ESSILOR

SEEING THE WORLD BETTER

Solid 2017 earnings

Strong fourth quarter

- Revenue: Up 6.7% at constant exchange rates, up 3.1% like-for-like
- Robust growth in the United States and e-commerce activities
- Adjusted contribution from operations: 18.3% of revenue
- Healthy free cash flow generation

Charenton-le-Pont, France (March 1, 2018 – 6:30 am) – The Board of Directors of Essilor International met on February 28, 2018 to approve the financial statements for 2017. These statements have been audited and the auditors are in the process of issuing their report.

Financial Highlights

€ millions	**2017** ***Adjusted***(f)	2016 *Reported*	**% Change**	2017 *Reported*
Revenue	**7,490**	7,115	**+5.3%**	7,490
Contribution from operations(b) *(% of revenue)*	**1,367** ***18.3%***	1,321 *18.6%*	**+3.5%**	1,361 *18.2%*
Operating profit	**1,248**	1,230	**+1.5%**	1,074
Profit attributable to equity holders *(% of revenue)*	**833** ***11.1%***	813 *11.4%*	**+2.5%**	789 *10.5%*
Earnings per share (*in €*)	**3.85**	3.79	**+1.6%**	3.64

There are two main types of adjustment items. First, expenses associated with the proposed combination with Luxottica, and, second, the positive effects of tax changes in the United States and France. These items are non-recurring adjustments (see page 3).

"*Essilor continued its mission to improve vision across the globe in 2017, and delivered another year of earnings growth. Our ambition to eradicate poor vision drives a development strategy that is supported more than ever by our powerful innovation capacity, our acquisition model and the quality of our governance, in which an increasing number of group employees are involved. The momentum created by the rollout of new products, notably in the fourth quarter, together with the numerous transformative initiatives undertaken in 2017, allow us to look ahead to 2018 with confidence.*

Once completed, the combination with Luxottica will open a new chapter for us, allowing us to grow in a way that benefits consumers and the optical industry" commented Hubert Sagnières, Essilor Chairman and CEO.

In 2017, Essilor continued to provide an ever-growing number of solutions to respond to unmet visual needs by pursuing a strategy of expanding its scope of operations in sunwear and online sales.

In prescription lenses, a strategy geared to innovation, consumer marketing, partnerships and new, inclusive business models led to launches in all price ranges of a variety of products for correcting and protecting eyesight and preventing visual health risks. Custom services were also developed for a growing number of eyecare professionals, and the Company continued to expand geographically.

The rollout of Essilor's portfolio of sunwear brands continued, particularly in China, and the Company boosted its presence and organization in online retailing.

More importantly, Essilor began writing a new chapter in its history in 2017 with the announcement on January 16 of its proposed combination with Luxottica. Major strides were made during the year toward finalizing the combination. After shareholders approved the combination at the General Meeting of May 11, 2017, Essilor completed the hive-down of its activities on November 1, 2017, paving the way for it to become the holding company at the top of the combined group that will house Essilor and Luxottica. The two companies also filed notices with antitrust authorities in several jurisdictions, 13 of which have approved the deal unconditionally as of today.

Highlights of the 2017 fiscal year included:

- *A sharp acceleration in fourth quarter like-for-like revenue growth at 5.1%;*
- *Good overall performance at the Lenses and Optical Instruments division, primarily reflecting accelerated growth in the United States in the second half and strong online sales. These positive trends offset weakness in some countries, particularly Australia and Brazil;*
- *Global rollouts of the new Varilux® X series™ progressive lens, the new Crizal® Sapphire™ 360° anti-reflective lens and the Eye Protect System™ lens, which sets a new standard for protection against UV rays and harmful blue-violet light;*
- *Further development of the Sunglasses & Readers division characterized by solid growth in the United States and the integration of Photosynthesis Group in China*;
- *Robust growth at the Equipment division, driven by positive momentum in the optical industry and the appetite of many players for new lens manufacturing technologies;*
- *The completion of nine partnerships or acquisitions representing combined full-year revenue of close to €87 million;*
- *Significant free cash flow generation at €925 million that allowed Essilor to make significant progress in reducing its net debt.*

Dividend

The Board of Directors will recommend that shareholders at the Annual Meeting of April 24, 2018 approve the payment of a dividend of €1.53 per share, an increase of 2% from 2016. This dividend will be paid as from April 30, 2018 (ex-date April 26, 2018).

Outlook

The solid performance in 2017 and the ongoing deployment of growth initiatives enable Essilor to target, in 2018, revenue growth of around 4% like-for-like[(a)] and a contribution from operations[(b)] greater than or equal to 18.3%[(g)] of revenue.

The finalization of the proposed Essilor and Luxottica combination is planned for the first part of 2018 after obtaining all necessary authorizations.

A conference call in English will be held <u>today at 10:30 a.m. CET.</u>

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

http://hosting.3sens.com/Essilor/20180301-C40B296B/en/webcast/startup.php

Forthcoming investor events

April 24, 2018: Annual Shareholder's Meeting at "La Maison de la Mutualité", Paris, France

April 27, 2018: First-quarter 2018 revenue

Notes

a - Like-for-like growth: Growth at constant scope and exchange rates. See definition provided in Note 2.3 to the consolidated financial statements of the 2016 Registration Document.

b - Contribution from operations: Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

c - Bolt-on acquisitions: Local acquisitions or partnerships.

d - Free cash flow: Net cash from operating activities before working capital requirement.

e - 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.

f - Adjusted: There are two main types of adjustment items. First, expenses associated with the proposed combination with Luxottica, and, second, the positive effects of tax changes in the United States and France. These non-recurring adjustments cover:

- Transaction costs related to the proposed combination with Luxottica for €109 million;
- An additional cost of €45million principally linked to the lifting of performance conditions for two employee shareholding plans;
- A one-time contribution for €19 million to mission-related programs focused on eradicating poor vision worldwide;
- A gain from the refund of the 3% dividend tax in France, net of one exceptional tax, for €19 million;
- A one-time gain linked to tax reform passed in the United States in December 2017 for €73 million.

The reported accounts and a reconciliation of the reported accounts to the adjusted accounts are provided in chapter 1.6.1.

g - Excluding any new strategic acquisition.

About Essilor

The world's leading ophthalmic optics company, Essilor designs, manufactures and markets a wide range of lenses to improve and protect eyesight. Its mission is to improve lives by improving sight. To support this mission, Essilor allocates more than €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 markets its products in more than 100 countries and 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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EXCERPTS FROM THE MANAGEMENT REPORT BY THE BOARD OF DIRECTORS – FEBRUARY 28, 2018

2017 CONSOLIDATED REVENUE

Revenue *€ millions*	2017	2016	Change (reported)	Change (like-for-like[a])	Scope effect	Currency effect
Lenses and Optical Instruments	**6,498**	**6,218**	+4.5%	+3.4%	+2.4%	-1.3%
North America	***2,805***	***2,707***	*+3.6%*	*+4.1%*	*+1.4%*	*-1.9%*
Europe	***2,015***	***1,905***	*+5.7%*	*+2.4%*	*+4.0%*	*-0.6%*
Asia/Pacific/Middle East/Africa	***1,192***	***1,138***	*+4.7%*	*+5.1%*	*+2.0%*	*-2.3%*
Latin America	***486***	***468***	*+4.0%*	*-0.9%*	*+2.8%*	*+2.0%*
Sunglasses & Readers	**766**	**685**	+12.0%	+0.1%	+14.8%	-3.0%
Equipment	**226**	**212**	+6.4%	+5.8%	+2.0%	-1.4%
TOTAL	**7,490**	**7,115**	**+5.3%**	**+3.1%**	**+3.6%**	**-1.4%**

In 2017, consolidated revenue totaled €7,490 million, an increase of 6.7% excluding currency effects.

On a like-for-like basis[a], sales increased by 3.1%, with momentum picking up between the first half (+2.5%) and second half (+3.8%).

The consolidation scope effect (+3.6%) reflected contribution from bolt-on acquisitions[c] completed primarily in 2016, but also in 2017.

More than half of the exchange rate effect (negative 1.4%) reflected the US dollar's depreciation against the euro during the year. The rest was mostly due to declines in the value of the British pound, Chinese yuan and Turkish lira, partially offset by the strengthening of the Brazilian real and Russian ruble.

REVENUE BY OPERATING SEGMENT AND BY REGION

Lenses and Optical Instruments

The Lenses & Optical Instruments division delivered like-for-like growth[a] of 3.4% in 2017 for total sales of €6,498 million.

- **North America**

Like-for-like growth[a] was 4.1% in North America, which represented an improvement over prior year levels. Performance was driven primarily by Company initiatives as market conditions remained subdued throughout the year.

In the United States, the Company's core lens business gained momentum through the launch of innovative products and the ongoing deployment of strategic initiatives that allowed for enhanced customer engagement. In conjunction with the launch of the Varilux® X series™ lens, Essilor introduced in the latter part of the year the "Ultimate Lens Package"[1], a premium solution intended both for progressive and single-vision lens wearers. It was very well received by independent eyecare professionals and consumers alike. Strategic initiatives focused on independent eyecare professionals, including alliances (Vision Source, PERC/IVA and Optiport) and business solutions (Essilor Experts), further boosted performance. Essilor's key account business continued to experience strong demand for innovative lens offerings, including blue-light-filtering technology, as well as integrated supply chain solutions. The Company also benefited from exposure to faster growing retail groups. Contact lens distribution activities contributed to growth throughout the year.

In Canada, revenue rose slightly.

- **Europe**

Like-for-like[a] revenue growth of 2.4% in Europe was fueled mainly by new products, an effective multi-network strategy and good results from the instruments and e-commerce activities.

The primary drivers of this growth included the launch during the spring of the new Varilux® X series™ progressive lens, which translated into sustained gains for premium and custom products, as well as strong volume growth for Transitions® photochromic lenses.

Results were mixed across different countries and distribution channels. Alongside Eastern Europe, Russia and Scandinavia, Italy was among the countries that saw the strongest growth in the region thanks to a better product mix with independent opticians. Revenue was flat in Germany, Benelux and France, where the market was affected by longer optical services reimbursement frequencies. In these countries, distribution networks like Novacel and Nika were particularly buoyant. Sales in the United Kingdom and Spain were slightly dampened by a less supportive economic environment.

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[1] Varilux® X series™ lenses + Crizal® Sapphire™ 360° UV +Transitions® Signature® VII for progressive wearers
Eyezen™ lenses + Crizal® Sapphire™ 360° UV + Transitions® Signature® VII lenses for single-vision wearers

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

In the Asia/Pacific/Middle East/Africa region, like-for-like growth[(a)] of 5.1% reflected robust domestic sales in fast-growing markets, partly offset by slower export growth and declining activity in Australia. In China, domestic sales rose by more than 10% driven by strong growth in mid-range product lines, lenses offering protection from harmful blue-violet light and Eyezen™ lenses. India delivered more mixed results in its domestic market, with buoyant sales of progressive and photochromic lenses achieved against a backdrop of monetary and fiscal upheaval. In Korea, the Company's commercial initiatives drove sales of progressive lenses and Transitions® products. Growth in Southeast Asia and Turkey was very strong, while trends in the Middle East and Africa were more mixed. Japan benefited, quarter after quarter, from an improvement in sales and product mix with independent opticians and optical chains.

- **Latin America**

Revenue in Latin America was broadly flat in 2017 (-0.9% like-for-like[(a)]), with a sharp decline in sales in Brazil cancelling out increases in Spanish-speaking countries in the region.
Due to unfavorable economic conditions in Brazil, the country's optical industry was hit by sharply lower foot traffic in optical shops, notably impacting the premium segment. For Essilor, this translated into a decline in sales of Crizal antireflective lenses and Varilux progressive lenses, though momentum picked up for the latter in the second half of the year. The repositioning of the Transitions® photochromic lenses with a more attractive value proposition helped sustain sales volumes and enhanced the brand's presence. Under these challenging market conditions, the prescription laboratories saw a small increase in revenue.
Spanish-speaking countries, which now contribute more than half of revenue in the region, continued to post strong gains despite some setbacks. For instance, steady sales growth in Mexico throughout the first half of the year was hindered by the impact of natural disasters on local retailers and the Company's supply chain starting in September. Growth in Colombia was close to 10%, driven in part by increased sales of value-added lenses. Argentina delivered the best performance in the region, and Chile and Costa Rica both kept a healthy dynamic .

- **Instruments**

A part of the Lenses and Optical Instruments division, the Instruments business markets tools for use by optometrists and opticians. It achieved like-for-like[(a)] revenue growth of 8.5% in 2017 thanks to strong sales momentum across all geographies and product lines.
The lens edging-mounting business saw record sales of edgers. The business was boosted by the success of entry-level and mid-range machines, particularly in fast-growing markets with the Delta 2™ compact edging station, and by the launch of the new Pro-E™ 600 edger designed for labs managing high volumes, including online sellers.
Business was very brisk on the optometry side (refraction and diagnostic devices) thanks to new contracts for diagnostic machine sales to key accounts and the launch of a new diagnostic and refraction instrument, Wave Analyzer Cornea 700. This new instrument allows opticians to customize optical equipment thanks to

comprehensive exams of the anterior chamber of the eye (measurement of visual performance by day and night, symptoms of visual fatigue, glare sensitivity, etc.).
Sales of in-store measurement instruments were also very strong, notably the measurement columns marketed by French company IVS that enable stores to offer personalized lenses.

- **E-commerce businesses**

Also part of the Lenses and Optical Instruments division, the e-commerce businesses delivered like-for-like growth[(a)] of around 13% in 2017. Growth in North America reflected the continued success of the EyeBuyDirect™ business model for prescription lenses in the United States as well as a rebound in Clearly™ sales during the second half. In Europe, robust sales growth was recorded by Vision Direct™ for contact lenses and by Glasses Direct™ for prescription glasses. In Scandinavia, the activities of online contact lens retailers LensOn® (acquired in 2016 with MyOptique Group) and LensWay™ were combined during the year. The online businesses in Brazil (eÓtica and e-lens), China (Coastal Vision™) and India (Coolwinks™) all continued to experience rapid growth.

<u>Sunglasses & Readers</u>

The Sunglasses & Readers division saw like-for-like[(a)] sales growth of 0.1% in 2017.
In North America, revenue ended the year up slightly at FGX International. Sales to consumers measured in stores trended higher both for readers and sunglasses. FGX also renewed contracts with several major customers and enjoyed shelf space gains. Lastly, FGX's international sales were buoyant.
Costa delivered the best performance of the existing Sunwear brands in the American market in 2017. Despite the toll of the hurricanes that swept through the regions of the United States where the brand is widely sold, a proactive policy of developing ties with new customers and independent opticians continued to pay off. Costa also expanded further into the northeast and central part of the country and positioned itself to step up its growth in California in 2018.
In China, Xiamen Yarui Optical (Bolon™) saw its revenue contract in 2017. The company continued to implement its strategic action plan during the year to improve its situation and bolster the Bolon™ and Molsion™ brands. This action plan involves reducing and optimizing inventories at distributors, redefining terms of sale and leveraging greater insight into consumer purchases from retailers. Additional human resources were brought on board, and the Company continued to expand its business in ASEAN and on the internet. Meanwhile, Photosynthesis Group (MJS) delivered good results for its first year as part of the group and opened 250 new stores, bringing the year-end total to 1,200.
In Turkey, Merve continued to do well with its Ossé™ and Mustang™ brands.

<u>Equipment</u>

Revenue at the Equipment division increased by 5.8% like-for-like[(a)]. This growth was driven primarily by sales of VFT-Orbit 2™ digital generators and Multi-FLEX™ polishers in Europe, which were buoyed by fresh investments and upgrades to existing production lines. In Asia, the addition of new production capacity, notably in the form of complete laboratories, fueled strong sales of digital surfacing machines, polishers and coating machines as well as a surge in services business. Gains were recorded in Latin America after several midsize labs switched to digital surfacing. Sales in the United States were flat for the year, though a sharp increase in orders for generators and polishers in the last quarter drove up the backlog for the division, which bodes well for the early months of 2018.

FOURTH-QUARTER 2017 CONSOLIDATED REVENUE

€ millions	2017	2016	Change (reported)	Change (like-for-like[(a)])	Scope effect	Currency effect
Lenses and Optical Instruments	**1,557**	**1,549**	+0.5%	+5.2%	+1.2%	-5.9%
North America	***665***	***657***	*+1.2%*	*+8.8%*	*+1.1%*	*-8.7%*
Europe	***490***	***480***	*+2.2%*	*+2.4%*	*+0.5%*	*-0.7%*
Asia/Pacific/Middle East/Africa	***285***	***286***	*-0.6%*	*+4.8%*	*+2.0%*	*-7.4%*
Latin America	***117***	***126***	*-6.8%*	*-2.0%*	*+2.5%*	*-7.3%*
Sunglasses & Readers	**201**	**192**	+4.8%	+3.1%	+9.0%	-7.4%
Equipment	**71**	**68**	+4.1%	+9.0%	-0.1%	-4.9%
TOTAL	**1,829**	**1,809**	**+1.1%**	**+5.1%**	**+2.0%**	**-6.0%**

In the fourth quarter, revenue rose 7.1% excluding currency effects with like-for-like[(a)] accelerating from the third quarter, to 5.1%.

Sales were up on a like-for-like basis[(a)] at all businesses: Lenses and Optical Instruments (+5.2%), Sunglasses & Readers (+3.1%) and Equipment (+9.0%).

The 2.0% consolidation scope effect reflected contribution from acquisitions completed earlier in the year.

The negative currency impact (-6.0%) mainly resulted from considerable depreciation of the US dollar against the euro.

By region and division, the period saw:

- A sharp acceleration in business growth in the United States, notably fueled by the launch of the Varilux® X series™ and Crizal® Sapphire™ 360° lenses
- Continued momentum in Europe
- Good performances in fast-growing countries with the exception of Brazil and India
- Recovery at the Sunglasses & Readers division driven by good results at FGX and Costa in the United States and Photosynthesis Group (MJS) in China
- An anticipated rebound at the Equipment division.

ACQUISITIONS AND PARTNERSHIPS

The Company completed nine transactions in 2017, representing combined full-year revenue of close to €87 million.

Company	Country	Business	Full-year revenue	% held	Consoli-dated from
		Lenses & Optical Instruments – North America			
Partners In Vision, Inc.	United States	Service platform for eyecare professionals	N.D.[1]	100%	May 1, 2017
Vision Associates, Inc.	United States		N.D.	60%	May 1, 2017
		Lenses & Optical Instruments – Europe			
CFE Optique	France	Distributor of optical products (ophthalmic lenses, frames and instruments) to opticians in Central and Western Africa	c.€2.5 million	100%	Sept. 1, 2017
Optitrade Logistics Center (OLC)	Netherlands	Distribution platform for Optitrade, a purchasing alliance representing some 650 optical stores in the Netherlands	N.D.	50.2%	February 1, 2017
		Lenses & Optical Instruments – Asia/Pacific/Middle East/Africa			
Sun Optical Technologies	Ethiopia	Prescription laboratory	€1 million	51%	January 1, 2018
Mangalsons Optics PTE Ltd	India	Distributor of plastic and glass lenses, sunglasses and prescription frames	c.460 million Indian rupees	50%	February 1, 2017
Topcon Visioncare Japan (TVJ)	Japan	Distributor of Topcon's optometry line and Essilor's lens finishing line to opticians in Japan	N.D.	Raised from 10% to 51%	March 1, 2017
		Lenses & Optical Instruments – Latin America			
Visolab Produtos Opticos Ltda	Brazil	Prescription laboratory located in the State of Sergipe	c.22 million Brazilian real	51%	February 1, 2017
Opticas Exclusivas	Guatemala	Integrated prescription laboratory operating around 50 optical stores	N.D.	70%	April 1, 2017

All of the above companies will be fully consolidated by Essilor from the date they are added to the scope of consolidation.

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[1] *Not disclosed*

STATEMENT OF INCOME

INCOME STATEMENT, REPORTED/ADJUSTED[f]

€ millions	**2017 Adjusted[f]**	Adjustment items	**2017 Reported**	**2016 Reported**
Revenue	7,490		7,490	7,115
Gross profit	4,346		4,346	4,181
Contribution from operations[b]	1,367	(6)	1,361	1,321
Other income/expenses	(119)	(168)	(287)	(91)
Operating profit	1,248	(174)	1,074	1,230
Income tax expense	(262)	131	(132)	(285)
Net profit	922	(44)	878	880
Attributable to equity holders	833	(44)	789	813
Earnings per share (*in €*)	3.85		3.64	3.79

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

(f) There are two main types of **adjustment items**. First, expenses associated with the planned combination with Luxottica, and, second, the positive effects of tax changes in the United States and France.
These non-recurring adjustments include:

- Transaction costs related to the proposed combination with Luxottica for €109 million;
- An additional cost of €45 million principally linked to the lifting of performance conditions for two employee shareholding plans;
- A one-time contribution for €19 million to mission-related programs focused on eradicating poor vision worldwide;
- An exceptional gain from the refund of the 3% dividend tax in France, net of one additional tax, for €19 million;
- A one-time gain linked to tax reform passed in the United States in December 2017 for €73 million.

CONDENSED ADJUSTED[f] INCOME STATEMENT

€ millions	**2017 Adjusted[f]**	**2016 Reported**	**% change**
Revenue	7,490	7,115	+5.3%
Gross profit (*% of revenue*)	4,346 *58.0%*	4,181 *58.8%*	+3.9% --
Operating expenses	2,979	2,860	+4.2%
Contribution from operations[b] *(% of revenue)*	1,367 *18.3%*	1,321 *18.6%*	+3.5% --
Other income and expenses from operations	(119)	(91)	
Operating profit *(% of revenue)*	1,248 *16.7%*	1,230 *17.3%*	+1.5% --
Finance costs, net	(64)	(66)	--
Income tax expense *Effective tax rate*	(262) *22.1%*	(285) *24.5%*	-- --
Net profit Attributable to equity holders *(% of revenue)*	922 833 *11.1%*	880 813 *11.4%*	+4.8% +2.5% --
Earnings per share (*in €*)	3.85	3.79	+1.6%

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

ADJUSTED[f] NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS UP 2.5%

3.9% increase in gross profit

Gross profit (revenue less cost of sales) reached €4,346 million in 2017, or 58.0% of revenue, compared with 58.8% in 2016. Despite the operating efficiency gains achieved, gross margin contracted due to two main factors: a shift in the mix of distribution channels, notably reflecting the rapid growth of the online activities where gross margin tends to be below the group average, and a decline in sales of Transitions® lenses to manufacturers outside the group.

Adjusted[f] operating expenses: up 4.2%

Adjusted[f] operating expenses amounted to €2,979 million, which was 39.8% of revenue versus 40.2% in 2016.

These charges mainly included:

- R&D and engineering costs, which totaled €217 million, up slightly from 2016;
- Selling and distribution costs, which rose to €1,845 million from €1,750 million in 2016 mainly because of sales force expansion.

Adjusted[f] contribution from operations[b]: 18.3% of revenue

The adjusted[f] contribution from operations[b] rose 3.5% (of which 2.7% like-for-like[a]) to €1,367 million, representing 18.3% of revenue, and was slightly down from 2016 (18.6%) due to:

- Dilution resulting from bolt-on acquisitions[c];
- Significant investments to reinforce the organization in China as well as economic situations, including the one in Brazil, that offset the positive operating leverage effects.

Adjusted[f] operating profit: up 1.5% to €1,248 million or 16.7% of revenue

"Other income and expenses from operations" represented a net expense of €119 million, up from €91 million in 2016. The total for 2017 mainly included:

- €33 million of restructuring provisions, mainly related to the streamlining of some production sites and the restructuring of certain trade flows;
- €82 million of compensation costs for share-based payments (particularly performance share plans), which was higher than 2016 because of the Company's proactive employee share ownership policy;
- €17 million of net expense associated with the settlement of litigation ;
- A €9 million profit from the sale of certain real estate assets in France.

Finance costs and other financial income and expenses, net

This item came to a net expense of €64 million, compared with €66 million in 2016. The improvement was attributable to debt reduction in the second half of 2017.

Adjusted[f] net profit up 4.8% to €922 million

Adjusted[f] net profit includes €262 million in income tax expense compared with €285 million in 2016, for an effective tax rate of 22.1% versus 24.5% in 2016. The reduced rate was mainly due to the continued application over the full year of the advance pricing agreement (APA) on royalty rates signed between France and the United States in 2016.

The adjusted[f] net profit attributable to equity holders of Essilor amounted to €833 million, an increase of 2.5% over the prior year. This included €89 million in non-controlling interests, up from €67 million in 2016. This increase resulted from the consolidation of Photosynthesis Group beginning January 1, 2017 and from the contribution of results delivered by the Company's partners.

Adjusted[f] earnings per share came to €3.85, an increase of 1.6% versus 2016.

BALANCE SHEET AND CASH FLOW STATEMENT

NET DEBT LOWERED TO 1.7 BILLION EUROS

Capital expenditure and investments

Purchases of property, plant and equipment and intangible assets reached €308 million in 2017, primarily comprising capital expenditure to support the Company's growth.

Financial investments amounted to €317 million. This total mainly included acquisitions made during the year as well as subsequent, ancillary payments on transactions from previous years.

Change in working capital requirement

Working capital requirement rose by €58 million in 2017, consistent with underlying revenue growth.

Operating cash flow[(d)]

Operating cash flow[(d)] rose to €1,291 million, driving a 2.8% increase in free cash flow to €925 million. Free cash flow[(e)] increased by 4.0% when adjusted for non-recurring items related to the German competition authority (BKA) in 2016 and to 2017 items including costs linked to the proposed transaction with Luxottica along with litigation settlements.

Net debt

Essilor's net debt reached €1,661 million at end-December 2017 versus €2,062 at end-December 2016, leading to a material reduction in the financial leverage.

CASH FLOW STATEMENT

€ millions

Net cash from operations (before change in WCR[1])	1,291	Capital expenditure	308
Proceeds from share issues	34	Change in WCR[1]	58
Other items[3]	122	Dividends	364
		Acquisition of investments, net of disposals[2]	317
		Reported change in net debt	400

1 - WCR: working capital requirement
2 - Financial investments net of cash acquired, plus debt of newly-consolidated companies
3 - Other items include an €96 million currency effect

PROPOSED COMBINATION OF ESSILOR AND LUXOTTICA

On January 16, 2017, Essilor and Delfin, the majority shareholder in Luxottica, announced that they had signed an agreement to create an integrated global player in the eyewear industry with the combination of Essilor and Luxottica. The transaction is subject to satisfaction of several conditions precedent.

In March 2017, employee representative bodies at Essilor issued favorable opinions on the combination. On April 12, 2017, the French market authority (AMF) waived Delfin'sobligation to file a mandatory tender offer for Essilo'rs shares.

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

On November 1, 2017, Essilor completed the hive-down of its activities. Essilor will be renamed "Essilor Luxottica" once the other conditions precedent to completing the contribution of Luxottica shares to Essilor have been satisfied, and it will become the holding company at the top of the combined group housing Essilor International and Luxottica.

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

SUBSEQUENT EVENTS

None.

APPENDIX 1

ESSILOR INTERNATIONAL REPORTED STATEMENT OF INCOME

€ millions	**2017 Reported**	**2016 Reported**	**% change**
Revenue	7,490	7,115	+5.3%
Gross profit *(% of revenue)*	4,346 *58.0%*	4,181 *58.8%*	+3.9% --
Operating expenses	2,985	2,860	+4.4%
Contribution from operations [(b)] *(% of revenue)*	1361 *18.2%*	1,321 *18.6%*	+3.0% --
Other income (expense)	(287)	(91)	--
Operating profit *(% of revenue)*	1,074 *14.3%*	1,230 *17.3%*	-12.7% --
Financial income (expense), net	(64)	(66)	--
Income tax *Effective tax rate*	(132) *17.6 %*	(285) *24.5%*	-- --
Net profit Attributable to equity holders of Essilor International *(% of revenue)*	878 789 *10.5%*	880 813 *11.4%*	-0.1% -3.0% --
Earnings per share (*in €*)	3.64	3.79	-4.0%

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

ESSILOR

SEEING THE WORLD BETTER

2017 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

€ millions, excluding per share data	**Year 2017**	**Year 2016**
Revenue	7,490	7,115
Cost of sales	(3,144)	(2,934)
GROSS MARGIN	**4,346**	**4,181**
Research and development costs	(217)	(214)
Selling and distribution costs	(1,845)	(1,750)
Other operating expenses	(923)	(896)
CONTRIBUTION FROM OPERATIONS (*)	**1,361**	**1,321**
Other income from operations	12	18
Other expenses from operations	(299)	(109)
OPERATING PROFIT	**1,074**	**1,230**
Cost of gross debt	(70)	(71)
Income from cash and cash equivalents	18	17
Other financial income	2	-
Other financial expenses	(14)	(12)
Share of profits of associates	-	1
PROFIT BEFORE TAX	**1,010**	**1,165**
Income tax expense	(132)	(285)
NET PROFIT	**878**	**880**
Attributable to Group equity holders	**789**	**813**
Attributable to minority interests	89	67
Net profit attributable to Group equity holders per share (€)	3.64	3.79
Average number of shares (thousands)	216,604	214,614
Diluted net profit attributable to Group equity holders per share (€)	3.57	3.71
Diluted average number of shares (thousands)	221,298	219,203

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

CONSOLIDATED BALANCE SHEET
(ASSET)

€ millions	**December 31, 2017**	**December 31, 2016**
Goodwill	5,583	6,191
Other intangible assets	1,682	1,825
Property, plant and equipment	1,116	1,214
Investments in associates	20	8
Non-current financial assets	111	136
Deferred tax assets	211	187
Long-term receivables	41	37
Other non-current assets	47	56
TOTAL NON-CURRENT ASSETS	**8,811**	**9,654**
Inventories	1,097	1,125
Prepayments to suppliers	30	31
Short-term receivables	1,685	1,618
Tax receivables	74	81
Other receivables	3	25
Derivative financial instruments recognized in assets	29	45
Prepaid expenses	87	67
Cash and cash equivalents	484	517
CURRENT ASSETS	**3,489**	**3,509**
TOTAL ASSETS	**12,300**	**13,163**

CONSOLIDATED BALANCE SHEET
(EQUITY AND LIABILITIES)

€ millions	December 31, 2017	December 31, 2016
Share capital	39	39
Issue premiums	635	591
Consolidated reserves	5,432	4,936
Own shares	(111)	(168)
Hedging and revaluation reserves	(155)	(159)
Translation differences	(125)	636
Net profit attributable to Group equity holders	789	813
EQUITY ATTRIBUTABLE TO PARENT COMPANY OWNERS	**6,504**	**6,688**
Equity attributable to non-controlling interests	423	366
TOTAL CONSOLIDATED EQUITY	**6,927**	**7,054**
Provisions for pensions	337	344
Long-term borrowings	1,674	1,364
Deferred tax liabilities	257	383
Other non-current liabilities	153	300
NON-CURRENT LIABILITIES	**2,421**	**2,391**
Provisions	394	393
Short-term borrowings	491	1,246
Customer prepayments	44	33
Short-term payables	1,515	1,431
Tax payables	81	73
Other current liabilities	378	509
Derivative financial instruments recognized in liabilities	15	22
Deferred income	34	11
CURRENT LIABILITIES	**2,952**	**3,718**
TOTAL LIABILITIES	**12,300**	**13,163**

CONSOLIDATED CASH FLOW STATEMENT

€ millions		Year 2017	Year 2016
CONSOLIDATED NET PROFIT	**(a)**	**878**	**880**
Adjustments to reconcile net income (loss) to funds generated from operations			
Depreciation, amortization and other non-cash items		549	360
Provision charges (reversals)		(23)	(50)
Gains and losses on asset disposals, net		(4)	(6)
Finance costs, net	**(b)**	49	54
Tax expenses (including deferred taxes)	**(a)**	132	285
Other net cash out			
Share of profits of associates, net of dividends received		-	(1)
Taxes paid		(234)	(264)
Interest (paid) and received, net		(56)	(56)
Change in working capital requirement		(58)	(8)
NET CASH FROM OPERATING ACTIVITIES		**1,233**	**1,194**
Purchases of property, plant and equipment and intangible assets		(308)	(294)
Acquisitions of subsidiaries, net of the cash acquired		(334)	(706)
Change in other non-financial assets		18	(43)
Proceeds from the sale of other financial assets, property, plant and equipment and intangible assets		26	21
NET CASH USED IN INVESTING ACTIVITIES		**(598)**	**(1,022)**
Capital increase	**(c)**	44	41
Capital reduction paid to minority shareholders	**(c)**	(10)	-
Net sale (net buyback) of treasury shares	**(c)**	-	(31)
Dividends paid:			
- to ESSILOR shareholders	**(c)**	(325)	(79)
- to minority shareholders of the consolidated subsidiaries	**(c)**	(39)	(40)
Increase/(Decrease) in borrowings other than finance lease liabilities		(303)	(31)
Repayment of finance lease liabilities		(2)	(3)
NET CASH USED IN FINANCING ACTIVITIES		**(635)**	**(143)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**-**	**29**
Net cash and cash equivalents at January 1		460	431
Effect of changes in exchange rates		(34)	-
NET CASH AND CASH EQUIVALENTS AT PERIOD-END		**426**	**460**
Cash and cash equivalents		484	517
Bank credit facilities		(58)	(57)

[a] See income statement

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

[c] See statement of changes in equity

APPENDIX 2

CONSOLIDATED REVENUE BY QUARTER

€ millions	2017	2016
First Quarter		
Lenses & Optical Instruments	**1,713**	1,567
North America	***767***	*710*
Europe	***508***	*470*
Asia/Pacific/Middle East/Africa	***311***	*283*
Latin America	***127***	*104*
Sunglasses & Readers	**199**	173
Equipment	**50**	44
TOTAL First Quarter	**1,962**	**1,784**
Second Quarter		
Lenses & Optical Instruments	**1,669**	1,562
North America	***715***	*668*
Europe	***529***	*495*
Asia/Pacific/Middle East/Africa	***304***	*282*
Latin America	***121***	*117*
Sunglasses & Readers	**218**	187
Equipment	**60**	50
TOTAL Second Quarter	**1,947**	**1,799**
Third Quarter		
Lenses & Optical Instruments	**1,559**	1,541
North America	***658***	*671*
Europe	***487***	*461*
Asia/Pacific/Middle East/Africa	***293***	*288*
Latin America	***121***	*121*
Sunglasses & Readers	**148**	132
Equipment	**45**	50
TOTAL Third Quarter	**1,752**	**1,723**
Fourth Quarter		
Lenses & Optical Instruments	**1,557**	1,549
North America	***665***	*657*
Europe	***490***	*480*
Asia/Pacific/Middle East/Africa	***285***	*286*
Latin America	***117***	*126*
Sunglasses & Readers	**201**	192
Equipment	**71**	68
TOTAL Fourth Quarter	**1,829**	**1,809**