Conference Call
First-Half 2018 Results
July 26, 2018

Conference Coordinator

Good morning, ladies and gentlemen. Welcome to Essilor's first half 2018 results presentation. Today I am pleased to present Mr. Hubert Sagnières, Chairman and Chief Executive Officer of Essilor. During the presentation all participants will be in listen-only mode. Later there will be a questions-and-answers session. If you require any assistance from an operator, please press star zero on your telephone keypad. Mr. Sagnières, please go ahead.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

Thank you. Good morning everyone. I am here in Paris with the full IR team, Laurent and Hilary, and of course, Alexander. You already know the big news we got this morning and we are very pleased to confirm that we have obtained the approval for the combination from the Chinese authorities. This is another day of celebration and step by step towards the D-day where we will celebrate the new and fantastic company we are building with Mr Del Vecchio, EssilorLuxottica. After the EU, the US, Brazil and Canada, as you know this is the last condition precedent that opens the way to finalizing the combination with Luxottica and Essilor.

Let me back up a bit on a few topics I would like to share with you before giving the mic to Laurent and his team, who will also go in-depth into the other news, which is the outstanding second quarter we had, before reviewing the perspective for 2018. Like me, all my team and the Luxottica team, you are all exhausted because it has taken a lot of time. However, you have to understand that China is already today and for a few years now, the first and biggest market in the world for eyecare and eyewear. This is where we have the highest demand in volume for eyeglasses. As you know, out of the 1.3 billion, 1.4 billion people in China, we have 800 million to 900 million myopic people. We now have more than 200 million of presbyopes, all willing to get progressive lenses and VARILUX®. This is already the biggest market in the world, and of course, the Chinese authorities like the other authorities in the world, have taken their time, to analyze all the market positions and the other actors in this industry thoroughly, in a very detailed and professional way. They want to make sure that the leaders in their country will build a business model with products and services that will actually ensure that all the Chinese in the coming years will have the best services and products to correct their vision and contribute to the happiness and health of Chinese citizens. It has taken a lot of time. We have taken a lot of time explaining what we are doing. We have taken a lot of time with Luxottica also, explaining our business model, as well as our mission and how we do business everywhere in the world and how we plan to do business in China. In a nutshell, we have confirmed to the Chinese authorities that we are willing to operate, as we do in every country in the world, in an open business model. I think you all know, and I have read the commitment we have given to the Chinese authorities, our commitments are around three key points:

- As we do everywhere, to inform the authorities about future acquisitions we will do in China;
- Second, which was very important to them and us was also to make sure that all our products are available to all the consumers in China;
- At the same time, a commitment to make sure that we will not distribute on an exclusive way some products to some specific target. We want our products to be available in all the stores, not only in those we own and, of course, that we would not discriminate against any customers in China.

For us, what is extremely important is that we will continue to behave in China in a very open business model, able to actually to accomplish our mission of eradicating poor vision from the world, developing solution services for all the actors in optics in China. Moreover, to distribute eyewear and eyecare to all the Chinese at every price point. As you know, we have this strong mission to eradicate poor vision everywhere in the world. We made a commitment a few years ago, that by 2050 we want everyone on Earth to see well, either wearing a fantastic Ray-Ban® frame Varilux® in it, or eyewear for a few dollars, because this is what he or she can afford. We have now agreed with the Chinese authorities is actually being able to develop all those open strategies in China as we do in Europe, the States, Brazil, Latin America, Africa and the whole of South Asia. Again, what is extremely important and guiding our strategy is our ability to create value at every price point and level of the market, and to create value by distributing all our products in every country, to all the consumers, using all our brands. The more luxury brands, the more affordable brands, the premium brands, but also the mid-range brands, in order to make and give good vision to all consumers everywhere in the world. In China our commitment with the Chinese authorities will make it possible to develop all those brands, to create value for all our shareholders, using all the assets of Essilor, all the assets of Luxottica and making sure that in a number of years, 1.3, 1.4bn Chinese people in China will all see well, as we do everywhere in the world. This is what I wanted to tell you as the opening comments. I will give Laurent the pleasure of commenting on the second quarter, the first half, and also to give you perspectives on the Essilor businesses.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

Thank you, Hubert. Good morning everyone. Yes, we will comment on this first quarter for you, especially the first half and the second quarter. I will be helped during the Q&A by Paul and Hilary for more specific questions.

In slide 5, as you have seen, after an already strong fourth quarter last year, we delivered a healthy first semester this year. Our growth strategy is delivering value and in a nutshell, I think the key takeaways you should remember for this first half are:

We see positive results from the new product launch in the last 18 months. You remember that in the last conference call we commented on them all. All our brands, lenses, online and sun glasses are driving growth and we have robust growth in the US and fast-growing markets accelerating driven by Brazil and China. At the same time, business in Europe is solid. This turn in value creation is measured as gross margin ratio improvement and healthy cash flow. This makes us confident to continue to accelerate investment and development in growing channels, growing categories, new countries, as well as our team, to attract all the capabilities we need to grow.

Turning to the first half revenue growth on slide 6, you have seen a small decline of 3.5% of our revenue in the first half. It was highly impacted by close to 8% negative currency effect. Based on our end of June rates, we are expecting a roughly neutral currency effect for H2, which will diminish this negative effect for the full-year between minus 4% and minus 5%. More importantly, we posted a 4.4 % growth during H1 in constant currency terms, a combination of 4% like-for-like, exactly on our target for the full-year and 0.4% acquisition growth, knowing obviously, that for the last 18 months we have slowed down acquisitions while we focused on building this beautiful combination with Luxottica.

On slide 7, I would like to make a few comments on Q2. First, all regions and divisions improved from Q1 to Q2, that is the first takeaway. If we go into more details, Lenses and Optical Instruments businesses increased from almost 3% to 4% like-for-like sequentially. This was supported by more than 1% improvement in North America. Here we continue to see the impact of all our investment in brand and product and this combined Ultimate Lens package that provides the best vision for both presbyopes and myopes in the US. This is in addition to our past investment in the independent ECP's segment through Alliance Group and Essilor Expert strategy.

We also had good momentum in China, that is measured as almost 15% growth in domestic lenses. As we mentioned earlier, it is a very dynamic market. Japan is also supporting the Asia Pacific region as far as growth. As I mentioned, we had a solid Europe in Q2 and we see solid improvement in Brazil, Colombia, Argentina. We continue to work to accelerate growth in other markets in Latin America, including Mexico.

Moving to Sun and Readers, after several quarters of investment and hard work of repositioning, all brands are working well and Bolon™ is back on the objective we had to grow double digits.

If we take a more high-level vision on H1 in slide 8, the key highlights are obviously the 3.6% growth in Lenses and Optical Instruments. We continue to grow in all categories and accelerate in our key brands. Varilux® benefitted from the ongoing roll-out at the end of last year in North America and Crizal®, the new Crizal® Sapphire™ 360° was launched in Europe in the first part of this year. We are happy to see very healthy grow for Transitions® lenses sold by our own network, 6%, which I think is the result of all the work done by the Essilor and Transitions® teams in the last year, with the dynamism of the Transitions® brand and some renewed image for the brand and product, we also see a much slower decline in the sales to third-party lenses, especially in North America. We also see a good sun season for the first half, mainly where we are positioned in the US and China. Costa® in the US continues to expand geographically. As the result of the hard work of the last of the last years, Bolon™ extended distribution, pushing online sales, receive some collection, starting optical frames extension, as well as opening stores. All that was supported by a state-of-the-art supply chain and it is doing very well and growing very fast.

On slide 9, as you know, since we had the major approval of authorities on March 1st in Europe and the US, we have started again to re-energize the acquisition pipeline. We already see at the end of the first half a few very positive results, €27 million of total yearly sales that we closed in May and June for most of them. This is mainly in fast-growing markets with high potential obviously, such as Mexico, Honduras and Vietnam. In the last month, we have rebuilt a strong pipeline looking forward and it gives a good indication that we could accelerate this contribution to the growth and value of the company, probably late in H2 and the beginning of 2019.

On slide 10, as you know and the details are all in the appendix, there have been a few adjustments mainly because of the combination. There has also been a restatement of our P&L in 2017 to comply with the new IFRS 15 regulation. I will comment adjusted and restated data, which is the best way to reflect how the company is moving. The main message is that our growth model continues to create value and you have seen the EPS, earning per share, growing in line with sales. There are two key messages on this P&L on my side. First, there is a quite impressive improvement in gross margin ratios, 60 basis points, which is well-spread across all our main business line. Obviously, the biggest driver for this improvement in gross margin is the Lens business, which is really the result of growth in category, innovation and better product mix. The gross margin for e-commerce is also lifted by an increased contribution from higher margin segments like eyeglasses and sun wear, versus contact lenses where, as you know, we have lower margins.

The second key learning is that we invest increasingly in our growth model, because of the safety of this model. I will give you a few examples. In the US, we are expanding significantly the Essilor Expert Program, which will more than triple from the end of 2016 by 2018. Today, we have 3,800 ECP's, eyecare professionals, optometrists who decided to join the program because they believe it is good for their practice, good for them and obviously good for their consumers. We continue to grow the e-commerce platform. We continue to develop existing categories, like progressive addition lenses and photochromic lenses, where we are still under-developed. We are also looking at new ones, specifically myopia, which as you know will be the biggest health problem in the future. We continue to expand our sunwear brands, stores for MJS and Bolon™, with Costa® expanding regionally. We continue to reinforce our team and to develop employee shareholder program, because we believe that it is one of the recipes for the success of the company, to associate and align our employees with the value creation that we can deliver. We will also to continue to make progress toward to eradicate poor vision and we actually have four million new consumers who benefit from better vision, good vision, since the beginning of this year.

Then, when you look at the bottom of the P&L, there are slightly more other expenses, mainly capturing usual restructuring expenses that we have had in adjusting our capabilities to different situations, as well as performance share. Financing costs are slightly down versus last year, which is great. The tax rate came at the lower end of our expectations for the full-year and we still see the full-year tax rate between 22% and 23%.

The cash flow is very simple. There is healthy free cash flow generation coming from the strong operating cash flow generation, growing at more than 10%, excluding currency, while we continue to invest in capacity to sustain the growth of the industry. The debt is also decreasing almost €300 million from June 2017 to June 2018.

Let us spend a few minutes on how we see the second half and the beginning of 2019 on slide 13. I have four messages. The first one is that we expect to sustain the momentum in our Lens business based on the same successful drivers we have seen in H1, which are new products, Crizal® Sapphire™ as I mentioned will be deployed all over the world. We have a new product in Transitions®, that is fancier and targeting younger populations, the Style Colors and Style Mirrors, especially in the US launched at the beginning of July at the National Sales Meeting team at EOA. We have a new and extended range of Eyezen™, the lens that protects your eyes against bad blue and helps them not to be too tired at the end of the day. We will also finalize the launch of Varilux® X series™ in Japan, which is obviously a big market.

We continue to sustain our brands, Varilux®, Transitions®, Eyezen™, around the world. We will continue and accelerate the development of the program for ECP’s all over the world, including as I mentioned, in the US. We see fast-growing markets continuing to improve their positions versus last year, with Brazil and China showing strong momentum. In our Sun & Readers business we target a mid-single digit for the second half, as Bolon™ is back on track and Costa® continues to perform well.

Third, we are working diligently to refill our acquisition pipeline, as we mentioned earlier. We are now in a very good position here.

Fourth, we will continue to reinforce the team. We are very happy to tell you that we have appointed two new members of the Management Committee of the Group, which is the internal governance body that defines strategies and makes choices on allocation of resources for Essilor. The two new members will be Norbert Gorny, who joined ESSILOR in 2011, and who has had strong knowledge of the industry for many years and who at the moment is the Chief R&D Officer for Essilor. We also welcome Grita Loebsack, who is our new Chief Marketing Officer, who joined a month ago and is going around the world to discover this beautiful industry and its beautiful potential, as well as to understand our industry and Essilor. She is coming with a strong background in marketing and business management for global companies in consumer goods, cosmetics and luxury. The objective is to increase focus at the Management Committee on innovation and market development, because we believe it is key for the future on the top of what we do. With those two new members, the Management Committee will be 12 people with seven different nationalities, so a lot of diversity. I think this is the way we can continue to build this beautiful story with all the teams for the future.

Finally, we expect the finalization of the proposed EssilorLuxottica combination and as you understand we had the great news about China just before this call. With all of that, we can confirm our guidance that we gave you at the beginning of this year. That is like-for-like growth around 4% and contribution from operations at least at 18.3%. Most importantly, we will continue to implement the successful growth strategy based on innovation, mission, market development, employee shareholding and acquisition, in the second half and into the future.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

Thank you, Laurent. As far as closing remarks, I will actually give a mic to all of you and we will start the Q&A.

Ms. Anne-Laure BISMUTH – HSBC

It is Anne-Laure Bismuth from HSBC. I have three questions on my side. Congratulations first on the clearance in China. Can you give us some comments about what the next steps are following the clearance in China? I know that Turkey is not mandatory, but do you expect a clearance in Turkey by the end of the month? Will you wait? Can you start to work with Luxottica without the approval in Turkey? My second question is this. When can we expect an announcement regarding the management structure of the new company, and potentially a CMD? My last question: do you have any concerns about the continued lack of growth at Luxottica?

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

Anne-Laure, thank you for your questions. As you know, we definitely now have the last condition precedent. Technically, the closing of the transaction is possible. However, at the same time, we are working with the Turkish anti-trust authorities to coordinate their approval. At the same time, we have made a lot of efforts in the past few months in all the negotiations. All the team needs a little rest, to make sure we are using all the time to start on day one and work together.

The most likely scenario is that we will rest for a bit, for a few weeks, and make sure that we are not pushing the Legal and Financial teams to work hard during the month of August. Most likely, we plan to do this if we get enough time, we will get all the approvals from the Turkish authorities. We think that most likely at the end of September, we will do a closing of these operations. This will allow all the teams to work in depth on joining forces, working on the plans, and joining resources during the end of August and September. This is to make sure we start the merger on the right footing.

There is no rush in any case now that we have all the condition precedents. The certainty of the deal is assured, but we need more time and we need to rest after all this. It was very long, and now that we know the transaction is certain, we can work together. How will we manage the new company and all this? Again, give us a little time. We have done extensive teamwork everywhere in the world with the Luxottica team.

We are building a leader and a company whose responsibility and whose mission is to improve vision everywhere in the world. It is taking time and it will take time. Both companies have fantastic assets. We know exactly how we could extract growth synergies, with some cost synergies also. We have explained all of this during the past few months to all of you, and we will communicate to you during the fourth quarter of the year how we will operate technically. However, we need much more time to make sure that we are building all the foundations of this new company in the right way.

You had a question regarding the lack of growth of Luxottica. These are your words and they are not my words, and I understood that. I do not want to comment. I think Luxottica has fantastic assets.

They have fantastic brands that we need to protect. They did a fantastic job protecting their brands. They took tough decisions in order to make sure that their brands will be protected for the long term. Some of those decisions have resulted in a slow-down in sales. We have to respect that team, which had the courage to do this specifically as a public company.

Now with Essilor and with Luxottica's assets, believe me, we have in our hands all the tools to capture growth and satisfy all the consumers in the world. This is in all their demands and all their needs. Yes, they need Ray-Ban® frames, but at the same time, they need the perfect lens for their vision in those Ray-Ban® frames. Yes, they need Vogue® frames, Bugatti, Chanel and all those fantastic brands. There is Persol®, which Luxottica is managing.

At the same time, they also need the perfect Varilux®, Crizal® and Eyezen™, Transitions®. The combination of all that will continue to accelerate the growth, specifically because, as you know, visual defects in the world are accelerating. We can join forces with brands, retail, lens, and labs, which are the four key categories of EssilorLuxottica. Therefore, we will not only capture the growth but accelerate the demand, because we will be able to serve the consumer in a much better way. We can communicate, explain, and detail all those products and the benefits for their looks and the benefits for their vision.

Mr. Cédric LECASBLE – **Raymond James Euro Equities**

There are three questions from me. My first two questions are on China. I do not see the difference between the green light you had in China. On the headlines on the screens, we can read that there is a conditional green light. What is different from the other approvals you have had in the other regions? That is my first question. The second one is to elaborate a little bit on China.

You said it was the first market in volume. Maybe you can tell us where you stand in terms of global volume and value market shares in China. Between the high-end, the mid-range and the low-end, give us a little more colour. The last question is for Laurent. On the full-year margin guidance, it used to be more than 18.3 % and it is still more than 18.3 %, but there are some restatements of the base, and we have seen that in H1. Initially, it was at least the 2017 margin. Is this still the case and what would be the IFRS 15 restated full year '17- margin?

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

You know the excitement we have had here on the announcement. I have understood question two and question three, but can you rephrase question one? I do not know if I have understood it, even though I think I know what you asked. However, rephrase it with different words.

Mr. Cédric LECASBLE – **Raymond James Euro Equities**

Maybe I was not clear. I am sorry about that. When we read the highlights on the screens regarding the approval from the Chinese authorities, there is a mention of conditional approval. Given what you say about remaining on an open model and not being discriminating regarding competition, it looks pretty much like what you have promised in the other regions also. What is different about this conditional approval, or is it a mistake from Reuters on the screens?

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor
I was confused regarding what you called the screens. I think you are referring to what Bloomberg published before the calls, or maybe others.

Mr. Cédric LECASBLE – Raymond James Euro Equities
Exactly.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor
Understood. I do not want to comment on what Bloomberg has put on the screen, what I want to comment on is our commitments, so bear with me. We have not committed on any asset deal or asset transactions at all. What we have committed to is more what we have confirmed with the Chinese authorities. It is all commitments regarding our behaviour, but this is very important for the Chinese authorities. This is the first market in the world, and they have to pay attention about the vision of 1 billion or 1.2 billion people in China.
We are making sure that we as the leading optical company in the world will continue to behave in China the same way we behave everywhere in the world. They are making sure that we are developing innovations and making these innovations available to the Chinese consumers and all the Chinese networks. This is specifically in a country where they know growth is in front of us. Huge and significant growth is in front of us. They also know that in China, as we speak, we as EssilorLuxottica are under-represented regarding the number of points of sale.
All this was extremely important for the Chinese authorities, and they did a thorough and in-depth analysis of all the positions. This is to make sure that we will commit, we will confirm, and we will behave in China. It is the same way we are behaving everywhere in the world, but they are just making sure we are doing it and we are walking the talk. On top of that, they asked us to be informed about all acquisitions we will do in China.
However, Cédric, you have read enough communiqués and press releases from all of us. We communicate all of our acquisitions to the stock market and to all of you. It is all public and it is important to be public, because it shows that we have a growth strategy. We are willing to make sure that everyone on earth and in China, as we are talking about China, will have access to innovations and new products. Regarding all those commitments and all those behaviours, it was extremely important for the Chinese authorities that we would confirm them in writing. This is what we have been doing and we have been discussing and negotiating with them in the past few months.
Then you had questions and I will let Laurent answer the other ones.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

There was a follow-up question on China, which is about where we are in China today. Maybe you remember, Cédric, that we said in February that for 2018, we are hoping to be at around or above €500 million for business in China. This is ESSILOR as a standalone. Half of that business is the traditional lens business. The high-end and mid-tier with our partners and the rest is Bolon™, MJS and Aojo, meaning sunglasses. There is also a network of retailers on mono-brands for sunglasses and optical lenses as well. That is where we are in this big country, and it is close to being the number-two country for Essilor standalone by 2018.

Mr. Cédric LECASBLE – **Raymond James Euro Equities**

Do you have the figures for the Chinese eyewear market?

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

Not in detail. Regarding the number of lenses, it is more than 200 million lenses in the domestic market, so it is slightly above the US market itself at the moment. This is why we said that. We can do a follow-up with Véronique and the team.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

I will also add that China is a specific country and it is number one in volume today. However, I do not know if in five years or 10 years, it will be number one in value, so we need to fine-tune our strategy. We need to make sure we are using all the assets we have to serve the Chinese consumers and the Chinese market the best we can. Maybe we owe you a full session one day in the near future on what our strategy is in China.

During this, you will find and you will get all the data and the information you need, Cédric. However, give us a little more time to gather all this. During this period of time of negotiations, we were unable to exchange data between both teams. Now that the deal is certain and we will work together, we can develop a much more thorough strategy. As soon as it is ready, we will share it with all of you.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

Cédric, your third question was about the IFRS impact in 2017 on the net margin profitability. Now we know the impact and did not know it at the beginning of this year. That is number one. Number two, the impact is 20 basis points. If you restate the 2017 net margin, it will go from 18.3% to 18.5%, and what we are telling you for the full year now is that we will be above 18.3%. We have been at 18.4% in the first half, and maybe you need to understand that.

There is the momentum we feel we have delivered in the last quarters, starting in the last quarter last year. The measure of the value creation, with the gross margin expansion regarding the ratio, rose by 50 basis points. We are willing to keep some flexibility to invest in programmes that could continue to build this value creation and growth story. We are at more than 18.3%. We are at 18.4%, and we have a lot of programmes that we believe could be interesting to fuel at the end of the year, to prepare for 2019. We are also entering this combination with a strong momentum.

Mr. Alexander GIBSON – Morgan Stanley
I have three questions. The first one is on initiatives and ideas that you are working on separately from Luxottica. Last year, I seem to remember you talking about more than 10. Now that you do not have any restrictions in the EU-US markets, can you communicate what some of the top ideas that you have been discussing are? How have they aligned with any discussions that you have had with Luxottica since you came up with the ideas. I will follow on with the two others later.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor
This was your first question. What are the two others?

Mr. Alexander GIBSON – Morgan Stanley
The two others are going to be as follows. Why has Europe's growth been so subdued for the first couple of quarters and how much of a pick-up do you expect in Q3/Q4? What is driving the improvement and how much will be a market improvement? My final one is regarding any implications from US-China tariffs. I know it is an evolving debate, but it is one that has been important for a number of companies, so it would be interesting to get your perspective.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor
Laurent, I will take first one and a portion of the second one and then you will continue regarding the tariffs. All the initiatives and all the discussions we have been able legally to have with Luxottica have been around few key topics. The first one is how we can build the best company culturally for all our colleagues and employees. It will be a group of 160,000-170,000 people, all around the world, with a heavy load in the US.
Mr. Del Vecchio, Francesco Milleri, the Luxottica team and my team felt we deserved to build the best company for all of us. We had a lot of discussions around this topic, to make sure that we will take the best of the cultures of each company and build a new one. This will not be Essilor and it will not be Luxottica, but it will be the best of both. This is in order to build a high level of comfort, motivation and excitement among all of our employees. This is one of the topics we discussed with the top management of Luxottica.
Another key topic and initiative we discussed is about using all our assets. This means the ability to develop, to innovate, and to control their brands. It is to simplify a lot of processes on the Luxottica side. It is about the ability to deliver the better vision to everyone at our price points. It is about how we can join forces to define and invent a better product for the consumer.
Think a minute. It will be the first time in 20 centuries that the lens makers and the frame makers together will be able to define a new product. They will define something that will be more comfortable

and will enhance vision. That will fulfil all the wishes as far as fashion for the consumers are concerned. There are consumers willing to pay 1,000 dollars and consumers willing to pay 10 dollars.

We have been discussing all those topics with the Luxottica team. We have also developed initiatives which are more of a quick fix, on how we could do the following. I do not want to say we are extracting synergies, even though I know this is a word you like. It is how we could make sure we are spending our money wisely in order to build a new company and spending our money in the right area. This is to improve processes, to reduce costs, to improve the supply chain, to accelerate the go-to market, and all those kinds of things.

At the same time, we also had discussions on how we could continue to grow the market. This is without discounting our products, but we are capturing the value at every price point and at all levels where we have products and brands. We also discussed how we could continue to grow our own company and create value with acquisitions and partnerships, as both companies have done in the past 20 years.

Luxottica has a tradition of doing more large acquisitions than we have done. We have the ability to do small acquisitions in a lot of remote areas. Both of us will continue this. We agree that we have nurtured all our discussions around all those initiatives. Now, after day one, we will be able to implement them one by one. We had a great quarter because we have great products and because our consumers love all the innovations we have, but I will let Laurent and Paul comment on this.

Mr. Paul du SAILLANT – Chief Operating Officer, Essilor

On Europe, you have to keep in mind that we always told you that you should be expecting growth in Europe of between zero and 2%. We had numbers stronger than that in 2015, ’16, and ’17, so you got just a bit north of 2% growth. The first semester is right within this 0-2% growth, with 1%. It is a quality growth. There is a little growth in volume and value in a market which has been a little less strong. This is specifically in Germany, Italy, and Spain. In France, the market is progressively transforming itself. In that context, our teams are leveraging very well the full product offering of new products and our key brands.

With very good agility, they are positioning themselves with our multi-network strategy, which you know very well. They are working with all channels while we develop the online presence in Europe. This is progressively in Northern Europe and the UK, in parallel with the lens presence. Our lens activity is robust. Our teams are well focused and we are right where we always told you we would be. We could expect a slight acceleration in H2 and that is what we are working towards.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

Then Alex, you had this third question about the USA trade tariffs. As far as we know today, optical lenses, sunglasses, and reading glasses are not part of any rise in tariff threat between the US and China. Therefore, there is no impact at the moment. Then I will give you a few reminders. Most of the value add is created locally in the US. Like everywhere, from the imports in the US, China is one country among a lot of other countries that we source from. Finally, we also have the ability to shift sourcing, should we anticipate a big impact in the future. At the moment, this is not a concern at all regarding the profitability and the development of Essilor.

Ms. Francesca DI PASQUANTONIO – **Deutsche Bank**

I have a couple of follow-up questions. The first one is on the gross margin, which had a good expansion. I assume the expansion could have been higher on a currency-adjusted basis. Can you confirm? If so, what can we expect for the second half in terms of gross margin? The second question is about what we should expect regarding the magnitude of the acquisitions contribution in the second half. Will it be higher than the first half? Thirdly, technically, will the merger document be available at some point in September? This is according to what you said at the beginning. Finally, I have a question on capacity in lenses and whether, looking out to the integration, you think the structure is fine. Or are you considering new investments and new step-ups?

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

I will let Laurent answer the first three questions and give you an answer on capacity. Francesca, all that was anticipated by us as Essilor. You know our story. It is a growth story. We always make sure that we have enough capacity everywhere in the world to serve our consumers and customers. At the same time, with our technology team, we are also always improving the efficiency of productions. Be reassured. We have all the capacity we need to deal with growth, growth within the existing Luxottica stores and growth with some potential acquisitions we could make.

There of growth in the market, which is accelerating. A few years ago, the growth of myopia was around 2.5 and now it has reached 3.5-4.5 in volumes everywhere in the world. At the same time, you also know that we have a lot of capacity in our labs everywhere in the world. We have around 450-460 labs everywhere in the world, which are not used at full capacity today, as far as the number of hours of working are concerned. Extending the hours in all our labs will allow us to serve any growth without any strong investment. We do not plan to spend more money than usual on building new capacity. We have everything we need and we are playing with the working hours in some cases.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

Francesca, regarding question number three about the merger document, if I understood correctly, this is a document that will become public a few days before the closing. The date has not been defined, so we still have to wait. I think you referred to the AMF document.

Ms. Francesca DI PASQUANTONIO – **Deutsche Bank**

Yes.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

It is a few days before closing. Regarding your question on the gross margin, the impact of currency on gross margin is not significant. Most of the growth is improvement in business itself and not currency. As you know, we have our costs and sales quite aligned. The second question was on acquisitions. Regarding the pipeline, first of all, we do not control the date and we cannot monitor the date specifically. The benefit will be more in the back of the year and the beginning of 2019.

Mr. Julien DORMOIS – **Exane BNP Paribas**

Good morning Hubert, Laurent and Paul, thank you for taking my questions; I have two, if I may.

One is a follow up question to Anne-Laure at the beginning; she asked whether you would be ready to hold a Capital Markets Day somewhere toward the end of 2018, and I reiterate that question. Following up on that, are you able to give some mid-term guidance for the new entity at some point, or would you rather wait until you have worked in depth with Luxottica before coming up with a pledge on that?

The second question is, you have insisted a lot that you will take your time to execute the combination with Luxottica and that you do not want to rush into this, but to many investors this is counterintuitive to generating synergy, especially in the early days of the merger. What can you say to reassure them that you will stick to the synergy target and that we will see them in 2019?

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

We are always extremely prudent, and I prefer to give you good news than bad news regarding your third question. When we say we will not rush, that does not mean we will not do things together, and there are many quick-fixes we can put in place together, which will happen in the next few months and quarters post-closing. The figures we shared with you regarding cost and synergies are from a year and a half ago, but we see more growth synergies. The market has accelerated, and now that we know more about the power of each asset on both sides, the potential growth is, perhaps, better than we thought two years ago. We must get the teams in the same room together and build action plans, which, until this morning, we were not legally authorised to do, so after a few weeks' vacation, we will reconvene at the end of August, September, to build those plans. I can confirm that we have discussed synergy, as we have with you, with the Luxottica team.

I do not think we plan to hold a Capital Day in 2018. When we have the right level of information to share with you and the right level data will do that, but do not push us to do so in the next three months after closing. On top of that, as you know, post-closing, we have to launch an MTO on the minority shareholders and I am not sure that we really can do this type of event during the time of the MTO.

I am not sure on guidance either, so that is two questions where the answer is no. Let us celebrate the great news, and then we will talk about guidance.

Mr. Julien DORMOIS – **Exane BNP Paribas**

Ok, that is fine. Thank you for that and enjoy the well-deserved vacation. Congratulations on China.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

Thank you very much.

Mr. Ed RIDLEY-DAY – **Redburn (Europe) Limited**

Good morning, and also congratulations from my side on the approval.

Just a couple of follow ups; online is going very well, can you give us a bit more colour on what proportion of your sales are now online, and the growth rates you are seeing in, particularly, the US and China, in online sales? That would be helpful.

My second question actually regards Sun, obviously, this is a merger where you have the lens leadership and Luxottica has the sun leadership, but your performance in Sun is going relatively well. What are you doing right, and what is particularly driving that business, and should we expect that momentum to be sustained?

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

Thank you, Ed, nice to talk to you this morning. What are we doing right? We have the best teams and the best products, that is all, and it works. That is my answer. Laurent can comment on this.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

To answer to your question on Sun, we focused on very specific brands in three different situations. The one in the US is a young, growing brand with a strong DNA about the seashore, protection of the sea, and so on. The team is building on that and on the performance of the lens. The story of this brand is that a fisherman, who, for years, suffered from eye fatigue and eye trouble from being on his boat all day in Florida, was looking for better lenses, better protection, better vision, better clarity, and respect of the colour of the beautiful nature. He ended up in Jura in France about 10-15 years ago, where we have a small company, BNL that was producing the exact lenses he needed, which is patented. A few years ago, we acquired this young, growing brand, which has a lot of potential for expansion because it is a young brand in the US and other countries.

It is a bit different in China. Over the last 20 years, and particularly in the last 6-7 years, we have expanded our asset in China to provide Chinese consumers and eye-care professionals with a wide range of product, from very sophisticated, high-end products to simple products, through the 2.5 NVG initiatives. In sunglasses, we have targeted some key mid-tier consumer brands and some retail stores to sell those brands to Chinese consumers as well. The Chinese consumer has a big appetite for eye protection that looks great and is a good price. That is the recipe that we focus on, and Essilor stand-alone at the moment.

Regarding online, we are happy with the result of all the action plans and initiatives we drive over the past few years. The portfolio of activities is better balanced now, and eyeglasses and sunglasses amount to almost half of the online business, the rest being contact lenses. As you know, contact lenses is structurally growing at a slower pace and with a lower margin than the other two, so we have rebalanced the business mix nicely. Geographically, it is a large third in Europe, a large third in North

America, and a small third in other parts of the world, and in China it accounts for 8% of the revenue with 40% growth. As you know, China is one of the countries where the consumer is the most digitalised, which has taught us much, first in China and for the rest of the group, which is why we invest so much in digital and e-commerce in China.

Coming back to your question on Sun, because I only mentioned the simpler aspects of what we do right. Mid-tier is the part of the market, especially in fast-growing market, that is moving the fastest because of the growing population that now has access and power of buying and who are now starting to buy these kinds of products. This is where it is growing the fastest compared to luxury and more high-end products.

Mr. Ed RIDLEY-DAY – **Redburn (Europe) Limited**

This is very helpful. Thank you.

Just one quick follow-up on online, what is the proportion of your global sales that were online?

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor

I think we are targeting another 500 million this year, so it is 6-7% of our total sales.

Mr. Ed RIDLEY-DAY – **Redburn (Europe) Limited**

Great, thank you very much.

Ms. Veronika DUBAJOVA – **Goldman Sachs International**

Good morning gentlemen, thank you for squeezing me in at the end, I really appreciate it, and congratulations. I have three questions, please, if I can.

My first one is on France, and I am curious what you expect the different reimbursement reforms that are being discussed, what kind of impact they might have on the growth in the market going forward? I would love to get your thoughts on that.

My second question is on Transitions® and the third-party business, it sounds like you finally see some stabilization in there. Do you think that is sustainable as you think about the second half of the year?

My last question is a big picture question on the very exciting merger that lies ahead of you, and, Hubert, I think you have previously expressed quite a lot of optimism about the revenue synergy potential on this business, and I would love to get your thoughts on whether that has changed at all, not just from an absolute perspective, but also from timing, when we might start seeing those.

Thank you.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

Thank you, Veronika. First of all, we are not squeezing you at the end of the Q&A; we are listening carefully to your very important questions, Veronika. I will let Paul, you are the expert, so you could comment on the France situation, and also Laurent on the third-party.

Veronika, you know my enthusiasm about this merger, and specifically on two key points, because it fulfils all our mission on fighting against poor vision, and giving the opportunity to all consumers all over the world to have a fashion frame on their face, while, at the same time, having all the assets to continue to inform and educate consumers on the importance of vision and serving them the best. What has changed for me in the last two years since we discussed the merger and the potential growth, is much more excitement. In the past few weeks, as we near the end, I have learned much more about all the assets and the power of the teams that Luxottica has across the world; how they manage their brands, managing their networks and also how my teams, with our lens and sunglasses brands could enhance the demand, and capture the growth of the market. I am more serious, more confident, and enthusiastic about the potential of this merger, which will translate in data and growth percentage that you will see in the figures. In addition, our ability to serve the consumer quicker, with better service and with a much better product than previously, and informing them at point of sales, leads the voice in the optical industry.

As far as timing is concerned, I will reiterate that all those negotiations are very important, and we are very respectful toward the authorities, but it has exhausted all of us with a lot of posturing discussions. I am sure that the Luxottica team is like mine, we need to rest for a few weeks, start again in September, capitalizing all the key strengths and the assets that we had, and you will gradually see the growth.

Luxottica has announced great improvements in the way they are managing their stores, quarter after quarter, and I will say again what I said to Anne Laure Bismuth, they have taken necessary measures, very important measures, to protect their brands everywhere in the world, and we are merging with them because they have fantastic brands and they needed to protect them. We are not in the same situation, we have accelerated innovation to make sure that the consumer will always have the product they need on the left and right eye, so today I am far more enthusiastic as regards growth.

Give the Financial and Investor Relations teams of Essilor and Luxottica time to build the right story and share the right growth figures with you, and you will see all this coming quarter after quarter, after the close, which should be at the end of September.

I hope I have answered your question, Veronika, and I will let Paul comment on the French situation, and then Laurent on Transitions®.

Mr. Paul du SAILLANT – Chief Operating Officer, Essilor

The market transformation in France started as from 2014, and we always told you that we were participating and compiling this market transformation, and that we were well positioned with product offerings for all price points and for all types of needs.

The new step in the reform that has been discussed this year, and that could be put in place from 2020, to simplify, is trying to address the accessibility to an eye exam; there is not enough eye exam capability in France. Second is to ensure that there is access for everybody and that there is no more renunciation to access to vision care, while keeping the freedom of choice, the freedom of proposals, so an open model, and keeping innovation as part of this market.

We are very supportive to this transformation, and we participate in it. I think Essilor, and EssilorLuxottica tomorrow, is well positioned to accompany this transformation, and to actually bring solutions for all of the points that I have just highlighted. We have proven to you, in the past four years that we were able, in the context of the first step of the reform from 2014, to deliver good performance in France because we had local presence and a solution for all budget.

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor
Your question on Transitions®, a few very simple answers.
Firstly, it is an underdeveloped category; only 10% of the population in the world wear photochromic lenses. Secondly, Transitions® is a leader in this category, and a very powerful consumer brand in many countries in the world. Thirdly, after the acquisition of Transitions®, we spent a few years on the integration and for the first time in almost two years we are back on the growth strategy developing the category and developing the brand and developing the product. We have a renewed team, with a new leader, Chrystel Barranger, and with new marketing, and it is starting to show results. Firstly, inside Essilor itself, where, as I said, we have grown 6% in quantity in the first half, and also the outside groups third-parties that are our customers of Transitions®, maybe after their acquisition they were wondering if the open model will remain open and if Transitions® will still be as open as it was in the past. This renewed strategy on growth and repositioning of the brand, especially toward the younger population, they know that we are still there to propose and sell their product because, our mission being to protect 7.4 billion people with light management and for those people to see well, Transitions® needs to sell to everyone, and this is now understood by most third-parties buying from Transitions®.
It is more energy, renewed strategy, new team, and confirmation that the open model is still on, and we welcome any third-party customer to discuss with Transitions® in order to satisfy their need.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor
Thank you, Veronika; did we answer all your questions?

Ms. Veronika DUBAJOVA – Goldman Sachs International
That was very clear, thank you very much.

Mr. Julien DORMOIS – Exane BNP Paribas
I could not let you go on vacation without asking you this very important question for the Sun and Readers, just making sure that the mid-single-digit growth you are targeting, are you talking about H2 or is that for the full year of 2018?

Mr. Laurent VACHEROT – President and Chief Operating Officer, Essilor
It is H2.

Mr. Hubert SAGNIÈRES – Chairman and Chief Executive Officer, Essilor

What an easy question. Thank you, Julien.

If we have no more questions, thanks to all of you who have participated in this call and webcast, it is a really exciting time, now we all rest a bit, enjoy vacations and come back in really good shape on both sides of the Alps, in Italy and in France and everywhere to build EssilorLuxottica altogether. Thank you.