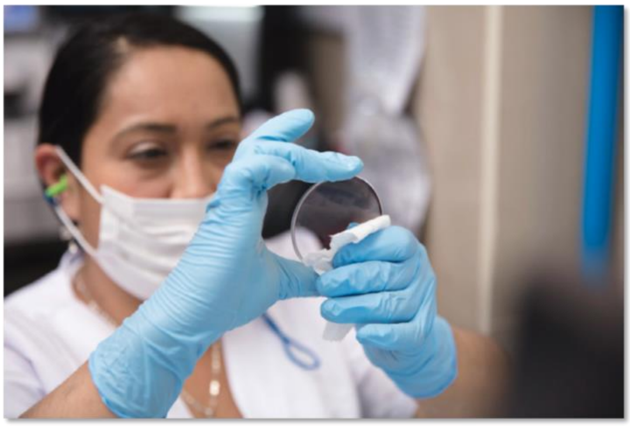
ESSILOR

SEEING THE WORLD BETTER



2018 INTERIM FINANCIAL REPORT

ESSILOR INTERNATIONAL

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This is a free translation into English of the 2018 Interim Financial Report issued in French.

July 26, 2018

Strong Second Quarter
Delivering on the Growth Strategy

- On track with objectives: First-half like-for-like growth[1] of 4.0%, including 4.8% in Q2, and contribution from operations[2] at 18.4% of revenue
- Major brands and new products driving growth
- Gross margin expansion fueling continued investments in future growth

Charenton-le-Pont, France (July 26, 2018 – 6:30 am) – The Board of Directors of Essilor International (Compagnie Générale d'Optique) met yesterday to approve the financial statements for the six months ended June 30, 2018. The auditors have performed a limited review of the consolidated financial statements.

Financial Highlights

€ millions	**June 30, 2018** ***Adjusted[6]***	**June 30, 2017[8]** ***Adjusted[6]***	**Change %** At constant currencies	At real currencies	**June 30, 2018** ***Reported***
Revenue	**3,726**	**3,859**	+4.4%	-3.5%	3,726
Contribution from operations[2] *(% of revenue)*	**684** **18.4%**	**718** **18.6%**	+2.4%	-4.8%	684 18.4%
Operating profit	**630**	**667**	+1.9%	-5.5%	583
Profit attributable to equity holders	**421**	**431**	+4.8%	-2.4%	349
Earnings per share (*in €*)	**1.93**	**1.99**	+4.5%	-3.0%	1.60

(6) The income statements as of June 30, 2018 and June 30, 2017 are adjusted for expenses accounted for in the financial statements due to the proposed combination with Luxottica.
(8) The group has applied IFRS 15 related to revenue recognition since January 1st, 2018. The H1 2017 statement of income has been restated accordingly, with an impact of -€50m on revenue and of -€3m on contribution from operations[2].
A reconciliation table comparing adjusted to reported results is available on page 11 of this document.

Commenting on these results, Hubert Sagnières, Chairman and Chief Executive Officer of Essilor, said: *"Essilor delivered solid results in all regions and divisions in the first half of 2018, while at the same time preparing for its proposed combination with Luxottica. This performance reflects the mobilization of our teams around a powerful and unique mission: "Improving lives by improving sight".* This *translates into a clear growth strategy with an aim to improve and protect the vision of more than 7 billion people around the world with solutions for consumers with any level of means. Our innovations are particularly appreciated in many countries where needs remain significant, from the United States and China to Brazil and elsewhere. This allows us to continue investing more in the future well-being of populations, and increases our confidence in the future."*

First-half operating highlights

Consolidated revenue reached €3,726 million in the first half of 2018, an increase of 4.4% at constant exchange rates including 4.0% in like-for-like[1] terms. Contribution from operations[2] amounted to 18.4% of revenue. Excluding currency effects, adjusted[6] earnings per share rose by 4.5%. Free cash flow[5] reached €263 million.

Other highlights of the first half were:

↗ Revenue growth of 4.1% in constant currency at the Lenses & Optical Instruments division, of which 3.6% like-for-like[1], including:
  - An improved product mix driven by the success of new branded lenses, notably Varilux® X series™ in the United States, Crizal® Sapphire™ 360° in the United States and in Europe and Eyezen™ around the world;
  - Close to 6% volume growth for Transitions® sales through the Company's own distribution networks. Concurrently, the decline in sales volumes to third-party lens makers slowed markedly;
  - Strong momentum in the US and in e-commerce;
  - Very promising trends in fast-growing markets[9], including a sales rebound in Brazil.

↗ Robust performance at the Sunglasses & Readers division, which delivered 8.1% like-for-like[1] growth;

↗ Delivering on the Company's ambition to eradicate poor vision by providing vision solutions to some 4 million new wearers, notably through the extension of inclusive business models in new countries;

↗ Good profitability after additional investments in the most attractive distribution channels and market segments;

↗ A gradual resumption of the acquisitions and partnerships strategy, leading to the acquisition of majority stakes in four companies representing combined full-year revenue of around €27 million.

Outlook

Encouraged by strong results for the first six months and the many sales initiatives planned for the second half, Essilor confirms its full-year 2018 targets, calling for like-for-like[1] revenue growth of around 4% and a contribution from operations[2] greater than or equal to 18.3%[7] of revenue.

Proposed combination of Essilor and Luxottica

Efforts continued in the first half of 2018 to complete the proposed combination of Essilor and Luxottica. On March 1st, the proposed combination was approved without conditions by the European Commission and the US Federal Trade Commission. On June 29, Essilor and Luxottica announced the extension to July 31, 2018 of the deadline of both the Combination Agreement and Contribution Agreement signed between Essilor and Delfin, Luxottica's majority shareholder. Essilor and Luxottica are finalizing discussions with the Chinese competition authority and are confident to obtain its approval by the end of July. In parallel, the two companies are progressing in their discussions with the Turkish antitrust authority and evaluating the timing for the closing of the transaction.

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

The meeting will be available live and may also be heard later at:

http://hosting.3sens.com/Essilor/20180726-4A1FA8A7/en/webcast/startup.php

Regulatory filings

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

https://www.essilor.com/en/investors/publications-and-downloads/

NOTES

1. **Like-for-like growth**: Growth at constant scope and exchange rates. See definition provided in Note 2.4 to the consolidated financial statements in the 2017 Registration Document.
2. **Contribution from operations**: Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).
3. **Bolt-on acquisitions**: Local acquisitions or partnerships.
4. **Operating cash flow**: Net cash from operating activities before working capital requirement.
5. **Free cash flow**: Net cash from operating activities less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.
6. **Adjusted** for expenses accounted for in the financial statements in the context of the proposed combination with Luxottica.
7. Excluding any new strategic acquisitions.
8. The group has applied **IFRS 15** related to revenue recognition since January 1st, 2018. The 2017 statement of income has been restated accordingly.
9. **Fast-growing countries** include China, India, ASEAN, South Korea, Hong Kong, Taiwan, Africa, the Middle East, Russia and Latin America.

About Essilor

Essilor International (Compagnie Générale d'Optique) ("Essilor") is the world's leading ophthalmic optics company. Essilor designs, manufactures and markets a wide range of lenses to improve and protect eyesight. Its mission is to improve lives by improving sight. To support this mission, Essilor allocates more than €200 million to research and innovation every year, in a commitment to continuously bring new, more effective products to market. Its flagship brands are Varilux®, Crizal®, Transitions®, Eyezen™, Xperio®, Foster Grant®, Bolon™ and Costa®. It also develops and markets equipment, instruments and services for eyecare professionals.

Essilor reported consolidated revenue of around €7.5 billion in 2017 and employs approximately 67,000 people worldwide. It has 34 plants, 481 prescription laboratories and edging facilities, as well as 4 research and development centers around the world. For more information, please visit www.essilor.com.

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

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

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MANAGEMENT REPORT

FIRST-HALF 2018 CONSOLIDATED REVENUE

€ millions	June 30, 2018	June 30, 2017[8]	Change (reported)	Change (like-for-like[1])	Change in the scope of consolidation	Currency effect
Lenses & Optical Instruments	**3,211**	3,333	-3.7%	+3.6%	+0.5%	-7.7%
North America	***1,386***	*1,472*	*-5.8%*	*+4.0%*	*+0.7%*	*-10.5%*
Europe	***1,004***	*1,011*	*-0.6%*	*+0.9%*	*+0.1%*	*-1.7%*
Asia/Pacific/Middle East/Africa	***596***	*603*	*-1.3%*	*+6.6%*	*+0.3%*	*-8.2%*
Latin America	***225***	*247*	*-8.7%*	*+5.1%*	*+1.0%*	*-14.8%*
Sunglasses & Readers	**413**	417	-1.1%	+8.1%	0%	-9.2%
Equipment	**102**	109	-6.8%	+0.9%	0%	-7.7%
TOTAL	**3,726**	**3,859**	**-3.5%**	**+4.0%**	**+0.4%**	**-7.9%**

(8) The group has applied IFRS 15 related to revenue recognition from January 1st, 2018. H1 2017 revenue has been restated accordingly, with a negative impact of €50m.

In the first six months of 2018, revenue amounted to €3,726 million, up 4.4% excluding currency effects.

- Like-for-like[1] growth reached 4.0%, reflecting:
  - Solid growth at the Lenses & Optical Instruments division (+3.6% like-for-like[1]) fueled by good overall results in fast-growing markets[9], the United States and the e-commerce businesses.
  - A strong performance at the Sunglasses & Readers division (+8.1% like-for-like[1]), where all brands contributed to the rebound.
  - Flat revenue at the Equipment division, which was working against a very demanding comparison base.
- Changes in the scope of consolidation (+0.4%) were driven by acquisitions completed in 2017.
- The currency effect (-7.9%) reflected the depreciation of several currencies against the euro, including the US dollar, the Brazilian real, the Indian rupee, the Canadian dollar, the Turkish lira and the Chinese yuan.

HIGHLIGHTS BY BUSINESS AND BY REGION

Lenses & Optical Instruments

The Lenses & Optical Instruments division posted like-for-like[1] revenue growth of 3.6% in the first-half 2018.

Revenue increased by 4.0% like-for-like[1] in **North America** during the first half. The core US lens business grew at a quicker pace than the overall region with regional performance further boosted by e-commerce, in particular online sales of prescription eyeglasses.

In the **United States**, growth in the first half was driven by Essilor's initiatives to support independent eyecare professionals. This was exemplified by the ongoing rollout of new products and robust demand for the Company's flagship lens brands, most notably the "Ultimate Lens Package" offer, a premium solution tailored to progressive and single-vision lens wearers. Growth was particularly strong with independent eyecare professionals affiliated with Essilor's alliance network and stronger among those alliance members leveraging the Essilor Experts program, which expanded significantly during the first half.

Essilor's key account business remained buoyant through exposure to faster-growing retail groups, key accounts utilizing integrated supply chain offerings and demand for higher value lens offerings in select accounts. Contact lens distribution activities also contributed to growth during the half.

In **Europe**, where the ophthalmic optics market was subdued, revenue growth (+0.9% like-for-like[1]) was driven primarily by new products and targeted marketing initiatives. Online sales, notably in the prescription eyeglasses segment, also contributed to growth.

In addition to the ongoing rollout of the Varilux® X series™ progressive lens, the launch of the new Crizal® Sapphire™ antireflective lens in the second quarter helped improve the product mix.

Though market conditions in **France** were unfavorable, revenue grew slightly thanks to good execution of the multi-network strategy, as evidenced by a sharp rise in sales of Nikon® lenses distributed by the BBGR network.

Strong growth in **Eastern Europe**, particularly Poland and Romania, reflected the gains recorded in the main value added categories of ophthalmic lenses, penetration of which remains low even today. Sales in **Scandinavian markets** benefited from an enhanced agreement with a key account to promote high-value vision correction solutions. Revenue was flat in the **German-speaking countries** and slightly declined in **Southern Europe**.

Strong momentum in most markets in the region drove revenue in **Asia-Pacific/Middle East/Africa** up by 6.6% on a like-for-like[1] basis, with fast-growing markets[9] delivering domestic growth of close to 10%. The rollout of the Varilux® X series™ lens during the first half was very well received. In **China**, domestic sales continued to power ahead thanks to a consumer-centric strategy, a number of innovative products (Varilux® X series™, EssiJunior™, myopia control and blue-light-filtering lenses) and active coverage of the mid-range segment. In **Korea**, sales continued to be buoyed by improved penetration of progressive and photochromic lenses. **Southeast Asian markets** showed outstanding results, with growth picking up between the first and second quarters. The Group expanded its footprint in Vietnam with a new partnership (see Acquisitions section). Solid gains in **Turkey** were fueled by low penetration of progressive and photochromic lenses in the country. Business trends in **India** were still mixed, but efforts to develop the market continued. The Company notably entered into a partnership with the government of Odisha to implement the Eye Mitra™ inclusive business model, a program through which 300 young entrepreneurs will be trained to provide affordable vision care to local communities. Within the developed countries in the region, a decline in sales in **Australia** was largely offset by a good performance in **Japan**.

In **Latin America**, revenue was up 5.1% like-for-like[1], driven by a strong rebound in **Brazil** (+6.6%).
Achieved in a market that remained sluggish and was disrupted by a truck drivers' strike late in the period, this performance was underpinned by successful launches during the first half of the Varilux® X series™ progressive lens and the Crizal® Sapphire™ antireflective lens. Double-digit volume growth for Varilux® lenses together with solid gains for Transitions® lenses helped to improve the product mix and the Company's positioning. Strong results from Kodak® lenses and the instruments business also supported growth.
Other countries in the region posted more modest gains. While momentum was once again robust in **Colombia** and **Argentina**, results were more mixed in **Mexico**, where the Company was nonetheless able to strengthen its presence via a new partnership with a distributor of ophthalmic and contact lenses targeting independent opticians and prescription laboratories. Lastly, the Company entered the **Honduran** market through a new partnership with an integrated optical chain (see Acquisitions section).

<u>Sunglasses & Readers</u>

The **Sunglasses & Readers** division delivered strong results in the first half, with revenue up by 8.1% like-for-like[1].
In North America, **FGX International** continued to see good sell-through demand for sunglasses and readers in stores. Results were boosted by a good season for sunglasses during the second quarter that also benefited **Costa®,** which delivered the best performance of the Sunwear brands in the American market. Costa® continued its expansion in optical stores, in the prescription frames and lenses category, and also geographically, with a newly established presence in California.
In China, **Xiamen Yarui Optical** (Bolon™) returned to solid growth in both sunglasses and optical frames, notably thanks to successful 2018 collections and a rapid increase in online sales. **MJS** continued to expand its store network and promote higher-end products.

<u>Equipment</u>

Revenue at the **Equipment** division rose 0.9% like-for-like[1] despite a demanding 2017 comparison base, particularly in Asia.

Growth in North America and Europe was driven by sales of VFT-Orbit 2™ digital generators, Multi-FLEX™ polishers and non-alloy ART blockers, addressing both needs for new capacity and upgrades to existing production lines. In Latin America, the conversion of smaller prescription laboratories to digital surfacing technology boosted sales of low- and medium-capacity digital generators such as the VFT-Orbit 2™ and VFT-Macro™. The division's order book remains strong.

MAIN HIGHLIGHTS ABOUT THE COMPANY'S MISSION

The Company's mission, "Improving lives by improving sight", drives the activity in all regions and divisions. During the first half, it provided vision solutions to some 4 million new wearers. In April, Essilor formed a partnership with the Vision Catalyst Fund, a $1 billion fund recently launched by the Queen Elizabeth Diamond Jubilee Trust that brings together actors from the public and private sectors to deliver eye health solutions to populations in Commonwealth countries and around the world. A commitment was made to put a sustainable infrastructure into place in order to provide ophthalmic lenses to 200 million people living below the poverty line by 2030. Essilor also continued to roll out its Eye Mitra™ inclusive business model in India (new partnership with the government of Odisha) and Bangladesh, and in new countries like Indonesia ("Mitra Mata") and Kenya ("Eye Rafiki"). Through a new program launched on five of the Company's main online stores, one pair of glasses will be donated to a person in need every time a pair is ordered through the sites. This program is being implemented in close cooperation with several social impact organizations: the Vision For Life™ fund, the Essilor Vision Foundation and Our Children's Vision. In France, the Company launched www.labonnevue.fr, an awareness website to better inform consumers about visual health. Various initiatives taken by the Sunglasses & Readers division also supported Essilor's mission. For instance, the Costa® brand launched the "Untangled" collection, a new line of sunglasses made from recycled fishing nets to help fight plastic pollution in the world's oceans.

SECOND-QUARTER 2018 CONSOLIDATED REVENUE

€ millions	**Q2 2018**	**Q2 2017[8]**	**Change (reported)**	**Change (like-for-like[1])**	**Change in the scope of consolidation**	**Currency effect**
Lenses & Optical Instruments	**1,619**	1,645	-1.6%	+4.2%	+0.3%	-6.1%
North America	***694***	*711*	*-2.4%*	*+4.5%*	*+0.5%*	*-7.4%*
Europe	***513***	*516*	*-0.5%*	*+1.1%*	*+0.1%*	*-1.7%*
Asia/Pacific/ Middle East/Africa	***299***	*297*	*+0.2%*	*+6.9%*	*0%*	*-6.8%*
Latin America	***113***	*121*	*-5.9%*	*+9.2%*	*0%*	*-15.1%*
Sunglasses & Readers	**223**	218	+2.5%	+9.5%	0%	-7.0%
Equipment	**59**	59	-2.1%	+4.2%	0%	-6.3%
TOTAL	**1,901**	**1,922**	**-1.1%**	**+4.8%**	**+0.2%**	**-6.1%**

(8) The group has applied IFRS 15 related to revenue recognition from January 1st, 2018. Q2 2017 revenue has been restated accordingly, with a negative impact of €25m.

Revenue reached €1,901 million in the second quarter of 2018, up 5.0% at constant exchange rates. Like-for-like[1] growth accelerated to 4.8%. Changes in the scope of consolidation added 0.2%, while currency translation had a negative impact of 6.1%, mostly linked to the depreciation of the US dollar and the Brazilian real against the euro.

Key highlights of the second quarter were:

- Robust like-for-like[1] growth in the United States (+5.0%), China (+9.6%) and Brazil (+12.4%) for the Lenses & Optical Instruments division;
- A strong contribution to the growth of the Sunglasses & Readers division from Xiamen Yarui Optical (Bolon™);
- Very solid business trends at the Equipment division, given that it was working against a demanding comparison base.

ACQUISITIONS AND PARTNERSHIPS

During the first half, Essilor gradually resumed its policy of targeted acquisitions and local partnerships, acquiring majority stakes in four companies representing combined full-year revenue of close to €27 million.

North America

- In the **United States,** the Company acquired a majority stake in **Cal Coast Ophthalmic Instruments, Inc.**, a distributor of optometry equipment covering the western part of the country. Cal Coast, which generates annual revenue of around USD12 million, will allow the Instruments business to expand its geographical coverage and accelerate the marketing of its products.

Asia/Pacific/Middle East/Africa

- In **Vietnam**, Essilor expanded its business footprint through **Hao Phat Group LLC.** and **Mat Viet Group LLC.***, a distributor of optical products and one of the country's leading optical retail chains, generating combined full-year revenue of around €4 million. Mat Viet Group operates some 25 stores primarily located in the capital, Ho Chi Minh City, and the provinces of Hanoi and Da Nang. This will contribute to the Company's growth in a country where getting access to vision care is a real challenge and only 20% of those who need it have proper vision correction. Vietnam has one of the lowest vision care access rates in the world with just one optical store per 90,000 residents.

Latin America

- In **Mexico**, Essilor acquired a majority stake in **Artículos Ópticos de Higiene y Seguridad, S.A. de C.V. (Aohssa)***, one of the country's leading distributors of ophthalmic and contact lenses targeting independent opticians and laboratories. Based in Mexico City, Aohssa generates annual revenue of close to €6 million.
- The Company moved into the **Honduran** market by acquiring a majority stake in **Optica Popular SRL***, an integrated prescription laboratory operating 14 optical stores. Optica Popular generates full-year revenue of around €7 million. This partnership will boost Essilor's presence in Central America, a region that holds considerable potential both for volume and value growth.

These partnerships will be consolidated as of July 1st, 2018.

CONDENSED STATEMENT OF INCOME

RECONCILIATION OF REPORTED TO ADJUSTED[6] ACCOUNTS

€ millions	**June 30, 2018 Adjusted[6]**	Items adjusted	**June 30, 2018 Reported**	**June 30, 2017[8] Adjusted[6]**
Revenue	3,726		3,726	3,859
Gross Profit	2,211		2,211	2,264
Contribution from operations[2]	684		684	718
Other income (expense)	(54)	(47)	(101)	(51)
Operating profit	630	(47)	583	667
Net profit	467	(71)	396	480
Attributable to equity holders of Essilor International	421	(72)	349	431
Earnings per share (*in €*)	1.93		1.60	1.99

(8) The group has applied IFRS 15 related to revenue recognition since January 1st, 2018. The H1 2017 statement of income has been restated accordingly, with an impact of €-50m on revenue and of on €-3m contribution from operations[2].

The 2018 results are adjusted[6] for items related to the combination with Luxottica. These adjustments amounted to €47m at the Other Income and Expense and Operating Profit level, representing €14m of transaction costs related to the proposed combination with Luxottica and €33m of additional costs related to share-based payments. After taking into account tax effects (€24 million), the adjusted Net profit attributable to equity holders of Essilor International amounts to € 421 million.

CONDENSED ADJUSTED[6] STATEMENT OF INCOME

€ millions	**June 30, 2018 Adjusted[6]**	**June 30, 2017[8] Adjusted[6]**	**Change %** At real currencies	At constant currencies
Revenue	3,726	3,859	-3.5%	+4.4%
Gross profit	*2,211*	*2,264*	-2.4%	+5.0%
(% of revenue)	*59.3%*	*58.7%*		
Operating expenses	(1,527)	(1,546)	-1.2%	+6.2%
Contribution from operations[2]	*684*	*718*	-4.8%	+2.4%
(% of revenue)	*18.4%*	*18.6%*		
Other income (expense)	(54)	(51)		
Operating profit	*630*	*667*	-5.5%	+1.9%
(% of revenue)	*16.9%*	*17.3%*		
Financial income (expense), net	(30)	(32)		
Income tax	*(133)*	*(155)*		
Effective tax rate	*22.2%*	*24.4%*		
Net profit	*467*	*480*	-2.6%	+4.6%
Attributable to equity holders of Essilor International	*421*	*431*	-2.4%	+4.8%
(% of revenue)	*11.3%*	*11.2%*		
Earnings per share (*in €*)	1.93	1.99	-3.0%	+4.5%

(8) The group has applied IFRS 15 related to revenue recognition since January 1st, 2018. The H1 2017 statement of income has been restated accordingly, with an impact of €-50m on revenue and of on €-3m contribution from operations[2].

CONTRIBUTION FROM OPERATIONS[2]: 18.4% OF REVENUE

Gross profit: +5.0% excluding currency effects

Gross profit (revenue - cost of sales) ended the first half of 2018 at €2,211 million, representing 59.3% of revenue compared with 58.7% in 2017 in first-half 2017.

This increase was fueled by an improved product mix resulting from steady growth delivered by Group brands, both in prescription lenses and sunwear, and by ongoing industrial efficiency gains. Together, these effects more than offset dilution stemming from a channel mix headwind that includes fast-growing e-commerce activities.

Operating expenses: +6.2% excluding currency effects

Operating expenses amounted to €1,527 million, or 41.0% of revenue compared with 40.0% in the first half of 2017.

This trend mainly reflected:

- Selling and distribution costs rose to €941 million, representing 25.3% of revenue versus 24.5% in the first half of 2017. These expenses represent investments to strengthen Essilor's positions and drive growth in several areas including the myopia segment, digital activities including consumer engagement and e-commerce, brand development, and to support the development of programs for independent eyecare professionals;
- R&D and engineering costs, which totaled €106 million;
- Structure and support costs of €480 million, that grew at a slower rate than total operating expenses.

Contribution from operations[2]

Contribution from operations[2] thus ended the period at €684 million (+2.4% excluding currency effects). This represented 18.4% of revenue, compared with 18.6% in the first half of 2017.

"Other income and expenses from operations" represented a net adjusted[6] expense of €54 million versus €51 million in the first half of 2017. These items mainly included:

- Restructuring provisions totaling €14 million;
- Compensation costs for share-based payments amounting to €35 million.

Adjusted[6] operating income consequently ended the period at €630 million, which corresponded to an increase of 1.9% excluding currency effects and 16.9% of revenue.

Finance costs and other financial income and expenses, net

The Net Financial Results represented a net cost of €30 million versus €32 million in the first-half of 2017. This reflects a slightly favorable development of the Company's financing costs.

Adjusted[6] profit attributable to equity holders: +4.8% excluding currency effects

This item includes:

- €133 million in adjusted[6] income tax expense, for an effective tax rate of 22.2% (versus 24.5% at June 30, 2017).This improvement mainly reflects the cancellation of the tax on dividends in France as well as favorable tax rates elsewhere, including the US;
- €46 million in non-controlling interests, or €50m excluding currency effects, versus €49m in the first half of 2017.

Adjusted[6] earnings per share reached €1.93 for an increase of 4.5% excluding currency effects, in line with revenue growth at constant currency.

BALANCE SHEET AND CASH FLOW STATEMENT

FREE CASH FLOW[5] AT €263 MILLION

Operating cash flow[4]

Operating cash flow[4] stood at €659 million vs. €669 million in first-half 2017. This represents an increase of 10% excluding the currency impact.

Capital expenditure and investments

Purchases of property, plant and equipment and intangible assets amounted to €150 million over the six months to June 30, 2018, mostly linked to industrial investment, supporting the Company's growth as well as the expansion of the Mujosh and Aojo banners in China.

Change in working capital requirement

The working capital requirement rose by €246 million over the six months ending June 30, 2018, principally due to the usual seasonality of the Lenses & Optical Instruments division.

As a result, the **free cash flow**[5] amounted to €263 million in the first-half 2018.

Net debt

At June 30 2018, Essilor's net debt stood at €1,961 million, versus €2,244 million at the end of first-half 2017.

CASH FLOW STATEMENT

€ millions

Net cash from operations (before change in WCR[(a)])	659	Change in WCR[(a)]	246
Proceeds from share issues	1	Capital expenditure	150
Change in net debt	301	Dividends	386
		Acquisition of investments, net of disposals[(b)]	167
		Forex & others	12

(a) Working capital requirement.
(b) Financial investments net of cash acquired, plus debt of newly-consolidated companies.

PROPOSED COMBINATION OF ESSILOR AND LUXOTTICA

On January 16, 2017, Essilor International (Compagnie Générale d'Optique) ("**Essilor**") and Delfin S.à r.l. ("**Delfin**"), the majority shareholder of Luxottica Group S.p.A. ("**Luxottica**"), announced that they signed an agreement on January 15, 2017 (the "**Combination Agreement**") to create an integrated global player in the eyewear industry with the proposed combination of Essilor and Luxottica. The completion of the proposed transaction is subject to the satisfaction of several conditions precedent.

In March 2017, employee representative bodies at Essilor issued favorable opinions on the proposed combination.

On April 12, 2017, the French market authority (AMF) issued a waiver to Delfin's obligation to file a mandatory tender offer for Essilor's shares that would have resulted from the contemplated closing of the contribution to Essilor by Delfin of its entire stake in Luxottica pursuant to the terms of a contribution agreement entered into Essilor and Delfin on March 22, 2017 (the "**Contribution Agreement**").

On May 11, 2017, shareholders at the General Meeting approved the proposed combination and double voting rights holders at the Special Meeting approved the cancellation of the double voting rights.

On November 1, 2017, Essilor completed the contribution by Essilor of substantially all of its activities (subject to the *apport-scission* regime) into one of its wholly-owned subsidiary that was renamed "Essilor International" (hive-down of its activities). Essilor will be renamed "EssilorLuxottica" once the other conditions precedent to the completion of the contribution to Essilor by Delfin of its entire stake in Luxottica have been satisfied, and will become the holding company at the top of the combined group comprising Essilor International and Luxottica.

Concurrently, Essilor and Luxottica have also jointly filed notices with the antitrust authorities in several countries, notably in five jurisdictions (Brazil, Canada, China, the European Union and the United States) whose respective approval is a condition to complete the proposed combination. To date, the proposed transaction has been unconditionally approved in Brazil, Canada, the European Union and the United States as well as in fourteen other countries: Australia, Chile, Colombia, India, Israel, Japan, Mexico, Morocco, New Zealand, Russia, Singapore, South Africa, South Korea and Taiwan.

On June 29, 2018, Essilor and Luxottica announced the extension to July 31, 2018 of the deadline of both the Combination Agreement and Contribution Agreement signed between Essilor and Delfin, Luxottica's majority shareholder. Essilor and Luxottica are finalizing discussions with the Chinese competition authority and are confident to obtain its approval by the end of July. In parallel, the two companies are progressing in their discussions with the Turkish antitrust authority and evaluating the timing for the closing of the transaction.

SUBSEQUENT EVENTS

No significant events have occurred since the end of the first-half 2018.

APPOINTMENTS TO THE MANAGEMENT COMMITTEE

Innovation and the development of its consumer brands and product categories are cornerstones of Essilor's strategy. To boost their impact on the Company's growth, Research & Development and Marketing functions will be represented on the Management Committee by two new members as of August, 28: Norbert Gorny and Grita Loebsack.

Norbert Gorny (54, a German national) has been **Chief Research & Development Officer** since 2015. He joined Essilor in 2011 and has held positions of increasing responsibility within the Company. He brings close to 20 years of optical industry experience to the Management Committee.

Grita Loebsack (47, a German national) joined Essilor in July 2018 as **Chief Marketing Officer,** bringing extensive experience in marketing, brand and product category development built over several years with multinational firms spanning the consumer goods, cosmetic and luxury goods industries.

The Management Committee, which decides the Company's strategic direction, will comprise 12 members from seven nationalities.

APPENDIX 1

ESSILOR INTERNATIONAL REPORTED STATEMENT OF INCOME

€ millions	**June 30, 2018**	**June 30, 2017***	**Change**
Revenue	3,726	3,859	-3.5%
Gross profit *(% of revenue)*	*2,211* *59.3%*	*2,264* *58.7%*	-2.4%
Operating expenses	(1,527)	(1,547)	-1.3%
Contribution from operations[2] *(% of revenue)*	*684* *18.4%*	*717* *18.6%*	-4.6%
Other income (expense)	(101)	(109)	
Operating profit *(% of revenue)*	*583* *15.7%*	*608* *15.8%*	-4.0%
Financial income (expense), net	(30)	(32)	
Income tax *Effective tax rate*	*(157)* *28.4%*	*(138)* *24.0%*	
Net profit Attributable to equity holders of Essilor International *(% of revenue)*	*396* *349* *9.4%*	*438* *389* *10.1%*	-9.6% -10.0%
Earnings per share (*in €*)	1.60	1.80	-10.8%

**The group has applied IFRS 15 related to revenue recognition since January 1st, 2018. The H1 2017 statement of income has been restated accordingly, with an impact of €-50m on revenue and of on €-3m contribution from operations[2].*

APPENDIX 2

CONSOLIDATED REVENUE BY QUARTER

€ millions	2018	2017*
First Quarter		
Lenses & Optical Instruments	**1,592**	1,688
North America	***692***	*761*
Europe	***491***	*495*
Asia/Pacific/Middle East/Africa	***297***	*306*
Latin America	***112***	*126*
Sunglasses & Readers	**190**	199
Equipment	**43**	50
TOTAL First Quarter	**1,825**	**1,937**
Second Quarter		
Lenses & Optical Instruments	**1,619**	1,645
North America	***694***	*711*
Europe	***513***	*516*
Asia/Pacific/Middle East/Africa	***299***	*297*
Latin America	***113***	*121*
Sunglasses & Readers	**223**	218
Equipment	**59**	59
TOTAL Second Quarter	**1,901**	**1,922**
Third Quarter		
Lenses & Optical Instruments		1,541
North America		*655*
Europe		*476*
Asia/Pacific/Middle East/Africa		*289*
Latin America		*121*
Sunglasses & Readers		148
Equipment		45
TOTAL Third Quarter		**1,734**
Fourth Quarter		
Lenses & Optical Instruments		1,536
North America		*661*
Europe		*480*
Asia/Pacific/Middle East/Africa		*279*
Latin America		*116*
Sunglasses & Readers		202
Equipment		71
TOTAL Fourth Quarter		**1,809**

* *The group has applied IFRS 15 related to revenue recognition from January 1st, 2018. 2017 revenue on a quarterly basis has been restated accordingly.*

RISK FACTORS

Risk factors are similar to those presented in section 1.7 (pages 33 to 50) of the 2017 Registration Document and did not change significantly during the first half of 2018. Litigation risks are described in note 14 to the first-half condensed consolidated financial statements.

NOTES

1. **Like-for-like growth**: Growth at constant scope and exchange rates. See definition provided in Note 2.4 to the consolidated financial statements in the 2017 Registration Document.
2. **Contribution from operations**: Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).
3. **Bolt-on acquisitions**: Local acquisitions or partnerships.
4. **Operating cash flow**: Net cash from operating activities before working capital requirement.
5. **Free cash flow**: Net cash from operating activities less purchases of property, plant and equipment and intangible assets, according to the IFRS consolidated cash flow statement.
6. **Adjusted** for expenses accounted for in the financial statements in the context of the proposed combination with Luxottica.
7. Excluding any new strategic acquisitions.
8. The group has applied **IFRS 15** related to revenue recognition since January 1st, 2018. The 2017 statement of income has been restated accordingly.
9. **Fast-growing countries** include China, India, ASEAN, South Korea, Hong Kong, Taiwan, Africa, the Middle East, Russia and Latin America.

FIRST-HALF 2018 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

€ millions, excluding per share data	Notes	First semester 2018	First semester 2017 restated (a)	Year 2017 restated (a)
Revenue	4	3,726	3,859	7,402
Cost of sales		(1,515)	(1,595)	(3,076)
GROSS MARGIN		**2,211**	**2,264**	**4,326**
Research and development costs		(106)	(110)	(217)
Selling and distribution costs		(941)	(946)	(1,830)
Other operating expenses		(480)	(491)	(923)
CONTRIBUTION FROM OPERATIONS (*)		**684**	**717**	**1,356**
Other income from operations	5	-	1	12
Other expenses from operations	5	(101)	(110)	(299)
OPERATING PROFIT	**4**	**583**	**608**	**1,069**
Cost of gross debt		(35)	(35)	(70)
Income from cash and cash equivalents		9	8	18
Other financial income	6	4	2	2
Other financial expenses	6	(8)	(7)	(14)
PROFIT BEFORE TAX		**553**	**576**	**1,005**
Income tax expense	7	(157)	(138)	(131)
NET PROFIT		**396**	**438**	**874**
Attributable to Group equity holders		**349**	**389**	**785**
Attributable to minority interests		47	49	89
Net profit attributable to Group equity holders per share (€)		1.60	1.80	3.63
Average number of shares (thousands)	8	217,788	216,490	216,604
Diluted net profit attributable to Group equity holders per share (€)		1.56	1.75	3.55
Diluted average number of shares (thousands)		223,749	222,110	221,298

(a) The first half year 2017 income statement and the full year income statement 2017 have been restated of IFRS 15 standard impact (see note 2)

(b) The contribution from operations corresponds to revenue less the cost of sales and operating expenses (research and development costs, selling and distribution costs, and other operating expenses).

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

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

€ millions	First semester 2018 Attributable to Group equity holders	First semester 2018 Attributable to minority interests	First semester 2018 Total	First semester 2017 restated (a) Attributable to Group equity holders	First semester 2017 restated (a) Attributable to minority interests	First semester 2017 restated (a) Total	Year 2017 restated (a) Attributable to Group equity holders	Year 2017 restated (a) Attributable to minority interests	Year 2017 restated (a) Total
Net profit for the period (a)	**349**	**47**	**396**	**389**	**49**	**438**	**785**	**89**	**874**
Items of comprehensive income that will not be reclassified subsequently to profit or loss									
Actuarial gains and losses on pension and other post-employment benefit obligations	2	-	2	6	-	6	1	-	1
Tax on items that will not be reclassified subsequently	(1)	-	(1)	(1)	-	(1)	2	-	2
Items of comprehensive income that may be reclassified subsequently to profit or loss									
Cash flow hedges, effective portion	2	-	2	1	-	1	1	-	1
Translation reserves	36	2	38	(469)	(21)	(490)	(760)	(29)	(789)
Total income (expenses) for the period recognized directly in equity, net of tax (b)	**39**	**2**	**41**	**(463)**	**(21)**	**(484)**	**(756)**	**(29)**	**(785)**
Total recognized income and expenses, net of tax (a) + (b)	**388**	**49**	**437**	**(74)**	**28**	**(46)**	**29**	**60**	**89**

(a) The first half year 2017 comprehensive income and the full year comprehensive income 2017 have been restated of IFRS 15 standard impact (see note 2)

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

CONSOLIDATED BALANCE SHEET (ASSETS)

€ millions	Notes	June 30, 2018	December 31, 2017 restated (a)
Goodwill	**9**	5,629	5,583
Other intangible assets		1,690	1,682
Property, plant and equipment		1,105	1,116
Investments in associates		20	20
Non-current financial assets		137	107
Deferred tax assets		201	214
Long-term receivables		41	40
Other non-current assets		-	2
TOTAL NON-CURRENT ASSETS		**8,823**	**8,764**
Inventories		1,182	1,099
Prepayments to suppliers		37	30
Short-term receivables		1,763	1,683
Contract assets		55	58
Tax receivables		56	74
Other receivables		18	4
Derivative financial instruments recognized in assets		32	29
Prepaid expenses		89	87
Cash and cash equivalents	**12**	542	484
CURRENT ASSETS		**3,774**	**3,548**
TOTAL ASSETS		**12,597**	**12,312**

(a) The consolidated balance sheet as at Decembre 31st, 2017 has been restated of IFRS 15 and IFRS 9 impact (see note 2)

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

CONSOLIDATED BALANCE SHEET (LIABILITIES)

€ millions	Notes	June 30, 2018	December 31, 2017 restated (a)
Share capital		39	39
Issue premiums		636	635
Consolidated reserves		5,914	5,424
Own shares		(111)	(111)
Hedging and revaluation reserves		(152)	(155)
Translation differences		(89)	(125)
Net profit attributable to Group equity holders		349	785
EQUITY ATTRIBUTABLE TO PARENT COMPANY OWNERS		**6,586**	**6,492**
Equity attributable to non-controlling interests		405	422
TOTAL CONSOLIDATED EQUITY		**6,991**	**6,914**
Provisions for pensions	**10**	336	337
Long-term borrowings	**12**	1,600	1,674
Deferred tax liabilities		252	257
Other non-current liabilities		138	152
NON-CURRENT LIABILITIES		**2,326**	**2,420**
Provisions	**11**	382	382
Short-term borrowings	**12**	917	491
Customer prepayments		39	44
Short-term payables		1,473	1,520
Contract liabilities		46	33
Tax payables		88	81
Other current liabilities		301	378
Derivative financial instruments recognized in liabilities		16	15
Deferred income		18	34
CURRENT LIABILITIES		**3,280**	**2,978**
TOTAL LIABILITIES		**12,597**	**12,312**

(a) The consolidated balance sheet as at December 31st, 2017 has been restated of IFRS 15 and IFRS 9 impact (see note 2)

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

STATEMENT OF CHANGES IN EQUITY

- **First-half 2018**

€ millions	Share capital	Issue premiums	Revaluation reserves	Reserves	Translation difference	Treasury stock	Profit attributable to Group equity holders	**Equity attributable to parent company owners**	Equity attributable to non-controlling interests	**Total equity**
Equity at January 1, 2018	**39**	**635**	**(155)**	**5,432**	**(125)**	**(111)**	**789**	**6,504**	**423**	**6,927**
Impacts of IFRS15 & IFRS9 application				(8)			(4)	(12)	(1)	(13)
Restated equity at January 1, 2018	**39**	**635**	**(155)**	**5,424**	**(125)**	**(111)**	**785**	**6,492**	**422**	**6,914**
Employee share issues		1						1		1
Share-based payments				63				63		63
Allocation of profit				785			(785)			
Effect of changes in the scope of consolidation and other				(25)				(25)	(14)	(39)
Dividends paid				(333)				(333)	(52)	(385)
Transactions with shareholders	**-**	**1**	**-**	**490**	**-**	**-**	**(785)**	**(294)**	**(66)**	**(360)**
Income (expense) for the period recognized directly in equity			3					3		3
Net profit for the fiscal year							349	349	47	396
Translation differences					36			36	2	38
Total recognized income and expenses	**-**	**-**	**3**	**-**	**36**	**-**	**349**	**388**	**49**	**437**
Equity at June 30, 2018	**39**	**636**	**(152)**	**5,914**	**(89)**	**(111)**	**349**	**6,586**	**405**	**6,991**

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

- **First-half 2017**

€ millions	Share capital	Issue premiums	Revaluation reserves	Reserves	Translation difference	Treasury stock	Profit attributable to Group equity holders	**Equity attributable to parent company owners**	Equity attributable to non-controlling interests	**Total equity**
Equity at January 1, 2017	**39**	**591**	**(159)**	**4,936**	**636**	**(168)**	**813**	**6,688**	**366**	**7,054**
Impacts of IFRS15 application				(6)				(6)	(1)	(7)
Restated equity at January 1, 2017	**39**	**591**	**(159)**	**4,930**	**636**	**(168)**	**813**	**6,682**	**365**	**7,047**
Stock subscription options		4						4		4
Share-based payments				38				38		38
Allocation of profit				813			(813)			
Effect of changes in the scope of consolidation and other				(19)				(19)	37	18
Dividends paid				(325)				(325)	(25)	(350)
Transactions with shareholders		**4**		**507**			**(813)**	**(302)**	**12**	**(290)**
Income (expense) for the period recognized directly in equity			6					6		6
Net profit for the fiscal year							389	389	49	438
Translation differences					(469)			(469)	(21)	(490)
Total recognized income and expenses	-	-	**6**	-	**(469)**	-	**389**	**(74)**	**28**	**(46)**
Restated equity at June 30, 2017	**39**	**595**	**(153)**	**5,437**	**167**	**(168)**	**389**	**6,306**	**405**	**6,711**

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

- **Fiscal year 2017**

€ millions	Share capital	Issue premiums	Revaluation reserves	Reserves	Translation difference	Treasury stock	Profit attributable to Group equity holders	**Equity attributable to parent company owners**	Equity attributable to non-controlling interests	**Total equity**
Equity at January 1, 2017	**39**	**591**	**(159)**	**4,936**	**636**	**(168)**	**813**	**6,688**	**366**	**7,054**
Impacts of IFRS15 application				(6)				(6)	(1)	(7)
Restated equity at January 1, 2017	**39**	**591**	**(159)**	**4,930**	**636**	**(168)**	**813**	**6,682**	**365**	**7,047**
Employee share issues		35						35		35
Stock subscription options		9						9		9
Capital increases subscribed by minority interests									(10)	(10)
Share-based payments				109				109		109
Net sale/(Net purchase) of treasury shares				(57)		57				
Allocation of profit				813			(813)			
Effect of changes in the scope of consolidation and other				(43)				(43)	46	3
Dividends paid				(325)				(325)	(39)	(364)
Transactions with shareholders		**44**		**497**		**57**	**(813)**	**(215)**	**(3)**	**(218)**
Income (expense) for the period recognized directly in equity			4					4		4
Net profit for the fiscal year							785	785	89	874
Translation differences					(761)			(761)	(29)	(790)
Total recognized income and expenses		**-**	**4**	**-**	**(761)**	**-**	**785**	**28**	**60**	**88**
Restated equity at December 31, 2017	**39**	**635**	**(155)**	**5,427**	**(125)**	**(111)**	**785**	**6,495**	**422**	**6,917**

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

CONSOLIDATED CASH FLOW STATEMENT

€ millions		First semester 2018	First semester 2017 restated	Year 2017 restated
CONSOLIDATED NET PROFIT	**(b)**	**396**	**438**	**874**
Adjustments to reconcile net income (loss) to funds generated from operations				
Depreciation, amortization and other non-cash items		229	250	549
Provision charges (reversals)		(8)	(25)	(23)
Gains and losses on asset disposals, net		2	-	(4)
Finance costs, net	**(c)**	25	27	49
Tax expenses (including deferred taxes)	**(b)**	157	138	131
Other net cash out				
Taxes paid		(114)	(129)	(234)
Interest (paid) and received, net		(28)	(34)	(56)
Change in working capital requirement		(246)	(209)	(53)
NET CASH FROM OPERATING ACTIVITIES (a)		**413**	**456**	**1,233**
Purchases of property, plant and equipment and intangible assets		(150)	(125)	(308)
Acquisitions of subsidiaries, net of the cash acquired		(149)	(279)	(334)
Change in other non-financial assets		(17)	4	18
Proceeds from the sale of other financial assets, property, plant and equipment and intangible assets		4	4	26
NET CASH USED IN INVESTING ACTIVITIES		**(312)**	**(396)**	**(598)**
Capital increase	**(d)**	1	4	44
Capital reduction paid to minority shareholders	**(d)**	-	-	(10)
Dividends paid:				
- to ESSILOR shareholders	**(d)**	(333)	(325)	(325)
- to minority shareholders of the consolidated subsidiaries	**(d)**	(52)	(25)	(39)
Bond issues	**12**	-	263	-
Increase/(Decrease) in borrowings other than finance lease liabilities	**12**	344	134	(303)
Repayment of finance lease liabilities		(1)	(1)	(2)
NET CASH USED IN FINANCING ACTIVITIES		**(41)**	**50**	**(635)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**60**	**110**	**-**
Net cash and cash equivalents at January 1		426	460	460
Effect of changes in exchange rates		2	(20)	(34)
NET CASH AND CASH EQUIVALENTS AT PERIOD-END		**488**	**550**	**426**
Cash and cash equivalents	**12**	542	594	484
Bank credit facilities	**12**	(55)	(44)	(58)

[a] Within net cash from operating activities, some reclassifications generated by the application of IFRS15 were performed line by line with no impact on net cash from operating activities for the first semester 2017 and the year 2017.

[b] See income statement

[c] Finance costs net is defined as the cost of gross debt minus the income of cash and cash equivalents

[d] See statement of changes in equity

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 1. ACCOUNTING PRINCIPLES

1.1 GENERAL

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

The condensed consolidated financial statements for the six months ended June 30, 2018 have been prepared in accordance with IAS34-Interim Financial Reporting. They do not include all the information required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2017. They were approved by the Board of Directors on July 25, 2018.

The financial statements are prepared on a going concern basis.

The Group's functional and reporting currency is the euro. All amounts are expressed in millions of euros, unless otherwise specified.

1.2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

In accordance with European Regulation No 1606/2002 of July 19, 2002, the Essilor Group has applied, since January 1, 2005, all international accounting standards including IFRS (International Financial Reporting Standards), IAS (International Accounting Standards), and their interpretations since January 1, 2005, as approved in the European Union, with mandatory application as at June 30, 2018. These international accounting standards can be accessed on the European Commission website[1].

[1] https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002_en

1.3 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The accounting methods applied are the same as those used in the annual financial statements as at December 31, 2017. The standards, amendments and interpretations with mandatory application in or after 2018 (see below) have no material impact on the Group's financial statements:

- IFRS 9 – Financial Instruments with mandatory application as at January 1st, 2018;
- IFRS 15 – Revenues from Contracts with Customers, application will be mandatory as at January 1st, 2018;
- IAS 40 Amendments – Transfers to and from investment property, application mandatory as at January 1st, 2018;
- IFRS 2 Amendments – Classification and measurement of share-based payment transactions application mandatory as at January 1st, 2018;
- IFRIC 22 Foreign currency transaction-advance consideration application mandatory as at January 1st, 2018.

IASB has published the new standard IFRS 15 on revenue recognition, which replaces all the existing standards and rules, including IFRS 11 and IAS 28. The application is mandatory as at January 1st, 2018 according to IASB. The Group has not opted for early application of the standard, and has applied the retrospective method as at January 1st, 2018. The first half year 2017 and the full year 2017 have been restated of IFRS 15 standard impact.

IASB has published the new standard IFRS 9 on financial instruments, which replaces all the existing standard and rules, including IAS 39. The application is mandatory as at January 1st, 2018 according to IASB. The Group has not opted for early application of the standards. The standard requirements related to the classification, the measurement and depreciation of the financial instruments have been applied using the retrospective method without opening adjustments. Regarding the standard requirements related to hedge accounting, the group applied a prospective approach in compliance with IFRS 9.

The IFRS 9 and 15 impact on the financial statements is disclosed in the note 2 of the consolidated financial statements.

The other amendments and interpretations with mandatory application in or after 2018 have no material impact on the Group's financial statements.

Furthermore, the Group has not opted for early application of the standards, amendments or interpretations whose application is not mandatory on or after January 1st, 2018:

- IFRS 16- Contract leases, application mandatory as at January 1st, 2019 : the Group is currently reviewing all the lease contracts in order to assess the impact on this standard on financial statements;

- IAS 12- Income tax consequences of payments on financial instruments classified as equity, application mandatory as at January 1st, 2019 according to IASB;
- IAS 23- Borrowing costs eligible for capitalization, application mandatory as at January 1st, 2019 according to IASB;
- IFRS 3 & IFRS 11- Previously held interest in a joint operation, application mandatory as at January 1st, 2019 according to IASB;
- IAS 19 Amendments- Plan Amendment, curtailment or settlement, application mandatory as at January 1st, 2019 according to IASB;
- IAS 28 Amendments- long-term interests in associates and joint ventures , application mandatory as at January 1st, 2019 according to IASB;
- IFRS 9 Amendments- Prepayment features with negative compensation, application mandatory as at January 1st, 2019 according to IASB;
- IFRS 10 and IAS 28 Amendments- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRIC 23- Uncertainty over income tax treatments application mandatory as at January 1st, 2019 according to IASB.

The impact of these standards on the consolidated financial statements is currently being assessed by the Group.

1.4 USE OF ESTIMATES

The preparation of financial statements requires Management's use of estimates and assumptions that may affect the reported amounts of assets, liabilities, income and expenses in the financial statements, as well as the disclosures in the notes concerning contingent assets and liabilities at the balance sheet date. The most significant estimates and assumptions concern, in particular:

- the recoverable amount of goodwill;
- fair values in relation to business combinations and put options granted to minority shareholders;
- risk assessment to determine the amount of provisions;
- measurement of pension and other post-employment benefit obligations;

The final amounts may differ from these estimates.

The Group is subject to taxation on earnings in many countries under various tax regulations. Calculation of taxes on a global scale requires the use of estimates and assumptions based on the information available at the balance sheet date.

First-half income tax expense recognized in the consolidated income statement is determined based on an estimate of the effective tax rate that will be paid by the Company on annual profit, in accordance with IAS 34 – Interim Financial Reporting.

1.5 FINANCIAL STATEMENTS PRESENTATION

Some reclassifications related to the presentation of comparative figures could have been realized in order to be compliant with the presentation of the current period or to IFRS standards.

1.6 SEGMENT INFORMATION

The Group's segment information is presented in accordance with the information provided internally to management for the purpose of managing operations, taking decisions and analyzing operational performance.

Such information is prepared in accordance with the IFRS used by the Group in its consolidated financial statements.

The Group has three operating segments: Lenses & Optical Instruments, Equipment, and Sunglasses & Readers.

The Lenses & Optical Instruments business segment comprises the Group's Lens business (production, prescription, distribution and trading) and the Instruments business (small equipment used by opticians and relating to the sale of lenses). The end customers for this business segment are eye-care professionals (opticians and optometrists).

The Lenses & Optical Instruments business chain is designed as a complete network with multiple interactions. The segment has a global network of plants, prescription laboratories, edging facilities and distribution centers serving eye care professionals throughout the world. This network is centrally managed, along with the Group's research and development, marketing, intellectual property and engineering functions.

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

The Sunglasses & Readers business segment comprises the production, distribution and sale of both non-prescription sunglasses and non-prescription reading glasses. The end customers for this segment are retailers that sell these products to consumers.

1.7 REVENUE

Revenue corresponds to revenue from the sale of products and the provision of services. Revenue from Lens sales and Sunglasses & Readers (non-prescription sunglasses and reading glasses) is recognized when the product has been delivered to, and accepted by, the customer and the related receivable is reasonably certain of being collected. Revenue from laboratory equipment sales is recognized when the risks and rewards of ownership of the equipment have been transferred to the customer, generally corresponding to the date of physical and technical acceptance by the latter.

Some client contracts included volume discounts, cash discounts, returned goods and certain revenue-based commissions and deferred revenue associated with awards granted under customer loyalty programs. Those contract clauses are estimated at the date of signing of the contract and all along the life of the contract on each closing period.

1.8 TRADE RECEIVABLES

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

Provisions are recorded under trade receivables to cover any risk of non-recovery. Risk of recovery is determined based on the various types of Group customers, most often on a statistical basis but also by taking into account specific situations if necessary.

1.9 OTHER LONG-TERM FINANCIAL INVESTMENTS

Available-for-sale securities

In accordance with IFRS 9, investments in non-consolidated companies and other long-term financial investments are measured at fair value on the closing date.

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

Other assets measured at amortized cost

Loans issued by the Group are measured at amortized cost.

A provision is recorded in profit or loss for any other-than-temporary impairment in value or if there is a risk of non-recovery.

Provisions are recorded to cover any risk of non-recovery. Risk of recovery is determined based on the various types of loans, most often on a statistical basis but also by taking into account specific situations if necessary.

NOTE 2. IMPACT OF FIRST TIME ADOPTION OF IFRS 15 AND IFRS 9

As at 1st of January 2018, the Group has adopted IFRS 15 – Revenue from contracts with customers and IFRS 9 – Financial instruments.

2.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group reviewed the most significant customer contracts in the various business units so as to be able to assess the impact of this standard on the revenue recognition. In view of the analysis that has been conducted, the application of the standard leads to:

- a delay in revenue recognition for some transactions,
- a reclassification between the revenue and some lines within the operating result regarding some provision of services received or performed by the Group and some expenses, in particular, marketing expenses.

Based on this work, the Group finalized the assessment of the impacts described below.

2.2 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 consists of 3 components regarding the accounting of financial instrument, Classification and measurement, depreciation and hedge accounting.

Based on this work, the Group finalized the assessment of the impacts and considers that the application of IFRS 9 has no material impact.

The application of IFRS 9 has mainly resulted on the removal of the available-for-sale financial assets category which allowed under IAS 39 to record the financial investments at fair value through comprehensive income and to reverse it in profit and loss when the assets concerned are transferred (or in the event of a significant loss in value or permanent impairment). Under IFRS 9, all the financial assets whose cash flows are not representative of principal and interests payment (SPPI) should be recorded at fair value through profit and loss. However, IFRS 9 introduces a further option exercisable irrevocably at the origin which allows to record the investments in equity at fair value through comprehensive income with no option to reverse it in profit and loss when the assets concerned are transferred, only dividends will still be recorded through profit and loss.

Essilor group has chosen to reclassify the non-consolidated interests in other long-term financial investments as at 1st of January in the category « Fair value through comprehensive income » under IFRS 9 (vs. « Available-for-sale financial assets » under IAS 39.)

€ millions	December 31, 2017 (IAS39)	December 31, 2017 (IFRS9)	
Long-term financial investments at fair value	**21**	**21**	**Fair value recognised in comprehensive income's other items**
Non-consolidated interests	19	19	Non-consolidated interests
Other long-term financial investments	2	2	Other long-term financial investments
Long-term financial investments at amortized cost	**90**	**90**	**Long-term financial investments at amortized cost**
Loans, including accrued interest	105	105	Loans, including accrued interest
Impairment	(15)	(15)	Impairment
Other non-current financial assets	**111**	**111**	**Other non-current financial assets**

IFRS 9 requires the recognition of expected credit losses on trade receivables. The group analyzed the trade receivables according to Country risk and counterparty default of payment. Based on this work, the Group considers that the application of this standard has no material impact on financial statements.

IFRS 9 changes related to hedge accounting are intended to harmonize the procedures of credit risk accounting. Regarding the nature of Essilor derivatives instruments, no major changes are expected for the Group after the application of IFRS 9.

The impact of the application of those standards is:

Financial Statements as at 30th of June 2017, restated by IFRS 15 impact

€ millions, excluding per share data	First semester 2017 published	IFRS 15 impacts	First semester 2017 restated
Revenue	3,909	(50)	3,859
Cost of sales	(1,634)	39	(1,595)
GROSS MARGIN	**2,275**	**(11)**	**2,264**
Research and development costs	(110)	-	(110)
Selling and distribution costs	(956)	10	(946)
Other operating expenses	(489)	(2)	(491)
CONTRIBUTION FROM OPERATIONS	**720**	**(3)**	**717**
Other income from operations	1	-	1
Other expenses from operations	(110)	-	(110)
OPERATING PROFIT	**611**	**(3)**	**608**
Cost of gross debt	(35)	-	(35)
Income from cash and cash equivalents	8	-	8
Other financial income	2	-	2
Other financial expenses	(7)	-	(7)
PROFIT BEFORE TAX	**579**	**(3)**	**576**
Income tax expense	(139)	1	(138)
NET PROFIT	**440**	**(2)**	**438**
Attributable to Group equity holders	**391**	**(2)**	**389**
Attributable to minority interests	49	-	49

Restated financial statements as at 31st of December 2017

€ millions, excluding per share data	Year 2017 published	IFRS 15 impacts	Year 2017 restated
Revenue	7,490	(88)	7,402
Cost of sales	(3,144)	68	(3,076)
GROSS MARGIN	**4,346**	**(20)**	**4,326**
Research and development costs	(217)	-	(217)
Selling and distribution costs	(1,845)	15	(1,830)
Other operating expenses	(923)	-	(923)
CONTRIBUTION FROM OPERATIONS	**1,361**	**(5)**	**1,356**
Other income from operations	12	-	12
Other expenses from operations	(299)	-	(299)
OPERATING PROFIT	**1,074**	**(5)**	**1,069**
Cost of gross debt	(70)	-	(70)
Income from cash and cash equivalents	18	-	18
Other financial income	2	-	2
Other financial expenses	(14)	-	(14)
PROFIT BEFORE TAX	**1,010**	**(5)**	**1,005**
Income tax expense	(132)	1	(131)
NET PROFIT	**878**	**(4)**	**874**
Attributable to Group equity holders	**789**	**(4)**	**785**
Attributable to minority interests	89	-	89

€ millions	December 31, 2017 published	Impacts IFRS 15 & IFRS 9	December 31, 2017 restated
Non-current financial assets	111	(4)	107
Deferred tax assets	211	3	214
Long-term receivables	41	(1)	40
Other non-current assets	47	(45)	2
TOTAL NON-CURRENT ASSETS	**8,811**	**(47)**	**8,764**
Inventories	1,097	2	1,099
Short-term receivables	1,685	(2)	1,683
Contract assets	-	58	58
Other receivables	3	1	4
CURRENT ASSETS	**3,489**	**59**	**3,548**
TOTAL ASSETS	**12,300**	**12**	**12,312**

€ millions	December 31, 2017 published	Impacts IFRS 15 & IFRS 9	December 31, 2017 restated
Equity attributable to parent company owners	6,504	(12)	6,492
Equity attributable to non-controlling interests	423	(1)	422
TOTAL CONSOLIDATED EQUITY	**6,927**	**(13)**	**6,914**
Other non-current liabilities	153	(1)	152
NON-CURRENT LIABILITIES	**2,421**	**(1)**	**2,420**
Provisions	394	(12)	382
Short-term payables	1,515	5	1,520
Contract liabilities	-	33	33
CURRENT LIABILITIES	**2,952**	**26**	**2,978**
TOTAL LIABILITIES	**12,300**	**12**	**12,312**

NOTE 3. MAIN EVENTS DURING THE FIRST HALF

3.1 EXCHANGE RATES OF THE MAIN FUNCTIONAL CURRENCIES

For €1	Closing rate June 2018	Closing rate June 2017	Closing rate December 2017 restated	Average rate June 2018	Average rate June 2017	Average rate December 2017 restated
Canadian dollar	1.54	1.48	1.50	1.55	1.45	1.46
British pound	0.89	0.88	0.89	0.88	0.86	0.88
Yuan	7.72	7.74	7.80	7.71	7.44	7.63
Yen	129.04	127.75	135.01	131.61	121.78	126.71
Indian rupee	79.81	73.74	76.61	79.49	71.18	73.53
Brazilian real	4.49	3.76	3.97	4.14	3.44	3.61
US dollar	1.17	1.14	1.20	1.21	1.08	1.13

3.2 COMBINATION OF ESSILOR AND LUXOTTICA

On January 16, 2017, Essilor International (Compagnie Générale d'Optique) ("Essilor") and Delfin S.à r.l. ("Delfin"), the majority shareholder of Luxottica Group S.p.A. ("Luxottica"), announced that they signed an agreement on January 15, 2017 (the "Combination Agreement") to create an integrated global player in the eyewear industry with the proposed combination of Essilor and Luxottica. The completion of the proposed transaction is subject to the satisfaction of several conditions precedent.

In March 2017, employee representative bodies at Essilor issued favorable opinions on the proposed combination.

On April 12, 2017, the French market authority (AMF) issued a waiver to Delfin's obligation to file a mandatory tender offer for Essilor's shares that would have resulted from the contemplated closing of the contribution to Essilor by Delfin of its entire stake in Luxottica pursuant to the terms of a contribution agreement entered into Essilor and Delfin on March 22, 2017 (the "Contribution Agreement").

On May 11, 2017, shareholders at the General Meeting approved the proposed combination and double voting rights holders at the Special Meeting approved the cancellation of the double voting rights.

On November 1, 2017, Essilor completed the contribution by Essilor of substantially all of its activities (subject to the *apport-scission* regime) into one of its wholly-owned subsidiary that was renamed "Essilor International" (hive-down of its activities). Essilor will be renamed "EssilorLuxottica" once the other conditions precedent to the completion of the contribution to Essilor by Delfin of its entire stake in

Luxottica have been satisfied, and will become the holding company at the top of the combined group comprising Essilor International and Luxottica.

Concurrently, Essilor and Luxottica have also jointly filed notices with the antitrust authorities in several countries, notably in five jurisdictions (Brazil, Canada, China, the European Union and the United States) whose respective approval is a condition to complete the proposed combination. To date, the proposed transaction has been unconditionally approved in Brazil, Canada, the European Union and the United States as well as in fourteen other countries: Australia, Chile, Colombia, India, Israel, Japan, Mexico, Morocco, New Zealand, Russia, Singapore, South Africa, South Korea and Taiwan.

On June 29, 2018, Essilor and Luxottica announced the extension to July 31, 2018 of the deadline of both the Combination Agreement and Contribution Agreement signed between Essilor and Delfin, Luxottica's majority shareholder. Essilor and Luxottica are finalizing discussions with the Chinese competition authority and remain confident to obtain its approval by the end of July. In parallel, the two companies are progressing with their discussions with the Turkish antitrust authority and evaluating the timing for the closing of the transaction.

3.3 CHANGES IN THE SCOPE OF CONSOLIDATION

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

- annual revenue in excess of €1 million;
- or property, plant and equipment in excess of €9 million.

Entities that do not fulfill these criteria may also be consolidated, if their consolidation has a material impact on the Group's financial statements.

Moreover, companies acquired at the very end of the year that do not have the resources to produce financial statements according to Group standards within the time allotted shall be entered into the scope of consolidation on the following January 1.

The significant acquisitions or business combinations realized during the first half of 2018 are related to the following companies:

Name	Country	Acquisition date	Consolidation method	% interest	% consolidated
Peeper Keepers LLC	USA	May 1, 2018	Full	100	100
Freeman Opticam LLC	USA	May 1, 2018	Full	100	100
I-See Optical	USA	May 1, 2018	Full	100	100
CRX Optical Laboratories	USA	June 1, 2018	Full	100	100

3.4 IMPACT OF CHANGES IN THE SCOPE OF CONSOLIDATION AND EXCHANGE RATES

Balance sheet

Business combination has no significant impact on the consolidated balance sheet at June 30, 2018.

Income statement

The methods for determining the impact of changes in the scope of consolidation and exchange rates on the income statement are explained below.

The apparent change in performance indicators (revenues and contribution from operations) results from the breakdown of this change between the impact of the Group's acquisitions (scope of consolidation impact), the impact of currency fluctuations (foreign exchange impact) and the impact of the change in its intrinsic operations, or like-for-like growth.

For the impact of changes in the scope of consolidation:

- impacts of changes in the scope of consolidation arising from acquisitions during the year consist of the subsidiaries' income statements, from their consolidation date, until June 30 of the current fiscal year;
- impacts of changes in the scope of consolidation for companies acquired during the previous year consist of the subsidiaries' income statements for the year, since January 1 of the current fiscal year until the anniversary date of their initial consolidation;
- divested companies do not impact the change in the scope of consolidation since no consolidated subsidiaries were sold by the Group;
- major strategic acquisitions, i.e., that represent highly significant amounts & cover various geographical areas or correspond to a new area of business, are distinguished from "organic" acquisitions related to lower-value acquisitions within the Group's core businesses (prescription laboratories or plants).

For the impacts of changes in exchange rates:

- this is determined on a subsidiary-by-subsidiary basis by applying the average conversion rate from the previous year to the income statements for the current year for subsidiaries using currencies other than the euro, restated for scope of consolidation impacts as above, and by calculating the change in this value relative to the income statement of the previous year for each subsidiary;
- consequently, this is not a currency effect but the effect of converting the financial statements of subsidiaries.

Like-for-like growth is determined as the residual difference in apparent growth, less the impact of changes in the scope of consolidation and the impact of changes in exchange rates. Organic growth is growth on a like-for-like consolidation and exchange rate basis.

The overall effect of changes in the scope of consolidation and exchange rates on revenue and the contribution from operations was as follows:

As a %	**Reported growth**	Currency effect	Change in the scope of consolidation of bolt-on acquisitions	**Like-for-like growth**
Revenue	**-3.5**	-7.9	0.4	**4.0**
Contribution from operations	**-4.6**	-7.2	0.0	**2.6**

NOTE 4. SEGMENT INFORMATION

First-half 2018

€ millions	Lenses and Optical Instruments	Equipment	Sunglasses & Readers	Eliminations	GROUP TOTAL
External revenue	3,211	102	413	-	3,726
Intra-segment revenue	8	47	5	(60)	-
Total revenue	**3,219**	**149**	**418**	**(60)**	3,726
Contribution from operations	**602**	**27**	**55**	-	684
Operating profit					583
Cost of gross debt					(35)
Income from cash and cash equivalents					9
Other financial income					4
Other financial expenses					(8)
Share of profits of associates					-
Income tax					(157)
Net profit					396
Segment assets [(a)]	**8,953**	**467**	**2,028**	-	11,448
Non-segment assets					1,149
Total assets					12,597
					-
Segment liabilities [(b)]	**1,337**	**41**	**140**	-	1,518
Non-segment liabilities					4,088
Equity					6,991
Total liabilities					12,597
Acquisitions of property, plant and equipment & intangible assets	101	2	47	-	150
Amortization, depreciation and impairment of property, plant and equipment and intangible assets	(129)	(6)	(44)	-	(179)

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

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

First-half 2017 restated

€ millions	Lenses and Optical Instruments	Equipment	Sunglasses & Readers	Eliminations	GROUP TOTAL
External revenue	3,332	110	417	-	3,859
Intra-segment revenue	14	40	8	(62)	-
Total revenue	**3,346**	**150**	**425**	**(62)**	**3,859**
Contribution from operations	**632**	**21**	**64**	-	**717**
Operating profit					608
Cost of gross debt					(35)
Income from cash and cash equivalents					8
Other financial income					2
Other financial expenses					(7)
Share of profits of associates					-
Income tax					(138)
Net profit					438
Segment assets [(a)]	**9,130**	**480**	**2,042**	-	**11,652**
Non-segment assets					1,220
Total assets					12,872
					-
Segment liabilities [(b)]	**1,312**	**39**	**145**	-	**1,496**
Non-segment liabilities					4,665
Equity					6,711
Total liabilities					12,872
Acquisitions of property, plant and equipment & intangible assets	91	4	30	-	125
Amortization, depreciation and impairment of property, plant and equipment and intangible assets	(149)	(5)	(42)	-	(196)

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

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

Fiscal year 2017 restated

€ millions	Lenses and Optical Instruments	Equipment	Sunglasses & Readers	Eliminations	GROUP TOTAL
External revenue	6,410	225	767	-	7,402
Intra-segment revenue	22	81	8	(111)	-
Total revenue	**6,432**	**306**	**775**	**(111)**	**7,402**
Contribution from operations	**1,207**	**44**	**105**	-	**1,356**
Operating profit					1,069
Cost of gross debt					(70)
Income from cash and cash equivalents					18
Other financial income					2
Other financial expenses					(14)
Share of profits of associates					-
Income tax					(131)
Net profit					874
Segment assets [(a)]	**8,818**	**456**	**1,959**		**11,233**
Non-segment assets					1,079
Total assets					12,312
Segment liabilities [(b)]	**1,376**	**41**	**147**		**1,564**
Non-segment liabilities					3,834
Equity					6,914
Total liabilities					12,312
Acquisitions of property, plant and equipment & intangible assets	220	6	82		308
Amortization, depreciation and impairment of property, plant and equipment and intangible assets	(283)	(8)	(84)		(375)

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

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

The Group's top 20 customers accounted for 19% of its revenue in first-half 2018 and 19% of its revenue in 2017 restated.

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

NOTE 5. OTHER OPERATING INCOME AND EXPENSES

€ millions	First semester 2018	First semester 2017 restated	Year 2017 restated
Other [a]	-	1	12
Other income from operations	**-**	**1**	**12**
Restructuring costs [b]	(14)	(14)	(33)
Compensation costs on share-based payments [c]	(64)	(38)	(128)
Transaction costs [d]	(14)	(50)	(109)
Other [e]	(9)	(8)	(29)
Other expenses from operations	**(101)**	**(110)**	**(299)**

(a) Mainly includes gain or loss on disposal of tangible assets.

(b) Restructuring costs are, for the most part, related to the streamlining of a number of production sites, the reorganization of commercial flows and the impairment of intangible assets located in North America and in Asia.

(c) The Board has granted Group's employees various equity-settled share-based payments with market-based performance conditions. Following the signing of the Combination Agreement with Luxottica and the approval of General Meeting on May 11th, 2017, the Group modified such unvested equity-settled share-based payments so as to (i) waive the market performance conditions for all employees except for the two corporate officers and (ii) replace the market performance conditions by non-market performance conditions for such two corporate officers. The vesting period for the share-based payments remains unchanged. This modification applies to share-based payments granted in 2015 and in September and December 2016. These modifications increase the fair value of the share-based payment of €28 million for the first semester 2018, €8 million for the first semester 2017 and €37 million for 2017.

(d) Following the signing of the Combination Agreement with Luxottica, Essilor recognizes transaction costs.

(e) Includes mainly for 2017:

- the impact of the settlement with Vision Ease and Hoya,
- the commitment for a €14 million exceptional contribution to the giving program Vision For Life™ (France) and to the non-profit organization Essilor Social Impact Fund (USA), in order to deploy new charity programs worldwide. Their mission launched in 2015 is to contribute to vision care.

Performance shares

Since 2006, the Essilor Group has launched performance-based bonus share allotment plans (performance shares).

A new plan was approved on May 2018. The number of shares vested at the end of a period of 3 to 6 years based on the grant date ranges from 0% to 100% of the number of shares originally granted, depending on the performance of the Essilor share price compared with the reference price on the grant date (corresponding to the average of the prices quoted over the 20 trading days preceding the Board Meeting at which the grant is decided).

The maximum number of performance shares that would vest assuming that the vesting conditions were met is 316 638 shares for the 2018 awards.

The main assumptions used to measure costs related to performance shares granted during the first semester 2018 are as follows:

- Share volatility: 20.55% (2017 awards: 20.95%)
- Risk-free interest rate: -0.14% (2017 awards: -0.33%)
- Yield: 1.44% (2017 awards: 1.50%)

Based on these assumptions, the fair value of a share awarded in 2018 was €65.39 for non-residents of France (€54.06 in 2017) and, for French residents, €63.15 (€50.41 for the October 2017 plan and €61.61 for the December 2017 plan).

NOTE 6. OTHER FINANCIAL INCOME AND EXPENSES

€ millions	First semester 2018	First semester 2017 restated	Year 2017 restated
Foreign exchange gains	-	2	-
Dividends	-	-	2
Other	4	-	-
Other financial income	**4**	**2**	**2**
Foreign exchange losses	(5)	-	(3)
Accretion of discount on liabilities charges	(3)	(5)	(9)
Provisions for non-consolidated securities	-	-	(2)
Other	-	(2)	-
Other financial expenses	**(8)**	**(7)**	**(14)**

NOTE 7. INCOME TAX

Income tax expense amounted to €157 million for first half of 2018, compared with €138 million for first half of 2017 restated, corresponding to an effective rate of 28.4% versus 24% for the same prior-year period.

Essilor received this year the reimbursement of the 3% surtax on the dividends paid from 2013 to 2017. As such, the group received €16 million in 2018. It already received a first reimbursement of €13 million in 2017.

NOTE 8. CHANGE IN THE NUMBER OF SHARES

The shares have a par value of €0.18.

Change in the actual number of shares, excluding treasury stock

	First semester 2018	First semester 2017 restated	Year 2017 restated
Number of shares at January 1	**217,781,012**	**216,461,561**	**216,461,561**
Exercise of stock subscription options	15,200	66,911	130,548
Subscription of the Essilor Group FCP mutual fund	-	-	487,190
Delivery of performance shares	7,597	1,361	701,713
Number of shares at period-end	**217,803,809**	**216,529,833**	**217,781,012**
Number of treasury shares eliminated	1,336,830	2,044,779	1,344,427

Change in the weighted average number of shares, excluding treasury stock

	First semester 2018	First semester 2017 restated	Year 2017 restated
Number of shares at January 1	**217,781,012**	**216,461,561**	**216,461,561**
Exercise of stock subscription options	4,920	28,270	59,877
Subscription of the Essilor Group FCP mutual fund	-	-	22,479
Delivery of performance shares	1,797	406	60,337
Average number of shares at period-end	**217,787,729**	**216,490,237**	**216,604,254**

In 2018 and in 2017, no treasury stock was canceled.

NOTE 9. GOODWILL

€ millions	December 31, 2017 restated	Business combination	Other changes in scope and other movements	Translation difference	Provisions for impairment	June 30, 2018
Gross amount	5,618	10	4	32	-	5,664
Impairment	(35)	-	-	-	-	(35)
Net amount	**5,583**	**10**	**4**	**32**	**-**	**5,629**

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

The impairment test at 31 December 2017 supported the Group's opinion that goodwill was not impaired. At 30 June 2018, the Group considers that the assumptions used to assess the recoverable value of goodwill at 31 December 2017 are not modified in a way that would lead to an impairment test at 30 June 2018.

The carrying amount of goodwill breaks down as follows by group of CGUs:

€ millions	**June 30, 2018**	**December 31, 2017 restated**
Lenses – Europe	865	860
Lenses – North America	2,133	2,076
Lenses – South America	477	515
Lenses – Asia, Oceania, Middle East, Africa	887	884
Laboratory equipment	283	280
Sunglasses & Readers	984	968
Total	**5,629**	**5,583**

NOTE 10. PENSION AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS

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

- supplementary pension plans in France, Germany, the United Kingdom, and the United States;
- retirement benefits granted to employees in France and other European countries;
- other long-term benefits (length-of-service awards in France and their equivalent in other countries).

At June 30, 2018, net recognized benefit obligations amount to €336 million (€337 million at December 31, 2017).

Provisions for pensions

€ millions	June 30, 2018	December 31, 2017 restated
Non-current assets (plan surpluses)	-	-
Provisions for pensions in liabilities	336	337

Analysis of the change in actuarial gains and losses recognized in equity

Actuarial gains and losses generated for the half-year ended 30 June 2018 have been recognised directly in equity for an amount of €-2 million.

Actuarial assumptions used to estimate commitments in the main countries concerned

A major assumption taken into account in the valuation of pension and other post-employment benefit obligations is the discount rate.

In accordance with IAS 19, the rates were determined by monetary zone by referring to the return on high-quality private bonds with a maturity equal to the term of the plans, or the return on government bonds when the private market has insufficient liquidity.

The main rates used by the Group are as follows:

As a %	June 30, 2018			December 31, 2017 restated		
	Eurozone	United States	United Kingdom	Eurozone	United States	United Kingdom
Discount rate	1.85	4.05	2.65	1.60	3.75	2.50
Inflation rate	1.80	3.50	3.30	1.80	3.50	3.30

Expenses for the year

Income (expenses) *€ millions*	First semester 2018	First semester 2017 restated	Year 2017 restated
Cost of services rendered in the period	(12)	(9)	(22)
Interest expense	(3)	(3)	(6)
Cost of past services	-	-	(1)
Expenses for the year	**(15)**	**(12)**	**(29)**

NOTE 11. PROVISIONS

€ millions	December 31, 2017 restated	Provisions for the period	Utilisation during the period	Reversals not applicable	Translation differences and other movements	June 30, 2018
Restructuring provisions [a]	19	6	(7)	-	(1)	17
Warranty provisions	47	4	(5)	-	(9)	37
Provisions for legal claims	26	-	(4)	-	-	22
Tax reserves [b]	228	7	-	-	4	239
Other risks	62	3	(1)	(1)	4	67
Total	**382**	**20**	**(17)**	**(1)**	**(2)**	**382**

(a) Restructuring provisions are, for the most part, related to the streamlining of a number of production sites located primarily in North America.

(b) The Group tax filings are subject to audit by tax authorities in most jurisdictions in which the Group operated. These audits may result in assessment of additional taxes. The Group pursues all legal remedies, through the relevant courts, in order to contest these tax assessments.

NOTE 12. NET DEBT AND BORROWINGS

Net debt

The Group's net debt can be analyzed as follows:

€ millions [(a)]	December 2017 restated	Change in financing flows	Scope	Translation difference	Other	June 2018
Long-term borrowings	1,674	(4)	1	21	(92)	1,600
Short-term borrowings	418	347	-	1	86	852
Short-term bank loans and overdrafts	58	(3)	-	-	-	55
Accrued interest	15	(5)	-	-	-	10
Total liabilities	**2,165**	335	1	22	(6)	**2,517**
Cash and cash equivalents	(484)	(55)	(2)	(1)	-	(542)
Total assets	**(484)**	(55)	(2)	(1)	-	**(542)**
Interest rate swaps [(b)]	(20)	-	-	-	6	(14)
Net debt	**1,661**	**280**	**(1)**	**21**	-	**1,961**

(a) Sign convention: + debt /- excess cash or securities
(b) *Interest rate swap measured at fair value at each period end*

Long-term borrowings

At June 30, 2018, the Group's long-term funding structure was as follows:

€ millions	June 30, 2018	December 31, 2017 restated	Issue date	Maturity
Bond (in euros)	323	324	2014	2024
Bond (in euros)	500	500	2014	2021
Bond (in US dollar)	257	246	2017	2022
US private placement (1 tranche)	-	83	2012	2019
US private placement (4 tranches)	257	250	2013	2019-2023
US private placement (2 tranches)	257	250	2017	2022-2027
Other	6	21		
Long-term borrowings	**1,600**	**1,674**		

Private investments are subject to a financial covenant, which was respected as at June 30, 2018.

Short-term borrowings

At June 30, 2018, the Group's short-term funding structure was as follows:

€ millions	June 30, 2018	December 31, 2017 restated	Issue date	Maturity
Negotiable EUropean Commercial Paper (NEU CP)	100	100	2017	2018
US Commercial Paper (USCP)	506	168	2017	2018
US private placement (2 tranches)	107	104	2013	2018
US private placement (1 tranche)	86	-	2012	2019
Bank overdraft	54	58		
Other	64	61		
Short-term borrowings	**917**	**491**		

In accordance with the Group's policy, these commercial paper programs are backed by long-term committed credit facilities, totaling €2.3 billion at June 30, 2018.

NOTE 13. OFF-BALANCE-SHEET COMMITMENTS

Off-balance sheet commitments are shown in Note 22 to the annual 2017 consolidated financial statements.

There were no material changes in the amount or nature of off-balance sheet commitments between December 31, 2017 and June 30, 2018.

NOTE 14. CONTINGENT LIABILITIES

The main claims and litigation are as follows:

Alleged anti-competitive practices in France:

In July 2014, the French competition authority's inspection department made unannounced visits to selected Group subsidiaries in France and other actors in the ophthalmic lens market related to the online sale of ophthalmic lenses. The Group appealed against the seizure order, but the appeal was dismissed. Meanwhile, the Authority carries on its investigation.

Group actions in USA

Two class actions have been opened during the second semester 2017 against the subsidiary Costa Del Mar Inc., one in Florida, the other in Texas, based on so-called misleading claims regarding the repair terms of the products. A settlement was reached during the first semester 2018 closing the class action in Texas, leaving the action in Florida pending.

E-commmerce

The College of Optometrists of Ontario, as well as the College of Opticians of Ontario, took legal action in order to ban any home delivery of ophthalmic products. On January 11th, 2018, the claimants obtained a favorable decision. The Group appealed against the decision. The next hearing is scheduled in September 2018.

Other pending legal proceedings of which the Group is aware are currently not likely to have a material impact on the financial situation or the profitability of the Group.

Inquiry

In 2016, the US federal government (Department of Justice) and the Californian government (Department of Insurance) requested information concerning various promotional programs of Essilor of America. Essilor of America continues to collaborate with the authorities in connection herewith.

Tax disputes

Due to its presence in numerous countries, the Group is subject to various national tax regulations. Any failure to observe these regulations may result in tax adjustments and the payment of fines and penalties.

NOTE 15. RELATED PARTY TRANSACTIONS

Main related parties are:

- main executives of the Group;
- subsidiaries over which the Group exercises an exclusive or joint control and companies over which the Group exercises a significant influence.

Other related party transactions

There were no non-current transactions with members of the management bodies during the semester.

NOTE 16. SUBSEQUENT EVENTS

No significant subsequent event has been identified.

Statement by the Person Responsible for the 2018 Interim Financial Report

I declare that, to the best of my knowledge, (i) the financial statements for the first six months of 2018 have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of Essilor International (Compagnie Générale d'Optique) and the consolidated companies, and (ii) the accompanying interim management report includes a fair review of significant events of the past six months, their impact on the interim financial statements and the main related party transactions for the period, as well as a description of the main risks and uncertainties in the second half of the year.

Charenton-le-Pont, France, July 25, 2018

Hubert Sagnières
Chairman and Chief Executive Officer

ESSILOR

SEEING THE WORLD BETTER

STATUTORY AUDITORS' REVIEW REPORT ON THE 2018 HALF-YEAR FINANCIAL INFORMATION

(PERIOD FROM JANUARY 1, 2018 TO JUNE 30, 2018)

This is a free translation into English of the Statutory Auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

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

Mazars
61, rue Henri Régnault
92400 Courbevoie

Statutory auditors' review report on the 2018 half-year financial information

(Period from January 1, 2018 to June 30, 2018)

This is a free translation into English of the Statutory Auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France

To the Shareholders,
ESSILOR INTERNATIONAL (Compagnie Générale d'Optique)
147, rue de Paris
94220 Charenton-le-Pont

In compliance with the assignment entrusted to us by the General Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (*Code monétaire et financier*), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of ESSILOR INTERNATIONAL (Compagnie Générale d'Optique), for the period from January 1, 2018 to June 30, 2018;
- the verification of the information contained in the half-year management report.

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

1. Conclusion on the financial statements

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

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

Without qualifying our conclusion, we draw your attention to the note 2.1 to the condensed half-year consolidated financial statements relating to the impacts of the first time adoption of IFRS 15 "Revenue from contracts with customers".

2. Specific verification

We have also verified the information given in the half-year management report on the condensed half-year consolidated financial statements that were subject to our review. We have no matters to report with respect to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-sur-Seine and Courbevoie, July 26, 2018

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit — Mazars

Olivier Lotz — Cédric Le Gal — Jean-Luc Barlet — Daniel Escudeiro