2018 pro forma[1] results

Solid growth, sound profitability and cash flow
A robust foundation for EssilorLuxottica

- **Pro forma[1] revenue: +3.2% at constant exchange rates[3]**
- **Pro forma[1] adjusted[2] operating profit: 15.9% of revenue**
- **Pro forma[1] adjusted[2] net profit: 11.6% of revenue**
- **Combined free cash flow[8]: Euro 1.8 billion**
- **Dividend recommendation: Euro 2.04 per share**
- **Confirmation of Euro 420 to Euro 600 million net synergy target at operating profit level within five years**

Charenton-le-Pont, France (March 8, 2019) - The Board of Directors of EssilorLuxottica met on March 7, 2019 to approve the financial statements for 2018. The 2018 IFRS consolidated financial statements were audited by the Statutory Auditors whose certification report is in the process of being issued. The Board of Directors has also approved the unaudited pro forma[1] consolidated financial information, which has been prepared for illustrative purposes only.

"We are proud to present strong Luxottica and Essilor combined results. The contribution of Luxottica is significant: net sales, profitability and free cash flow all show positive growth, excluding the exchange rate effect. From a qualitative standpoint, its simplicity, entrepreneurial spirit and speed of execution continued to pay off. Today, Luxottica is well organized and energized for its future as part of EssilorLuxottica. We come to the integration process in the best possible way, bringing with us the most beloved brands, excellent operations capabilities and a digitized business inside and out. Our legacy will continue to grow in this way for years to come. Once we are fully integrated with Essilor and our synergies have taken effect, together we will redefine a revolutionary service model for the benefit of wholesale partners and consumers everywhere," commented Leonardo Del Vecchio, Executive Chairman of EssilorLuxottica.

"Since EssilorLuxottica was formed on October 1, 2018, it has fully embraced its mission to help people see more, be more and live life to its fullest. To reach this powerful goal, the Group can rely on an outstanding performance from Essilor, which delivered strong business growth at all its divisions in 2018 and surpassed its growth targets for the year while continuing to work on numerous innovations that will benefit the entire ophthalmic optics and eyewear industries. These achievements reflect the vibrant culture of entrepreneurship within Essilor and the creativity of its employees, whose interests are fully aligned with those of shareholders thanks to employee share ownership at every level of the company. This powerful value creation model will facilitate the generation of synergies going forward and will be rolled out across the entire EssilorLuxottica Group," said Hubert Sagnières, Executive Vice Chairman of EssilorLuxottica.

2018 pro forma[1] adjusted[2] operating and net income

In million of Euros	2018	2017	Change %
Revenue	16,160	16,349	-1.2%
Adjusted[2] gross profit	**10,172**	**10,314**	**-1.4%**
% of revenue	62.9%	63.1%	
Adjusted[2] operating profit	**2,572**	**2,703**	**-4.8%**
% of revenue	15.9%	16.5%	
Adjusted[2] net profit	**1,871**	**1,904**	**-1.7%**
% of revenue	11.6%	11.6%	

EssilorLuxottica reported pro forma[1] revenues of Euro 16,160 million, up 3.2% at constant exchange rates[3]. Essilor and Luxottica both contributed to the positive performance. Business improved across all regions, proof that the strategic initiatives and growth projects are paying off. The pro forma[1] gross margin on an adjusted[2] basis was slightly down to 62.9%. The pro forma[1] operating profit on an adjusted[2] basis reached Euro 2,572 million in 2018, an increase of 1.2% at constant exchange rates[3]. Pro forma[1] adjusted[2] operating margin ended the year at 15.9% almost flat at constant exchange rates[3]. The pro forma[1] net profit on an adjusted[2] basis was down by 1.7% to Euro 1,871 million. Adjusted[2] net margin held at 11.6%.
Net debt as of December 31, 2018 was Euro 1.9 billion, a testament to the Group's ability to generate significant cash flow.

2018 pro forma[1] revenue by operating segment

In millions of Euros	2018	2017	Change at constant rates[3]	Currency effect	Change (reported)
Lenses & Optical Instr. (Essilor)	6,283	6,257	+4.8%	-4.4%	+0.4%
Sunglasses & Readers (Essilor)	787	765	+7.6%	-4.7%	+2.9%
Equipments (Essilor)	210	199	+9.1%	-3.8%	+5.3%
Wholesale (Luxottica)	3,145	3,315	-1.0%	-4.1%	-5.1%
Retail (Luxottica)	5,735	5,813	+3.0%	-4.4%	-1.4%
Total	**16,160**	**16,349**	**+3.2%**	**-4.4%**	**-1.2%**

2018 pro forma[1] revenue by geographical area

In millions of Euros	2018	2017	Change at constant rates[3]	Currency effect	Change (reported)
North America	8,400	8,556	+2.6%	-4.4%	-1.8%
Europe	4,040	4,063	+1.3%	-1.9%	-0.6%
Asia, Oceania and Africa	2,691	2,638	+6.6%	-4.6%	+2.0%
Latin America	1,028	1,092	+.6.5%	-12.4%	-5.9%
Total	**16,160**	**16,349**	**+3.2%**	**-4.4%**	**-1.2%**

Essilor: 2018 results and highlights

Essilor forged ahead with its mission to “improve lives by improving sight” in 2018 while pursuing a growth strategy focused on three key drivers: product and service innovation across all ranges; geographic expansion and multi-channel distribution through eyecare professionals, directly operated stores and online sales; and a targeted acquisitions and partnerships policy.

Thanks to this strategy, sales growth accelerated with each quarter in 2018. Revenue ended the year at Euro 7,459 million, up 4.6% from the previous year on a like-for-like[4] basis, including 5.7% in the fourth quarter. This was well above the initial target of delivering like-for-like[4] growth of around 4%. The additional growth allowed the company to continue to invest for the future, for instance in very promising projects in the areas of myopia and digitalization, and to bolster initiatives relating to Essilor’s mission and its “2.5 New Vision Generation™” activities.

Other highlights of the year included:

- Dynamic growth at the Lenses & Optical Instruments division, where revenue rose 4.2% like-for-like[4], notably thanks to the momentum of new products in the Transitions®, Varilux® and Eyezen™ ranges
- A sharp acceleration in sales growth for Sunglasses & Readers, where revenue surged 8.1% like-for-like[4]. This good result notably reflected strong growth in China, fueled by Xiamen Yarui Optical (Bolon™) and the MJS stores, and in the United States, where the Costa® brand powered ahead
- Double-digit growth in online sales with particularly good performances in India as well as in corrective lenses and mid-tier products, illustrating Essilor’s ability to identify the most promising segments year after year
- Revenue growth at constant exchange rates[3] of more than 10% in fast-growing countries[5], which now account for a quarter of Essilor’s total revenue
- A gradual resumption of the acquisitions and partnerships policy with the completion of eight transactions representing full-year revenue of close to Euro 68 million
- A healthy financial position that allowed the company to substantially reduce its net debt

Gross margin expanded from 58.2% to 58.6%, as gross profit reached Euro 4,372 million. It was boosted by efficiency gains, by a favorable trend in the product mix, particularly thanks to solid growth in sales of Transitions®, Varilux®, Crizal® and Eyezen™ lenses, and by new products, including the launch of the Crizal® Sapphire 360°™ antireflective lens and the completion of the Varilux® X Series™ progressive lens rollout.

Adjusted[2] contribution from operations[6], the company’s previous key performance indicator of profitability, reached 18.1% of revenue even as investments in new and buoyant segments were stepped up.

On a pro forma[1] basis, the adjusted[2] operating profit reached 16.5% of revenue.

The effective tax rate on an adjusted basis[2] decreased by 90 basis points, to 21.6%, thanks to the elimination of the tax on dividends and to a favorable geographic mix.

Adjusted[2] net profit came to Euro 923 million compared with Euro 942 million in 2017.

Luxottica: 2018 results and highlights

2018 was another year of growth for Luxottica with consolidated sales over Euro 8,929 million, up 1.5% at constant exchange rates[3] (-2.8% at current exchange rates, due to currency headwinds driven by the devaluation of the US and Australian dollars and the Brazilian Real). The second half of the year showed an acceleration in sales growth compared to the first six months of the year, helped by a progressive improvement in wholesale’s performance in Europe.

Both Luxottica's divisions contributed to the positive sales performance of the year, with the Wholesale segment showing a strong acceleration in the second part of the year and Retail confirming solid growth.
In 2018, Luxottica revenues were driven by North America, Asia-Pacific and Latin America. Europe reported sales down by 0.8% at constant exchange rates[3] due to a tough comparison with 2017 where sales were up 13.4% at constant exchange rates[3], and with the cumulative growth of the last three years which was 27% at constant exchange rates[3].
Once again, Ray-Ban led the performance in every segment and region thanks to a strong global communication strategy and integrated omnichannel brand management.

While Wholesale sales were Euro 3,194 million, down 1.1% at constant exchange rates[3] (-5.2% at current exchange rates), they showed a sequential improvement throughout the year, driven by solid growth in North America, Japan and Korea. The Wholesale results in the first part of the year were negatively impacted by the implementation of the new commercial policies for European online operators and wholesale customers, as well as the restructuring of the distribution network in China. Wholesale sales, including sales in Europe, returned to growth in the third quarter and accelerated to +3.4% at constant exchange rates[3] (+2% at current exchange rates) in the last three months of the year, confirming the value of the initiatives undertaken. Luxottica continued its expansion of direct distribution with the opening of new wholesale subsidiaries in the Middle East in 2018 and in Taiwan in early 2019.

In 2018, the Retail division grew by 3% at constant exchange rates[3] (-1.4% at current exchange rates), primarily fueled by Sunglass Hut, the optical retail business in Australia, Target Optical and the e-commerce platforms. The solid sales performance confirmed the effectiveness of strategic initiatives aimed at improving the operating model and the ability of the group's retail brands to execute them, while offering an improved consumer experience. Comparable store sales[7] (which do not include e-commerce sales) were up 0.5%, growing in all regions excluding North America, where they were flat.
Sunglass Hut's strong offering worldwide drove global sales up by 5.7% at constant exchange rates[3] with a positive contribution from all geographies. LensCrafters sales in North America were in line with last year.
In 2018, sales from Luxottica's e-commerce platforms, representing approximately 5% of total sales, were up 14% at constant exchange rates[3]. Ray-Ban.com confirmed it is the main driver of the group's online business.

Net profit for the fiscal year 2018 on an adjusted basis[2] was down by 2.0% to Euro 951 million (+6.7% to over Euro one billion at constant exchange rates[3]) due in part to the tough comparison over last year's record level. In 2017, net profit results benefited from non-recurring income related to Luxottica's Italian Patent Box agreement covering 2015 and 2016 and from the impact of US tax reform. Excluding the Euro 159 million impact of these non-recurring items on 2017 results, 2018 net profit[3] would have been 90 bps accretive, benefiting from effective business and financial management. For the second consecutive year, net margin was over the 10% threshold in 2018.

Free cash flow[8] was Euro 923 million and, net of exchange rate headwinds, would have been around Euro 1.1 billion[3], while net debt decreased by 42%, driving further improvement of the group's net debt/adjusted EBITDA[2] ratio to 0.2x.

For further details on Luxottica's strategic initiatives and disclosure of its standalone FY2018 results as well as fourth quarter sales, please refer to the appendix.

Synergies, integration and governance

EssilorLuxottica has the opportunity for significant value creation through revenue and cost synergies which, with the current set up, are expected to range from Euro 420 to Euro 600 million as a net impact on operating profit per annum within the next five years. Revenue synergies are expected in the Euro 200-300 million range, as a result of the capability of EssilorLuxottica to develop innovative and high-quality products optimizing the interaction between frames and lenses, serve the industry better through a broader distribution and a more efficient logistics platform. Cost synergies are expected to come in the range of Euro 220-300 million from the combined supply chain optimization, G&A rationalization and sourcing savings. EssilorLuxottica expects synergies to further accelerate once the Group is operating as a fully integrated structure.

Strategic and business integration matters, along with governance topics, are being considered and worked upon by the management teams of Essilor International and Luxottica, in order to ensure a seamless execution of the synergy plan and the growth strategy of EssilorLuxottica.

Mandatory exchange offer for Luxottica shares

On October 11, 2018, EssilorLuxottica launched a mandatory exchange offer pursuant to the Italian law, for all remaining outstanding Luxottica shares. As a result of the acquisition of Luxottica shares tendered in the offer, on December 5, 2018, EssilorLuxottica reached a stake of more than 90% but less than 95% of Luxottica's share capital. As a result, EssilorLuxottica initiated a sell-out procedure for the remaining outstanding Luxottica shares. Having crossed the 95% threshold in the share capital of Luxottica at the settlement of the "sell-out" procedure on January 18, 2019, EssilorLuxottica then initiated a "squeeze-out" procedure that was completed on March 5, 2019. In accordance with the rules of the Italian stock exchange, Borsa Italiana ordered the delisting of Luxottica shares from the MTA on that settlement date.

Dividend recommendation

The Board of Directors will recommend that shareholders at the Annual Meeting to be held on May 16, 2019 approve the payment of a dividend of Euro 2.04 per share.

Outlook for 2019

In 2019, the Group is projecting the following, including synergies and at constant exchange rates[3]:

- Sales growth: +3.5-5%
- Adjusted[2] operating profit growth: 0.8-1.2x sales
- Adjusted[2] net profit growth: 1-1.5x sales

Conference call

A conference call in English will be held today at 10:30 am CET.
The meeting will be available live and may also be heard later at:
https://hosting.3sens.com/EssilorLuxottica/20190308-2690365F/en/webcast/startup.php

Forthcoming investor events

- May 7, 2019: Q1 2019 sales
- May 16, 2019: Shareholders' General Meeting in Paris
- July 31, 2019: H1 2019 results

- September 18, 2019: Capital Market Day
- October 30, 2019: Q3 2019 sales

Notes to the press release

1 Pro forma: The unaudited pro forma consolidated financial information has been prepared for illustrative purposes only and does not take into account the results of operations and financial condition that EssilorLuxottica would have achieved if the contribution of Luxottica shares by its majority shareholder had actually been realized on January 1, 2018 or January 1, 2017. There can be no assurance that the assumptions used to prepare the unaudited pro forma consolidated financial information are accurate in all respects or that the trends disclosed in the unaudited pro forma consolidated financial information are indicative of the future performance of EssilorLuxottica. As a result, EssilorLuxottica's performance in the future may differ materially from that presented in the unaudited pro forma consolidated financial information.

2 Adjusted measures: Adjusted from the expenses related to the EssilorLuxottica Combination and other transactions that are unusual, infrequent or unrelated to the normal course of business as the impact of these events might affect the understanding of the Group's performance. See detailed amounts in the appendix.

3 Figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.

4 Like-for-like growth: Growth at constant scope and exchange rates. See definition provided in Note 2.4 to the consolidated financial statements in the Essilor 2017 Registration Document.

5 Fast-growing countries include China, India, ASEAN, South Korea, Hong Kong, Taiwan, Africa, the Middle East, Russia and Latin America.

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

7 Comparable store sales reflect the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period, and applies to both periods the average exchange rate for the prior period and the same geographic area.

8 Free cash flow is defined in the appendix.

EssilorLuxottica is a global leader in the design, manufacture and distribution of ophthalmic lenses, frames and sunglasses. Formed in 2018, its mission is to help people around the world to see more, be more and live life to its fullest by addressing their evolving vision needs and personal style aspirations. The company brings together the complementary expertise of two industry pioneers, one in advanced lens technology and the other in the craftsmanship of iconic eyewear, to set new industry standards for vision care and the consumer experience around it. Influential eyewear brands including Ray-Ban and Oakley, lens technology brands including Varilux® and Transitions®, and world-class retail brands including Sunglass Hut and LensCrafters are part of the EssilorLuxottica family. In 2018, EssilorLuxottica had nearly 150,000 employees and pro forma consolidated revenues of approximately Euro 16 billion.

The EssilorLuxottica 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: ESLX.PA; Bloomberg: EL:FP.

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ESSILORLUXOTTICA APPENDIX ON FINANCIALS 2018

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INFORMATION FROM
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

ESSILORLUXOTTICA CONSOLIDATED PROFIT & LOSS PRO FORMA ADJUSTED

The unaudited pro forma consolidated statement of profit or loss for the year ended December 31, 2018 has been prepared assuming that the EssilorLuxottica Combination had occurred on January 1, 2018. The unaudited pro forma consolidated statement of profit or loss for the year ended December 31, 2017 has been prepared assuming that the EssilorLuxottica Combination had occurred on January 1, 2017. Because of its nature, the Unaudited Pro Forma Consolidated Financial Information addresses a hypothetical situation and is neither intended to represent or to be indicative of the result of operations or the financial position that EssilorLuxottica would have achieved had the EssilorLuxottica Combination occurred as of January 1, 2018 or as of January 1, 2017 respectively, nor is the Unaudited Pro Forma Consolidated Financial Information indicative of the future operating results of the Group. The Unaudited Pro Forma Consolidated Financial Information is based upon certain assumptions that EssilorLuxottica believes reasonable at the date of this Document.

€ millions @ current FX	*EssilorLuxottica 2017 FY adjusted*	*Margin %*	*EssilorLuxottica 2018 FY adjusted*	*Margin %*	*Delta 18 vs 17*
Revenue	16,349	100.0%	16,160	100.0%	-1.2%
GROSS PROFIT	**10,314**	**63.1%**	**10,172**	**62.9%**	**-1.4%**
Total operating expenses	**(7,611)**	**-46.6%**	**(7,600)**	**-47.0%**	**-0.1%**
OPERATING PROFIT	**2,703**	**16.5%**	**2,572**	**15.9%**	**-4.8%**
Cost of net debt	(108)	-0.7%	(95)	-0.6%	-12.7%
Other financial income / (expenses)	(13)	-0.1%	(11)	-0.1%	-14.4%
PROFIT BEFORE TAXES	**2,581**	**15.8%**	**2,466**	**15.3%**	**-4.5%**
Income taxes	(678)	-4.1%	(595)	-3.7%	-12.2%
NET PROFIT	**1,904**	**11.6%**	**1,871**	**11.6%**	**-1.7%**

For the adjustments description, please refer to the “Adjusted measures” section in the excerpts from the Management Report.

ESSILORLUXOTTICA – FROM REPORTED TO ADJUSTED 2018

€ millions	2018							
	EssilorLuxottica REPORTED	Essilor Jan. 1, 2018 Sep. 30,2018	PPA adjustments Jan. 1, 2018 Sept. 30, 2018	Other adjustments	EssilorLuxottica PRO FORMA	Elimination of 12 months PPA adjustments	Other non-GAAP adjustments	EssilorLuxottica PRO FORMA ADJUSTED
Revenue	10.799	5.537	-	(176)	16.160	-	-	16.160
Cost of sales	(3.963)	(2.287)	(60)	176	(6.134)	119	27	(5.988)
Gross profit	**6.836**	**3.250**	**(60)**	**-**	**10.026**	**119**	**27**	**10.172**
% of revenue	*63,3%*	*58,7%*			*62,0%*			*62,9%*
Research and development	(190)	(149)	(193)	-	(531)	257	-	(275)
Selling	(3.391)	(997)	(200)	-	(4.588)	266	7	(4.315)
Royalties	(157)	(6)	-	-	(163)	-	-	(163)
Advertising and marketing	(746)	(392)	(68)	-	(1.206)	91	-	(1.115)
General and administrative	(989)	(883)	(8)	(123)	(2.003)	11	271	(1.722)
Other income / (expenses)	(5)	(42)	-	-	(47)	-	36	(11)
Total operating expenses	**(5.478)**	**(2.469)**	**(469)**	**(123)**	**(8.539)**	624	315	(7.600)
Operating profit	**1.358**	**781**	**(528)**	**(123)**	**1.487**	**744**	**341**	**2.572**
% of revenue	*12,6%*	*14,1%*			*9,2%*			*15,9%*
Cost of net debt	(54)	(39)	5	(5)	(94)	(6)	5	(95)
Other financial income / (expenses	(9)	(8)	-	6	(11)	-	-	(11)
Share of profits of associates	0	-	-	(1)	(0)	-	-	(0)
Profit before taxes	**1.295**	**734**	**(524)**	**(124)**	**1.382**	**738**	**346**	**2.466**
% of revenue	*12,0%*	*13,3%*			*8,6%*	*0,0%*	*0,0%*	*15,3%*
Income taxes	(139)	(217)	103	24	(228)	(296)	(72)	(595)
Effective tax rate	*10,7%*	*29,5%*			*16,5%*			*24,1%*
Net Profit	**1.156**	**518**	**(420)**	**(99)**	**1.154**	**442**	**274**	**1.871**

ESSILORLUXOTTICA – FROM REPORTED TO ADJUSTED 2017

€ millions	2017							
	Luxottica 2017 P&L	*Essilor 2017 P&L*	*PPA adjustments for the period from January 1, 2017 to December 31, 2017*	*Other adjustments*	*EssilorLuxottica pro forma information*	*Elimination of 12 months PPA adjustments*	*Other non Gaap adjustments*	*EssilorLuxottica pro forma non Gaap information*
Revenue	9.184	7.402	-	(237)	16.349	-	-	16.349
Cost of sales	(3.222)	(3.096)	(119)	225	(6.212)	119	58	(6.035)
Gross profit	**5.962**	**4.306**	**(119)**	**(13)**	**10.137**	**119**	**58**	**10.314**
% of revenue	*64,9%*	*58,2%*			*62,0%*			*63,1%*
Research and development	(60)	(217)	(255)	-	(532)	255	-	(277)
Selling	(3.070)	(1.306)	(261)	-	(4.637)	261	38	(4.338)
Royalties	(164)	(10)	-	-	(174)	-	-	(174)
Advertising and marketing	(630)	(494)	(90)	-	(1.213)	90	-	(1.123)
General and administrative	(738)	(1.192)	(11)	(20)	(1.961)	11	259	(1.691)
Other income / (expenses)	45	(18)	-	-	28	-	(35)	(8)
Total operating expenses	**(4.616)**	**(3.237)**	**(617)**	**(20)**	**(8.490)**	617	262	(7.611)
Operating profit	**1.347**	**1.069**	**(736)**	**(33)**	**1.647**	**736**	**320**	**2.703**
% of revenue	*14,7%*	*14,4%*			*10,1%*			*16,5%*
Cost of net debt	(81)	(52)	6	(5)	(132)	(6)	30	(108)
Other financial income / (expenses	(10)	(12)	-	9	(13)	-	-	(13)
Share of profits of associates	1	-	-	(1)	-	-	-	-
Profit before taxes	**1.257**	**1.005**	**(730)**	**(30)**	**1.502**	**730**	**349**	**2.581**
% of revenue	*13,7%*	*13,6%*			*9,2%*			*15,8%*
Income taxes	(215)	(131)	76	13	(257)	(76)	(345)	(678)
Effective tax rate	*17,1%*	*13,0%*			*17,1%*			*26,3%*
Net Profit	**1.042**	**874**	**(655)**	**(17)**	**1.244**	**655**	**4**	**1.904**

EXCERPTS FROM THE CONSOLIDATED FINANCIAL STATEMENTS

***

3.3 Consolidated Group Financial Statements

3.3.1 Consolidated statement of profit or loss

€ millions	**2018**	*Restated* **2017**[(a)]
Revenue	10,799	9,184
Cost of sales	(3,963)	(3,222)
GROSS PROFIT	**6,836**	**5,962**
Research and development	(190)	(60)
Selling	(3,391)	(3,070)
Royalties	(157)	(164)
Advertising and marketing	(746)	(630)
General and administrative	(989)	(738)
Other income / (expenses)	(5)	45
Total operating expenses	**(5,478)**	**(4,616)**
OPERATING PROFIT	**1,358**	**1,347**
Cost of net debt	(54)	(81)
Other financial income / (expenses)	(9)	(10)
Share of profits of associates	-	1
PROFIT BEFORE TAXES	**1,295**	**1,257**
Income taxes	(139)	(215)
NET PROFIT	**1,156**	**1,042**
Of which attributable to:		
Owners of the parent	1,087	1,040
Non-controlling interests	69	2
Weighted average number of shares outstanding:		
Basic	260,699,711	220,533,089
Diluted	266,246,307	220,662,106
Earnings per share (EPS) for net profit attributable to owners of the parent:		
Basic	4.17	4.72
Diluted	4.08	4.71

(a) The comparative period is that of Luxottica Group restated as described in paragraph *Basis of preparation of the financial statements*.

3.3.2 Consolidated statement of comprehensive income

€ millions	2018	*Restated* 2017[(a)]
NET PROFIT	**1,156**	**1,042**
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	(2)	-
Net investment hedges	-	-
Foreign currency translation differences	140	(589)
Related tax effect	1	-
TOTAL ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**139**	**(589)**
Items that will not be reclassified to profit or loss		
Actuarial gain/(loss) on employee benefits	(18)	55
Related tax effect	4	(49)
TOTAL ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(14)**	**6**
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	**125**	**(583)**
TOTAL COMPREHENSIVE INCOME	**1,281**	**460**
Total comprehensive income attributable to:		
Owners of the parent	1,208	458
Non-controlling interests	72	2

(a) The comparative period is that of Luxottica Group restated as described in paragraph *Basis of preparation of the financial statements*.

3.3.3 Consolidated statement of financial position

Assets

€ millions	**December 31, 2018**	*Restated* **December 31, 2017**[(a)]
Goodwill	23,241	3,608
Intangible assets	11,873	1,246
Property, plant and equipment	3,368	1,809
Investments in associates	22	4
Other non-current assets	390	92
Deferred tax assets	336	130
TOTAL NON-CURRENT ASSETS	**39,230**	**6,889**
Inventories	2,045	832
Trade receivables	2,357	944
Tax receivables	128	66
Other current assets	667	174
Cash and cash equivalents	1,829	1,159
TOTAL CURRENT ASSETS	**7,025**	**3,175**
Assets held for sale	14	-
TOTAL ASSETS	**46,269**	**10,064**

(a) The comparative period is that of Luxottica Group restated as described in paragraph *Basis of preparation of the financial statements*.

Equity and liabilities

€ millions	December 31, 2018	*Restated* December 31, 2017[(a)]
Share capital	77	40
Share premium reserve	20,931	570
Treasury shares reserve	(92)	-
Other reserves	10,821	4,158
Net profit attributable to owners of the parent	1,087	1,040
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**32,823**	**5,808**
Equity attributable to non-controlling interests	438	6
TOTAL EQUITY	**33,262**	**5,814**
Non-current borrowings	2,582	1,671
Employee benefits	459	122
Non-current provisions	428	130
Other non-current liabilities	278	77
Deferred tax liabilities	2,245	157
TOTAL NON-CURRENT LIABILITIES	**5,993**	**2,157**
Current borrowings	1,184	228
Trade payables	1,746	907
Tax payables	99	22
Current provisions	211	171
Other current liabilities	3,775	765
TOTAL CURRENT LIABILITIES	**7,015**	**2,093**
TOTAL EQUITY AND LIABILITIES	**46,269**	**10,064**

(a) The comparative period is that of Luxottica Group restated as described in paragraph *Basis of preparation of the financial statements*.

3.3.4 Consolidated statement of changes in equity

€ millions	Share capital	Share premium reserve	Treasury shares reserve	Translation reserve	Retained earnings and other reserves	Net profit attributable to owners of the parent	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
EQUITY AT JANUARY 1, 2017	**29**	**563**	**(270)**	**365**	**4,238**	**851**	**5,776**	**6**	**5,782**
Impacts from the application of IFRS 15	-	-	-	-	6	-	6	-	6
EQUITY AT JANUARY 1, 2017 RESTATED [(a)]	**29**	**563**	**(270)**	**365**	**4,244**	**851**	**5,782**	**6**	**5,788**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD RESTATED[(a)]	**-**	**-**	**-**	**(589)**	**7**	**1,040**	**458**	**2**	**460**
Issue of ordinary shares and changes in ownership interests	-	-	-	-	-	-	-	-	-
Acquisition of subsidiary with NCI	-	-	-	-	-	-	-	-	-
Acquisition of NCI without a change in control	-	-	-	-	-	-	-	-	-
Other changes related to NCI	-	-	-	-	-	-	-	-	-
Employee share issues and exercise of stock options	-	7	-	-	-	-	7	-	7
Share-based payments	-	-	-	-	1	-	1	-	1
Net sale / (net purchase) of treasury shares	-	-	13	-	(13)	-	-	-	-
Allocation of net profit	-	-	-	-	851	(851)	-	-	-
Dividends paid	-	-	-	-	(440)	-	(440)	(2)	(442)
EQUITY AT DECEMBER 31, 2017 RESTATED [(a)]	**29**	**570**	**(257)**	**(224)**	**4,650**	**1,040**	**5,808**	**6**	**5,814**

(a) The comparative period is that of Luxottica Group restated as described in paragraph *Basis of preparation of the financial statements*.

€ millions	Share capital	Share premium reserve	Treasury shares reserve	Translation reserve	Retained earnings and other reserves	Net profit attributable to owners of the parent	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
EQUITY AT DECEMBER 31, 2017 RESTATED	**29**	**570**	**(257)**	**(224)**	**4,650**	**1,040**	**5,808**	**6**	**5,814**
Adjustments due to the reverse acquisition	11	-	257	-	(268)	-	-	-	-
EQUITY AT DECEMBER 31, 2017 ADJUSTED	**40**	**570**	**-**	**(224)**	**4,382**	**1,040**	**5,808**	**6**	**5,814**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**-**	**135**	**(14)**	**1,087**	**1,208**	**72**	**1,281**
Issue of ordinary shares and changes in ownership interests									
Acquisition of subsidiary with NCI	25	13,149	(111)	-	12,539	-	25,602	2,679	**28,281**
Acquisition of NCI without a change in control	12	7,188	-	-	(6,638)	-	562	(2,263)	(1,701)
Other changes related to NCI					12	-	12	(48)	(36)
Employee share issues and exercise of stock options	-	24	-	-	-	-	24	-	24
Share-based payments	-	-	-	-	76	-	76	-	76
Net sale / (net purchase) of treasury shares	-	-	19	-	(4)	-	15	-	15
Allocation of net profit	-	-	-	-	1,040	(1,040)	-	-	-
Dividends paid	-	-	-	-	(484)	-	(484)	(7)	(491)
EQUITY AT DECEMBER 31, 2018	**77**	**20,931**	**(92)**	**(89)**	**10,910**	**1,087**	**32,823**	**438**	**33,262**

The equity as of January 1, 2018 is that of Luxottica Group S.p.A. ("Luxottica") except for the share capital retroactively adjusted to reflect the share capital of Essilor International (Compagnie Générale d'Optique) SA ("Essilor"); the balances of *Retained earnings and other reserves* and *Treasury shares reserve* have also been adjusted accordingly (see paragraph *Basis of preparation of the financial statements* and Note 21–Equity for additional details).

The line *Acquisition of subsidiary with NCI* presents the effects of the **Contribution**, as defined in the Notes to the Consolidated Group Financial Statements, i.e. the contribution of Delfin's entire stake in Luxottica to Essilor in return for newly-issued ordinary shares of EssilorLuxottica SA (see Note 3–Business combinations, paragraph 3.1.1 and 3.1.2, for additional details). The Contribution is treated as the reverse acquisition of Essilor by Luxottica with the following impacts:

- the consideration transferred for the acquisition of Essilor was recognized in *Share capital*, *Share premium reserve* and *Retained earnings and other reserves*;
- Essilor's historical non-controlling interests were recognized for their proportionate shares in the fair value of the net assets of the corresponding subsidiaries;
- Luxottica's shareholders other than Delfin were reclassified as non-controlling interests at their proportionate interest in the carrying amounts of the net assets of Luxottica;
- EssilorLuxottica treasury shares were recognized for €111 million at the date of the combination.

The line *Acquisition of NCI without a change in control* presents the effects of:

- the mandatory tender offer launched by EssilorLuxottica after the Contribution upon which non-controlling interests contributed their shares in Luxottica in exchange for newly-issued ordinary shares of EssilorLuxottica with the difference recorded in *Retained earnings and other reserves*;
- the obligation of EssilorLuxottica, as of December 31, 2018, to offer a cash consideration to the remaining shareholders of Luxottica in exchange for their shares in Luxottica. See Note 3–Business combinations, paragraph 3.1.1 and 3.1.3, for additional details.

3.3.5 Consolidated statement of cash flows

€ millions	2018	*Restated* 2017[(a)]
NET PROFIT	**1,156**	**1,042**
Depreciation and amortization	759	541
(Gains) / losses from disposal of assets	2	(49)
Expense arising from share-based payments	76	1
Income taxes	139	215
Finance result, net	63	91
Other non-cash items	30	42
Changes in provisions and other	(173)	165
Changes in working capital	259	(24)
Taxes paid, net	(352)	(320)
Interest paid, net	(78)	(101)
NET CASH FLOWS PROVIDED BY / (USED IN) OPERATING ACTIVITIES	**1,881**	**1,603**
Purchase of property, plant and equipment and intangible assets	(710)	(664)
Disposal of property, plant and equipment and intangible assets	-	100
Acquisitions of businesses, net of cash acquired	753	(136)
Changes in other non-financial assets	(5)	-
NET CASH FLOWS PROVIDED BY / (USED IN) INVESTING ACTIVITIES	**38**	**(700)**
Share capital increase	31	17
(Purchase) / sale of treasury shares	15	-
Dividends paid:		
- to the owners of the parent	(484)	(440)
- to non-controlling interests	(7)	(2)
Transactions with non-controlling interests	(13)	-
Issuance of bonds (and private placement)	-	500
Repayment of bonds (and private placement)	(293)	(469)
Changes in other current and non-current borrowings	(504)	(137)
NET CASH FLOWS PROVIDED BY / (USED IN) FINANCING ACTIVITIES	**(1,255)**	**(531)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**664**	**372**
Cash and cash equivalents at the beginning of the financial year	1,159	867
Effects of exchange rate changes on cash and cash equivalents	5	(80)
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	**1,829**	**1,159**

(a) The comparative period is that of Luxottica Group restated as described in paragraph *Basis of preparation of the financial statements*.

EXCERPTS FROM THE MANAGEMENT REPORT

***

ESSILOR IN 2018

The sales figures below correspond to the results for Essilor's scope of consolidation if it had operated independently of Luxottica throughout all of 2018.

Notes

a. **Like-for-like growth**: Growth at constant scope and exchange rates. See definition provided in Note 2.4 to the consolidated financial statements in the Essilor 2017 Registration Document.
b. **Bolt-on acquisitions**: Local acquisitions or partnerships.
c. **Fast-growing countries** include China, India, ASEAN, South Korea, Hong Kong, Taiwan, Africa, the Middle East, Russia and Latin America.
d. **Contribution from operations**: Revenue less cost of sales and operating expenses (research and development costs, selling and distribution costs and other operating expenses).

Essilor forged ahead with its mission to "improve lives by improving sight" in 2018 while pursuing a growth strategy focused on three key drivers: product and service innovation across all ranges; geographic expansion and multi-channel distribution through eyecare professionals, directly operated stores and online sales; and a targeted acquisitions and partnerships policy.

Thanks to this strategy, sales growth accelerated with each quarter in 2018. Revenue ended the year at €7,459 million, up 4.6% from the previous year on a like-for-like[a] basis, including 5.7% in the fourth quarter. This was well above the initial target of delivering like-for-like growth[a] of around 4%. The additional growth allowed the Company to continue to invest for the future, for instance in very promising projects in the areas of myopia and digitalization, and to bolster initiatives relating to Essilor's mission and its "2.5 New Vision Generation™" activities. Contribution from operations[d] reached 18.1% of revenue even as investments in new and buoyant segments were stepped up.

Other highlights of the year included:

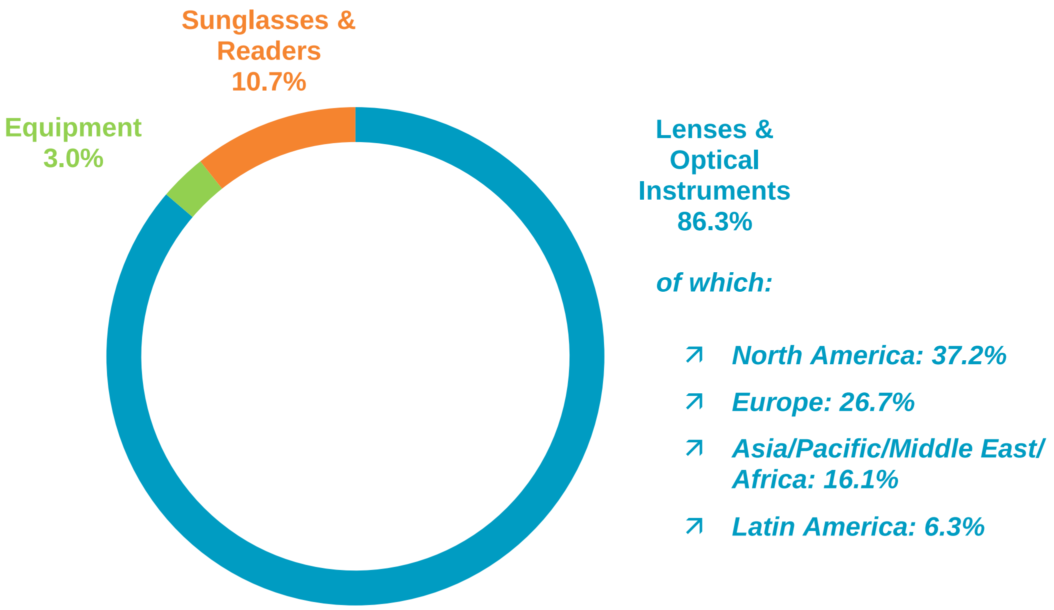
- Dynamic growth at the Lenses & Optical Instruments division, where revenue rose 4.2% like-for-like[a], notably thanks to the momentum of new products in the Transitions®, Varilux® and Eyezen™ ranges;
- A sharp acceleration in sales growth for Sunglasses & Readers, where revenue surged 8.1% like-for-like[a]. This good result notably reflected strong growth in China, fueled by Xiamen Yarui Optical (Bolon™) and the MJS stores, and in the United States, where the Costa® brand powered ahead;
- Double-digit growth in online sales with particularly good performances in India as well as in corrective lenses and mid-tier products, illustrating Essilor's ability to identify the most promising segments year after year;
- Revenue growth at constant exchange rates of more than 10% in fast-growing countries[c], which now account for a quarter of Essilor's total revenue;
- A gradual resumption of the acquisitions and partnerships policy with the completion of eight transactions representing full-year revenue of close to €68 million;
- A healthy financial position that allowed the Company to substantially reduce its net debt.

Essilor 2018 consolidated revenue

Revenue € millions	2018	2017[1]	Change (reported)	Change (like-for-like[a])	Scope effect	Currency effect
Lenses and Optical Instruments	**6,434**	6,409	+0.4%	+4.2%	+0.5%	-4.3%
North America	***2,776***	*2,788*	*-0.4%*	*+3.2%*	*+0.8%*	*-4.4%*
Europe	***1,993***	*1,966*	*+1.3%*	*+2.5%*	*+0.1%*	*-1.3%*
Asia/Pacific/Middle East/Africa	***1,197***	*1,171*	*+2.3%*	*+8.3%*	*-0.2%[2]*	*-5.8%*
Latin America	***468***	*484*	*-3.5%*	*+7.7%*	*+2.2%*	*-13.4%*
Sunglasses & Readers	**798**	767	+4.1%	+8.1%	+0.9%	-4.9%
Equipment	**227**	225	+0.8%	+4.5%	+0.0%	-3.7%
TOTAL	**7,459**	**7,401**	**+0.8%**	**+4.6%**	**+0.5%**	**-4.3%**

(1) The group has applied IFRS 15 related to revenue recognition since January 1st, 2018. 2017 revenue has been restated accordingly, with a negative impact of around €89 million.
(2) This figure takes into account the deconsolidation of two businesses.

- **Breakdown of 2018 revenue by operating segment and by region**



- **Change in revenue in fast-growing[c] and developed countries**

Revenue generated by fast-growing countries[c] amounted to €1,848 million, or 24.8% of the company's revenue, while revenue generated in developed countries amounted to €5,611 million.

Revenue € millions	**2018**	2017	**Change (reported)**	**Change (like-for-like[a])**	**Change (at constant exchange rates)**
Fast-growing countries[c]	**1,848**	1,802	+2.5%	+10.5%	+10.8%
Developed countries	**5,611**	5,599	+0.2%	+2.8%	+3.4%
TOTAL	**7,459**	**7,401**	**+0.8%**	**+4.6%**	**+5.1%**

- **Change in revenue from 2017 to 2018**

	Reported change	Change (like-for-like[a])	Scope effect	Currency effect
€ millions	58.1	343.9	39.7	-325.5
As a %	+0.8%	+4.6%	+0.5%	-4.3%

In 2018, consolidated revenue totaled €7,459 million, an increase of 5.1% excluding currency effects.
On a like-for-like[a] basis, sales increased by 4.6%.
The consolidation scope effect (+0.5%) reflected the contribution from bolt-on acquisitions[b] completed primarily in 2018, but also in 2017 (mainly Partners in Vision, Inc. and Vision Associates, Inc. in the United States).
The exchange rate effect (-4.3%) reflected the euro's appreciation in the first nine months of the year against the company's main invoicing currencies, particularly the US dollar.

2018 revenue by operating segment and by region

Lenses and Optical Instruments

The Lenses & Optical Instruments division delivered like-for-like[a] growth of 4.2% in 2018, for total sales of €6,434 million.

- **North America**

Revenue in North America increased by 3.2% in like-for-like[a] terms in 2018. Essilor's core US lens business benefited both from innovative products and the ongoing delivery of strategic initiatives. Recent product launches such as the "Ultimate Lens Package™" and Transitions® Style Colors and Transitions® Style Mirrors supported continued growth with independent eyecare professionals. The ongoing expansion of the Essilor Experts program and partnerships with Alliance group members, key accounts and managed vision care organizations translated into gains as well. E-commerce activities, particularly online sales of prescription eyeglasses and contact lens distribution, further bolstered results in the region. Sales in Canada contracted slightly.

- **Europe**

Sales picked up with each quarter in Europe, translating into like-for-like[a] revenue growth of 2.5% for 2018. Notably driven by the addition of sales staff, this encouraging result boosted penetration of high-end lenses including Varilux® progressive lenses, Transitions® photochromic lenses and Crizal® antireflective lenses, especially following the launch of Crizal® Sapphire™ 360°lens. Eyezen™ lenses for digitally connected consumers enjoyed robust growth.

In France, a sharp increase in sales of Nikon® lenses and good execution of the multi-network strategy contributed to a generally solid performance. Momentum was strong in Eastern Europe, Russia and Scandinavian markets thanks to increased sales of value-added products to independent opticians and optical chains. In the United Kingdom, growing online sales offset relative sluggishness in traditional channels.

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

Revenue in the Asia/Pacific/Middle East/Africa region increased by 8.3% like-for-like[a], with domestic sales in fast-growing countries[c] rising by almost 10%. Growth was strong in Mainland China, both for higher-end and mid-range products, thanks to blue-light-filtering lenses, myopia control solutions, online sales and Varilux® and Eyezen™ lenses. Efforts to develop commercial positions thanks to progressive and photochromic lenses, together with major brands, drove significant gains in Turkey, Southeast Asia, South Korea and, to a lesser extent, Japan. Sales in Africa ended the year up materially after accelerating in the fourth quarter. On the other hand, trends were more mixed in India and the Middle East during the year.

- **Latin America**

Strong like-for-like[a] revenue growth of 7.7% in Latin America was fueled by good performances in both Brazil and Spanish-speaking countries. Business also improved gradually over the course of the year with like-for-like[a] growth ramping up to 14.1% in the fourth quarter.

In Brazil, following a challenging year in 2017, sales rose thanks to a strategy focused on product innovation, advertising campaigns and improved service quality. A surge in sales of Varilux® and Transitions® lenses helped to improve the company's market positioning.

Results elsewhere in the region were similar from one country to the next. Value-added lenses continued to gather momentum in Colombia, notably Transitions® photochromic lenses. Mexico returned to robust growth, particularly thanks to key accounts. Three acquisitions – in Mexico, Ecuador and Argentina – strengthened the company's presence in the region.

- **Instruments**

A part of the Lenses & Optical Instruments division, the Instruments business markets tools for use by optometrists and opticians. It delivered like-for-like[a] revenue growth of 6% in 2018.

This strong performance was fueled by the edging-mounting activity, which got a boost from the success of the new "Mr Blue® Sun & Sport" edger for complex eyeglasses, and by the fast-growing optometry business (refraction and diagnostic devices). Sales of the "Wave Analyzer Medica 700+™" aberrometer (instrument that allows opticians to customize optical equipment thanks to comprehensive exams of the anterior chamber) were quite robust, notably with key accounts. The new Vision-R™ 800 phoropter, which was launched late in the year and won the Silmo d'Or in its category at the international optics tradeshow in Paris in October 2018, also got off to a very good start.

Sunglasses & Readers

The **Sunglasses & Readers** division reported revenue of €798 million in 2018, up 8.1% on a like-for-like[a] basis. In the United States, revenue at **FGX International** was boosted by strong in-store product sell-through and new contracts. **Costa** continued to expand in the Western United States and in optical stores with its ranges of prescription glasses. In China, **Xiamen Yarui Optical** (Bolon™) confirmed the company's return to strong growth in sunwear and accelerated its optical frame sales. Photosynthesis Group continued to open new MJS stores in shopping malls and to develop new products to support this expansion.

Equipment

Revenue at the Equipment division rose by 4.5% like-for-like[a] in 2018, to €227 million. This strong performance reflected a positive response across all regions to the latest generations of surfacing machines, particularly the VFT-Orbit 2™ digital generator, the Multi-FLEX™ polisher and the ART (Alloy Replacement Technology) lens blocking machine, which uses an innovative process to hold lenses in place during generating and polishing. Business in Asia and the United States was buoyed by robust machine sales in the fourth quarter. In Latin America, small prescription laboratories continued to switch to digital surfacing technology throughout the year.

Online sales

In 2018, Essilor generated revenue of €482 million[1] in this segment, an increase of 15%[6] on a like-for-like[a] basis. Europe and North America contributed 86%[6] of this revenue and the rest of the world 14%[6].

Activities supporting the company's mission

Essilor's initiatives to eradicate poor vision across the world have helped bring vision care solutions to 23 million wearers over the past five years, including more than ten million in 2018 alone. These initiatives have taken on a new dimension over the past 12 months thanks to partnerships with national governments and transnational organizations. For instance, the company is working with the Queen Elizabeth Diamond Jubilee Trust to expand its inclusive business and philanthropic models to address the eye health needs of all 900 million people living with uncorrected vision in the Commonwealth. This commitment will lead to the creation of permanent infrastructure and the provision of corrective lenses to 200 million people living below the poverty line. Essilor also joined forces with the Royal Government of Bhutan in its goal of becoming the first country in the world to eradicate poor vision. Meanwhile, the Vision Impact Institute, through the campaign Kids See Success, played a role in the new law passed in New Jersey requiring that young children have eye exams before entering a public school for the first time. In Kosovo, where 30% of inhabitants live below the poverty line, Essilor committed to screen 21,000 children and school educators and provide glasses to those who need them. Lastly, the rollout of the Eye Mitra™ inclusive business model continued throughout the year in India, notably via a new partnership with the state of Odisha; in Bangladesh, in cooperation with the Australian government; in Indonesia, where a first convention brought together 800 'Mitra Matas'; and in Kenya, where 'EyeRafiki™' ambassadors opened their first shops.

A few weeks after the combination of Essilor and Luxottica was completed, Essilor Vision Foundation teamed up with Onesight, of which Luxottica is the founding sponsor, to provide vision screening services to low-income communities in Thailand. This initiative was also supported by Top Charoen, a leading optical chain in the country.

Fourth-quarter 2018 revenue

Revenue € millions	**Q4 2018**	**Q4 2017**	**Change (reported)**	**Change (like-for-like[a])**	**Scope effect**	**Currency effect**
Lenses and Optical Instruments	**1,626**	1,535	+5.9%	+5.4%	+0.5%	0.0%
North America	***697***	*661*	*+5.4%*	*+0.9%*	*+1.4%*	*+3.1%*
Europe	***508***	*478*	*+6.1%*	*+6.8%*	*+0.0%*	*-0.7%*
Asia/Pacific/Middle East/Africa	***295***	*280*	*+5.9%*	*+10.3%*	*-2.1%[2]*	*-2.3%*
Latin America	***126***	*116*	*+7.7%*	*+14.1%*	*+4.2%*	*-10.6%*
Sunglasses & Readers	**217**	202	+7.9%	+5.5%	+2.0%	+0.4%
Equipment	**79**	71	+11.7%	+12.1%	+0.0%	-0.4%
TOTAL	**1,922**	**1,808**	**+6.3%**	**+5.7%**	**+0.7%**	**-0.1%**

(1) The group has applied IFRS 15 related to revenue recognition since January 1st, 2018. Q4 2017 revenue has been restated accordingly, with a negative impact of around €22 million.
(2) This figure takes into account the deconsolidation of two businesses.

In the fourth quarter, revenue rose 6.4% excluding currency effects with like-for-like[a] growth accelerating from the third quarter, to 5.7%. Sales were up on a like-for-like[a] basis at all businesses: Lenses and Optical Instruments (+5.4%), Sunglasses & Readers (+5.5%) and Equipment (+12.1%).

The 0.7% consolidation scope effect reflected the contribution from acquisitions completed over the course of the year.

[1] 2018 figures compiled from online sales of the company's BtoC websites and from online sales recorded by the Sunglasses & Readers division. Essilor estimates.

The negative currency impact lessened to -0.1% and reflected appreciation of the US dollar against the euro, which offset the weakness of some other currencies, particularly in fast-growing countries[c].
By region and division, highlights for the period were:

- A very strong comparative in North America: Like-for-like[a] growth had reached 8.8% in Q4 2017;
- Continued momentum in fast-growing countries[c] and e-commerce;
- Good performances in Europe and at the Sunglasses & Readers division.

Acquisitions and partnerships

The company completed eight transactions in 2018, representing full-year revenue of close to €68 million.

Company	**Country**	**Business**	**Full-year revenue**	**% held**	**Consoli-dated from**
		Lenses & Optical Instruments – North America			
Cal Coast Ophthalmic Instruments, Inc.	United States	Distributor of optometry equipment covering the western United States	USD12 million	80%	July 1st, 2018
Expert Optics Inc.	United States	Prescription laboratory based in Illinois	USD16 million	100%	October 1st, 2018
		Lenses & Optical Instruments – Asia/Pacific/Middle East/Africa			
Hao Phat Group LLC. and Mat Viet Group LLC.	Vietnam	Distributor of optical products and optical retail chain	€4 million	51%	May 1st, 2018
		Lenses & Optical Instruments – Latin America			
Optica Popular SRL	Honduras	Integrated prescription laboratory operating optical stores	€7 million	60%	July 1st, 2018
Artículos Ópticos de Higiene y Seguridad, S.A. de C.V. (Aohssa)	Mexico	Distributor of ophthalmic and contact lenses	€6 million	90%	July 1st, 2018
Indulentes	Ecuador	Prescription laboratory	USD9 million	60%	November 1st, 2018
Metalizado Optico Argentino S.A. (MOA)	Argentina	Buenos Aires-based prescription laboratory	USD7 million	88%	December 1st, 2018
		Sunglasses & Readers			
One Click Internet Ventures, LLC	United States	Company which sells non-prescription glasses online and owns the readers.com website	USD15 million	100%	July 1st, 2018

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

Since January 1st, Essilor has pursued its strategy of forging partnerships with local optical market leaders with two transactions representing aggregate additional annual revenue of around €34 million.
In **Germany**, Essilor acquired 100% of **Brille24 GmbH**. The latter is one of the leading online retailers of optical products in Germany with annual revenue of close to €25 million.
The company also reinforced its presence in **Greece**, where its partner Shamir acquired **Union Optic**, a prescription laboratory that also distributes optical instruments. Union Optic generates annual sales of about €9 million and has four offices in Greece and Cyprus.

LUXOTTICA IN 2018

Notes

1 Figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.
2 "Comps" or "Comparable store sales" reflect the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period, and applies to both periods the average exchange rate for the prior period and the same geographic area.
3 2017 results have been restated to reflect the application from 1Q 2018 of the new accounting standard IFRS 15 and the finalization of Óticas Carol purchase price allocation.
4 For the definition of cumulative adjusted figures, reference should be made to the definitions included in the previous Luxottica's press releases on the financial results of the periods taken into consideration.
5 For a definition of 2017 and 2018 adjusted figures, please refer to section 1.5.1.3.

Reported results for Full Year 2018

(Millions of Euro)	FY 2017[3]	FY 2018	Change at constant exchange rates[1]	Change at current exchange rates
Group net sales	**9,184**	**8,929**	**+1.5%**	**-2.8%**
Wholesale	3,371	3,194	-1.1%	-5.2%
Retail	5,813	5,735	+3.0%	-1.4%
Operating income	**1,301**	**1,284**	**+7.4%**	**-1.3%**
Net income attributable to Luxottica group stockholders[6]	**1,040**	**900**	**-5.5%**	**-13.5%**

Adjusted[5] results for Full Year 2018

(Millions of Euro)	FY 2017[3]	FY 2018	Change at constant exchange rates[1]	Change at current exchange rates
Group net sales	**9,184**	**8,929**	**+1.5%**	**-2.8%**
Wholesale	3,371	3,194	-1.1%	-5.2%
Retail	5,813	5,735	+3.0%	-1.4%
Adjusted operating income	**1,443**	**1,345**	**+1.2%**	**-6.8%**
Adj. net income attributable to Luxottica group stockholders	**971**	**951**	**+6.7%**	**-2.0%**

2018 was another year of growth for Luxottica group with consolidated sales over Euro 8.9 billion, up 1.5% at constant exchange rates[1] (-2.8% at current exchange rates, due to currency headwinds driven by the devaluation of the US and Australian dollars and the Brazilian Real). The second half of the year showed an acceleration in sales growth compared to the first six months of the year, helped by a progressive improvement in wholesale's performance in Europe.

In 2018, adjusted net profit reached Euro 951 million, down by 2.0% over last year's record level (+6.7% to over Euro one billion at constant exchange rates[1]), with net margin over the 10% threshold for the second consecutive year. The group's profitability benefited from effective business and financial management. Free cash flow was Euro 923 million, net of exchange rate headwinds[1], it would have been around Euro 1.1 billion.

Favorable price mix and cost discipline positively contributed to 2018 results. This is noteworthy given that these results were achieved despite a lower contribution from volumes due to the change of the group's distribution strategy in key regions aimed at promoting quality of sales, consistency and transparency in commercial policies and a more direct relationship with consumers.

2018: completion of a four-year journey

A four-year journey of profound strategic, operational, technological and managerial renewal was completed in 2018. Key strategic initiatives developed or completed during the past year were the biggest drivers of the following multi-year results, and their full impact is expected to continue to be visible over the coming years.

Comparing the cumulative results of the past four years with the period 2010-13:

- Cumulative sales increased by approximately 40% from Euro 26 billion to 36 billion;
- Adjusted[4] operating income increased by approximately 60%;
- Adjusted[4] net income increased by approximately 80%;
- Adjusted[4] net margin rose from around 7.5% to over 10%;
- Adjusted[4] operating and net profits data per unit sold were approximately 20% and 35% higher respectively.

Additionally, the Net Debt/EBITDA ratio shrunk from 2.0x in 2010 to 0.2x in 2018, thanks to strong free cash flow generation.

The key strategic initiatives undertaken by the group over the last four years include:

Organizational simplification: The centralization of global business and product strategies has allowed Luxottica as a corporation to think centrally and perform rigorously at the regional and country level, simplifying decision-making processes and improving effectiveness and speed of execution. The company has increased control and efficiency on key variables such as assortment, logistics and services to the end customer, harmonizing its prices across different markets and reducing in-store and online promotions sharply.

Management renewal: Luxottica built a new structure of governance and a strong managerial team in all business-critical functions. Bright, capable leaders with a fresh perspective have embraced new digital technologies in full harmony with the dynamics of markets. Additionally, new teams and new leadership roles have been created to support innovation in the company and in the markets. The group created a Digital "factory" from scratch in the Milan headquarters to generate digital assets for the whole organization and orchestrate digital communications worldwide, enforced its R&D task force in new fields like wearable technologies and automation and established a new central team for store development and design with a global scope.

Company-wide digitization: The group today utilizes millions of data points to make decisions in real time and plan and execute its strategies. Technology is the backbone of every corporate function: production, distribution and sales in all markets and across all channels - wholesale, retail and online. Luxottica has changed the way it speaks with millions of consumers around the world, being today one of the largest private digital broadcasters globally, with over fifteen thousand digital windows installed in its stores and customers' shops. It is only the beginning of the digital journey. In 2019, the company plans to introduce new ways of interacting with its products, including bringing an entire digital catalog of Luxottica eyewear into customers' stores around the world.

The "complete pair" revolution: Luxottica can bring today a complete solution of lenses and frames to retail stores and online platforms through a single service channel. Two components that have always been complementary are now designed and produced together. Moreover, extending brand value to prescription lenses prepares the entire industry to respond in a new way to the growing demand for customized products. In support of this vision, the group completed the construction of three new state-of-the-art hubs in Italy, the United States and China, each capable of integrating the production and distribution of lenses and frames.

Redesign of the wholesale distribution: In recent years, Luxottica has implemented several initiatives to improve the quality of sales and protect the equity of its brands and the business of wholesale customers. The group has continued to invest in fighting counterfeit products and the parallel market, further expanding its RFID-based tracking system that today covers more than 80% of Ray-Ban and Oakley frames sold. After the introduction of the "MAP policy" (Minimum Advertised Price) in North America in 2016 and the restructuring of the wholesale distribution channel in China, Luxottica revised its distribution and commercial policies in Europe in 2018 to improve their consistency and balance between different sales channels. The group has also introduced new ways of managing online customers and invested in digitalizing communications in the wholesale channel to improve customer relationships. Thanks to the MyLuxottica portal, in 2018 Luxottica reimagined the way its new collections are presented to customers in the showroom or in store. Today, next to the physical eyewear samples, customers can see a wider digital collection that captures the brand storytelling and emotions behind every model, making it easier and more engaging to choose the right product for their customers.

Retail expansion and channel integration: Luxottica is managing the retail platform in a more effective way thanks to a fully-integrated supply chain, centralized real estate management, major investments in lens capability and a growing omnichannel approach. After completing the acquisitions of key premium retail brands like Salmoiraghi & Viganò in Italy and Óticas Carol in Brazil, Luxottica entered new markets with Sunglass Hut in Southeast Asia and Latin America and launched the new Ray-Ban retail concept first in China and then worldwide, celebrating the most beloved eyewear brand in more than 200 locations. Sunglass Hut continued to be the top consumer destination for premium eyewear, thanks to an increasingly omnichannel offering.
The group further expanded its global retail footprint in 2018 with the acquisition of the optical retail chain Spectacle Hut in Singapore and the opening of Sunglass Hut shop-in-shops within Bass Pro and Cabela's 170 locations across North America.

Manufacturing excellence: The group continues to invest heavily in the development of its industrial infrastructure, innovating in production technologies and automation and streamlining its global logistics network, to better serve wholesale customers and consumers in all regions. In 2018, Luxottica completed the acquisition of Fukui Megane and entered in the production heart of "made in Japan" in the Fukui eyewear district, acquiring a truly unique manufacturing capability. The group continued to consolidate its strategy of focusing on excellent production facilities and "made in Italy" quality, announcing the acquisition of Barberini, the world's leading optical glass sun lens manufacturer. The transaction is still subject to customary closing conditions and is expected to be finalized in 2019.

Luxottica 2018 consolidated revenue

Both divisions contributed to the positive sales performance of the year, with the wholesale segment showing a strong acceleration in the second part of the year and retail confirming solid growth.
In 2018, Luxottica revenues were driven by North America, Asia-Pacific and Latin America. Europe reported sales down by 0.8% at constant exchange rates[1] due to a tough comparison with 2017 where sales were up 13.4% at constant exchange rates[1], and with the cumulative growth of the last three years which was 27% at constant exchange rates[1].
Once again, Ray-Ban led the performance in every segment and region thanks to a strong global communication strategy and integrated omnichannel brand management. The brand confirmed its vitality driven by the success of its latest collections, including new icons like Meteor and Nina, and Ray-Ban stores worldwide.

Wholesale sales were Euro 3.2 billion, down 1.1% at constant exchange rates[1] (-5.2% at current exchange rates), showing a sequential improving throughout the year, driven by solid growth in North America, Japan and Korea. The wholesale results in the first part of the year were negatively impacted by the implementation of the new commercial policies for European online operators and wholesale customers, as well as the restructuring of the distribution network in China. Wholesale sales, including sales in Europe, returned to growth in the third quarter and accelerated to +3.4% at constant exchange rates[1] (+2% at current exchange rates) in the last three months of the year, confirming the value of the initiatives undertaken. The group continued its expansion of direct distribution with the opening of new wholesale subsidiaries in the Middle East in 2018 and in Taiwan in early 2019.

In 2018, the Retail division grew by 3% at constant exchange rates[1] (-1.4% at current exchange rates), primarily fueled by Sunglass Hut, the optical retail business in Australia, Target Optical and the e-commerce platforms. The solid sales performance confirmed the effectiveness of strategic initiatives aimed at improving the operating model and the ability of the group's retail brands to execute them, while offering an improved consumer experience. Comparable store sales[2] (which do not include e-commerce sales) were up 0.5%, growing in all regions excluding North America, where they were flat.
Sunglass Hut's strong offering worldwide drove global sales up by 5.7% at constant exchange rates[1] with a positive contribution from all geographies. LensCrafters sales in North America were in line with last year.

In 2018, sales from the group's e-commerce platforms, representing approximately 5% of total sales, were up 14% at constant exchange rates[1]. Luxottica expanded its retail footprint online, introducing new Persol and Vogue Eyewear online platforms in the United States and Canada, after having launched them in Italy, the United Kingdom, France, Germany and Spain in 2017. OliverPeoples.com also expanded its reach during 2018.
Ray-Ban.com confirmed it is the main driver of the group's online business. With new user experiences, improved customization and service levels, augmented reality-based features and exclusive collections, Ray-Ban has completely redefined how consumers interact with eyewear online. New initiatives with a digital component, including Ray-Ban Studios, are strengthening the link between the brand and millennials around the world. Ray-ban.com results were complemented by the strong performance of SunglassHut.com and Oakley.com, the latter benefiting from successful special collaborations and capsule collections during the year, including Oakley by Samuel Ross, Harmony Fade and Oakley Moto GP 2018 limited editions, sold-out after each release.

Geographic segments: net sales

Net sales (millions of Euro)	**FY 2017[3]**	**%**	**FY 2018**	**%**	**Change at constant exchange rates[1]**	**Change at current exchange rates**
North America	5,276	57%	5,138	58%	+1.8%	-2.6%
Wholesale	963	10%	952	11%	+3.2%	-1.2%
Retail	4,313	47%	4,187	47%	+1.5%	-2.9%
Europe	1,966	21%	1,922	21%	-0.8%	-2.3%
Asia-Pacific	1,159	13%	1,155	13%	+4.6%	-0.3%
Latin America	616	7%	564	6%	+2.9%	-8.4%
Rest of the World	166	2%	149	2%	-7.6%	-10.3%
Group total rep.	**9,184**	**100%**	**8,929**	**100%**	**+1.5%**	**-2.8%**

North America

In 2018, the group's revenues in North America were up 1.8% at constant exchange rates[1] (-2.6% at current currencies) confirming a favorable consumer environment, with both divisions contributing to the positive performance.
Wholesale sales increased by 3.2% at constant exchange rates[1] (-1.2% at current currencies) confirming the solid growth of the previous year, with a remarkable +3.2% at constant exchange rates[1] (+6.4% at current currencies) in the fourth quarter on top of the +14% at constant exchange rates[1] reported in the last three months of 2017. Ray-Ban's successful distribution strategy, including its presence on third-party online platforms, and Oakley still reaping the long-term benefits of its integration into the Luxottica organization both contributed to this growth.
The retail business in North America was back to growth driven by the positive performance of all main retail brands. The optical retail business posted positive sales performance and was driven by the double-digit growth at Target and the solid contribution of EyeMed, while Sears Optical halved the number of stores during the year and reported

sales down by 36% as a result of the recent turmoil in Sears Holdings Corporation. LensCrafters is completing the transformation of its business model with sales in line with last year and slightly positive comparable store sales[2] in the second half of the year compared to -3.4% in the first six months of the year. Sunglass Hut, with total sales up by 2.8% at constant exchange rates[1], continued to be the top destination for consumers for premium eyewear, thanks to an increasingly omnichannel offering.

Europe

After three years of a combined 27% growth, 2018 revenues in Europe were down by 0.8% at constant exchange rates[1] (-2.3% at current exchange rates). This was driven by the negative performance of the wholesale business in most European countries due to the progressive realignment of commercial policies and anticounterfeiting initiatives. The high single-digit growth in retail confirmed the solid multi-year performance of the division and was driven by both positive comparable store sales[2] and openings of approximately 40 new stores, including 27 Ray-Ban locations.

Following a 4.3% decline in sales in the first half of the year, the third quarter registered a turnaround with a progressively improving performance thanks to the recovery after a delayed start of the sun season for the wholesale business. Revenues in the last three months of the year were up by 4.2% at constant exchange rates[1].

Asia-Pacific

In 2018, the group's net sales in the Asia-Pacific region showed an increase of 4.6% at constant exchange rates[1] (-0.3% at current exchange rates), supported by a progressive acceleration in sales during the second half with the fourth quarter growing by 6.3% at constant exchange rates[1] (+4.6% at current exchange rates). Drivers of the growth were Australia, Japan, Korea, India, Southeast Asia and the travel retail business.

In Greater China, the strong performance of Sunglass Hut, LensCrafters and of approximately 130 Ray-Ban stores didn't offset the sharp resizing of the wholesale business following the restructuring of the distribution network in favor of an improved consumer experience.

In the second half of the year, Luxottica completed the acquisition of Spectacle Hut, one of Singapore's largest optical retail chains, meeting the demands from a growing group of discerning customers who have come to expect quality, service and value.

Latin America

After years of solid performance in Latin America, Luxottica posted another year of growth in 2018 with sales up 2.9% at constant exchange rates[1] (-8.4% at current exchange rates due to the strong devaluation of the Brazilian Real). The business in the region showed an acceleration during the fourth quarter with sales up 7.1% year-over-year at constant exchange rates[1] (-2.6% at current exchange rates) despite the ongoing challenging macro environment. Brazil and Mexico were the key drivers of the positive performance of the region with both Wholesale and Retail improving their performance compared to last year results.

The retail business in the region continued to expand its footprint. Óticas Carol added more than 130 franchisees, reaching a store base of more than 1,200 high-end locations in Brazil. Sunglass Hut continued its expansion with the opening of its first stores in Colombia, Argentina and the Caribbean, along with the launch of the first 11 Ray-Ban stores in the region. GMO optimized its optical retail network across Chile, Peru, Ecuador and Colombia, and reported positive sales.

Net sales in the fourth quarter of 2018

(Millions of Euro)	4Q 2017[3]	4Q 2018	Change at constant exchange rates[1]	Change at current exchange rates
Group net sales	**2,099**	**2,161**	**+2.2%**	**+3.0%**
Wholesale	717	732	+3.4%	+2.0%
Retail	1,382	1,430	+1.6%	+3.5%

Geographic segments: net sales

Net sales (millions of Euro)	4Q 2017[3]	%	4Q 2018	%	Change at constant exchange rates[1]	Change at current exchange rates
North America	1,231	59%	1,272	59%	-0.1%	+3.3%
Wholesale	223	11%	237	11%	+3.2%	+6.4%
Retail	1,008	48%	1,035	48%	-0.8%	+2.7%
Europe	364	17%	375	17%	+4.2%	+3.1%
Asia-Pacific	289	14%	302	14%	+6.3%	+4.6%
Latin America	180	8%	175	8%	+7.1%	-2.6%
Rest of the World	35	2%	37	2%	+3.8%	+4.2%
Group total	**2,099**	**100%**	**2,161**	**100%**	**+2.2%**	**+3.0%**

Luxottica's net sales in the fourth quarter were up by 2.2% at constant exchange rates[1] (+3% at current exchange rates) thanks to the solid and improving performance of the Wholesale division and the 36th consecutive quarter of positive retail sales at constant exchange rates[1]. The fourth quarter was the second best quarter of the year on top of the best quarterly growth in the previous two years.

Net sales at constant exchange rates[1] were driven by an acceleration in Europe, Asia-Pacific and Latin America. Sales in North America at constant exchange rates[1] were in line with the fourth quarter of 2017 (+3.3% at current exchange rates) driven by a continuous solid performance of the wholesale business (+3.2% compared to the +14% in 2017).

Retail was down by 0.8% at constant exchange rates[1] (+2.7% at current exchange rates) as a result of a temporary slowdown in North America, a 40% decline in Sears sales and a highly promotional environment during the holiday season. A strong fourth quarter in 2017 also made for a tough comparison. Comparable store sales[2] were down by 1.5% in the fourth quarter - impacted by both a calendar effect for optical retail and an adverse promotional environment for Sunglass Hut in North America.

In the fourth quarter 2018, sales from the group's e-commerce platforms were up by 10% at constant exchange rates[1].
In the first two months of 2019 the Retail division is back on solid growth with positive comparable store sales[2] (around 2%) driven by remarkable growth in Europe and LensCrafters that is now benefiting from the several initiatives undertaken in the last two years.

ESSILORLUXOTTICA CONSOLIDATED P&L PROFORMA(1) ADJUSTED(2) – CONTRIBUTIVE VIEW

In € millions (At current exchange rate)	2017 Essilor adjusted(2)	2017 Luxottica adjusted(2)	2017 Elimination of intercompany transactions	2017 EssilorLuxottica Pro forma(1) adjusted(2)	2018 Essilor adjusted(2)	2018 Luxottica adjusted(2)	2018 Elimination of intercompany transactions	2018 EssilorLuxottica Pro forma(1) adjusted(2)	Change 2018 vs. 2017
Revenue	7,402	9,184	(237)	16,349	7,460	8,929	(228)	16,160	-1.2%
Cost of sales	(3,096)	(3,164)	225	(6,035)	(3,088)	(3,125)	225	(5,988)	-0.8%
GROSS PROFIT	**4,306**	**6,020**	**(13)**	**10,314**	**4,372**	**5,804**	**(4)**	**10,172**	**-1.4%**
% of revenues	*58.2%*	*65.5%*		*63.1%*	*58.6%*	*65.0%*		*62.9%*	
Total operating expenses	(3,031)	(4,580)	0	(7,611)	(3,139)	(4,461)	0	(7,600)	-0.1%
OPERATING PROFIT	**1,275**	**1,440**	**(13)**	**2,703**	**1,233**	**1,343**	**(4)**	**2,572**	**-4.8%**
% of revenues	*17.2%*	*15.7%*		*16.5%*	*16.5%*	*15.0%*		*15.9%*	
Financial result	(60)	(61)		(121)	(56)	(50)		(106)	-12.8%
Share of profits of associates		1	(1)	0		1	(1)	(0)	n.c.
PROFIT BEFORE TAXES	**1,215**	**1,380**	**(14)**	**2,581**	**1,177**	**1,294**	**(5)**	**2,466**	**-4.5%**
% of revenues	*16.4%*	*15.0%*		*15.8%*	*15.8%*	*14.5%*		*15.3%*	
Income taxes	(274)	(407)	3	(678)	(254)	(343)	1	(595)	-12.2%
NET PROFIT	**942**	**973**	**(11)**	**1,904**	**923**	**951**	**(3)**	**1,871**	**-1.7%**

(1) Pro forma consolidated profit or loss statement on a twelve months basis for Essilor and Luxottica.
(2) 2018 and 2017 profit or loss is presented on an adjusted basis in accordance with the unaudited pro forma consolidated financial information. The reported accounts and a reconciliation of the reported accounts to the adjusted accounts is included in the unaudited pro forma consolidated financial information. A description of the adjusting items is reported in the following "Adjustment description" section.

Essilor performance for the full year 2018

Notes

- **a.** **Like-for-like growth**: Growth at constant scope and exchange rates. See definition provided in Note 2.4 to the consolidated financial statements in the Essilor 2017 Registration Document.
- **b.** For a definition of 2017 and 2018 adjusted figures, please refer to section 1.5.1.3.

In 2018, Essilor revenue reached Euro 7,459 million, up 5.1% at constant exchange rates and 4.6% on a like-for-like[a] basis.

Gross margin improved by 40 basis points from 58.2% to 58.6% of revenue to reach Euro 4,372 million, due to favorable product mix along with efficiency gains. Product mix improvement was driven by increased volume growth for branded lenses including Transitions®, Varilux®, Crizal® and Eyezen™ lenses. New product introductions, mainly the new Crizal® Sapphire 360°™ lens along with the finalization of the Varilux® X Series™ lens rollout further added to the gains.

The company's operating profit on an adjusted[b] basis reached Euro 1,233 million in 2018 or 16.5% of revenue compared to 17.2% in 2017. This decline reflects increased investment in selling, advertising and marketing. Selling expenses focused mainly on service level enhancement programs. The increase in advertising and marketing expenses enabled several initiatives. Firstly, customer acquisition and scale up costs to support rapid growth in the company's e-commerce businesses. In addition, resources were allocated to drive the growth of Transitions® products as well as the prescription lens business in the US. Lastly, the company intensified its investments in new wearer segments, including programs for myopia management and activities related to the company mission such as the "2.5 New Vision Generation™" program.

The improvement in the effective tax rate by 90 basis points to 21.6% is due to the tax on dividends, which ceased in 2018, and a favorable country mix.
The company's adjusted[b] net profit declined by 1.9% from Euro 942 million in 2017 to Euro 923 million in 2018.

Luxottica performance for the full year 2018

Notes
1 Figures at constant exchange rates have been calculated using the average exchange rates in effect for the corresponding period in the previous year.
2 For a definition of 2017 and 2018 adjusted figures, please refer to section 1.5.1.3.

In 2018, Luxottica revenues reached Euro 8,929 million, up 1.5% at constant exchange rates[1] (-2.8% at current exchange rates) with net sales accelerating in the second half of the year, thanks to progressive improvement in Europe's wholesale business.

Favorable price mix and cost discipline positively contributed to 2018 results. This is noteworthy given that these results were achieved despite a lower contribution from volumes due to the change in Luxottica's distribution strategy in key regions. The strategy change was aimed at promoting quality of sales, consistency and transparency in commercial policies and a more direct relationship with consumers.

Both divisions contributed to the positive sales performance of the year, with the Wholesale segment showing a strong acceleration in the second part of the year and Retail confirming solid growth.

The company's operating profit on an adjusted basis[2] was down by 6.8% to Euro 1,343 million in 2018 (+1.2% at constant exchange rates[1]), with an adjusted operating margin at 15.1% down 60 bps (flat at constant exchange rates[1]). The adjusted operating margin of the Wholesale division was 22.6% down by 60 bps (+40 bps at constant exchange rates). The adjusted operating margin of the Retail division declined by 20 basis points (+20 bps at constant exchange rates) and amounted to 14.6%.

Net profit for the fiscal year 2018 on an adjusted basis was down by 2.0% to Euro 951 million (+6.7% to over Euro one billion at constant exchange rates[1]) due in part to the tough comparison over last year's record level. In 2017, net profit results benefited from non-recurring income related to Luxottica's Italian Patent Box agreement covering 2015 and 2016 and from the impact of US tax reform. Excluding the Euro 159 million impact of these non-recurring items on 2017 results, 2018 net margin would have been 90 bps accretive, benefiting from effective business and financial management. For the second consecutive year, in 2018 the net margin was over the 10% threshold.

Free cash flow generation was Euro 923 million for the twelve-month period ending on December 31, 2018; net of exchange rate headwinds[1], it would have been around Euro 1.1 billion. Net debt as of December 31, 2018 was Euro 428 million, down by approximately 42% compared to the same period last year, with a net debt/adjusted EBITDA ratio going down to 0.2x.

Adjusted measures

In this Management Report, management presented certain performance indicators that are not envisioned by the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and endorsed by the European Union. Such measures are not meant to be considered in isolation or as a substitute for items appearing in EssilorLuxottica consolidated financial statements prepared in accordance with IFRS. Rather, these non-IFRS measures should be used as a supplement to IFRS results to assist the reader in better understanding the operating performance of the Group and should be read in conjunction with EssilorLuxottica consolidated financial statements. Such measures are not defined terms under IFRS and their definitions should be carefully reviewed and understood by investors.

The combination of Essilor and Luxottica (the "EL Combination"), as well as events that are unusual, infrequent or unrelated to normal operations, have a significant impact on the consolidated results. Accordingly, in order to provide additional comparative information on the results for the period under review compared to previous periods, to reflect the EssilorLuxottica actual economic performance and enable it to be monitored and benchmarked against competitors, some measures have been adjusted ("adjusted measures"). In particular, management adjusted the following measures: *Gross profit*, *Operating expenses*, *Operating profit*, *Profit before taxes* and *Net profit*.

Moreover, to take into account the EL Combination that occurred in 2018, the adjusted measures for the years 2017 and 2018 are presented on a pro forma basis. Such adjusted pro forma measures are explained in detail and reconciled to their most comparable pro forma measures in the Unaudited Pro Forma Condensed Consolidated Financial Information.

In 2017 and 2018, adjusted pro forma measures exclude: (i) the incremental impacts of the purchase price allocations related to the EL Combination; and (ii) other adjustments related to transactions that are unusual, infrequent or unrelated to normal operations, as the impact of these events might affect the understanding of the Group's performance. These adjustments are described below.

For the year 2018

- Non-recurring *Cost of sales* for € 27 million associated with restructuring and reorganization expenses incurred by Luxottica.
- Non-recurring *Selling expenses* for € 7 million associated with restructuring and reorganization expenses incurred by Luxottica.
- Non-recurring *General and administrative* expenses for € 271 million associated with the following impacts:
  - transaction costs related to the EL Combination for € 150 million: of which € 128 million incurred in 2017 (€ 109 million by Essilor and € 19 million by Luxottica) and € 22 million incurred in 2018 (€ 11 million by Essilor and € 11 million by Luxottica),
  - non-recurring costs of € 77 million linked to the removal of the performance conditions from the 2015 and 2016 share-based plans authorized by the Essilor Annual General Meeting of May 2017, less the € 5 million adjustment related to the valuation of Essilor's share based payments,
  - restructuring and reorganization expenses for € 49 million (of which € 33 million incurred by Essilor and € 16 million by Luxottica),
- Non-recurring expenses for € 36 million accounted for in *Other income / (expenses)* including:
  - loss on assets disposal for € 5 million following the request from the Turkish Antitrust authorities to divest Essilor's subsidiary, Merve, as a condition precedent to approve the EL Combination,
  - net loss impact of the change in Essilor's consolidation scope of one entity for € 24 million,
  - net negative impact of € 5 million related to Essilor's other non-recurring transactions
  - distribution by Essilor of exceptional bonuses to French employees for € 2 million.
- *Cost of net debt* is adjusted for € 5 million corresponding to a non-recurring financial expense linked to early repayment of Luxottica's debt.

- *Income taxes* are adjusted for an amount of € (72) million corresponding to the tax effect of the above-mentioned adjustments for € (25) million and to a non-recurring tax income of € (47) million recorded by Essilor.

For the year 2017

- Non-recurring *Cost of sales* for € 58 million associated with restructuring and reorganization expenses incurred by Luxottica.
- Non-recurring *Selling* expenses for € 38 million associated with restructuring and reorganization expenses incurred by Luxottica.
- Non-recurring *General and administrative* expenses for € 259 million associated with the following impacts:
  - transaction costs related to the EL Combination for € 150 million: of which € 128 million incurred in 2017 (€ 109 million by Essilor and € 19 million by Luxottica) and € 22 million incurred in 2018 (€ 11 million by Essilor and € 11 million by Luxottica),
  - non-recurring costs of € 45 million linked to the removal of the performance conditions from the 2015 and 2016 share-based plans authorized by the Essilor Annual General Meeting of May 2017, less the € 2 million adjustment related to the valuation of Essilor's share based payments,
  - restructuring and reorganization expenses for € 53 million (of which € 33 million incurred by Essilor and € 20 million by Luxottica),
  - other non-recurring expenses for € 13 million mainly related to Essilor's one-time contribution to mission-related programs focused on eradicating poor vision worldwide for € 5 million and to Luxottica's top management departure indemnities for € 8 million.
- Non-recurring net income of € 35 million accounted for in *Other income / (expenses)* including the following items:
  - capital gain for € 57 million on the sale of two properties owned by the Group (of which € 9 million recognized by Essilor and € 49 million by Luxottica),
  - one-time Essilor's contribution for € 14 million to mission-related programs focused on eradicating poor vision worldwide,
  - other Essilor's non-recurring with net negative impact for € 8 million.
- *Cost of net debt* is adjusted for € 30 million corresponding to a non-recurring financial expense linked to the early repayment of Luxottica's loans.
- *Income taxes* are adjusted for an amount of € (345) million corresponding to the following:
  - tax effects of the above-mentioned adjustments amounting to € (94) million,
  - a one-time deferred tax profit linked to the US Tax reform adopted by the US Congress in December 2017 for a total amount € (172) million for the Group (of which € 73 million recognized by Essilor and € 99 million by Luxottica),
  - a one-time tax benefit from the Patent box for € (60) million arising from an agreement signed by Luxottica with the Italian Revenue Agency in November 2017,
  - a one-time gain from the refund of the 3% dividend tax in France, net of one exceptional tax for € (19) million recorded by Essilor.

The adjusted measures referenced above are not required by International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and endorsed by the European Union. The Group believes that these adjusted measures: (i) are useful for management and investors to assess the operating performance of the Group and to compare it to other companies operating in the same sector, and (ii) provide an additional view of the results, excluding the effect of elements that are unusual, infrequent or unrelated to normal operations. Furthermore, adjusted measures may not be comparable to similarly titled measures used by other companies.

Free cash flow information is also included in this Management Report. Free cash flow is a non-IFRS measure the Group believes useful to both management and investors in evaluating the Group's operating performance compared with that of other companies in the industry. Free cash flow is not meant to be considered in isolation or as a substitute for items appearing in the Group's financial statements prepared in accordance with IFRS. Free cash flow is defined as net cash from operating activities less purchases of property, plant and equipment and intangible assets.

ESSILORLUXOTTICA’S BALANCE SHEET AND CASH FLOW STATEMENT

Goodwill and intangible assets arising from the combination of Essilor and Luxottica

The consolidated financial statements of EssilorLuxottica reflect the acquisition of Essilor by Luxottica (cd *reverse acquisition*), therefore Essilor’s assets and liabilities were measured at fair value as of the date of the contribution of Delfin’s shares (October 1, 2018). Any difference between the consideration transferred and the fair value of Essilor’s assets acquired and liabilities assumed has been recorded as goodwill (€ 19.5 billion). Intangible assets amounting to € 10.8 billion were also recognized as a result of the combination. They mainly refer to technologies, trade names, trademarks, brands and customer relationships.

Net debt

The procedures for calculating the net debt are explained in Note 22 – Financial debt to the consolidated financial statements.
EssilorLuxottica’s net debt reached € 1.9 billion at December 31, 2018 *versus* € 2.4 billion at the end of 2017, leading to a material reduction in financial leverage. Net debt at the end of 2017 was calculated starting from the unaudited pro forma condensed financial information included in the Update to the 2017 Registration Document filed on September 28, 2018.

Free cash flow

The combined free cash flow of the Group for the year ended December 31, 2018 is Euro 1,829 million.

SUBSEQUENT EVENTS

Public exchange offer for Luxottica shares

On October 11, 2018, EssilorLuxottica launched a mandatory exchange offer (the "**Offer**") pursuant to Italian law for all of the remaining outstanding Luxottica shares (176,276,154 ordinary shares of Luxottica, each with a par value of EUR 0.06), with the exception of the shares already held by EssilorLuxottica and those held by Luxottica as treasury stock.

In the Offer, EssilorLuxottica offered the remaining Luxottica shareholders a stock-only consideration (the "**Stock Consideration**") consisting of 0.4613 newly issued shares of EssilorLuxottica with par value of Euro 0.18, admitted to trading on Euronext Paris, per each Luxottica share tendered in the Offer (the "**Exchange Ratio**"). The Exchange Ratio was the same one as the one applied in the contribution by Delfin to EssilorLuxottica of Delfin's entire stake in Luxottica that closed on October 1, 2018.

As a result of the acquisition of the Luxottica shares tendered in the Offer, on December 5, 2018, EssilorLuxottica came to own more than 90% but less than 95% of Luxottica's share capital. Therefore, EssilorLuxottica subsequently carried out a "sell-out" procedure, during which the remaining Luxottica shareholders were able to tender their shares for, at their election, either the Stock Consideration or an alternative consideration in cash equal to EUR 51.64474423 per each Luxottica share (as determined in accordance with Italian law) (the "**Cash Consideration**").

Having crossed the 95% threshold in the share capital of Luxottica at the settlement of the "sell-out" procedure on January 18, 2019, EssilorLuxottica then initiated a "squeeze-out" procedure that was completed on March 5, 2019, with the transfer to EssilorLuxottica, in accordance with the offeror's right to purchase under Italian law, of all of the remaining outstanding Luxottica shares, in exchange for either the Stock Consideration or, as for the remaining Luxottica shareholders that expressly requested it during the procedure, the Cash Consideration. In accordance with the rules of the Italian stock exchange, Borsa Italiana ordered the delisting from the MTA of the Luxottica shares as from March 5, 2019, settlement date of the "squeeze-out" procedure.

During the Offer and the subsequent "sell-out" and "squeeze-out" procedures, in the aggregate (i) 176,276,154 ordinary shares of Luxottica were actively tendered (or were anyway acquired by EssilorLuxottica pursuant to its right to purchase all remaining shares in the "squeeze-out" procedure), of which 163,860,337 for the Stock Consideration and 12,415,817 for the Cash Consideration, and (ii) a total of 75,588,772 new EssilorLuxottica shares was issued and admitted to trading on Euronext Paris. As a consequence, the interest held by Delfin in EssilorLuxottica decreased from the initial 38.93% to 32.05% of the share capital of EssilorLuxottica, it being reminded that the voting rights are capped at 31% for any shareholder subject to a formula contained in article 23 of EssilorLuxottica's by-laws.

Acquisitions and partnerships

No significant transactions.
Since January 1st, Essilor has pursued its strategy of forging partnerships with local optical market leaders with two transactions. See section "Essilor in 2018".

Other events

None.