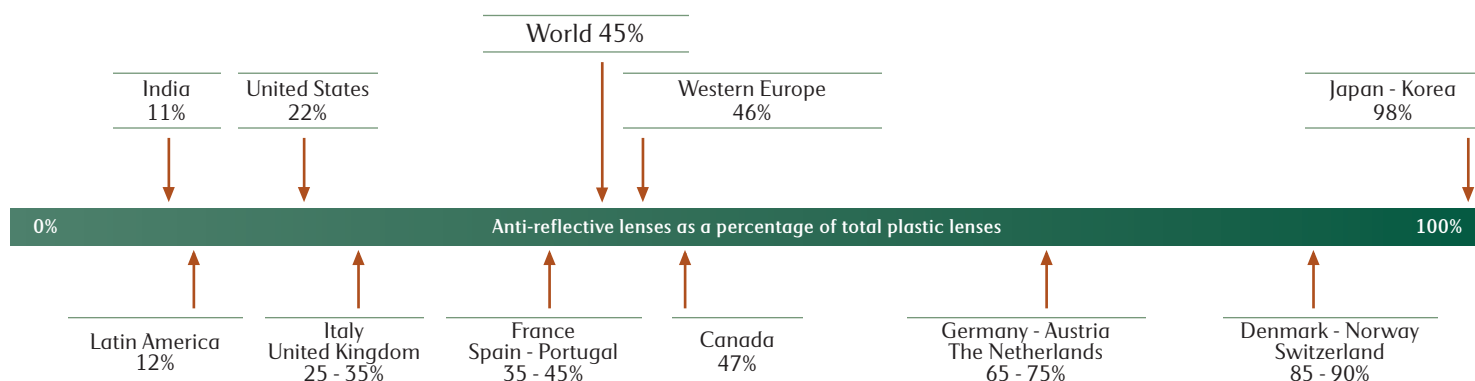
A growing number of lenses are treated, mainly with anti-reflective and anti-smudge coatings. While sales of anti-reflective lenses are increasing on all continents, the United States is leading the way. Growth potential is still high in the US, compared to Europe and Japan, as well as in the emerging markets of Asia, Latin America and Eastern Europe.

■ 1995 ■ 2005: anti-reflective lens global market share
(as a % of the total market)



(1) Excluding Japan and Australia

Growth in anti-reflective lenses around the world



Innovative New Products and Processes

VARILUX®

The leading brand of progressive lenses since 1959, with a comprehensive range that meets the needs of all presbyopes.

Crizal®

The benchmark for lens wearers demanding clear vision, thanks to its anti-reflective, scratch-resistant, smudge-proof coating.

Transitions®

Variable-tint lenses containing photochromic pigments that adapt to the intensity of light.



A full range of high-technology lenses that are thinner and more transparent.

Airwear®

Unbreakable polycarbonate lenses that are twelve times as resistant and twice as light as conventional glass products.

Xelios™

A range of corrective sun lenses introduced in 2004.

Não perca tempo limpando os óculos.



A Nova Crizal Alizé é a primeira lente que uniu o que há de mais moderno em anti-aderência e resistência a arranhão, às lentes anti-reflexo. Uma lente que suja menos e é, comprovadamente, 10x mais fácil de limpar do que qualquer outra lente anti-reflexo, mantendo a transparência e o conforto visual. Nova Crizal Alizé. Pode confiar de olhos abertos.

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Lentes Anti-reflexo
Crizal ALIZÉ
Lentes limpas por muito mais tempo.

Over the years, Essilor has become a major player in a market that continues to develop, thanks in large part to the Company's unwavering strategic commitment to innovation. Essilor's growth during the past year was driven by the large number of new products launched in 2004 and 2005.

50 NEW PRODUCTS IN 2005

Essilor offers the world's most extensive portfolio of ophthalmic optics products. Year after year, the Company combines different materials, surface designs and coatings to create new products that deepen and broaden the product mix. In this way, it delivers highly effective solutions that respond to the needs of its customers—both eye care professionals and consumers.

THE TOP PERFORMERS

Specifically designed for small eyeglass frames, the **Varilux Ellipse** progressive lens continued to enjoy strong sales in 2005. Marketed worldwide, the lens benefited during the year from a very fast ramp-up in output and the introduction of new materials to expand the product range.

Already available in most European and Asian markets, as well as in Canada, the personalized **Varilux Ipseo** progressive lens was rolled out in the United States during the year and generated a very positive response in the marketplace. Initially made of 1.67 materials, the range was broadened during the year to include polycarbonate and 1.67 Transitions materials.

With its anti-reflective, smudge-proof coating, the **Crizal Alizé**, proved increasingly popular with opticians and consumers alike throughout the year, as distribution was extended to cover the entire world. The new lens's performance and properties have helped to fuel Essilor's growth in the anti-reflective market in many countries and driven further market share gains. The replacement of Crizal lenses by Crizal Alizé lenses rose to 50% overall and even to 100% in a number of countries. The Crizal Alizé's highly effective anti-smudge coating responds to strong customer demand for an anti-reflective lens that is easier to clean. In addition, for opticians the Crizal Alizé's patented technology gives the lenses a unique advantage over competing products with regard to edging operations.

In the **corrective sunglass lens** segment, Essilor began to reap the benefits of the strategy initiated three years ago, with sales volumes increasing by 20% during the year. Growth was led by polarized lenses, which are developing rapidly both in the United States and in Europe, where they represent a still small but highly promising segment. Launched in late 2004, the polarized polycarbonate lens has broadened the product range and is helping to drive sales of the entire lineup. Sales of tinted lenses are also on the rise, especially in Europe. In terms of new products, the year saw the launch of a Varilux lens made from a 1.67-index material in the Open View line of wrap-around frames as well as a high-performance smudge-proof mirror coating called the Silver Shadow Clean Touch.

视力更优 未来更清

依视路好学生

专为学生设计

渐进镜片系列

现在近视发展可以被有效减缓了!

随着近年来近视人口比率的不间断提高,尤其对于正处于花季的学生来说,近视的严重性直接危害他们的健康,影响他们的未来。作为全球镜片专业制造商,渐进片领导品牌,依视路公司秉承一贯的专业态度,通过和权威机构的长年合作发现,渐进镜片可以对减缓孩子的近视发展起到一定的作用。

更通过一款由依视路公司自主研发的渐进工具——Myopilot™,进一步帮助眼镜店清晰辨别渐进片适合群体,从而达到令人满意的疗效效果,让学生们能更好的完成学业,展望美好的未来。

依视路 全球专业镜片制造商

Essilor® Anti-Fatigue™ lenses
A breath of fresh air for your eyes!

Essilor® Anti-Fatigue™: with stress-free eyes, you feel better all day long.

ESSILOR

MAJOR LAUNCHES IN 2005

Essilor's constant focus on innovation led to a large number of new and improved products. These included:

- The generation of **Transitions** photochromic lenses made of very high index 1.67 and polycarbonate materials. Launched in early 2005 in a broad array of designs across the globe, the Transitions Gen V was a major success thanks to its improved performance, especially its ability to change color three times faster than the previous generation of lenses. Unit sales were up 10%, especially in countries where Transitions ran television advertising and communication campaigns.
- A progressive lens for small frames and an anti-reflective, smudge-proof lens specifically for optical chain customers.
- The new **Nikon Presio W** progressive lens with an aberration reduction filter on the back surface of the lens.
- A range of progressive lenses for specific vision needs—the **Varilux Road Pilot** for drivers and the **Varilux Computer** for screen users launched in several European countries.
- A progressive lens intended specifically for children in China. A scientific study conducted in partnership with a Chinese university showed that the use of a progressive lens designed to coordinate convergence and accommodation can slow the development of certain types of myopia often very widespread among Asian children.

THE UNIQUE ESSILOR ANTI-FATIGUE LENS

In late 2005, the **Essilor Anti-Fatigue** lens was introduced in France, several other European countries and Canada.

The new lens is designed to reduce eyestrain, especially in the non presbyopic population (under 45-50), for people working in close vision activities for extended periods. Because of changes in working conditions around the world, in particular the more intensive use of office computers, this ergonomically designed lens has substantial growth potential.

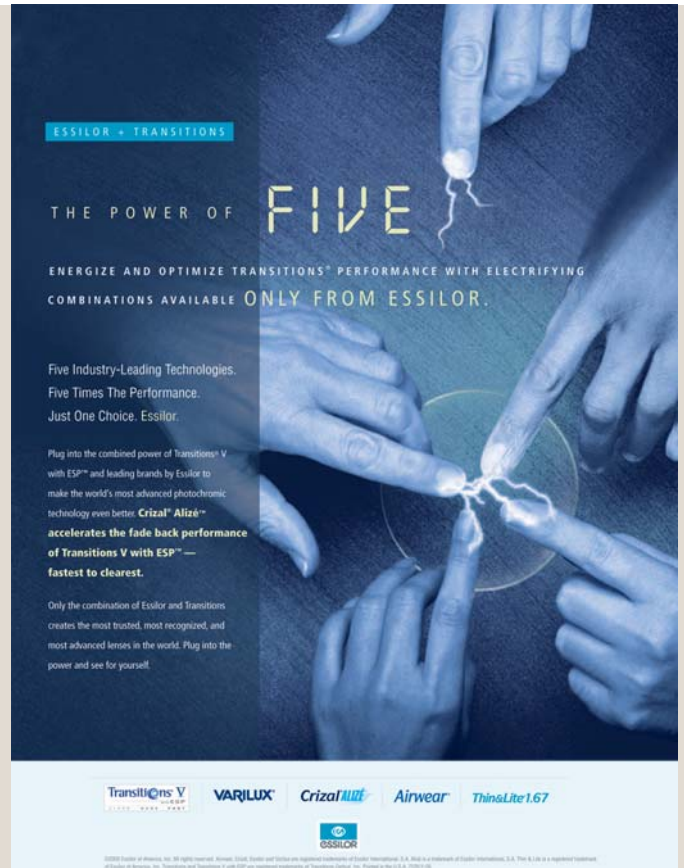
Hailed by eye care industry professionals, the Essilor Anti-Fatigue lens was awarded a gold medal at the 2005 International Eyewear & Optics Exhibition (SILMO) in Paris, as well as the 2006 Janus Award for Health.

Launched in 2005 in 1.67-index material, the lens will be available in 1.5 and polycarbonate materials beginning in 2006, when it will also be rolled out in the United States and Asia.



そろそろ、疲れ眼世代かも。

新提案 30代からの、メガネレンズ。
Nikon Relaxsee
 ニコン リラクシー



ESSILOR + TRANSITIONS

THE POWER OF FIVE

ENERGIZE AND OPTIMIZE TRANSITIONS' PERFORMANCE WITH ELECTRIFYING COMBINATIONS AVAILABLE ONLY FROM ESSILOR.

Five Industry-Leading Technologies.
 Five Times The Performance.
 Just One Choice. Essilor.

Plug into the combined power of Transitions V with ESP™ and leading brands by Essilor to make the world's most advanced photochromic technology even better. **Crizal® Alizé™ accelerates the fade back performance of Transitions V with ESP™ — fastest to clearest.**

Only the combination of Essilor and Transitions creates the most trusted, most recognized, and most advanced lenses in the world. Plug into the power and see for yourself.

Transitions V | VARILUX | Crizal Alizé | Airwear | Thin&Lite 1.67

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ADVANCED DIGITAL SURFACING: A NEW TECHNOLOGY

One of the major highlights of 2005 was the development of proprietary advanced digital surfacing technology, an exclusive lens optimization technique based on free-form technology. Already used for the Varilux Ipseo, the technology played a key role in the development of the Varilux Physio and opens new opportunities for lens personalization.

Digital surfacing uses a diamond cutter operated by a linear motor that is driven by powerful electromagnetic currents. The cutter produces the back surface of the lens according to wearer specifications, with a precision of one-tenth of a micron.

Already used to manufacture molds that produce the front side of semi-finished progress lenses like the Varilux Physio, digital technology has today reached a high level of technical maturity and cost effectiveness. As a result, it can be used in prescription laboratories and provides not only extreme precision but also allows for an infinite number of optical combinations.

Its deployment has required the development of new information systems across the entire chain, from order placement with the optician to the internal management and organization of the prescription laboratory, and even to current routing between laboratories that use digital surfacing and others using conventional surfacing processes.

In 2005, several Essilor prescription laboratories around the world were equipped with digital surfacing machines to prepare for the launch of the Varilux Physio and other products in 2006 and 2007.



Kappa CTD digital edging system

INSTRUMENTS: A NATURAL EXTENSION OF THE LENS BUSINESS

Essilor is also the world leader in the manufacture and sale of optical instruments, with two specialties: lens edging instruments for opticians, optometrists and prescription laboratories, and vision screening instruments for schools and other institutions, occupational medicine centers, the armed forces and eye care professionals.

2005 was a good year for Essilor Instruments, with revenue increasing 6.3% like-for-like. The business also increased market share, especially in China, where the rise in sales of polycarbonate lenses was supported by the installation of purpose-designed edging machines with Chinese opticians.

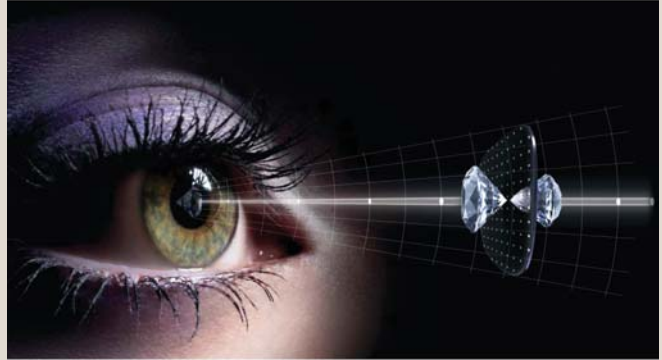
In the edging business, the year was shaped by two events:

- The acquisition of US market leader **National Optronics**, which provided Essilor with additional edging technologies that are especially well suited to polycarbonate and high-index materials as well as to wrap-around frames. Essilor will support the global expansion of National Optronics, whose expertise, quality and service are universally recognized across the US ophthalmic lens industry. The company's latest edging system received an award this year from the Optical Laboratories Association.
- The launch of the **Kappa CTD** digital edging system, which was enthusiastically received by opticians and was awarded a gold medal at the 2005 International Eyewear & Optics Exhibition (SILMO) for its

advanced technological features. The Kappa CTD is a top-of-the-line edging system that is fully automated and very easy to use. It integrates drilling and automatic centering functions that adapt to lens shape.

In the area of visual screening, US-based Stereo Optical also had a good year. Sales were lifted by the launch of Optec 6500, a state-of-the-art screening machine that measures eyesight with a very high degree of accuracy. Thanks to this new machine, Stereo Optical helps to promote vision correction solutions that sharpen visual acuity.

INTRODUCING HIGH RESOLUTION VISION. ONLY FROM VARILUX



VARILUX PHYSIO®
TWIN RX™ TECHNOLOGY

Varilux keeps progressing. You will too.
VARILUX®
ESSILOR

VARILUX PHYSIO: A MAJOR PROJECT FOR 2006

In early 2006, Essilor launched **Varilux Physio**, its new progressive lens, developed in 2005 following five years of research.

With Varilux Physio®, a revolutionary lens not only in its design but also in its production techniques, Essilor has invented High Resolution Vision and strengthened its position on the leading edge of innovation.

Varilux Physio: technology

Varilux Physio represents a double technological breakthrough developed by Essilor research teams. Its Twin Rx Technology features an exclusive process for calculating surfaces and a production method that uses advanced digital surfacing.

For the surface, Essilor uses Wavefront technology that can identify and correct a wide range of inherent progressive lens distortions. For the first time, Essilor engineers were able to analyze an entire beam of light (not just a single ray) entering the pupil (regardless of gaze direction), identify aberrations caused by conventional surfaces and correct them to achieve optimal acuity. The new lens offers better contrast in distant vision, wider areas of clear vision at mid distance and enhanced comfort and clarity at close range, whatever the light conditions.

In terms of manufacturing, Varilux Physio is produced using point-by-point twinning. First, advanced calculation software measures the back surface of the lens to ensure that it meets design specifications

over the entire surface and for all prescriptions. Then point-by-point twinning is carried out in Essilor prescription laboratories using digital surfacing technology whenever the back surface generated by the calculation requires a degree of precision that only these machines can deliver.

Varilux Physio: performance

Tests conducted among 2,000 Varilux Physio wearers and 150 eye care professionals in several countries have confirmed these benefits. Wearer feedback has reinforced the very high opinion of the advantages provided by Varilux Physio in terms of vision and comfort compared to the latest generation of progressive lenses available in the market.

Varilux Physio is protected by eight patents, including five for the lens design and three for the manufacturing process.

Launched in early 2006, the lens is being rolled out in roughly 100 countries between January and June and will gradually be made available in all plastic materials—1.5 to 1.74 and polycarbonate—by the end of the year.

Targeted International Expansion

ACQUISITIONS THAT STRENGTHEN TECHNOLOGICAL POTENTIAL AND DOWNSTREAM INTEGRATION

Essilor pursued its external growth in 2005, enhancing its positions in prescription laboratories and finished-lens distribution. In all, 18 companies were acquired in 2005 for a total €115.7 million. The full-year sales of these acquisitions represented around €92 million.

DEVELOPING TECHNOLOGICAL POTENTIAL

The acquisition of new companies provides Essilor with enhanced technological capabilities and access to new products. In 2005, Essilor made two acquisitions that expanded its range of skills in its two businesses—Lenses and Instruments.

- **The Spectacle Lens Group** (United States). In June, Essilor announced the acquisition of The Spectacle Lens Group, the ophthalmic lens business of Johnson & Johnson Vision Care Inc., a subsidiary of US-based Johnson & Johnson. Created in 1999, The Spectacle Lens Group has developed the Definity brand of progressive lenses, featuring unique Dual Add technology that divides progressive add power between the front and back surfaces. Definity was introduced in select US test markets in late 2002 and has proven popular with local eye care professionals and consumers. The acquisition was fully in line with Essilor's strategy of offering innovative, high value-added products. The Dual Add and related technologies has enhanced the Company's research programs to improve and personalize its offering of progressive lenses. The transaction was approved by US antitrust authorities and completed in the third quarter of 2005. Essilor then began integrating the new business and distributing the Definity lenses through its sales networks in the United States to speed its development. By the end of the year, the manufacture of Definity progressive lenses was transferred to an Essilor laboratory in Dallas.

- **National Optronics** (United States). In June, Essilor also completed its acquisition of the production and sales assets of **National Optronics**, based in Charlottesville, Virginia. Founded in 1979, National Optronics designs and manufactures precision edging systems, primarily for prescription laboratories, based on its specific technology. National Optronics has consolidated Essilor's position as the worldwide leader in edging systems, while adding a complementary technology to the Company's portfolio.

STRENGTHENING DOWNSTREAM INTEGRATION

End-to-end management of the production chain and optician distribution networks is a key component of Essilor's strategy. It speeds and supports the market launch and delivery of new products and makes it possible to offer a range of products and services that meet the specific needs of opticians, whether they are independent, members of a purchasing association or part of a distribution chain. In 2005, Essilor continued to strengthen its downstream positions, mainly through its strategy of acquiring prescription laboratories.

In Europe, three transactions were completed during the year:

- The acquisition of **ATR Mec Optical**, the Italian distributor of Essilor subsidiary BBGR. ATR Mec owns two prescription laboratories.
- The acquisition of **OMI**, Essilor's exclusive lens distributor in Martinique, Guadeloupe and French Guiana. OMI has a prescription laboratory in Guadeloupe.
- The acquisition of a 25% stake in **Ayudas para la Vision Subnormal (AVS)**, a company based in Madrid, Spain that manages a visual rehabilitation center for people suffering from visual deficiency. This transaction will enable Essilor and AVS to develop services for the visually impaired.

In the United States, Essilor acquired majority (generally 80%) or controlling (100%) interests in seven prescription laboratories to enhance service to opticians:

- **Vision-Craft Inc.** in Detroit, Michigan.
- **Midland Optical** in St. Louis, Missouri.
- **Jorgenson Optical Supply Company** near Seattle, Washington.
- **Optical One** in Youngstown, Ohio.
- **MGM** in Puerto Rico.
- **ACO Lab Inc.** in Commerce, California.
- **Focus Optical Labs Inc.** in Chicago, Illinois.

DEFINITY™
PROGRESSIVE LENSES

**Offer Your Patients With Active Lifestyles
Better Vision From The Ground Up**

DUAL ADD TECHNOLOGY

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Conventional Design +2.00D ADD

Side View

+4.75 ADD Power
+4.25 ADD Power
+2.00 ADD Power

DUAL ADD™ Dual Design
Conventional Design

GROUND VIEW ADVANTAGE

DEFINITY™ +2.00D ADD
Conventional Design +2.00D ADD

Intermediate +2.00D ADD

Today more than ever, presbyopes lead more active lives. DEFINITY™ and DEFINITY™ SHORT™ accommodate their lifestyle by utilizing advanced technology and design to provide patients key advantages over all other progressives:

- The widest intermediate zone (an average of 30% wider)
- The least amount of peripheral distortion
- A unique zone of visual correction called **GROUND VIEW ADVANTAGE™**

DEFINITY™ DUAL ADD™ Technology splits and optimizes the progressive optics onto the front and back surfaces of the lens offsetting astigmatism and drastically reducing distortion, which makes using a computer, driving or any everyday activity more comfortable.

The DEFINITY design also provides **GROUND VIEW ADVANTAGE™**, an additional zone at the bottom and sides of the lens that provides clearer vision when looking down. This flattened, more natural field of vision and wider intermediate zone makes biking, hiking and any ground level activity easier with DEFINITY.

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Be active. Stay active.
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PROGRESSIVE LENSES

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In **Canada**, Essilor acquired **Groupe Vision Optique (GVO)**, which owns prescription laboratories in several large cities in the Province of Quebec (Trois-Rivières, Quebec, Rimouski, Beloeil and downtown Montreal).

Separately, Essilor signed a contract with **Hakim Optical**, Ontario's leading optical chain, to acquire its Coating Lab Enterprises business, which comprises three anti-reflective treatment centers in London and Toronto, Ontario and in Halifax, Nova Scotia. The contract also calls for Essilor to supply the majority of the anti-reflective treatments sold in Hakim Optical's stores, as well as a major proportion of their lenses. Lastly, Essilor acquired the assets of **Canada's Optical Software Inc.**, which makes prescription laboratory management software.

In **India**, Essilor extended its prescription laboratory network by acquiring a majority stake in **Delta Lens Private Limited**, a prescription laboratory based in Mumbai (formerly Bombay).

In **Indonesia**, the Company created a prescription laboratory in partnership with one of the country's leading retail chains.

Lastly, in **Taiwan**, Essilor signed an agreement with **Polylite**, the second largest company in the local corrective lens market. Under the agreement, Essilor acquired a 12.1% stake in PolyLite's manufacturing division and the partners set up a joint venture called PolyLite Asia Pacific Pte Ltd, owned 51% by Essilor and 49% by PolyLite. The new company combines all of PolyLite's prescription laboratories and lens distribution operations in Taiwan, Hong Kong and China. The alliance has enabled Essilor to enter Taiwan, a country with significant potential for progressive lenses where the Company did not yet have any local operations. In addition, it has strengthened Essilor's positions in the prescription laboratory segment in Hong Kong and China.

A SUSTAINED ACQUISITION PROGRAM IN 2006

Essilor intends to pursue its acquisition strategy in the coming years, with the goal of building a network of close-to-the-customer prescription laboratories capable of producing personalized lenses. In early 2006, Essilor acquired several prescription laboratories.

In **India**, Essilor India Private Ltd, a wholly-owned subsidiary of Essilor International, and India's **GKB Rx Lens Private Ltd** have entered into a joint-venture agreement through which Essilor India has acquired a 50% interest in GKB's prescription laboratory and lens wholesaling business. The agreement includes an option to increase Essilor's stake in the future. GKB Rx Lens Private Limited is a pioneer in the Indian ophthalmic lens industry. It serves independent opticians and eye care practitioners via a nationwide network of eight prescription laboratories, with \$10 million in annual revenue. The agreement has enabled Essilor to enhance its leadership in India. The Company will also be able to leverage its multi-channel strategy in the prescription segment through a second network that will operate alongside the seven proprietary Essilor laboratories and the other Essilor partnerships.

With solid positions in all of the country's leading cities, Essilor is today number one in India's fast growing plastic and progressive lens market.

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

In the **United States**, Essilor acquired Eye Care Express Lab Inc. of Houston, Texas, and Accu Rx of Johnston, Rhode Island, two prescription laboratories.

In **Canada**, Essilor acquired a majority interest in SDL, an independent laboratory in Quebec. This acquisition will allow Essilor Canada to broaden its service strategy.

A Culture of Quality, Efficiency and Service

To preserve and correct the eyesight of people around the world, Essilor delivers its products and services to eye care professionals in the shortest timeframes and best conditions possible. These high standards are applied with all customers worldwide.

MANUFACTURING FACILITIES: IMPROVED PRODUCTIVITY AND GREATER VOLUMES

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

To meet market demand, Essilor's 16 plants produced 195 million lenses during the year, a 6.5% increase over 2004.

The increase reflects the growing use of plastics—notably high-index and polycarbonate materials—as a replacement for glass, as well as a sharp rise in anti-reflective finished lenses. Most of the volume increase was in Asia, especially at the plants in Thailand and the Philippines. Manufacturing start-ups included polycarbonate lenses at the plant in China and a new 1.6 high-index material in Mexico and Thailand, with product rollouts scheduled for 2006.

Every year, Essilor improves its competitiveness and delivery rate, and 2005 saw new productivity gains and an overall performance improvement. The purchasing management program was also pursued during the year and generated substantial savings.

The year's most important capital spending projects involved increasing production capacity for high-index and polycarbonate materials and for coatings and treatments in several plants; building a new inventory facility for the Thailand plant; financing prescription engineering platforms around the world; developing direct surfacing technology; and expanding treatment production lines in prescription laboratories.

OPTIMIZED ENGINEERING TO SUPPORT NEW PRODUCT LAUNCHES

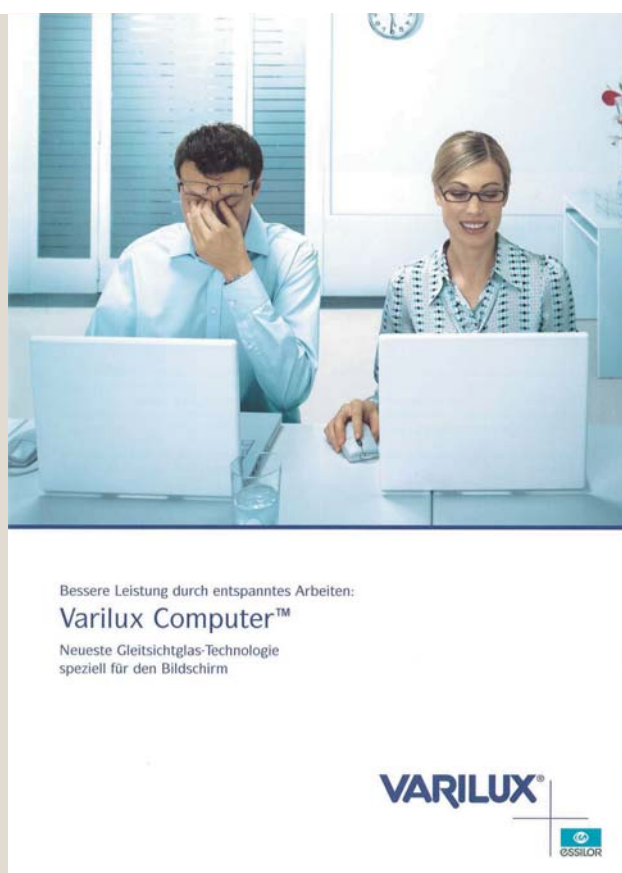
Essilor's 215 prescription laboratories around the world are dedicated to surfacing, coating, edging and mounting lenses.

The reorganization of the Global Engineering Department begun in 2004 was pursued in 2005.

The new organization's objectives are to speed the launch of new processes and products and anticipate subsidiary needs while improving technologies to drive continuous service improvement.

This is especially important given the differences among prescription laboratories (in terms of size, operations and customers) and among markets.

In this way, Global Engineering serves as the liaison between Research and Development on one hand and plants and prescription laboratories that share technologies on the other. The Department deploys technical platforms that integrate specific customer



requirements and deploys new technologies tailored to different laboratory models. In 2005, the organization, including most platforms, was implemented and operating procedures were clearly defined. Global Engineering also earned ISO 9001 certification. Now fully operational, the new organization has begun to demonstrate its efficiency, with the Varilux Physio launched in nearly every country during the first six months of 2006.

A UNIQUE LOGISTICS ORGANIZATION

Logistics play an increasingly important role within the organization and the quality of service provided to opticians around the world depends largely on supply chain efficiency. Essilor's logistics system is truly unique since it must take into account both series production in the plants and customized production in the prescription laboratories. The Company's 2,000 logistics technicians manage an ever-increasing number of SKUs (290,000 in 2005 compared with 240,000 the previous year) as well as the ophthalmic optics industry's most extensive product portfolio, with a delivery rate objective of more than 98%.

Upstream, production logistics teams for the 16 plants manage product flows that comprise storage, shipping, sales forecasts, manufacturing program and inventory level management.

Downstream, beginning in the prescription laboratories, distribution logistics teams manage the delicate balance between sales and inventory levels, the flow of customized products and distribution costs.

Throughout the year, the logistics organization pursued the action plan initiated in 2004 to meet the stepped-up pace of new product launches. The main actions involved the start-up of a new global program for the period 2005-2007 that is intended to more fully integrate information systems and to develop new functions.



Business and Financial Performance

In accordance with European regulation 1606/2002, Essilor prepared its consolidated financial statements for the year ended December 31, 2005 in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations. Overall, the transition to the new standards had a very limited impact on Essilor's consolidated equity and a positive impact on consolidated net profit. However, many items have been reclassified in the IFRS financial statements. Essilor has applied IAS 32 and IAS 39 as from January 1, 2005. As a result, the 2005 and 2004 statements of income are not directly comparable. Details of the options applied on transition to IFRS and the impact of each standard on the 2004 financial statements were disclosed in June 2005 and included in the 2005 Reference Document, in notes 1 and 2 to the Consolidated Financial Statements. This document is available on request from Essilor headquarters and can be downloaded from the Shareholders/Investors section of www.essilor.com.

Consolidated Statement of Income

<i>(in € thousands except per share data)</i>	2005 IFRS	2004 IFRS ^(a)
Revenue	2,424,323	2,202,528
Cost of sales	(1,034,529)	(960,457)
GROSS MARGIN	1,389,794	1,242,071
Research and development costs	(113,490)	(106,095)
Selling and distribution costs	(538,711)	(495,458)
Other operating expense	(317,176)	(283,977)
CONTRIBUTION FROM OPERATIONS	420,417	356,541
Restructuring costs, net	(3,353)	(6,203)
Impairment losses	(11,256)	(2,539)
Compensation costs on share-based payments	(12,269)	(8,544)
Other income and expenses from operations, net	1,967	1,832
Gains and losses on asset disposals, net	(1,871)	(2,192)
OPERATING PROFIT	393,635	338,895
Finance costs	(28,021)	(26,288)
Income from cash and cash equivalents	18,993	18,095
Other financial expense, net	(9,708)	(5,402)
PROFIT BEFORE TAX	374,899	325,300
Income tax expense	(108,292)	(90,044)
NET PROFIT OF CONSOLIDATED COMPANIES	266,607	235,256
Share of profit of associates	22,457	9,837
NET PROFIT	289,064	245,093
Attributable to equity holders of Essilor International	287,134	244,427
Attributable to minority interests	1,930	666
Basic earnings per share (€)	2.82	2.41
Weighted average number of shares (thousands)	101,883	101,483
Diluted earning per share (€)	2.72	2.32
Diluted weighted average number of shares (thousands)	108,455	107,854

(a) Excluding IAS 32 and IAS 39, applied as of January 1, 2005.

REVENUE

Revenue growth in 2005	Reported	Like- for-like	Scope of consolidation	Currency effect
<i>in € millions</i>	221.8	115.0	73.8	33.0
<i>as a %</i>	10.1%	5.2%	3.4%	1.5%

Consolidated revenue totaled €2,424.3 million, a 10.1% rise. Excluding the currency effect, the increase was 8.6%, in line with the target announced at the beginning of the year.

- On a like-for-like basis, revenue rose 5.2%, with growth accelerating between the first half (4.7%) and the second (5.7%). This reflects an increase of around 3% in unit sales of lenses and an improvement in the product mix.
- Companies acquired in 2004 and 2005 contributed 3.4% of growth.

- The currency effect (1.5%), which was negative early in the year, became favorable thanks to the rise of the US and Canadian dollars against the euro and the very good resilience of the Brazilian real.

Revenue by market

Revenue <i>in € millions</i>	2005	2004	% change (reported)	% change (like-for-like)
Europe	1,120.4	1,077.9	3.9%	2.4%
North America	1,025.1	897.2	14.3%	6.5%
Asia-Pacific	202.1	173.3	16.6%	12.2%
Latin America	76.7	54.1	41.7%	18.1%

EUROPE: A MIXED PERFORMANCE

In Europe, where the environment was challenging in most countries and often impacted by a sluggish economy, revenues rose slightly (2.4% like-for-like) and market share was maintained. The multi-network distribution strategy (Essilor, BBGR and Nikon) was extended to Italy with BBGR's acquisition of ATR Mec, providing very broad coverage of the European market with a variety of products and brands.

In **France**, where revenue from the lens business rose by 2.2%, Essilor maintained its overall positions in a market that saw slower growth than in previous years as well as an increase in mergers and acquisitions among distributors. The Essilor network continued to bring to market high value-added innovations and posted solid results with opticians for its recent products, notably Crizal Alizé anti-reflective lenses, Varilux Ellipse and Varilux Ipseo progressive lenses, and Transitions photochromic lenses. BBGR pursued its growth among major chains and launched two innovative products: an anti-reflective, smudge-proof lens and a progressive lens for small frames, both of which proved highly popular. Lastly, Novisia (Nikon products) had a very good year.

In **Germany**, the market rebounded for both Essilor and Rupp und Hubrach (BBGR), with sales rising 7.6%, led by personalized lenses. In **Austria**, lower reimbursements for optical equipment that took effect on January 1, 2005 resulted in a major decline in the market, as local subsidiary sales were down 16.5% for the year.

In Southern Europe, Essilor strengthened its positions with substantial growth in **Spain** (up 6.1%), **Portugal** and **Italy**, where the Company's 2004 and 2005 acquisitions propelled it to market leadership. It was also a very good year in **Eastern Europe**, especially the Czech Republic and Croatia. The prescription laboratory in Warsaw, Poland continued to ramp up production and became one of Essilor's largest in terms of capacity.

In the **United Kingdom**, however, 2005 was a disappointment, as revenue was flat for the year. Growth was well below expectations because of strategy and policy changes made by a number of major distributors. The year was also difficult in **Northern Europe**.

In late 2005, the first subsidiary was opened in **Russia** to provide opticians with Essilor products. The new unit will initially be supplied with subscription lenses from several European laboratories.

NORTH AMERICA: ANOTHER GOOD YEAR

Revenue in North America rose by a high 6.5% like-for-like, reflecting further market share gains.

United States

In a market that expanded moderately, with independent opticians and optometrists enjoying slightly faster growth than optical chains, revenue rose 7.1% like-for-like. Essilor strengthened its leadership positions in its three customer segments: independent opticians/optometrists, independent prescription laboratories and optical chains.

Sales to opticians and optometrists were driven by strong demand for high-index materials (1.6, 1.67 and 1.74), progressive lenses and anti-reflective lenses, which are outperforming the market as a whole. This situation has had a positive impact on both the product mix and on the growth of sales by the Essilor prescription laboratory network, which continued to successfully integrate new partners during the year.

Sales to independent laboratories were also strong, rising faster than the market, thanks to Essilor's reliable organization and product quality.

Partnerships were also strengthened with leading US optical chains, in particular with Luxottica, which operates the Cole, Pearle and LensCrafters stores. One example was the highly successful rollout in LensCrafters outlets of a new anti-reflective, smudge-proof lens marketed under 3M's Scotchgard™ Protector brand. Sales of Nikon Eyes lenses continued to grow in Wal-Mart stores. During the year, a number of contracts were won to supply chains with lenses, and deliveries of sophisticated products from Essilor's own prescription laboratories increased.

Canada

In Canada, sales were impacted by the elimination of ophthalmic optics reimbursements in Ontario, which represents one-third of the market. Nonetheless, Essilor's performed well in terms of revenue, which was sustained by the sale of anti-reflective lenses, high-index materials, progressive lenses (especially for small frames) and photochromic lenses. Essilor Canada also made two acquisitions during the year.

ASIA-PACIFIC: SIGNIFICANT GROWTH IN EMERGING MARKETS

Essilor turned in a solid performance in Asia-Pacific, with revenue increasing 12.2% like-for-like.

Nikon-Essilor and Japan

Essilor is represented in **Japan** by Nikon-Essilor, which is jointly owned on a 50/50 basis by the two companies. In this mature market, Nikon-Essilor achieved satisfactory 4.9% growth in sales. Market share also increased, notably with optical chains, thanks to upscale products integrating new technologies like digital surfacing, which were recently introduced in progressive and single vision lenses. Sales of 1.74 high-index materials continued to grow.

Outside Japan, Nikon-Essilor's two subsidiaries in Canada and the United Kingdom had an excellent year, helping to further increase the jointly owned subsidiary's total contribution to Essilor earnings.

In **South Korea**, Essilor Korea benefited from the rapid development of Nikon and Varilux products and strong growth in sales of high-index lenses in the domestic market.

In **China**, ongoing deployment of the multi-network strategy introduced several years ago drove a nearly 30% increase in revenue and led to new market share gains. Essilor brand products continued to sell well, led by Airwear polycarbonate lenses in particular and prescription lenses in general. Chemilens, an Essilor Korea subsidiary, enjoyed very strong growth in sales of high-index materials and doubled its plant capacity during the year.

In **India**, where the market for plastic lenses is expanding rapidly, revenue rose by 47%, driven by a multi-channel strategy and a highly assertive approach to marketing Varilux, Crizal and other brand-name products to opticians.

Elsewhere in Asia (especially **Malaysia**, **Singapore** and **Indonesia**) and in **New Zealand**, sales rose sharply, led by sustained demand for high-index, progressive and photochromic lenses. Lastly, in **Australia**, revenue held firm in a stable market.

LATIN AMERICA: ESSILOR'S BEST PERFORMANCE

Latin America posted the sharpest increase of any region, with revenue rising 18.1% like-for-like.

The favorable economic environment had a very positive impact on most ophthalmic optics markets, which grew in terms of both revenue and sales volumes.

In **Brazil**, the excellent image of the Varilux brand drove very strong demand for photochromic, anti-reflective, progressive and other high value-added lenses. A Varilux progressive lens for small frames and the Crizal Alizé anti-reflective lens were launched during the year and met with considerable success. Essilor also opened a new anti-reflection coating center to meet the needs of two customer segments: opticians and prescription laboratories.

In **Argentina**, the optics market rose to its highest level since 2001, just before the country's economic collapse. The trend to replacing glass with plastic lenses accelerated in 2005. Essilor enjoyed a very good year, shaped by an improved product mix and strengthened sales teams. An anti-reflection coating center was also created in partnership with Argentine laboratories, with whom Essilor works closely. Elsewhere in the region, notably Central America, new market share gains were recorded.

Mexico remains a difficult market in which sophisticated optical products are underdeveloped. Nonetheless, advances were made in Essilor's ongoing initiatives to develop its flagship products.

STATEMENT OF INCOME

Gross margin

An enhanced product mix and productivity gains lifted gross margin (revenue less cost of sales) by 0.9 points to 57.3% from 56.4% in 2004.

Other operating expense

Other operating expense totaled €969.4 million in 2005 versus €885.6 million in 2004. Research and development and engineering costs represented €113.5 million (including a €1.7 million tax credit), selling and distribution costs €538.7 million, and other operating costs €317.2 million.

Contribution from operations ⁽¹⁾

Growth in contribution from operations ⁽¹⁾ in 2005	Reported	Like-for-like	Scope of consolidation	Currency effect
<i>in € millions</i>	63.9	55.0	3.1	5.8
<i>as a %</i>	17.9%	15.4%	0.9%	1.6%

(1) Operating profit before share-based payments, restructuring costs and other non-recurring items, and goodwill impairment.

Contribution from operations increased 17.9% to €420.4 million from €356.5 million in 2004.

Contribution from operations as a percentage of revenue gained 1.1 points, reaching 17.3%. The increase reflected:

- A strong gross margin supported by productivity gains and an improved product mix.
- Good control over operating expense, which declined 0.2 points as a percentage of revenue.
- Wider margins in all host regions, including Europe.

Other income and expenses from operations, net

This item showed net expense of €24.9 million versus €15.4 million the year before. The increase stems from:

- Higher costs related to stock option plans, which totaled €8.1 million for four plans in 2005 compared with €4.6 million for three plans in 2004.
- A significant increase in goodwill impairment, which rose to €10.9 million from €2.5 million the year before. The impairment charge reflects difficulties encountered by a Mexican subsidiary and by BNL, which operates in the highly competitive non-corrective sunglass lens market.

Operating profit

This new item represents contribution from operations less other income/expense and proceeds from asset disposals. Operating profit totaled €393.6 million, or 16.2% of revenue, compared with €338.9 million, or 15.4% of revenue in 2004, an increase of 16.1%.

Growth in operating profit in 2005	Reported	Like-for-like	Scope of consolidation	Currency effect
<i>in € millions</i>	54.7	46.0	3.2	5.6
<i>as a %</i>	16.1%	13.6%	0.9%	1.6%

Financial income and expense

Net financial expense totaled €18.7 million versus €13.6 million in 2004. Net interest expense declined during the year; however first-time application of IAS 32 and IAS 39 led to a €4.1 million charge related to the separate recognition of the conversion option on convertible bonds under IFRS and recognition of a €5.5 million loss arising from remeasurement of financial instruments at fair value.

Income tax expense

The effective tax rate stood at 28.9% compared with 27.7% in 2004. The increase was largely due to a rise in non-deductible expenses related to consolidation under IFRS.

Share of profit of associates

This item includes the Group's share of profit contributed by VisionWeb (44.03% stake), Bacou-Dalloz (15.11%), and, since the application of IFRS, Transitions (49%). Share of profit of associates rose sharply, to €22.5 million from €9.8 million in 2004, thanks to an improved performance from VisionWeb and especially Bacou-Dalloz, which swung from a loss of €1.6 million in 2004 to a profit of €6.9 million in 2005.

Net profit after minority interests and earnings per share

Net profit rose 17.9% to €289 million. Net profit after minority interests increased 17.5% to €287.1 million and net margin widened to 11.8% from 11.1% the year before. Earnings per share grew 17% to €2.82.

BALANCE SHEET

Inventories and working capital requirement

Inventories totaled €364.6 million, up 19% from €306.4 million in 2004. At constant scope of consolidation and exchange rates, the increase amounted to 6.4%. Substantial inventory was built up at the end of the year, notably in Europe, to prepare the launch of several new products, including Varilux Physio and Transitions Gen V 1.5 index lenses.

Investment

in € millions	2005	2004
Capital expenditure net of divestments	174.7	145.8
Depreciation and amortization	120.8	111.7
Gross financial investment	175.8	115.4
Cash flow ⁽¹⁾	388.9	394.5

(1) Cash provided by operations less change in working capital requirement and provisions.

Capital expenditure net of divestments totaled €174.7 million or 7.2% of consolidated revenue. Of this, Europe accounted for €79 million, North America €59 million, and the rest of the world €37 million. Spending broke down as follows:

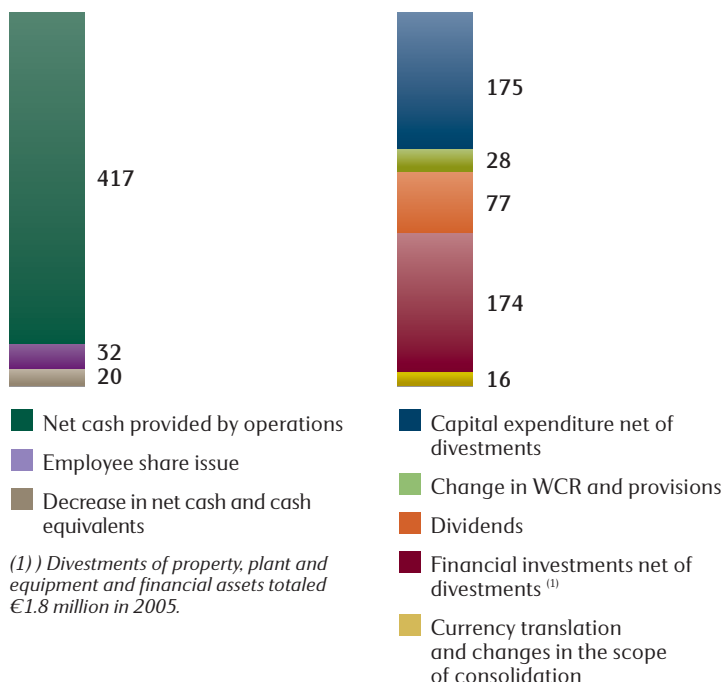
- Around 30% was devoted to series production to increase plant capacity, notably in Mexico and Thailand for medium and high index lenses.
- Around 60% was used to equip prescription laboratories, mainly for anti-reflection coating lines as well as for digitally controlled machines needed to deploy the digital surfacing technology used in the production of the new Varilux Physio progressive lens.
- Around 10% went to various investments 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 risen gradually, in line with the increase in value added products and especially growth in Crizal and Crizal Alizé anti-reflective lenses.

Financial investments amounted to €175.8 million in 2005. Acquisitions accounted for €115.7 million, while buybacks of shares to be cancelled net of the proceeds from the exercise of stock options accounted for €58.4 million.

Debt

(in € millions)



Despite the year's good performance and increase in margins, the cash surplus edged back slightly in 2005 for three reasons:

- An increase in dividend payments.
- Significant capital expenditure and financial investment.
- The fact that Transitions was accounted for by the equity method in 2005, with the result that its cash and cash equivalents are no longer recognized on the lines concerned.

Essilor ended the year with a net cash surplus of €54 million.

KEY RATIOS

- Return on equity (ROE)

Return on equity stood at 17.1% in 2005 versus 17.6% under IFRS in 2004. Based on 2004 exchange rates, ROE came to 17.8%, reflecting Essilor's improved margins and efforts to limit growth in the number of shares outstanding.

- Return on assets (ROA)

Return on assets amounted to 24.8% compared with 25.7% in 2004 under IFRS. At constant exchange rates, ROA increased by 0.3 points.

Consolidated Balance Sheet at December 31, 2005 (ASSETS)

<i>in € thousands</i>	2005 IFRS	January 1, 2005 after IAS 32 and 39	2004 IFRS ^(a)
Goodwill	451,037	357,806	350,357
Other intangible assets	124,195	86,774	88,155
Property, plant and equipment	637,342	520,256	520,256
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS, NET	1,212,574	964,836	958,768
Investments in associates	133,313	101,065	101,090
Other long term financial investments	41,408	43,408	42,830
Deferred tax assets	36,612	24,437	40,099
Long-term receivables	9,189	4,087	4,087
OTHER NON-CURRENT ASSETS, NET	220,522	172,997	188,106
TOTAL NON-CURRENT ASSETS, NET	1,433,096	1,137,833	1,146,874
Inventories	364,559	306,440	306,440
Prepayments to suppliers	9,614	7,634	7,634
Current receivables	515,460	443,601	447,420
Current income tax assets	16,054	4,015	4,015
Other receivables	7,851	5,872	5,872
Derivative financial instruments	2,650	37,228	
Prepaid expenses	14,139	14,218	14,218
Essilor shares			449
Marketable securities	548,424	572,769	572,515
Cash and cash equivalents	110,289	97,824	97,824
CURRENT ASSETS, NET	1,589,039	1,489,601	1,456,387
Non-current assets held for sale	4,015		
TOTAL ASSETS	3,026,150	2,627,434	2,603,261

(a) Excluding IAS 32 and IAS 39, applied as of January 1, 2005.

Consolidated Balance Sheet at December 31, 2005 (LIABILITIES)

<i>in € thousands</i>	2005 IFRS	January 1, 2005 after IAS 32 and 39	2004 IFRS ^(a)
Share capital	36,122	36,159	36,159
Additional paid-in capital	203,771	212,449	212,449
Retained earnings	1,133,089	955,610	949,031
Treasury stock	(81,979)	(64,144)	(63,695)
Convertible bond (OCEANE) call option	40,752	40,752	
Revaluation and hedging reserves	(1,289)	445	
Translation reserve	63,266	(37,451)	(37,451)
Net profit attributable to equity holders of Essilor Intl.	287,134	244,427	244,427
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF ESSILOR INTERNATIONAL	1,680,866	1,388,247	1,340,920
Minority interests	7,000	3,573	4,515
TOTAL EQUITY	1,687,866	1,391,820	1,345,435
Provisions for pensions and other post-employment benefits	90,848	81,430	81,430
Long-term borrowings	448,848	571,013	607,383
Deferred tax liabilities	2,163	1,878	1,878
Long-term payables	631	551	551
NON-CURRENT LIABILITIES	542,490	654,872	691,242
Provisions	26,321	32,010	32,010
Short-term borrowings	156,222	25,613	25,613
Customer prepayments	6,943	7,257	7,257
Short-term payables	522,505	436,792	439,114
Current income tax	26,665	30,883	30,883
Other liabilities	38,897	31,831	23,551
Derivative financial instruments	9,267	8,200	
Deferred income	8,974	8,156	8,156
CURRENT LIABILITIES	795,794	580,742	566,584
TOTAL EQUITY AND LIABILITIES	3,026,150	2,627,434	2,603,261

(a) Excluding IAS 32 and IAS 39, applied as of January 1, 2005.

Investor Information

THIRTY YEARS ON THE STOCK MARKET

The Essilor share was introduced on the Paris Bourse on October 28, 1975 at a restated price of 51.89 euro cents. It closed on December 30, 2005 at €68.20.

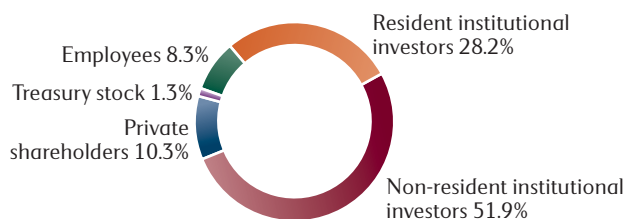
On January 3, 2005, the Essilor share was included in the Euronext Paris's benchmark CAC 40 index.

Over the past 30 years, the share has outperformed the CAC 40 index.

- The share price has increased by a multiple of 131.4 in 30 years.
- It has risen by 378% in the past ten years, 96.2% in the past five years and 73.8% in the past three years. In 2005, it increased by 18.3%.

A DIVERSIFIED SHAREHOLDER BASE

At December 31, 2005, there were 103,206,262 Essilor shares outstanding (100% of the free float). To the best of the Company's knowledge, the ownership structure is as follows:



AN ONGOING COMMITMENT TO TRANSPARENCY

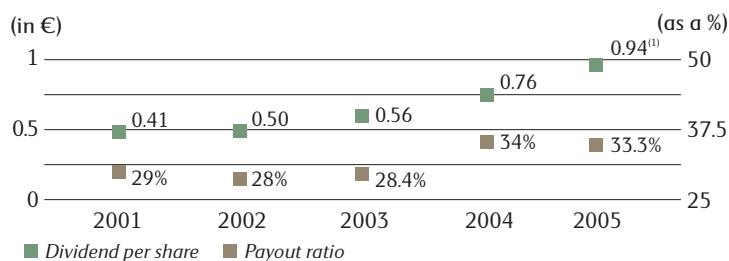
Essilor provides a full range of information media in order to maintain a solid relationship with the public.

- All press releases regarding sales, earnings, acquisitions or other significant developments are posted on the www.essilor.com website. Presentations of full-year results are webcast live on the site and archived for later viewing. Conference calls are held with financial analysts in French and English when full-year, interim and quarterly revenue figures are released. These calls are also available for later listening.
- Meetings are held regularly with institutional investors in Europe, North America and Asia. In 2005, fourteen road shows were organized (of which two each in Paris and New York and one each in London and Tokyo) and 180 one-on-one meetings were held.
- Visits to Essilor facilities provide members of the financial community with an inside look at the ophthalmic optics business. In 2005, tours were organized of two prescription laboratories: one in Warsaw, Poland for analysts and one in Aichi, Japan for a group of investors.

Share performance

in €	2005	2004	2003	2002	2001
High	71.95	57.75	42.50	45.57	35.80
Low	52.30	39.20	30.85	31.20	25.00
Closing on December 31	68.20	57.65	41.00	39.25	33.95
Shares outstanding on December 31	103,206,262	103,310,483	102,740,108	102,683,613	101,075,891
Market capitalization at December 31 (in € millions)	7,012	5,932	4,188	3,975	3,417

Significant increase in the payout ratio, 2001-2005



(1) Subject to approval at the Annual Shareholders Meeting on May 12, 2006.

ESSILOR SECURITIES

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

Share data

The Essilor share trades on the Euronext Paris (Eurolist - Compartment A) stock exchange.

Par value: €0.35

Number of fully paid shares of common stock outstanding at December 31, 2005: 103,206,262

Eligible for the SRD deferred settlement system and PEA equity savings plan.
Codes and symbols: ISIN: FR 0000121667, Reuters: ESSI.PA, Bloomberg: EFFP

Main stock indexes in which the Essilor share is included:

- CAC 40 (since January 3, 2005)

Weighting in the CAC 40 index at December 31, 2005: 0.84%

Socially responsible investment indexes:

- ASPI (Vigeo agency) and FTSE4GOOD (FTSE)

The Essilor share and the CAC 40 index: five year-comparative performance



* January 1, 2001 to March 10, 2006.

OCEANE data

Listing: Euronext Paris

Par value: €51.15

Number of OCEANE bonds outstanding at December 31, 2005: 6,039,749

ISIN code: FR 0000189276

Share buyback program

During the period between January 1 and December 31, 2005, the Board of Directors used the authorizations given at the Extraordinary Shareholders' Meeting of May 13, 2005, to purchase 985,523 shares at an average price of €64.69 per share.

Shares issued, cancelled and bought back in 2005

- New shares issued on exercise of stock options: 450,247
- New shares issued to the Essilor Group five and seven-year corporate mutual funds: 345,532
- Treasury stock canceled: 900,000, reducing the Company's capital by €315,000
- Treasury stock at December 31, 2005: 1,323,630 shares

Agent bank

Société Générale is Essilor's agent bank for holders of shares registered with the Company:

Société Générale - Département Titres et Bourse

32, rue du Champ de Tir - BP 81-236 - 44312 Nantes Cedex 3 - France

Tel (when calling from France): 0 825 820 000

Tel (when calling from outside France): +33 2 51 85 67 89

Fax: +33 2 51 85 53 42

Advantages of registering shares with the Company:

- No custodial or management fees.
- Shareholder hotline: when calling from France; when calling from outside France.
- Doubled voting rights for shares held more than two years.
- Internet access to the holder's account.
- Notice to attend Annual Meetings and related documents sent automatically.

2006 INVESTOR CALENDAR

Thursday, April 20, 2006: First-quarter revenue announced

Friday, May 12, 2006: Annual Meeting of Shareholders

Thursday, July 20, 2006: First-half revenue announced

Thursday, September 7, 2006: First-half earnings announced

Thursday, October 19, 2006: Nine-month revenue announced

www.essilor.com: Shareholders/Investors section

INVESTOR CONTACT

Véronique Gillet

Vice President, Investor Relations and Financial Communication

Tel: +33 (0) 1 49 77 42 16 - Email: invest@essilor.com

5-YEAR FINANCIAL PERFORMANCES

<i>in € millions</i>	2005 IFRS	2004 IFRS ⁽¹⁾	2004	2003	2002	2001
INCOME STATEMENT						
Revenue	2,424	2,203	2,260	2,116	2,138	2,070
Gross margin as a % of revenue ⁽²⁾	57.3%	56.4%	60.3%	60.6%	59.7%	56.7%
Operating expense as a % of revenue	40.0%	40.2%				
Contribution from operations ⁽³⁾	420	356.5				
Contribution from operations as a % of revenue	17.3%	16.2%				
Operating profit (French GAAP)			404	365	341	311
Operating profit as a % of revenue			17.9%	17.2%	15.9%	15%
Operating profit (IFRS)	393.6	338.9				
Operating profit as a % of revenue	16.2%	15.4%				
Net profit attributable to equity holders of Essilor International	287	244	227	200	182	143
Net margin	11.8%	11.1%	10.1%	9.5%	8.5%	6.9%
CASH FLOWS						
Cash flow ⁽⁴⁾	418	392	385	354	335	286
Capital expenditure	181	150	160	150	145	127
Financial investments ⁽⁵⁾	178	111	115	150	37	57
Dividends paid ^{(6) (7)}	77	62	62	59	46	41
BALANCE SHEET						
Total equity	1,688	1,345	1,334	1,206	1,212	1,207
Property, plant and equipment and intangible assets, net	1,213	959	1,065	1,049	1,088	1,199
Inventories	365	306	319	310	325	348
Total borrowings	606	633	646	709	415	417
Net cash ⁽⁸⁾	54	37	34	(97)	(163)	(321)
FINANCIAL RATIOS (as a %)						
Return on assets (ROA)	24.8	25.7	26.8	24.1	21.2	16.9
Return on equity (ROE)	17.1	17.6	17	16.6	15	11.8
Net cash to equity	3.2	2.8	2.5	(8)	(13)	(27)
Shares outstanding at year-end ^{(9) (10)}	103,206,262	103,310,483	103,310,483	102,740,108	102,683,613	101,075,891
PER-SHARE DATA (in €)						
Net assets ⁽⁹⁾	13.66	13.20	13.14	11.92	11.99	12.08
Earnings ⁽⁹⁾	2.82	2.41	2.24	1.98	1.82	1.43
Diluted earnings ⁽⁹⁾	2.72	2.32	2.15	1.95	1.81	1.43
Dividend before tax credit ⁽⁹⁾	0.94	0.76	0.76	0.56	0.50	0.41
Payout ratio	33.3%	32%	34%	28%	28%	29%
EMPLOYEES ⁽¹¹⁾	26,534	24,793	25,886	23,607	23,269	22,309

(1) Before first-time application of IAS 32 and IAS 39 standards (January 1, 2005).

(2) Revenue less cost of sales.

(3) Operating profit before share-based payments, restructuring costs and other non-recurring items, and goodwill impairment.

(4) Profit before depreciation, amortization, other non cash items and share of profit of associates, net of dividends received.

(5) Including buyback of treasury stock.

(6) Dividends paid for the previous year.

(7) Including dividend equalization tax in the years 2001-2003. Abolished in 2004.

(8) After first-time application of IAS 32 on January 1, 2005, Essilor's net cash position stood at €74 million.

(9) Restated for the 10-for-1 stock split in 2001.

(10) Including shares held in treasury.

(11) Excluding Transitions Optical Inc. employees in 2004 and 2005 (IFRS).

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Unless other indicated:

- Information concerning market share and positions is based on volumes sold.
- Marketing information concerning the ophthalmic optics market and industry as well as information about Essilor's market share and positions is based on internal assessments and studies incorporating external market data where appropriate.

The Annual Report and Reference Document are produced by
the Essilor Investor Relations and Financial Communication Department
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Detailed financial and legal data intended for shareholders are included in the 2005 Reference Document filed with Autorité des Marchés Financiers. This document is available on request from Essilor headquarters and can be downloaded from the Shareholders/Investors section of www.essilor.com.

The English 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.

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