LUXOTTICA GROUP SPA
Form 20-F
June 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-10421

LUXOTTICA GROUP S.p.A.

(Exact name of Registrant as specified in its charter)
(Translation of Registrant s name into English)

REPUBLIC OF ITALY
(Jurisdiction of incorporation or organization)

VIA CANTÙ 2, MILAN 20123, ITALY
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange of which registered
ORDINARY SHARES, PAR VALUE EURO 0.06 PER SHARE*	**NEW YORK STOCK EXCHANGE**
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING ONE ORDINARY SHARE	**NEW YORK STOCK EXCHANGE**

*** Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

ORDINARY SHARES, PAR VALUE EURO 0.06 PER SHARE **455,205,473**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

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FORWARD-LOOKING INFORMATION

Throughout this annual report, management has made certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which are considered prospective. These statements are made based on management s current expectations and beliefs and are identified by the use of forward-looking words and phrases such as plans, estimates, believes or belief, expects or other similar words or phrases.

Such statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those which are anticipated. Such risks and uncertainties include, but are not limited to, fluctuations in exchange rates, economic and weather factors affecting consumer spending, the ability to successfully introduce and market new products, the availability of correction alternatives to prescription eyeglasses, the ability to successfully launch initiatives to increase sales and reduce costs, the ability to effectively integrate recently acquired businesses, including Cole National Corporation and its subsidiaries (Cole) acquired in October 2004, risks that expected synergies from the acquisition by Luxottica Group of Cole will not be realized as planned and that the combination of Luxottica Group s managed vision care business with Cole s will not be as successful as planned, as well as other political, economic and technological factors, and other risks and uncertainties described in our filings with the Securities and Exchange Commission (the SEC). These forward-looking statements are made as of the date hereof, and we do not assume any obligation to update them.

Throughout this annual report, when we use the terms Luxottica, Company, we, us and our, unless otherwise indicated or the context otherw requires, we are referring to Luxottica Group S.p.A. and its consolidated subsidiaries.

TRADEMARKS

Our house brands and designer line prescription frames and sunglasses that are referred to in this annual report, and certain of our other products, are sold under names that are subject to registered trademarks held by us or, in certain instances, our licensors. These trademarks may not be used by any person without our prior written consent or the consent of our licensors, as applicable.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

The following tables set forth selected consolidated financial data for the periods indicated and are qualified by reference to, and should be read in conjunction with, our consolidated financial statements, the related notes thereto, and Item 5 Operating and Financial Review and Prospects contained elsewhere herein. We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The selected consolidated financial information for and as of the years ended December 31, 2000, 2001, 2002, 2003 and 2004 is derived from our consolidated financial statements, which have been audited by Deloitte & Touche S.p.A., independent registered public accounting firm.

[TABLES APPEAR ON THE FOLLOWING PAGE]

	Year Ended December 31,					
	2000(9)	2001(9)(6)	2002(9)	2003(7)(9)	2004(8)	2004(8)
	(In thousands of Euro)(3)					(In thousands of U.S.$) (1)(3)
STATEMENT OF INCOME DATA:						
Net Sales	2,439,166	3,105,498	3,201,788	2,852,194	3,255,300	4,407,025
Cost of Sales	(719,241)	(923,537)	(946,134)	(903,617)	(1,040,697)	(1,408,896)
Gross Profit	1,719,925	2,181,960	2,255,654	1,948,577	2,214,603	2,998,129
OPERATING EXPENSE						
Selling and Advertising	(983,576)	(1,303,397)	(1,360,339)	(1,235,758)	(1,376,546)	(1,863,568)
General and Administrative	(324,428)	(369,071)	(293,806)	(281,033)	(345,243)	(467,390)
Total	(1,308,004)	(1,672,468)	(1,654,146)	(1,516,790)	(1,721,789)	(2,330,958)
Income from Operations	411,921	509,492	601,508	431,787	492,814	667,171
OTHER INCOME (EXPENSE)						
Interest Income	16,562	15,060	5,036	5,922	6,662	9,019
Interest Expense	(72,562)	(91,978)	(65,935)	(47,117)	(56,115)	(75,968)
Other Net	6,098	8,737	(1,167)	(799)	13,792	18,672
Other Income (Expenses) Net	(49,902)	(68,181)	(62,066)	(41,994)	(35,661)	(48,277)
Income Before Provision for Income Taxes	362,019	441,311	539,442	389,793	457,153	618,894
Provision for Income Taxes	(101,488)	(123,450)	(162,696)	(117,328)	(161,665)	(218,862)
Income Before Minority Interests in Consolidated Subsidiaries	260,531	317,861	376,746	272,465	295,488	400,032
Minority Interests in Income of Consolidated Subsidiaries	(5,254)	(1,488)	(4,669)	(5,122)	(8,614)	(11,661)
Net Income	255,277	316,373	372,077	267,343	286,874	388,371
Weighted Average Shares Outstanding (thousands)						
Basic	449,987.9	451,037.0	453,174.0	448,664.4	448,275.0	
Diluted	452,920.2	453,965.5	455,353.5	450,202.1	450,360.9	
Basic Earnings per Share(2)	0.57	0.70	0.82	0.60	0.64	0.87
Diluted Earnings per Share(2)	0.56	0.70	0.82	0.59	0.64	0.86
Cash Dividends Declared per Share(4)(5)	0.09	0.14	0.17	0.21	0.21	0.28

(1) Translated for convenience at the rate of Euro 1.00 = U.S. $1.3538, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2004. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

(2) Earnings per Share for each year have been calculated based on the weighted-average number of shares outstanding during the respective years, giving effect to the two-for-one stock split in 2000 as if the split had occurred on January 1, 2000. Each American Depositary Share, or ADS, represents one ordinary share.

(3) Except per Share amounts, which are in Euro and U.S. dollars, as applicable.

(4) Cash Dividends Declared per Share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes and have been restated to reflect the two-for-one stock split in 2000 as if the split had occurred on January 1, 2000.

(5) Our dividend policy is based upon, among other things, our consolidated net income for each fiscal year, and dividends for a fiscal year are paid in the immediately following fiscal year. The dividends reported in the table were declared and paid in the fiscal year for which they have been reported.

(6) We acquired all of the outstanding shares of Sunglass Hut International, Inc. in April 2001. Therefore, 2001 includes approximately nine months of operating results of Sunglass Hut International, Inc. and its subsidiaries (Sunglass Hut).

(7) We acquired 82.57 percent of the outstanding shares of OPSM Group Limited (OPSM) in August 2003. As such, the results for 2003 include approximately five months of operating results of OPSM and its subsidiaries.

(8) We acquired all of the outstanding shares of Cole in October 2004. Therefore, 2004 includes approximately three months of operating results of Cole.

(9) Certain amounts in prior years have been reclassified to conform with the 2004 presentation.

	As of December 31,					
	2000	2001	2002	2003	2004	2004
	(In thousands of Euro)					(In thousands of U.S. $)(1)
BALANCE SHEET DATA:						
Working Capital(2)	(38,755)	(872,107)	141,390	(56,185)	130,587	176,788
Total Assets	2,968,208	3,948,362	3,586,332	3,912,676	4,556,058	6,167,992
Long-Term Debt	506,159	132,247	855,654	862,492	1,277,495	1,729,473
Shareholders Equity	1,049,163	1,342,843	1,417,895	1,374,534	1,495,607	2,024,753
Capital Stock	23,322	27,172	27,256	27,269	27,312	36,975

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(1) Translated for convenience at the rate of Euro 1.00 = U.S. $1.3538, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2004. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

(2) Working capital is total current assets minus total current liabilities. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources.

Dividends

We are required to pay an annual dividend on our ordinary shares if such dividend has been approved by a majority of our shareholders at the annual general meeting of shareholders. Before we may pay any dividends with respect to a fiscal year, we are required to set aside an amount equal to five percent of our statutory net income for such year in our legal reserve until the reserve, including any amounts set aside during prior years, is at least equal to one-fifth of the nominal value of our issued share capital.

At our annual general meeting of shareholders held on June 15, 2005, our shareholders approved the distribution of a cash dividend in the amount of Euro 0.23 per ordinary share. Our Board of Directors proposed, and the shareholders approved, the date of June 23, 2005 as the date for the payment of such dividend to all holders of record of our ordinary shares on June 17, 2005, including The Bank of New York, as depositary on behalf of holders of our American Depositary Shares, or ADSs. Each ADS represents the right to receive one ordinary share and is evidenced by an American Depositary Receipt, or ADR. The ADSs were traded ex-dividend on June 20, 2005, and dividends in respect of the ordinary shares represented by ADSs were paid to The Bank of New York on June 23, 2005. The Bank of New York converted the Euro amount of such dividend payment into U.S. dollars on June 23, 2005. The dividend amount for each ADS holder will be paid commencing on June 30, 2005 to all such holders of record on June 22, 2005. Future determinations as to dividends will depend upon, among other things, our earnings, financial position and capital requirements, applicable legal restrictions and such other factors as the Board of Directors and our shareholders may determine.

The table below sets forth the cash dividends declared and paid on each ordinary share in each year indicated.

Year	**Cash Dividends per Ordinary Share(1)(2)(3) (Euro)**	**Translated into U.S. $ per Ordinary Share(4) (U.S. $)**
2000	0.085	0.081
2001	0.140	0.120
2002	0.170	0.165
2003	0.210	0.242
2004	0.210	0.254
2005	0.230(5)	0.276(6)

(1) Cash dividends per ordinary share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes and have been restated to reflect the two-for-one stock split in 2000 as if the split had occurred on January 1, 2000.

(2) Each ADS represents one ordinary share.

(3) Our dividend policy is based upon, among other things, our consolidated net income for each fiscal year, and dividends for a fiscal year are paid in the immediately following fiscal year. The dividends reported in the table were declared and paid in the fiscal year for which they have been reported.

(4) Translated at the Noon Buying Rate on the payment date to holders of ADSs. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

(5) The dividend of Euro 0.23 per ordinary share was approved by our Board of Directors on May 4, 2005 and was voted upon and approved by our shareholders at the annual general meeting of shareholders held on June 15, 2005.

(6) The dividend per ordinary share was converted into U.S. dollars by The Bank of New York on June 23, 2005.

Exchange Rate Information

The following tables set forth, for each of the periods indicated, certain information regarding the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, which we refer to as the Noon Buying Rate, expressed in U.S. $ per Euro 1.00:

Period	High	Low	Average(1)	End of Period
Year Ended December 31, 2000	0.8270	1.0332	0.9209	0.9388
Year Ended December 31, 2001	0.8384	0.9545	0.8957	0.8901
Year Ended December 31, 2002	0.8594	1.0485	0.9450	1.0485
Year Ended December 31, 2003	1.0361	1.2597	1.1307	1.2597
Year Ended December 31, 2004	1.1801	1.3625	1.2438	1.3538

(1) The average of the Noon Buying Rates in effect on each business day during the period.

Month	High	Low
December 2004	1.3224	1.3625
January 2005	1.2954	1.3476
February 2005	1.2773	1.3274
March 2005	1.2877	1.3465
April 2005	1.2819	1.3093
May 2005	1.2349	1.2936

On June 24, 2005, the Noon Buying Rate was U.S. $1.2088 per Euro 1.00.

Unless otherwise indicated, all convenience translations included in this annual report of amounts expressed in Euro into U.S. dollars for the relevant period or date have been made using the Noon Buying Rate in effect as of the end of such period or date, as appropriate.

In this annual report, unless otherwise stated or the context otherwise requires, references to $, U.S. $, dollars or U.S. dollars are to United State dollars, references to Euro and are to the Common European Currency, the Euro, references to Rs are to Indian rupees, and references to AUD or A$ are to Australian dollars. On January 1, 2001, we began reporting our operating results and financial position in Euro, and as such amounts for all previous years have been translated from Italian Lire to Euro at the fixed exchange rate of Euro 1.00 = Lire 1,936.27.

Risk Factors

Our future operating results and financial condition may be affected by various factors, including those set forth below.

If we are unable to successfully introduce new products, our future sales and operating performance will suffer.

The mid- and premium-price categories of the prescription frame and sunglasses markets in which we compete are particularly vulnerable to changes in fashion trends and consumer preferences. Our historical success is attributable, in part, to our introduction of innovative eyewear products which are perceived to represent an improvement over products otherwise available in the market. Our future success will depend on our continued ability to develop and introduce such innovative products. If we are unable to continue to do so, our future sales, inventory levels and production costs would be negatively impacted.

The markets in which we compete are highly competitive, and our failure to maintain an efficient distribution network could harm our business.

The mid- and premium-price categories of the prescription frame and sunglasses markets in which we operate are highly competitive. We believe that, in addition to successfully introducing new products, responding to changes in the market environment and maintaining superior production capabilities, our ability to remain competitive is highly dependent on our success in maintaining an efficient distribution network. If we are unable to maintain an efficient distribution network, our business, results of operations and financial condition could suffer, especially our sales and profitability in the affected regions.

If we do not correctly predict future economic conditions and changes in consumer preferences, our sales of premium products and profitability will suffer.

The fashion eyewear industry is cyclical. Downturns in general economic conditions or uncertainties regarding future economic prospects, which affect consumer disposable income, have historically adversely affected consumer spending habits in our principal markets and thus made the growth in sales and profitability of premium-priced product categories difficult during such downturns. Therefore, future economic downturns or uncertainties could have a material adverse effect on our business, results of operations and financial condition, including sales of our designer and other premium brands.

The eyewear industry is also subject to rapidly changing consumer preferences. There can be no assurance that the growth of the fashion eyewear industry will continue or that consumer preferences will not change in a manner which will adversely affect the fashion eyewear industry as a whole or us in particular. Changes in fashion could also affect the popularity and, therefore, the value of the fashion licenses granted to us by designers. Any event or circumstance resulting in reduced market acceptance of one or more of these designers could reduce our sales and the value of our inventory of models based on that design. Unanticipated shifts in consumer preferences may also result in excess inventory and underutilized manufacturing capacity. In addition, our success depends, in large part, on our ability to anticipate and react to changing fashion trends in a timely manner. Any sustained failure to identify and respond to such trends would adversely affect our business, results of operations and financial condition.

If we are unable to achieve and manage growth, operating margins will be reduced as a result of decreased efficiency of distribution.

In order to achieve and manage our growth effectively, we will be required to increase and streamline production and implement manufacturing efficiencies where possible, while maintaining strict quality control and the ability to deliver products to our customers in a timely and efficient manner. We must also continuously develop new product designs and features, expand our information systems and operations, and train and manage an increasing number of management level and other employees. If we are unable to manage these matters effectively, our efficient distribution process could be at risk and we could lose market share in affected regions.

If we do not continue to negotiate and maintain favorable license arrangements, our sales or cost of sales will suffer.

We have entered into license agreements that enable us to manufacture and distribute prescription frames and sunglasses under certain designer names, including *Chanel, Genny, Byblos, Salvatore Ferragamo, Emanuel Ungaro, Brooks Brothers, Sergio Tacchini, Anne Klein, Bulgari, Moschino* and, most recently, *Versace, Versus, Prada, Miu Miu, Jil Sander, Donna Karan* and *Dolce & Gabbana.* These license agreements typically have terms of between three and six years (except for the license agreements for the *Versace, Versus, Prada, Miu Miu, Jil Sander* and *Dolce & Gabbana* lines, which have longer terms, and the license agreement for the *Moschino* line, which is terminable upon 12 months notice and require us to make guaranteed and contingent royalty payments to the licensor. See Item 4 Information on the Company Business Overview Recent Developments regarding our new license agreement with Donna Karan International. We believe that our ability to maintain and negotiate favorable license agreements with leading designers in the fashion and luxury goods industries is essential to the branding of our products and, therefore, material to the success of our business. Accordingly, if we are unable to negotiate and maintain satisfactory license arrangements with leading designers, our growth prospects and financial results could suffer from a reduction in sales or an increase in advertising costs and royalty payments to designers.

Our business could be adversely affected by the availability of vision correction alternatives to prescription eyeglasses.

Our business could be negatively impacted by the availability and acceptance of vision correction alternatives to prescription eyeglasses, such as contact lenses and refractive optical surgery. According to industry estimates, over 40 million people wear contact lenses in the United States, and disposable contact lenses is the fastest growing segment of the lens subsector. In addition, the use of refractive optical surgery has grown substantially since it was approved by the U.S. Food and Drug Administration in 1995.

Increased use of vision correction alternatives could result in decreased use of our prescription eyewear products, including a reduction of sales of lenses and accessories sold in our retail outlets, which would have a material adverse impact on our business, results of operations, financial condition and prospects.

If the Euro continues to strengthen relative to certain other currencies, our profitability as a consolidated group will suffer.

Our principal manufacturing facilities are located in Italy, and we maintain sales and distribution facilities throughout the world. As a result, we are vulnerable to foreign exchange rate fluctuations in two principal areas:

we incur most of our manufacturing costs in Euro and receive a significant part of our revenues in other currencies, particularly the U.S. and Australian dollars. Therefore, a strengthening of the Euro relative to other currencies in which we receive revenues could negatively impact the demand for our products or decrease our profitability in consolidation, thus adversely affecting our business and results of operations; and

a substantial portion of our assets, liabilities, revenues and costs are denominated in various currencies other than Euro, with most of our operating expenses in U.S. dollars. As a result, our operating results, which are reported in Euro, are affected by currency exchange rate fluctuations, particularly between the U.S. dollar and the Euro.

As our international operations grow, future changes in the exchange rate of the Euro against the U.S. dollar and other currencies may negatively impact our reported results. For example, our reported results have been negatively affected by the continued weakening of the U.S. dollar against the Euro in the first six months of 2005 as compared to the same period in 2004.

See Item 11 Quantitative and Qualitative Disclosures about Market Risk.

If our international sales suffer due to changing local conditions, our profitability and future growth will be affected.

We currently operate worldwide and intend to expand our operations in many countries, including certain developing countries in Asia. Therefore, we are subject to various risks inherent in conducting business internationally, including the following:

exposure to local economic and political conditions;

export and import restrictions;

currency exchange rate fluctuations and currency controls;

withholding and other taxes on remittances and other payments by subsidiaries;

investment restrictions or requirements; and

local content laws requiring that certain products contain a specified minimum percentage of domestically produced components.

The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable, but any such occurrence may have a significant effect on our business, results of operations, financial condition and prospects.

If we are unable to protect our proprietary rights, the loss of sales and the costs of defending such rights will adversely affect our business and financial results.

We rely on trade secret, unfair competition, trade dress, trademark, patent and copyright laws to protect our rights to certain aspects of our products, including product designs, proprietary manufacturing processes and technologies, product research and concepts and recognized trademarks, all of which we believe are important to the success of our products and our competitive position. However, pending trademark applications may not generate registered trademarks, and any trademark registration that is granted may be ineffective in preventing competition and could be held invalid if subsequently challenged. In addition, the actions we take to protect our proprietary rights may be inadequate to prevent imitation of our products. Our proprietary information could become known to competitors, and we may not be able to meaningfully protect our rights to proprietary information. Furthermore, other companies may independently develop substantially equivalent or better products that do not infringe on our intellectual property rights or could assert rights in, and ownership of, our proprietary rights. Moreover, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States.

We devote significant resources toward defending our proprietary rights. However, if the level of potentially infringing activities by others were to increase substantially, we might have to significantly increase the resources we devote to protecting our rights. Additionally, an adverse determination in any dispute involving our proprietary rights could, among other things, (i) require us to grant licenses to, or obtain licenses from, third parties, (ii) prevent us from manufacturing or selling our products or (iii) subject us to substantial liability. Any of these possibilities could have a material adverse effect on our business, results of operations, financial condition and prospects.

If we are unable to maintain our current operating relationship with Cole Licensed Brands host stores, we would suffer loss of sales and possible impairment of certain intangible assets.

Our sales depend in part on our relationships with the host stores that sell Cole s Licensed Brands products, including Sears. Our leases and licenses with Sears are terminable upon short notice. If our relationship with Sears were to end, we would suffer a loss of sales and the possible impairment of certain intangible assets. This could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our business could be adversely affected by legal proceedings to which we are, or may become, a party.

We are currently a party to certain legal proceedings as described in Item 8 Financial Information Legal Proceedings. In addition, in the ordinary course of our business, we become involved in various other claims, lawsuits, investigations and governmental and administrative proceedings, some of which are significant. Adverse judgments or determinations in one or more of these proceedings could have a material adverse effect on our business, results of operations and financial condition.

If we become subject to additional regulation by governmental authorities, our compliance with these regulations could have an adverse effect on our business, results of operations and financial condition.

Our operations are subject to regulation by governmental authorities in the United States and other jurisdictions in which we conduct business. Governmental regulations, both in the United States and other jurisdictions, have historically been subject to change. New or revised requirements imposed by governmental regulatory authorities could have an adverse effect on us, including increased costs of compliance. We may also be adversely affected by changes in the interpretation or enforcement of existing laws and regulations by governmental authorities that could affect sales or the way we currently distribute our products.

See Item 4 Information on the Company Regulatory Matters.

If we are not successful in completing and integrating strategic acquisitions to expand or complement our business, our future profitability and growth will be at risk.

As part of our growth strategy, we have made, and may continue to make, strategic business acquisitions to expand or complement our business. Our acquisition activities, however, can be disrupted by overtures from competitors for the targeted candidates, governmental regulation and rapid developments in our industry. We may face additional risks and uncertainties following an acquisition, including: (i) difficulty in integrating the newly-acquired business and operations in an efficient and effective manner; (ii) inability to achieve strategic objectives, cost savings and other benefits from the acquisition; (iii) the lack of success by the acquired business in its markets; (iv) the loss of key employees of the acquired business; (v) the diversion of the attention of senior management from our operations; and (vi) liabilities that were not known at the time of acquisition or the need to address tax or accounting issues. Specifically, with regard to our acquisition of Cole, we may face additional risks and uncertainties following such acquisition, including: (i) difficulty in integrating the newly-acquired business and operations in an efficient and effective manner; (ii) inability to achieve strategic objectives, cost savings and other benefits from the acquisition; (iii) the lack of success by the acquired business in its markets; (iv) the loss of key employees of the acquired business; (v) the diversion of the attention of senior management from our operations; (vi) liabilities that were not known at the time of acquisition or the creation of tax or accounting issues; (vii) difficulty in the consolidation of Cole s headquarters with Luxottica Retail headquarters in Mason, Ohio; (viii) difficulty integrating Cole s human resources systems, operating systems, inventory management systems, and assortment planning systems with the Company s systems; (ix) difficulty integrating Cole s distribution center with the Company s distribution center; (x) difficulty finalizing the integration of product assortment; (xi) difficulty integrating Cole s Managed Vision Care system with the Company s Managed Vision Care system; (xii) the inability of the Company to minimize the disruptive effect of the integration on the management of the Company s retail business; (xiii) difficulty in the timely creation and effective implementation of uniform standards, controls, procedures and policies; and (xiv) the cultural differences between the Company s organization and Cole s organization. If we fail to timely recognize or address these matters or to devote adequate resources to them, we may fail to achieve our growth strategy or otherwise not realize the intended benefits of any acquisition.

ITEM 4. INFORMATION ON THE COMPANY

Overview

We operate in two industry segments: (i) manufacturing and wholesale distribution and (ii) retail distribution. Through our manufacturing and wholesale distribution segment, we are engaged in the design, manufacture, wholesale distribution and marketing of house and designer lines of mid- to premium-priced prescription frames and sunglasses. Based on sales, we are the world leader in the design, manufacture and distribution of prescription frames and sunglasses in the mid- and premium-price categories.

With respect to our manufacturing activities, we operate six production facilities in Italy. A seventh facility was closed during 2004 and such closure did not have a material effect on our 2004 statement of operations. In addition, we operate a facility in China for the production of certain products including certain finished products and components that are assembled in Italy for our wholesale business. In 2004, we manufactured approximately 30.5 million prescription frames and sunglasses.

Our products are marketed under a variety of well-known brand names. Our house brands include *Ray-Ban, Revo, Arnette, Killer Loop, Persol, Vogue, Luxottica* and *Sferoflex*. Our designer lines include *Chanel, Genny, Byblos, Salvatore Ferragamo, Emanuel Ungaro, Brooks Brothers, Sergio Tacchini, Anne Klein, Bulgari*, *Moschino, Versace, Versus, Prada, Miu Miu* and *Jil Sander*. Commencing on January 1, 2005, our designer lines also include *Donna Karan* and *DKNY*, and commencing October 1, 2005, they will include *Dolce & Gabbana* and *D&G*.

With respect to our distribution activities, we operate our business through an extensive worldwide wholesale and retail distribution network based primarily in North America and Australia. In 2004, through our wholesale and retail networks, we distributed approximately 14.5 million prescription frames and approximately 19.5 million sunglasses in more than 3,850 models. Our products are distributed in approximately 120 countries worldwide.

Our wholesale network is comprised of 28 wholly- or partially-owned subsidiaries operating in principal markets, over 1,100 sales representatives and approximately 100 independent distributors. Our primary wholesale customers include retailers of mid- and premium-priced eyewear such as independent opticians, optical and sunglass chains, optical superstores, sunglass specialty stores and duty-free shops. In certain countries, and especially in North America, wholesale customers also include optometrists and ophthalmologists, health maintenance organizations, or HMOs, and department stores.

Our retail network is mainly comprised of our subsidiaries, LensCrafters, Inc. (LensCrafters), Sunglass Hut; in Australia, New Zealand and Asia, OPSM, which we acquired in August 2003; and in North America, Cole, which we acquired in October 2004. Luxottica s North American retail business is the largest optical retailer in North America based on total sales.

See Products and Services below for a more detailed discussion of our business.

Company History

In 1961, Leonardo Del Vecchio and others established our original operations in Agordo, near Belluno, in northeastern Italy. Since that time, we have enjoyed significant growth in the scope and size of our operations. We have developed and grown in several phases, each of which is related to a specific business strategy. Throughout most of the 1960 s, we manufactured molds, metal-cutting machinery, frame parts and semi-finished products for the optical market. We then progressively expanded our production capabilities to enable us to produce a finished frame product.

In 1969, we launched our first line of Luxottica brand frames and began our transformation from a third-party supplier to an independent manufacturer with a line of branded products.

In the early 1970 s, we distributed our products exclusively through wholesalers. In 1974, with the acquisition of the distributor that had marketed the Luxottica product line in Italy since 1971, we took our first step towards vertical integration.

Luxottica Group S.p.A. was organized as a corporation on November 23, 1981 under the laws of the Republic of Italy. During the early 1980 s, we continued to pursue vertical integration by acquiring independent optical distributors and forming wholesale subsidiaries in strategic markets. In 1981, with our acquisition of La Meccanoptica Leonardo S.p.A., the owner of the *Sferoflex* brand and the holder of an important patent for a flexible hinge, we increased our market share in Italy and various key European markets. During the late 1980 s, we began to expand our product lines to include the design, manufacture and distribution of designer frames through license agreements with major fashion designers.

In 1990, our ADSs were listed on the New York Stock Exchange. Throughout the 1990 s, we continued to expand our distribution network by forming new wholesale subsidiaries. In 1995, we became the first frame manufacturer to enter the North American retail market through the acquisition of LensCrafters. Throughout the 1990 s, we also expanded into the sunglasses business through various acquisitions. In 1990, we acquired Florence Line S.p.A., the owner of the Vogue brand. In 1995, we acquired the medium- to high-end brand product line of Persol S.p.A.

In June 1999, we acquired the Global Eyewear Division of Bausch & Lomb Incorporated, which we refer to as our Ray-Ban business. The Ray-Ban acquisition significantly increased our presence in the sunglasses market, strengthened our house brand portfolio and provided us with sunglass crystal lens manufacturing technology, manufacturing facilities and equipment.

In December 2000, our ordinary shares were listed on the Mercato Telematico Azionario della Borsa Italiana S.p.A., which we refer to as the Italian Stock Exchange.

In April 2001, we continued to strengthen our sunglasses business by acquiring Sunglass Hut, a leading retailer of sunglasses worldwide based on sales. In May 2001, we acquired all of the issued and outstanding common stock of First American Health Concepts, Inc., which at that time was a leading provider of managed vision care plans in the United States based on sales. In August 2003, we acquired 82.57 percent of the outstanding shares of OPSM, resulting in our leadership position in the prescription business based on sales in the Australian and New Zealand markets, while at the same time presenting us with new growth opportunities in the Asia-Pacific markets. In October 2004, we strengthened and expanded our North American retail and managed vision care business with the acquisition of Cole.

Our principal executive offices are located at Via Cantù 2, Milan, 20123, Italy, and our telephone number at that address is (011) 39-02-863341. Our agent for service for limited purposes in the United States is CT Corporation, 111 Eighth Avenue, New York, New York 10011, telephone number (212) 894-8940. We are domiciled in Milan, Italy.

Business Overview

Recent Developments

License Agreements

On July 1, 2004, we signed a licensing agreement for the design, production and worldwide distribution of Adrienne Vittadini prescription frames and sunglasses. The term of the agreement is three and a half years. For 2005, the distribution will focus mostly in North America.

On October 7, 2004, we announced that we signed a licensing agreement for the design, production and worldwide distribution of Dolce & Gabbana and D&G Dolce & Gabbana prescription frames and sunglasses (the DG Products). The initial term of the agreement is five years, which will begin on January 1, 2006 with an automatically renewable extension for an additional five years upon meeting certain targets. We recently were authorized to partially start the distribution and manufacturing of the DG Products on October 1, 2005.

On January 1, 2005, we began our production and distribution of *Donna Karan* and *DKNY* prescription frames and sunglasses. The initial term of the license agreememt is five years and is renewable for an additional five years through December 2014. The collections will be available worldwide to Donna Karan Collection and DKNY accounts and select specialty sun and optical stores. They will also be sold in Donna Karan Collection and DKNY domestic and international free standing boutiques.

On January 12, 2005, we renewed the licensing agreement for the design, production and worldwide distribution of Brooks Brothers prescription frames and sunglasses for five years through December 31, 2009.

Our ADR Repurchase Plans

On March 25, 2004, one of our two authorized ADR repurchase plans expired. The first plan allowed our subsidiary Luxottica U.S. Holdings Corp., or U.S. Holdings, or any of its subsidiaries, to repurchase up to 11,500,000 ADRs, representing 2.5 percent of our authorized and issued capital, over the 18-month period commencing on September 25, 2002. Our other authorized ADR repurchase plan provides for the repurchase of up to an additional 10,000,000 ADRs, representing 2.2 percent of our authorized and issued share capital, over the 18-month period commencing on March 20, 2003. As of September 30, 2004, both repurchase programs expired, with U.S. Holdings having repurchased 6,434,786 ADRs at an aggregate purchase price of approximately Euro 70.0 million.

Ray Ban Sun Optics India Ltd.

On August 29, 2003, the Securities Appellate Tribunal, or SAT, in India upheld the order issued by the Securities Exchange Board of India to require our subsidiary Ray Ban Indian Holdings Inc. to make a public offer in India to acquire up to an additional 20 percent of the outstanding shares of Ray Ban Sun Optics India Ltd. On October 30, 2003, we announced that we intended to comply with the SAT s decision and that we, through our subsidiary, Ray Ban Indian Holdings Inc., would launch a public offer to purchase an additional 20 percent of the outstanding shares of Ray Ban Sun Optics India Ltd. In accordance with applicable Indian regulation, our subsidiary placed in escrow Rs 226 million (Euro 4.2 million) with the Manager of the public offer. On November 17, 2003, the Supreme Court of India stayed the SAT s order and directed that the matter be further reviewed, provided that our subsidiary issue a letter of credit in favor of the Indian securities regulatory agency within the following four week period of Rs 630.6 million (Euro 11.9 million). Our subsidiary complied with such requirement, and an appeal is pending before the Supreme Court of India. If we are ultimately required to make the public offer, the aggregate cost of the offer could be approximately Euro 19 million, including stipulated interest increments.

Acquisition of Minority Interest of OPSM

On November 26, 2004, the Company through our wholly-owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the remaining outstanding shares of OPSM Group that it did not already own. The offer was for A$4.35 per share including a fully franked dividend of A$0.15 per share that was declared by OPSM (resulting in a net price of A$4.20 per share). On January 4, 2005, we launched an off-market takeover offer for all the Australian Stock Exchange listed OPSM group shares we did not already own. At the close of the offer on February 7, 2005, we held 98.5 percent of OPSM Group shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, we announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by us. On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 18, 2005, it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 24, 2005.

Majority Shareholder Stock Incentive Plan

On September 14, 2004, we announced that our majority shareholder, Mr. Leonardo Del Vecchio, has allocated shares held through the holding company of the Del Vecchio family, La Leonardo Finanziaria S.r.l., representing 2.11 percent of our current authorized and issued share capital, to a stock option plan for top management of the Company. The stock options to be issued under the plan vest upon meeting certain economic objectives.

Products and Services

Wholesale Operations

Our Brands

In our wholesale operations, we manufacture and sell our prescription frames and sunglasses as either house brands or designer lines. House brands consist of eyewear sold under brand names that we own. Designer lines are produced under designer names held by us under license agreements with third parties. Our products, for both house brands and designer lines, consist of a variety of different styles, from conventional to contemporary and fashion forward styling. Each brand is tailored for a specific market segment based on certain characteristics, such as the consumer s age, lifestyle and fashion consciousness.

House Brands: Our house brands, almost entirely designed and manufactured by us, are sold worldwide under brand names such as *Luxottica, Sferoflex, Vogue* and *Persol*, and, as a result of the Ray-Ban acquisition, *Ray-Ban, Revo, Killer Loop* and *Arnette*. We currently produce about 1,500 distinct styles of frames within our house brands. Each style is typically produced in three sizes and at least four colors. Actual availability of product styles, colors and sizes varies among geographic markets depending upon local demand.

The following is a summary description of each of our most significant house brands:

Ray-Ban: Created in the 1930 s, the *Ray-Ban* line is the brand leader in the sunglasses market, bringing together renowned sunglass lenses and a timeless style. During 2003, we introduced two new Ray-Ban collections: optical frames and junior sunglasses.

Persol: Created in 1917 and acquired by Luxottica in 1995, the *Persol* brand is synonymous with class, elegance, tradition, and technical precision. Our *Persol* line, which includes a wide range of prescription frames and sunglasses, is marketed as a timeless fashion accessory due to the elegance and design of our products.

Vogue: Acquired by us in 1990, the *Vogue* brand is recognized as modern and innovative and symbolizes a young and dynamic style that stresses attention to detail and fashion.

Arnette: Targeted to young consumers, this sports product line is characterized by a very forward-thinking design.

Revo: A product line targeted towards sport and leisure wearers, the *Revo* line is known for its high quality lenses which are treated with a specialized coating process.

Luxottica: *Luxottica* is our first product line, comprised of prescription frames and sunglasses. *Luxottica* targets a broad mix of consumers of eyewear. In 2000, this product line was extended to include *Luxottica Titanium*, a high quality prescription frame line made of lightweight titanium material with a minimalist design.

Sferoflex: This product line, which in 1981 became the first brand name acquired by us, the *Sferoflex* line is comprised of prescription frames characterized by a classic and comfortable style, with flexible hinges that allow the frame to adapt to the unique face shape of each wearer.

Killer Loop: Created in 1989 as a sun and sports eyewear brand that combines design and quality, this brand has evolved throughout the years from exclusively sports eyewear to also include leisure eyewear.

Designer Lines: Our designer lines are produced and distributed through license agreements with major fashion houses. Currently, we produce 16 designer lines under the names *Chanel, Genny, Byblos, Salvatore Ferragamo, Emanuel Ungaro, Brooks Brothers, Sergio Tacchini, Anne Klein, Bulgari, Moschino, Versace, Versus, Prada, Miu Miu, Jil Sander* and *Adrienne Vittadini*. As of January 1, 2005, our designer lines also include *Donna Karan* and *DKNY* and commencing on October 1, 2005, they will include *Dolce & Gabbana* and *D&G.* The license agreements governing these designer lines are exclusive contracts and typically have terms of between three and six years (except for the license agreements for the *Versace, Versus, Prada, Miu Miu, Jil Sander* and *Dolce & Gabbana* lines, which have longer terms, and the license agreement for the *Moschino* line, which is terminable upon 12 months notice). See Trademarks, Trade Names and License Agreements License Agreements. Designer collections are developed through the collaborative efforts of our in-house design staff and the brand designer. Our designer lines presently feature approximately 2,350 different styles.

The following is a summary description of our main designer lines:

Chanel: In 1999, we became the first company licensed to produce *Chanel* products. The *Chanel* product line, targeting the high-end consumer, reflects the essential characteristics of the brand: style, elegance and class.

Prada: The *Prada* license agreement was signed in 2003. The *Prada* collections offer a range of glasses proposed in optical frames and sunglasses collections, and also a series of models created for leisure time, identified by the unmistakable red stripe. The *Prada* collections have always been distinctive not only for their high quality but also for their forward-thinking approach and style, enabling the brand to anticipate and often inspire trends across all sectors. Sophisticated, elegant and refined, *Prada* products are identified by their strong character and unique style.

Miu Miu: The *Miu Miu* license agreement was signed in 2003 and it comprises both optical frames and sunglasses. This brand addresses a clientele particularly attentive to the free and easy as well as to the sophisticated new trends. This collection expresses Miuccia Prada s vision of an alternative style, always characterised by a strong personality. The brand *Miu Miu* can be defined as: urban, young, sophisticated and sensual, an alternative vision, a new classic.

Versace: *Versace* is a leading lifestyle brand for the modern man or woman who chooses to express his/her strength, confidence and uniqueness through a bold and distinctive personal style. *Versace* represents the ideal of a sophisticated, free and highly desirable lifestyle.

Versus: While staying true to the essence of the core brand, *Versus* represents a younger, edgier take on those themes. Filled with spirit and energy, *Versus* challenges convention, always in the vanguard of modern urban style.

Bulgari: *Bulgari* eyewear is distinguished by the high quality of its material, attention to detail and elegant design. This product line is targeted towards a clientele who seek something exclusive.

Salvatore Ferragamo: The first *Salvatore Ferragamo* eyewear line debuted in late 1998, the year we executed the *Salvatore Ferragamo* license agreement. The *Salvatore Ferragamo* collections include both optical frames and sunglasses; they are characterized by the greatest attention to detail as well as by an original use of materials and choice of colors. The eyewear collection is inspired like all the other *Salvatore Ferragamo* products by the craftsmanlike tradition of this fashion house, reinterpreted according to contemporary trends.

Moschino: Original and different, with a combination of shapes, materials and colors which become provocative, amusing, innovative and at times surprisingly fascinating and seductive.

Byblos: *Byblos* presents an elegant, dynamic collection that is lively and concrete in its essentialism but which at the same time knows how to be sporty without being excessive or aggressive. The distinctive trait of the *Byblos* collections is the winning combination of sport and fashion, with an eye on trends to keep its designs always up to date.

Genny: The first *Genny* branded women s eyewear line was manufactured and distributed in 1989. Targeted at the premium-price market segment, *Genny* eyewear is designed for a classic and sophisticated woman who is feminine, self-assured, aware of fashion trends and who wants a distinctive yet not excessive style.

Sergio Tacchini: Our *Sergio Tacchini* line is a sports and leisure eyewear brand that offers a combination of dynamic and elegant design.

Brooks Brothers: Our *Brooks Brothers* line targets the male market with its high quality frames in a classical American style. The Brooks Brothers trademark is owned by Retail Brand Alliance, Inc., which is indirectly owned and controlled by one of our directors.

Anne Klein: This product line targets successful professional women who place an emphasis on quality and image.

Donna Karan and DKNY: The first new *Donna Karan* and *DKNY* eyewear collections were presented early in 2005. Reflecting the design sensibility and spirit of the Donna Karan Collection and DKNY brands, the lines offer men and women styles that are sophisticated, with a modern and lightweight range of materials.

Dolce & Gabbana and D&G: During the last quarter of 2004 a five-year license agreement was negotiated and signed with the leading fashion group *Dolce & Gabbana* for manufacturing and distributing the *Dolce & Gabbana* and *D&G* brands. The first eyewear collections will be presented during the last quarter of 2005.

The following table presents the respective percentages of our total unit (a unit represents an eyeglass frame or sunglass and excludes sales of other materials) sales that our designer and house brands comprised during the periods indicated:

	Year Ended December 31,				
(as a percentage of total unit sales)	**2000**	**2001**	**2002**	**2003**	**2004**
Designer brands	41.1	40.6	39.5	33.6	32.8
House brands	58.9	59.4	60.5	66.4	67.2
Total unit sales	100.0	100.0	100.0	100.0	100.0

Prescription Frames and Sunglasses

In 2004, we produced a combined total of approximately 30.5 million prescription frames and sunglasses. In 2003 and 2002, we produced a combined total of approximately 28.7 million and 30.6 million prescription frames and sunglasses, respectively.

Since 1990, sunglasses have become an increasingly significant product line for us as we seek to capitalize on growth opportunities in the sunglasses segment. In 1990, we acquired a distributor that supplied sunglasses under the *Vogue* brand name. In 1995, we expanded our activities in the sunglasses market by acquiring Persol S.p.A., an Italian producer of high-quality, fashionable sunglasses and prescription frames in the premium-priced segment of the market. In 1999, we acquired the Ray-Ban business from Bausch & Lomb Incorporated, including the *Ray-Ban, Revo, Arnette* and *Killer Loop* brand names. As a result of our acquisition of the Ray-Ban business, the percentage of our unit sales represented by sunglasses that we manufacture has grown significantly. This trend continued with the acquisition of Sunglass Hut. Thus, unit sales of sunglasses manufactured by us and third parties in 2004, as a percentage of total unit sales, was 57.3 percent, as compared to 59.7 percent in 2002 and 58.9 percent in 2003.

The following table presents the respective percentages of our total unit sales that our prescription frames and sunglasses comprised for the periods indicated:

	Year Ended December 31, (as a percentage of total unit sales)				
	2000	**2001**	**2002**	**2003**	**2004**
Prescription frames	49.6	42.8	40.3	41.1	42.7
Sunglasses	50.4	57.2	59.7	58.9	57.3
Total unit sales	100.0	100.0	100.0	100.0	100.0

Retail Operations

Our Retail Division is operated by our subsidiaries LensCrafters, Sunglass Hut, OPSM and, from October 2004, the Cole National group of companies. LensCrafters and Sunglass Hut are strong trade names in the North American retail market place, and OPSM owns three main trade names in the Asia-Pacific market. In addition to ophthalmic products and sunglasses, we also sell watches and accessories under the store names Watch World and Watch Station and personalized gifts under the store name Things Remembered.

LensCrafters. Through LensCrafters, we operate a retail network of over 880 locations which offer a wide selection of prescription frames, sunglasses, lenses and other optical products in the North American market. LensCrafters is currently the largest optical retail chain in North America in terms of sales. LensCrafters stores sell not only Luxottica products, but also a wide range of lenses and optical products made by other suppliers. LensCrafters products include innovative lenses, such as FeatherWates™ (lightweight, thin and impact-resistant lenses), DURALENS™ (super scratch-resistant lenses), ByeLines™ (bifocal lenses without visible lines), Invisibles™ (anti-reflective lenses) and MVP Maximum View Progressives (multi-focal lenses without visible lines). Substantially all of our LensCrafters stores are located in high-traffic commercial malls and shopping centers, have an employed optometrist or an independent, licensed optometrist on site (thereby allowing the customer to have an eye examination on site), provide a large range of prescription eyewear choices and include a laboratory, which enables us to provide the selected frame with prescription lenses to our customers in approximately one hour.

We believe that our acquisition of LensCrafters in 1995 has allowed us to:

- obtain a significant competitive advantage for market share in the North American market; and
- enter a complementary segment that allows for a direct distribution to, and closer relationship with, the end customer.

When we acquired LensCrafters in 1995, LensCrafters had approximately 600 stores. Between 1995 and 1998, we opened new stores and acquired other retail chains, reaching over 850 stores in North America by 1999.

From 1999 to 2004, LensCrafters expansion focused primarily on further development of those stores opened between 1996 and 1998. However, we will continue to evaluate potential retail expansion opportunities in North America through the opening of retail chains and stores in areas where we are not already heavily represented and in other prime locations. As of December 31, 2004, LensCrafters leased 888 retail stores.

Since the LensCrafters acquisition, we have improved the efficiency of LensCrafters stores by managing the inventory from our central worldwide distribution center in Italy. This has improved inventory service and allowed for a more rapid supply of styles based on daily sales and inventory data. This has also increased the percentage of our products available in LensCrafters stores. In addition, we have focused our promotional activities on those customers looking for a better purchase experience with high-quality products, rapid and efficient customer service and innovative lens and frame technology. In order to increase LensCrafters focus on sunglasses, we added a section, one-third sun, devoted only to sunglasses, in many stores. As a result of these initiatives, LensCrafters net sales have increased significantly since 1995.

Sunglass Hut. With the acquisition of Sunglass Hut in 2001, we became the world s leading specialty retailer of sunglasses based on sales, and a world leader in specialty retailing of popular priced watches based on sales. Sunglass Hut has over 1,850 retail locations located throughout North America, Europe and Australia. Sunglass Hut operates in-line stores and kiosks in shopping malls, as well as stores in street centers in high-traffic streets and in airports. We have increased sales of Luxottica-manufactured products at Sunglass Hut locations from approximately 14.3 percent of total Sunglass Hut net sales in April 2001 (the first month following the acquisition) to 58.5 percent in December 2004. In addition to sunglasses that we manufacture, Sunglass Hut continues to sell a variety of frames manufactured by third-party vendors, including Oakley Inc., Maui Jim, Inc. and others. Oakley Inc. is our largest third-party supplier, accounting for approximately 11.8 percent, 8.7 percent and 6.8 percent of our total merchandise purchases from suppliers in 2002, 2003 and 2004, respectively. After the acquisition of Sunglass Hut, we consolidated the administrative and certain other functions of the Sunglass Hut business with our LensCrafters operations allowing us to realize significant synergies between the two optical retailing companies. As of December 31, 2004, Sunglass Hut operated an aggregate of 1,858 outlets throughout North America, Europe and Australia. Sunglass Hut outlets are located mostly in enclosed malls and airports with an average retail space of 526 square feet per kiosk/store.

Cole National. With the acquisition of Cole in October 2004, we aquired a group of distribution outlets and a provider and administrator of managed vision care services under one group. Cole through its wholly owned subsidiaries operates retail vision locations under the names Pearle Vision, Sears Optical, Target Optical and BJ s Optical. It operates managed vision care programs primarily through Cole Managed Vision. Additionally, Cole National operates a chain of personalized gift stores, e-commerce and catalogs under the name Things Remembered. The licensed brands (Sears, Target and BJ s) optical retail locations are located in the host stores that bear their names. Pearle Vision stores are mostly located in strip malls outside of the conventional malls where most LensCrafters and Sunglass Hut stores are located. In addition, we have franchised Pearle Vision locations located throughout North America. The Company believes that its combination with Cole will:

strengthen its retail operations in the United States;

strengthen its managed vision care business by increasing the number of people for whom it provides managed vision care benefits as well as by adding well established retailers to its existing family of retailers; and

provide the Company with the opportunity to increase its sales of frames manufactured by the Company in Cole retail stores.

The Company has begun to implement its strategic integration plan with respect to Cole. See Item 5 Operating and Financial Review and Prospects Overview for more information. Cole operated over 2,400 owned and leased department locations and over 500 franchise locations throughout North America as of December 31, 2004.

We will continue to look to expand our retail operations in North America through opening of new stores or kiosks, or strategic acquisitions when we deem them to be appropriate.

OPSM. In August 2003, we completed the acquisition of 82.57 percent of OPSM. As discussed in Recent Developments, we completed the acquisition of the minority interest in OPSM in March 2005. This acquisition has resulted in what we believe is a leadership position in the prescription business in the Australian and New Zealand markets and provided us with new growth opportunities in the Asian market. As of December 31, 2004, OPSM had 461 stores in Australia operating under three brands, OPSM, Laubman & Pank and Budget Eyewear, each of which targets a clearly defined market segment. OPSM is the market leader in New Zealand, with 36 stores as of December 31, 2004, and has expanded into Asia, with 74 stores in Hong Kong, nine stores in Singapore and 13 stores in Malaysia, each as of December 31, 2004.

Our Principal Markets

The following table presents our net sales by geographic market for the periods indicated:

	Year Ended December 31, (In thousands of Euro)		
	2002	**2003**	**2004**
Italy	792,370	743,327	832,813
North America	2,345,834	1,949,692	2,083,560
Asia-Pacific	185,956	276,626	464,905
Other	491,045	445,459	486,630
Adjustment/Eliminations(1)	(613,417)	(562,911)	(612,609)
Total	3,201,788	2,852,194	3,255,300

(1) Adjustment/Eliminations represents the elimination of intercompany sales.

Production Process

Overview

We produce both metal and plastic frames. In addition to our frame manufacturing capacity, since 1999 we have also produced crystal and polycarbonate sunglass lenses exclusively for our sunglasses collections. Production is principally carried out in our six Italian manufacturing facilities. In China, we produce certain products distributed mainly by LensCrafters and certain finished products and components that are assembled in Italy for our wholesale business. Each of our facilities is tailored to a specific production technology that we believe allows us to achieve a high level of productivity.

Design and Prototype Selection

We believe that an important aspect of our success has been our emphasis on design and the continuous development of new styles. Our in-house designers work jointly with external designers to develop new models.

For our designer line products, our design team works with licensors to discuss the basic themes and fashion concepts for each product and then works closely with the licensor s designers to refine such themes. In addition, our design team works directly with our marketing and sales departments, which monitor demand for our current models as well as general style trends in eyewear. The data obtained from our marketing and sales departments is then used to refine existing product designs and market positioning in order to react to changing consumer preferences.

Once the product concepts have been selected and approved, we produce prototypes that are used to evaluate the proposed design. Our prototypes are developed using computer-aided design/computer-aided manufacturing technology, known as CAD/CAM, which is fully integrated with our manufacturing processes. CAD/CAM technology allows a designer to view and modify two- and three-dimensional images of a new frame. Because this technology is fully integrated with the manufacturing processes, the conversion from prototype to production is streamlined.

All prototypes are subject to review and approval by our licensors and our designers to ensure consistency with the distinctive image of each product line. Our collections consist of both new models and the most successful existing models. Each year, we add approximately 1,500 new models to our eyewear collections. The ability to constantly renew our product base has enabled us to meet consumer demand in each market segment in which our brands are targeted. See Item 3 Key Information Risk Factors If we do not correctly predict future economic conditions and changes in consumer preferences, our sales of premium products and profitability will suffer.

Sourcing

The principal raw materials and parts purchased for our manufacturing process include plastic resins, metals, lenses and frame parts. We purchase a substantial majority of our raw materials in Europe and to a lesser extent in Asia and the United States. In addition, we use certain external suppliers for eyeglass cases and packaging materials. The Ray-Ban acquisition provided us with know-how and sunglass crystal lens manufacturing capabilities. We believe that our ability to produce sunglass crystal lenses is strategically important given our expanded presence in the sunglasses market.

We do not depend on any single supplier for any of our principal raw materials. Although we do not have formal, long-term contracts with our suppliers, we have not experienced any significant interruptions in our supplies. Historically, prices of the principal raw materials used in our manufacturing processes have been stable.

Manufacturing

We have six frame manufacturing facilities in Italy. Five facilities are located in northeastern Italy, the area in which most of the country s optical industry is based, and the remaining facility is located near Turin. All of our facilities are highly automated, which has allowed us to maintain a high level of production without significant capital outlay. In certain of these facilities, we also produce sunglass crystal lenses and polycarbonate lenses. From 1998 to 2001, we operated, through our 50 percent-owned joint venture (Tristar Optical Company Ltd.) with a Japanese partner, a facility in China to manufacture prescription frames for distribution primarily in North America. In 2001, we acquired the remaining 50 percent interest in this Chinese company so that it became one of our wholly-owned subsidiaries.

Over the past several years, we have consolidated our manufacturing processes by tailoring each of our manufacturing facilities in Italy to a specific production technology. This consolidation has allowed us to improve both the productivity and quality of our operations. We produce plastic frames in our facilities in Sedico, Pederobba and Turin, while metal frames are produced in our facilities in Agordo and Rovereto. Certain frame parts are produced in our facility in Cencenighe. In 2004, approximately 69 percent of the frames manufactured by us were metal-based, and the remainder were plastic.

The manufacturing process for both metal and plastic frames and sunglasses begins with the fabrication of precision tooling and molds based on prototypes developed by our in-house design and engineering staff. We believe that our in-house capacity to engineer and produce precision tooling and molds gives us a strong competitive advantage by enabling us to reduce the lead time for product development and thereby adapt quickly to market trends, contain production costs, and maintain smaller and more efficient production runs so that we can better respond to the varying needs of different markets.

The manufacturing process for metal frames is comprised of approximately 70 phases, beginning with the production of basic components such as rims, temples and bridges, which are produced through a molding process. These components are welded together to form frames through numerous stages of detailed assembly work. Once assembled, the metal frames are treated with various coatings to improve their resistance and finish, and then prepared for lens fitting and packaging.

We manufacture plastic frames using either a milling process or injection molding, depending upon the style and color of the frame. In the milling process, a computer-controlled machine carves frames from colored plastic sheets. This process produces rims, temples and bridges that are then assembled, finished and packaged. In the injection molding process, plastic resins are liquefied and injected in molds. The plastic parts are then assembled, coated, finished and packaged.

Our efficient distribution network allows us to track sales and inventory data on a weekly basis. As a result, we are able to:

make and revise manufacturing plans on the basis of current sales information;

reallocate inventory within our wholesale subsidiaries, thereby reducing overall inventory levels and the risk of obsolescence; and react quickly to changing market trends by providing rapid feedback to our in-house design team.

We engage in research and development activities relating to our manufacturing processes on an on-going basis. As a result of such activities, we have invested, and will continue to invest, in automation, thus increasing efficiency while improving quality. Much of our manufacturing process is automated, including the production of metal and plastic frame parts and the galvanization of metal frames.

Quality Control

One of our key strategic objectives is ensuring the quality of our products. In 1997, we were among the first companies in the eyewear industry to obtain ISO 9001 certifications. Subsequently, in 2003, we obtained the Vision 2000 certification, which is the third-generation industry recognition for quality production. To ensure the high quality of our products, our quality control and process control teams regularly inspect work-in-progress at various stages of the production cycle. In addition, the majority of materials that we purchase are quality tested. We also conduct inspections of, and certify compliance with, the production processes of our main suppliers. Each of our prescription frames and sunglasses undergoes several stages of quality inspection. Due to the efficiency of our quality controls, the return rate for defective merchandise manufactured by us is approximately one percent.

Distribution

We distribute our products through wholesale and retail channels.

Distribution by Wholesale Division

We currently distribute our products in approximately 120 countries and operate 28 wholly- or partially- owned wholesale distribution subsidiaries strategically located in major markets worldwide. In markets where we do not have wholesale distribution subsidiaries, we employ approximately 100 independent distributors.

Each wholesale distribution subsidiary operates its own network of sales representatives, who are normally retained on a commission basis. Our network of wholesale distribution subsidiaries represents a key element of our business. We believe that control over an extensive distribution network provides us with a competitive advantage, because it enables us to maximize our brand image, marketing efforts and customer service activities by tailoring our operations to meet the specific needs and peculiarities of local markets.

The following table sets forth certain information regarding our wholesale distribution subsidiaries and affiliates:

Subsidiary	Country of Formation	Percentage Ownership
Luxottica S.r.l.	Italy	100%
Luxottica Fashion Brillen GmbH	Germany	100%
Luxottica Portugal S.A.	Portugal	100%
Luxottica France S.A.R.L.	France	100%
Luxottica Iberica S.A.	Spain	100%
Luxottica U.K. Ltd.	United Kingdom	100%
Luxottica Belgium N.V.	Belgium	100%
Luxottica Sweden A.B.	Sweden	100%
Oy Luxottica Finland A.B.	Finland	100%
Luxottica Vertriebsgesellschaft MbH	Austria	100%
Luxottica Norge A.S.	Norway	100%
Avant-Garde Optics, LLC	U.S.A.	100%
Luxottica Canada Inc.	Canada	100%
Luxottica Do Brasil Ltda	Brazil	100%
Luxottica Mexico S.A. de C.V.	Mexico	100%
Luxottica Argentina S.r.l.	Argentina	100%
Mirari Japan Ltd.	Japan	100%
Luxottica South Africa Pty Ltd.	South Africa	100%
Luxottica Gulf Llc(1)	United Arab Emirates	49%
Luxottica A.G.	Switzerland	97%
Luxottica Australia Pty Ltd.	Australia	100%
Luxottica Optics Ltd.	Israel	74.9%

Luxottica Hellas A.E.		Greece		70	%
Luxottica Nederland B.V.		The Netherlands		51	%
Luxottica Gozluk Ticaret A.S.		Turkey		51	%
Luxottica Poland Sp. Z.o.o.		Poland		75	%
Mirarian Marketing Ltd.		Singapore		51	%
Ray Ban Sun Optics India Ltd. (2)		India		44.2	%

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(1) While local law prohibits a non-United Arab Emirates company from having a majority equity interest in a United Arab Emirates limited liability company, we effectively control this entity through agreements with the majority shareholder and accordingly, include them in our consolidated results.

(2) The shares of Ray Ban Sun Optics India Ltd. are publicly traded on the BSE Stock Exchange, Mumbai. Because we do not own a 50% equity interest in the entity, we account for this entity under the equity method of accounting.

We maintain close contact with our distributors in order to monitor sales and to control the quality of the points of sale that display products. We typically enter into distribution agreements with importers and distributors that establish minimum annual purchases and impose territorial limitations. In addition, to the extent permitted by law, we allow for distribution only through specifically authorized retail channels and qualified sales agents.

No single customer or group of related customers accounted for more than two percent of our consolidated net sales in any of the past three years. We do not believe that the loss of any single customer would have a material adverse effect on our financial condition or results of operations.

Our distribution system is integrated internationally. A worldwide computerized information network links the distribution and sales systems with the production facilities in Italy. This network enables us to monitor worldwide sales trends and inventory positions on a daily basis and to allocate production resources accordingly.

We believe that one of our key competitive strengths is our ability to promptly satisfy customer demand in a timely manner, both prior to and following a sale. In order to further improve our customer service capabilities, we have centralized our distribution centers in Europe (Italy) and Asia (Japan) and are in the final stages of centralizing our distribution centers in North America (United States). We believe that centralizing our distribution centers improves the efficiency of our distribution operations while reducing the related costs.

Distribution by Retail Division

Through our Retail Division, we believe we operate the largest group of optical superstores in both the United States and Canada based on both sales and store count. We believe we are the largest specialty retailer of sunglasses in the world based on 2004 revenues and believe we have become a leading player in the Australian prescription segment. We also sell watches and accessories under the store names Watch World and Watch Station and now, with the acquisition of Cole, we also sell personalized gifts under the name Things Remembered.

In our optical retail stores, customers can choose from a large selection of frames and lenses offering a high level of comfort and fit. LensCrafters customers can obtain a completed pair of prescription glasses in approximately one hour because of on-site lens grinding laboratories. In our Sunglass Hut locations, customers can choose from a large selection of Luxottica and third-party vendor manufactured sunglasses. In addition, Sunglass Hut locations can assist customers in purchasing other accessories to complement their sunglasses. As of December 31, 2004, our retail division consisted of 5,746 owned or leased department retail locations and 472 franchised locations as follows:

	North America	Europe	Asia-Pacific*	Total
LensCrafters	888			888
Sunglass Hut	1,584	110	164	1,858
OPSM Group			593	593
Cole National Group	2,407			2,407
Franchised Locations	472			472
	5,351	110	757	6,218

*Asia-Pacific for our Retail Division consists of Australia, New Zealand, Malaysia, Singapore and Hong Kong.

In 2004, approximately 67.5 percent, 8.7 percent and 58.5 percent of the total sales of frames based on units sold by LensCrafters, OPSM and Sunglass Hut, respectively, were produced by our manufacturing facilities. OPSM was acquired in August 2003 and at such time 3.5 percent of the total sales of frames sold were produced by our manufacturing facilities. Cole National was acquired in October 2004, and at such time less than 1 percent of the total sales of frames sold were produced by our manufacturing facilities. The Retail Division s outlets sell not only frames that we manufacture but also a wide range of frames, lenses and other ophthalmic products manufactured by other companies.

Substantially all LensCrafters and OPSM stores have an employed or independent optometrist on site, allowing the customer to have an eye examination, select from a large range of prescription eyewear, and receive the selected frame with prescription lenses from one location. In addition, substantially all of our LensCrafters stores have a lens grinding laboratory on site, which allows our customers to receive a complete set of prescription frames or sunglasses in approximately one hour.

Competition

The prescription frame and sunglasses industry is highly competitive and fragmented. As we market our products throughout the world, we compete with many prescription frame and sunglasses companies in various local markets. We believe that our principal competitor in the design, manufacture and distribution of eyewear within the prescription frames market is Safilo Group S.p.A., or Safilo. We believe that our principal competitors in the sunglasses market include Safilo, De Rigo S.A. and Oakley, Inc. Several of our most significant competitors in the manufacture and distribution of eyewear are significant vendors to our Retail Division. Our success in these markets will depend on, among other things, our ability to manage an efficient distribution network and to market our products effectively as well as on the popularity and market acceptance of our brands. See Item 3 Key Information Risk Factors If we are unable to successfully introduce new products, our future sales and operating performance will suffer and The markets in which we compete are highly competitive, and our failure to maintain an efficient distribution network could harm our business.

The highly competitive optical retail market in North America includes a large number of small independent competitors and several national and regional chains of optical superstores. In recent years, a number of factors, including consolidation among retail chains and the emergence of optical departments in discount retailers, have resulted in significant competition within the optical retailing industry. We compete against several large optical retail chains in North America, including Wal-Mart and Eye Care Centers of America, and, in the sunglasses area, numerous sunglass outlet centers. Our optical retail operations emphasize product quality, selection, customer service and convenience. We do not compete primarily on the basis of price.

Marketing

Our marketing and advertising activities are designed primarily to enhance the image of Luxottica and our brand portfolio and to drive traffic into our retail locations. Advertising expenses amounted to approximately six percent of our net sales in each of 2002, 2003 and 2004.

Marketing Strategy for Our Wholesale Business

Our marketing strategy in the wholesale distribution segment is focused on promoting the value of our products, our extensive brand portfolio and our corporate image. Advertising is extremely important in supporting our marketing strategy, and we therefore engage in extensive advertising activities, both at the point-of-sale and through various media directed at the end consumer of our products.

Our point-of-sale marketing materials consist of catalogs, posters, product literature and displays. Many of these materials are linked to our consumer advertising campaigns.

In our media advertising, we utilize direct media, such as print, radio and television, as well as billboard advertising. The extent of our advertising activities and the selection of different media depend upon the competitive conditions in each particular market. In North America, we advertise in print media, including trade journals and consumer publications, and on radio and television. In Europe, we advertise in various media, including print, television and billboards. In Japan and the rest of Asia, we advertise mainly in print media. In addition, we advertise in publications targeted to independent practitioners and other market-specific magazines.

We also benefit from brand-name advertising carried out by licensors of our designer lines intended to promote the image of the designer line. Our advertising and promotional efforts in respect of our licensed brands are developed in coordination with our licensors. We contribute to the designer a specified percentage of our sales of the designer line to be devoted to advertising and promotion.

Finally, we participate in major industry trade fairs (including the MIDO fair in Milan, Vision Expo in the United States and the SILMO in Paris), where our new collections are displayed and promoted to the market.

Marketing Strategy for Our Retail Business

In addition to the marketing activities described above, we engage in promotional and advertising activities through our Retail Division with both short- and long-term objectives. Our short-term objectives are to attract customers to our stores and promote sales. Our long-term objective is to build the image and visibility of our retail brands throughout the world, such as the LensCrafters and Pearle Vision brands in North America, the Sunglass Hut brand worldwide, the OPSM, Laubman & Pank and Budget Eyewear brands in Australia and New Zealand, and The Optical Shop and The Optical Centre brands in Hong Kong, thereby encouraging customer loyalty and return purchases. We believe that the product quality and service provided by our Retail Division contribute to our short- and long-term marketing objectives.

A considerable amount of our Retail Division s marketing budget is dedicated to direct marketing activities, such as communications with customers (*e.g.*, mailings and catalogues). Our direct marketing activities benefit from our large database of customer information in the United States and in Australia. Another significant portion of the marketing budget is allocated to broadcast and print media (*e.g.*, television, radio and magazines) designed to reach the broad markets in which we operate with image-building messages about our retail business.

Trademarks, Trade Names and License Agreements

Trademarks and Trade Names

As of December 31, 2004, our principal trademarks or trade names included *Luxottica, Ray-Ban, Persol, Vogue, LensCrafters, Sunglass Hut, Pearle Vision* and *OPSM*. Our principal trademarks are registered in several countries. Other than *Luxottica, Ray-Ban, LensCrafters, Sunglass Hut, Pearle Vision* and *OPSM*, we do not believe that any single trademark or trade name is material to our business or results of operations. *Ray-Ban* products accounted for approximately 12 percent of our net sales in 2004. Management believes that our trademarks have significant value in marketing our products.

LensCrafters has introduced several trademarked lenses in recent years that contain innovative technology, such as FeatherWates™ (lightweight, thin and impact resistant lenses), DURALENS™ (super scratch-resistant lenses), Invisibles™ (anti-reflective lenses) and MVP Maximum View Progressives (multi-focal lenses without visible lines). LensCrafters purchases these lenses under non-exclusive arrangements with third parties. The names of the lenses used by LensCrafters are typically trademarked, and the trademarks are typically owned by us. OPSM has trademarked several lenses in recent years that it uses in its advertising. They include Activise™ for contact lenses, Active™ for polycarbonate eyeglass lenses and Invisibles™ for multi-coated eyeglass lenses.

We do not have any patents that we believe are, individually or in the aggregate, material to our results of operations or financial condition.

See Item 3 Key Information Risk Factors If we are unable to protect our proprietary rights, the loss of sales and the costs of defending such rights will adversely affect our business and financial results.

License Agreements

We have entered into certain license agreements to manufacture and distribute prescription frames and sunglasses with numerous designers. These license agreements have terms expiring through 2022. The table below summarizes the principal terms of our most significant license agreements as of June 23, 2005.

Licensor	Licensed Marks	Territory	Expiration
Kasper ASL Ltd.	Anne Klein	Worldwide exclusive license	December 31, 2006
Bulgari S.p.A.	Bulgari	Worldwide exclusive license	December 31, 2010
Byblos S.p.A.	Byblos	Worldwide exclusive license	December 31, 2006
Genny S.p.A.	Genny	Worldwide exclusive license	December 31, 2006
Moon Shadow S.p.A.	Moschino	Worldwide exclusive license to distribute to authorized retailers and distributors (excluding Japan)	Indefinite term (Termination upon 12 months notice)
Salvatore Ferragamo Italia S.p.A.	Salvatore Ferragamo Ferragamo	Worldwide exclusive license	December 31, 2008 (Renewable until December 31, 2013)
Retail Brand Alliance, Inc.*	Brooks Brothers	Worldwide exclusive license	December 31, 2009
Sergio Tacchini S.p.A.	Sergio Tacchini ST	Worldwide exclusive license (excluding Japan)	December 31, 2007
Prada S.A.	Prada Miu Miu	Worldwide exclusive license	December 31, 2013 (Renewable until December 31, 2018)
Gianni Versace S.p.A.	Gianni Versace Versace Versace Sport Versus	Worldwide exclusive license	December 31, 2012 (Renewable until December 31, 2022)
Jil Sander AG	Jil Sander	Worldwide exclusive license	December 31, 2013
Chanel SA, Chanel SAS, Chanel UK and Chanel USA	Chanel	Worldwide exclusive license	March 31, 2008
Donna Karan International	Donna Karan DKNY	Worldwide exclusive license	December 31, 2009 (Renewable until December 31, 2014)
Adrienne Vittadini LLC**	Adrienne Vittadini	Worldwide exclusive license	December 31, 2007
Dolce & Gabbana S.r.l.	D&G Dolce & Gabbana Dolce & Gabbana	Worldwide exclusive license	December 31, 2010 (Renewable until December 31, 2015)

* Retail Brand Alliance, Inc. is indirectly owned and controlled by one of our directors.

** Adrienne Vittadini LLC is indirectly owned and controlled by one of our directors.

Under these license agreements, we are required to pay a royalty which generally ranges from five percent to twelve percent of net sales of the relevant collection, which may be offset by any guaranteed minimum royalty payments. The license agreements also provide for a mandatory marketing contribution that generally amounts to five percent of net sales. The particular licensor is responsible for the manner and form of advertising for its collection. Other than the license agreements for the *Versace, Versus, Prada, Miu Miu, Jil Sander* and *Dolce & Gabbana* lines, which have at least ten-year terms, and the license agreement for the *Moschino* line, which is terminable upon 12 months notice, these license agreements typically have terms ranging from three and six years, but may be terminated early by either party for a variety of reasons, including non-payment of royalties, failure to meet minimum sales thresholds, product alteration and, under certain agreements, any change in the ownership of the ordinary shares resulting in a change in control of Luxottica Group S.p.A.

No single designer line accounted for more than five percent of net sales for the year ended December 31, 2004. Management believes that, while the early termination of one or a small number of the current license agreements may have an adverse effect on our results of operations in the short term, any such termination would not have a material adverse effect on our long-term results of operations or financial condition. Upon any early termination of an existing license agreement, we expect that we would seek to enter into alternative arrangements with other designers to reduce any negative impact of such a termination.

Regulatory Matters

Our products are subject to governmental health safety regulations in most of the countries where they are sold, including the United States. We regularly inspect our production techniques and standards to ensure compliance with applicable requirements. Historically, compliance with such requirements has not had a material effect on our operations.

In addition, governments throughout the world impose import duties and tariffs on products being imported into their countries. Although in the past we have not experienced situations in which the duties or tariffs imposed materially impacted our operations, we can provide no assurances that this will be true in the future.

Our past and present operations, including owned and leased real property, are subject to extensive and changing environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposition of wastes or otherwise relating to the protection of the environment. We believe that we are in substantial compliance with the applicable environmental laws and regulations. However, we cannot predict with any certainty that we will not in the future incur liability under environmental statutes and regulations with respect to contamination of sites formerly or currently owned or operated by us (including contamination caused by prior owners and operators of such sites) and the off-site disposal of hazardous substances.

Our retail operations are also subject to various state or similar legal requirements in the United States, Australia, Canada, New Zealand, Hong Kong, Singapore and Malaysia that regulate the permitted relationships between licensed optometrists or ophthalmologists, who primarily perform eye examinations and prescribe corrective lenses, and opticians, who fill such prescriptions and sell eyeglass frames.

Organizational Structure

We are a holding company, and virtually all of our operations are conducted through our wholly-owned subsidiaries. We operate in two industry segments: (i) manufacturing and wholesale distribution, and (ii) retail distribution. In the retail segment, we primarily conduct our operations through LensCrafters, Sunglass Hut, Pearle Vision, Cole Licensed Brands and OPSM. In the manufacturing and wholesale distribution segment, we operate through approximately six manufacturing subsidiaries and 28 geographically oriented wholesale distribution subsidiaries. See Distribution for a breakdown of the geographic areas.

The significant subsidiaries controlled by Luxottica Group S.p.A., including holding companies, as of December 31, 2004, were:

Subsidiary	Country of Incorporation	Percentage of Ownership	
Manufacturing			
Luxottica S.r.l.	Italy	100	%
Killer Loop Eyewear S.r.l.	Italy	100	%
Luxottica Tristar Optical Ltd	China	100	%
Distribution			
Avant-Garde Optics, LLC	U.S.A.	100	%
Cole Vision Corp.	U.S.A.	100	%
LensCrafters Inc.	U.S.A.	100	%
Sunglass Hut Trading Corporation	U.S.A.	100	%
Pearle Vision, Inc.	U.S.A.	100	%
OPSM Group Limited	Australia	82.57	%*
* 100% as of March 2005			
Holding companies			
Luxottica U.S. Holdings Corp.	U.S.A.	100	%
Luxottica South Pacific Pty Ltd	Australia	100	%
Sunglass Hut International, Inc.	U.S.A.	100	%
Cole National Corporation	U.S.A.	100	%

Property, Plants and Equipment

Our corporate headquarters is located at Via Cantù 2, Milan, Italy. Information regarding the location, use and approximate size of our principal offices and facilities as of December 31, 2004 is set forth below:

Location	Use	Owned/Leased	Approximate Area in Square Feet
Milan, Italy	Corporate Headquarters	Owned	16,140
Mason (Ohio), United States	North American Retail Division Headquarters	Owned	288,876
Atlanta, United States	North American Retail Division Distribution Center	Owned	96,200
Port Washington (NY), United States	U.S. Offices and U.S. Wholesale Distribution Center	Owned	140,700
Agordo (Belluno), Italy	Administrative Offices and Manufacturing Facility	Owned	814,004
Fukui, Japan	Far East Distribution Center and Offices	Owned	45,364
Tokyo, Japan	Far East Sales Office	Leased	13,149
Osaka, Japan	Far East Sales Office	Leased	1,949
Nagoya, Japan	Far East Sales Office	Leased	1,159
Fukuoka, Japan	Far East Sales Office	Leased	784

Rovereto, Italy	Frame Manufacturing Facility	Owned	215,026
Sedico, Italy	Frame Manufacturing Facility and Distribution Center	Owned	437,007

Location	Use	Owned/Leased	Approximate Area in Square Feet
Cencenighe, Italy	Semi-finished Product Manufacturing Facility	Owned	59,892
Lauriano, Italy	Frame and Crystal Lenses Manufacturing Facility	Owned	174,176
Pederobba, Italy	Frame Manufacturing Facility	Owned	84,111
Guang Dong, China	Frame Manufacturing Facility	Leased	71,801
Guangzhou, China	Frame Manufacturing Facility	Leased	7,532
Toronto, Canada	Offices and Warehouse	Owned	20,120
Barcelona, Spain	Offices	Owned	11,733
London, United Kingdom	Offices	Owned	12,000
Gotenbourg, Sweden	Offices	Owned	15,554
Munich, Germany	Offices	Leased	5,941
Valbonne, France(1)	Offices	Leased	14,240
Lisbon, Portugal	Offices	Owned	5,920
Deurne, Belgium	Offices	Leased	5,640
São Paulo, Brazil	Offices and Warehouse	Leased	25,629
Urtenen Schonbuhl, Switzerland	Offices	Leased	3,939
Heemstede, The Netherlands	Offices	Leased	8,934
Espo, Finland	Offices	Leased	3,213
Klosterneuberg, Austria	Offices	Leased	3,256
Mexico City, Mexico	Offices and Warehouse	Leased	17,222
Buenos Aires, Argentina	Offices and Warehouse	Leased	5,119
Macquarie Park, Australia	Sales Office	Leased	61,489
Revesby, Australia	Luxottica, OPSM and Sunglass Hut Distribution Center	Leased	61,048
Adelaide, Australia	OPSM Offices and Ophthalmic Laboratory	Leased	46,873
Athens, Greece	Offices	Leased	40,137
Herzelia, Israel	Offices and Warehouse	Leased	7,533
Johannesburg, South Africa	Offices	Leased	6,027
Kongsbers, Norway	Offices	Leased	2,152
Mississauga, Canada	Offices and Warehouse	Leased	21,875
Dubai, U.A.E.	Sales Office	Leased	1,591
Umurbey/Izmir, Turkey	Offices and Warehouse	Owned	5,810
Hong Kong	Administrative Offices	Leased	645

Location	Use	Owned/Leased	Approximate Area in Square Feet
Hong Kong	OPSM Offices	Leased	11,599
Hong Kong	OPSM Warehouse	Leased	4,659
Osaka, Japan	Sales Office	Leased	1,958
Nagoya, Japan	Sales Office	Leased	1,162
Fukuoka, Japan	Sales Office	Leased	785
Salonika, Greece	Sales Office	Leased	2,813
Miami, United States	Sales Office	Leased	1,614
Krakow, Poland	Offices	Leased	2,150
Chipping Norton, Australia	OPSM Ophthalmic Laboratory	Leased	60,148
Toronto, Canada	LensCrafters Warehouse	Leased	9,200
Springdale, Ohio	Warehouse and Ophthalmic Laboratory	Leased	132,000
Auckland, New Zealand	Offices and Warehouse	Leased	2,881

(1) The property located in Valbonne (France) is leased (with an option to purchase the underlying property at the end of the lease term for a nominal price) by our wholly-owned subsidiary in France.

As of December 31, 2004, LensCrafters leased 888 retail stores, Sunglass Hut leased 1,858 retail kiosks or stores, Cole National leased 2,407 retail locations including licensed departments in host stores, and OPSM leased 593 retail stores. Such leases expire between 2005 through 2025 and have terms that we believe are generally reasonable and reflective of market conditions.

We believe that our current facilities (including our manufacturing capacity) are adequate to meet our present and reasonably foreseeable needs except for the North American Retail Division Headquarters located in Mason, Ohio which began in early 2005 to undergo an expansion of approximately 124,000 square feet at a projected cost of U.S. $12.8 million. This expansion is expected to be completed in 2006 and is part of the integration plan of Cole National operations into our existing North American retail headquarters. Other than the capital lease for our offices in Valbonne (France), there are no material encumbrances on any owned properties.

Our capital expenditures were Euro 117.4 million for the year ended December 31, 2004 and Euro 39.7 million for the three-month period ended March 31, 2005. It is our expectation that 2005 annual capital expenditures will be approximately Euro 170 million, which includes the purchase of a new aircraft to replace the previous aircraft which became obsolete, along with an increase in fixed assets relating to the U.S. retail segment in the first three months of 2005 including costs associated with the expansion of the North American Retail Headquarters to accommodate the integration of Cole s home office operations. We will pay for these future capital expenditures with our current available borrowing capacity and available cash.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We operate in two industry segments: (i) manufacturing and wholesale distribution and (ii) retail distribution. Through our manufacturing and wholesale distribution segment, we are engaged in the design, manufacture, wholesale distribution and marketing of house brand and designer lines of mid- to premium-priced prescription frames and sunglasses. During the periods discussed below, we have operated in the retail segment through our Retail Division, comprised principally of LensCrafters, Sunglass Hut, since August 2003, OPSM and since October 2004, Cole National Corporation (Cole). As of December 31, 2004, the retail segment consisted of 5,746 owned or leased department retail locations and 472 franchised locations as follows:

	North America	Europe	Asia-Pacific*	Total
LensCrafters	888			888
Sunglass Hut	1,584	110	164	1,858
OPSM Group			593	593
Cole National Group	2,407			2,407
Franchised Locations	472			472
	5,351	110	757	6,218

*Asia-Pacific for our Retail Division consists of Australia, New Zealand, Malaysia, Singapore and Hong Kong.

LensCrafters and Cole National Corporation have retail distribution operations located throughout the United States, Canada and Puerto Rico, while OPSM operates retail outlets located in Australia, New Zealand, Hong Kong, Singapore and Malaysia. Sunglass Hut is a leading retailer of sunglasses worldwide based on sales.

Our net sales consist of direct sales of finished products that we manufacture to opticians and other independent retailers through our wholesale distribution channel and sales directly to consumers through our Retail Division retail channel. Our average retail unit selling price is significantly higher than our average wholesale unit selling price, as our retail sales typically include lenses as well as frames.

Demand for our products, particularly our higher-end designer lines, is largely dependent on the discretionary spending power of the consumers in the markets in which we operate. See Item 3 Key Information Risk Factors If we do not correctly predict future economic conditions and changes in consumer preferences, our sales of premium products and profitability will suffer. We have also historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses. As a result, our net sales are typically higher in the second quarter and lower in the fourth quarter.

Our acquisitions have affected our results of operations from year to year. Our results of operations for the year ended December 31, 2004 are not comparable to the results of operations for the year ended December 31, 2003 and prior years due to the inclusion of the operations of Cole beginning in October 2004. Similarly, our results of operations for the year ended December 31, 2003 are not comparable to the results of operations for the year ended December 31, 2002 and prior years due to the inclusion of the operations of OPSM beginning in September 2003.

As a result of our acquisition of LensCrafters in May 1995 and the subsequent expansion of our business activities in the United States through the acquisition of the Ray-Ban business, Sunglass Hut and Cole, our results of operations, which are reported in Euro, have been rendered more susceptible to currency rate fluctuations between the Euro and the U.S. dollar. The U.S. dollar/Euro exchange rate has fluctuated from an average exchange rate of Euro 1.00 = U.S. $0.9450 in 2002 to Euro 1.00 = U.S. $1.1307 in 2003 to Euro 1.00 = U.S. $1.2438 in 2004. Additionally, with the acquisition of OPSM, our results of operations have been rendered susceptible to currency fluctuations between the Euro and the A$. Although we engage in certain foreign currency hedging activities to mitigate the impact of these fluctuations, they have impacted our reported revenues and expenses during the periods discussed herein. See Item 11 Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Sensitivity and Item 3 Key Information Risk Factors If the Euro continues to strengthen relative to certain other currencies, our profitability as a consolidated group will suffer.

In September 2003, through the completion of a tender offer, Luxottica South Pacific Pty Limited acquired 82.57 percent of OPSM s ordinary shares, and more than 90 percent of OPSM s options and performance rights, which entitled us to require the cancellation of all the options and performance rights still outstanding. The aggregate purchase price for the OPSM shares, performance rights and options was A$442.7 million (Euro 253.7 million) including acquisition-related expenses. The acquisition was accounted for under the purchase method, and the financial position and results of operations of OPSM have been included in our consolidated results since August 1, 2003.

On November 26, 2004, we, through our wholly-owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the remaining outstanding shares of OPSM Group. The offer was for A$4.35 per share including a fully franked dividend of A$0.15 per share that was declared by OPSM (resulting in a net price of A$4.20 per share). On January 4, 2005, we launched an off-market takeover offer for all the Australian Stock Exchange listed OPSM group shares we did not already own. At the close of the offer on February 7, 2005, we held 98.5 percent of OPSM Group shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, we announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by us. On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 18, 2005, it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 24, 2005.

On October 4, 2004, Colorado Acquisition Corp., our indirect wholly owned subsidiary, consummated its merger with Cole National Corporation. As a result of the merger, Cole became our indirect wholly owned subsidiary. The aggregate consideration paid by us to former shareholders, option holders and holders of restricted stock of Cole was $500.6 million. In connection with the merger, we assumed outstanding indebtedness with an approximate aggregate principal balance of U.S. $283.7 million. On October 17, 2004, Cole caused its subsidiary CNG to purchase $150 million of its outstanding 8 7/8% Senior Subordinated Notes due 2012 in a tender offer and consent solicitation for $175.5 million, which amount represents all of the issued and outstanding notes of such series. On November 30, 2004, CNG redeemed all of its outstanding 8 5/8% Senior Subordinated Notes due 2007 for $124.6 million.

The Company believes that its combination with Cole will:

strengthen its retail operations in the United States;

strengthen its managed vision care business by increasing the number of people for whom it provides managed vision care benefits as well as by adding well established retailers to its existing family of retailers; and

provide the Company with the opportunity to increase its sales of frames manufactured by the Company in Cole retail stores.

The Company is executing its strategic integration plan with respect to Cole. Since the consummation of the acquisition, the Company has begun to consolidate Cole s headquarters with its Luxottica Retail headquarters in Mason, Ohio, and combine various general and administrative functions.

The integration of our financial and human resources systems is now complete. The Company also intends to complete the migration of Cole s corporate functions by September 2005.

The Company s integration plans also include combining Luxottica Retail s and Cole s operating systems. The Company plans to have integrated the inventory management and assortment planning systems by October 2005 and to finalize the integration of product assortment by December 2005. The Company also plans to integrate the distribution centers by the end of 2006.

The Company is integrating its Managed Vision Care system with Cole s, resulting in a single brand (EyeMed) going forward. The Company has already begun selling the new combined product and plans to complete combining the Managed Vision Care systems by September 2005.

The Company expects that its North American retail operating margin levels will return to 2004 pre-acquisition operating margin levels by the end of 2006.

The Company expects that its integration with Cole will result in synergies in the following areas:

general and administrative; and

sale of the Company s manufactured products.

The primary factors that may influence the Company s ability to execute its integration plans and realize the anticipated cost savings include:

the Company s ability to minimize the disruptive effect of the integration on the management of the Company s retail business;

the timely creation and effective implementation of uniform standards, controls, procedures and policies;

the capacity of the Company s operating systems and their ability to support the Cole business; and

the cultural differences between the Company s organization and Cole s organization.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates are based on historical experience and currently available information. Our significant accounting policies are discussed in Note 1 to our Consolidated Financial Statements included in Item 18 of this annual report. The following is a discussion of what management believes are our most critical accounting policies:

Revenue Recognition

Revenues include sales of merchandise (both wholesale and retail), insurance and administrative fees associated with the Company s managed vision care business, eye exams and related professional services and sales of merchandise to franchisees, along with other revenues from franchisees such as royalties based on sales and initial franchise fee revenues.

Wholesale Division revenues are recorded from sales of products at the time of shipment, as title and the risks and rewards of ownership of the goods are assumed by the customer at such time. The products are not subject to formal customer acceptance provisions. In some countries, the customer has the right to return products for a limited period of time after the sale. However, such right of return does not impact the timing of revenue recognition as all conditions of Statement of Financial Accounting Standards (SFAS) No. 48, Revenue Recognition When Right of Return Exists, are satisfied at the date of sale. Accordingly, we have recorded an accrual for the estimated amounts to be returned. This estimate is based on our right of return policies and practices along with historical data and sales trends. There are no other post-shipment obligations.

Retail Division revenues, including internet and catalog sales, are recorded upon receipt by the customer at the retail location, or when goods are shipped directly to the customer for internet and catalog sales. In some countries, we allow retail customers to return goods for a period of time and as such we have recorded an accrual for the estimated amounts to be returned. This accrual is based on the historical return rate as a percentage of net sales and the timing of the returns from the original transaction date. There are no other post-shipment obligations. Additionally, the Retail Division enters into discount programs and similar relationships with third parties that have terms of twelve or more months. Revenues under these arrangements are likewise recognized as transactions occur in our retail locations and customers take receipt of products and services. Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues which are recognized when earned over the terms of the respective contractual

relationships and (ii) administrative services revenues which are recognized when services are provided during the contract period. Accruals are established for amounts due under these relationships determined to be uncollectible.

Retail Division revenues, including internet and catalog sales, are recorded upon receipt by the customer at the reta

Cole earns and accrues franchise revenues based on sales by franchisees which are accrued as earned. Initial franchise fees are recorded as revenue when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied by Cole and when the related store begins operations. Accruals are established for amounts due under these relationships determined to be uncollectible.

The Retail Division also sells separately priced extended warranty contracts with terms of coverage of 12 to 24 months. Revenues from the sale of these warranty contracts are deferred and amortized over the lives of the contracts, while costs to service the warranty claims are expensed as incurred.

The wholesale and retail divisions may offer certain promotions during the year. Free frames given to customers as part of a promotional offer are recorded as cost of sales at the time they are delivered to the customer. Discounts and coupons tendered by customers are recorded as a reduction of revenue at the date of sale.

The wholesale and retail divisions may offer certain promotions during the year. Free frames given to customers as

Income Taxes

Income taxes are recorded in accordance with SFAS No. 109, Accounting for Income Taxes , which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the consolidated financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. These estimated tax rates and the deferred tax assets, including valuation allowances placed upon those deferred tax assets, and liabilities recorded are based on information available at the time of calculation. This information is subject to change due to subsequent tax audits performed by different taxing jurisdictions and changes in corporate structure not contemplated at the time of calculation, as well as various other factors.

Inventories

Our manufactured inventories, approximately 76.9 percent and 65.0 percent of total frame inventory for 2003 and 2004, respectively, are stated at the lower of cost, as determined under the weighted-average method (which approximates the first-in, first-out method, or FIFO), or market value. Retail inventory not manufactured by us or our subsidiaries are stated at the lower of cost, as determined by either LIFO (last-in, first-out method) or FIFO, or market. The LIFO reserve at December 31, 2003 and 2004 was not material. Inventories are recorded net of allowances for possible losses among other reserves. These reserves are calculated using various factors including sales volume, historical shrink results and current trends. As such, actual results could differ significantly from the estimated amounts.

Goodwill and Other Intangible Assets and Impairment of Long-Lived Assets

In connection with various acquisitions, we have recorded as intangible assets certain goodwill and trade names. At December 31, 2004, the aggregate carrying value of intangibles, including goodwill, was Euro 2.5 billion or approximately 54 percent of total assets.

Effective January 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). Under SFAS No. 142, goodwill and intangible assets deemed to have an indefinite life are no longer amortized in the same manner as under the previous standards, but rather are tested for impairment annually and, under certain circumstances, between annual periods. An impairment charge will be recorded if the fair value of goodwill and other intangible assets is less than the carrying value. The calculation of fair value may be based on, among other items, estimated future cash flows if quoted market prices in active markets are not available. We test our goodwill for impairment as of December 31 of each year. We perform our goodwill impairment test on our wholesale and retail reporting units in accordance with SFAS No. 142. Based on evaluations that we completed in the first quarter of 2002 and in the first quarter of 2003, no intangible assets other than goodwill were deemed to have an indefinite life. After evaluations completed in the first quarter of 2003 and in the first quarter of 2004, we concluded that the carrying values of goodwill included in the consolidated balance sheets as of December 31, 2003 and 2004, respectively, did not exceed their respective fair market value, and as a result, we did not record an impairment charge under SFAS No. 142.

Intangibles subject to amortization based on a finite useful life continue to be amortized on a straight-line basis over their useful lives. Trade names recorded in the consolidated balance sheets are deemed to have useful lives of between 20 and 25 years. Our long-lived assets, other than goodwill, are tested for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, we measure impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted future cash flows were less than the carrying amount of the assets, we would recognize an impairment loss, if determined to be necessary. Such impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We determined that, for the years ended December 31, 2002, 2003 and 2004, there had been no impairment in the carrying value of our long-lived assets.

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46-R), to address certain FIN No. 46 implementation issues. This interpretation clarifies the application of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, for companies with interests in entities that are variable interest entities (VIEs), as defined under FIN No. 46. According to this interpretation, if a company has an interest in a VIE and is at risk for the majority of the VIE s expected losses or receives a majority of the VIE s expected gains it shall consolidate the VIE. FIN 46-R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. FIN 46-R is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those VIEs that are considered to be special purpose entities for which the effective date is no later than the end of the first reporting period ending after December 15, 2003. We adopted FIN 46-R on January 1, 2004 and such adoption did not have a material effect on our consolidated financial statements.

In December 2003, the FASB issued SFAS No. 132-R, Employer s Disclosures about Pensions and Other Postretirement Benefits, which requires additional disclosures in the financial statements about assets, obligations and cash flows, among other items. The new required disclosures are reflected in Note 9 to our Consolidated Financial Statements included in Item 18 of this annual report.

In May 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP FAS 106-2), which supersedes FSP FAS 106-1. Under the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act), if a sponsor of retiree healthcare plans offers drug benefits that are at least actuarially equivalent to those to be offered under Medicare Part D, it can be entitled to a federal subsidy equal to 28 percent of the prescription drug claims under the plan. FSP FAS 106-2 requires plan sponsors to disclose the effect of the subsidy on the net periodic expense and accumulated post retirement benefit obligation in their interim and annual financial statements for periods beginning after June 15, 2004. The effect of this Act on our current plans was immaterial and thus not disclosed separately due to the small number of eligible plan participants.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs-an amendment of ARB No. 43, Chapter 4 , to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material should be recognized as period costs. In addition, this statement requires that the allocation of fixed production costs of conversion be based on the normal capacity of the production facilities. The adoption of such standard is required for fiscal years beginning after June 15, 2005. We believe the adoption will not have a material effect on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123-R (revised 2004), Share-Based Payment (SFAS 123-R), which replaces the existing SFAS 123 and supersedes Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. SFAS 123-R requires companies to measure and record compensation expense for stock options and other share-based payment methods based on the instruments fair value. SFAS 123-R is effective for the Company on January 1, 2006. We are currently evaluating the impact of the adoption of SFAS 123-R.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 amends APB No. 29, Accounting for Nonmonetary Transactions , to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for reporting periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material effect on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20, Accounting Changes , previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We have not yet assessed the impact of the adoption of SFAS 154.

Results of Operations

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items included in our statements of consolidated income:

	Year Ended December 31,		
	2002*	2003*	2004
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	29.6	31.7	32.0
Gross Profit	70.4	68.3	68.0
Operating Expenses:			
Selling and advertising	42.4	43.3	42.3
General and administrative	9.2	9.9	10.6
Total	51.7	53.2	52.9
Income From Operations	18.8	15.1	15.1
Other Income (Expenses) Net	(1.9)	(1.5)	(1.1)
Provision For Income Taxes	(5.1)	(4.1)	(5.0)
Minority Interests in Income of Consolidated Subsidiaries	(0.1)	(0.2)	(0.3)
Net Income	11.6	9.4	8.8

* Certain amounts in prior years have been reclassified to conform with the 2004 presentation.

For additional financial information by operating segment and geographic region, see Note 12 to our Consolidated Financial Statements included in Item 18 of this annual report.

Comparison of the year ended December 31, 2004 to the year ended December 31, 2003

Net Sales. Net sales increased 14.1 percent to Euro 3,255.3 million during 2004 as compared to Euro 2,852.2 million for 2003.

Net sales in the retail segment, through LensCrafters, Sunglass Hut, OPSM and the newly acquired Cole, increased by 15.7 percent to Euro 2,346.7 million for 2004 from Euro 2,028.2 million for 2003. This increase was primarily due to the inclusion of Cole sales from the date of acquisition on October 4, 2004, which amounted to Euro 240.5 million, as well as the inclusion of OPSM sales for an additional seven months in 2004, which amounted to Euro 172.5 million. In addition to such increases, retail sales in North America increased due to a higher average sales price per customer transaction resulting from an increase in the sale of premium products, partially offset by the weakening of the U.S. dollar against the Euro. The effect of the weakening of the U.S. dollar on 2004 retail sales in North America was approximately Euro 204.8 million. As the U.S. dollar continues to weaken in the period subsequent to the year ended December 31, 2004 we will continue to suffer a negative effect on net sales.

Net sales to third parties in the manufacturing and wholesale segment increased by 10.3 percent to Euro 908.6 million for 2004 as compared to Euro 824.0 million in 2003. This increase was mainly attributable to increased sales of our Ray-Ban brand and the new Prada and Versace product lines, which sales began after the first quarter of 2003 and have almost completely offset the loss of sales of Giorgio Armani licensed products due to the cancellation of the license agreement with Armani in 2003. Management believes that by 2005 the new licenses will have more than offset the sales lost due to the cancellation of the Armani license agreement. We do not believe that the termination of the license agreement with Armani will have a material adverse effect on our results of operations for future periods. These increases were partially offset by the weakening of the U.S. dollar which represents approximately 15% of this segment s net sales for fiscal 2004. The effect of the weakening of the U.S. dollar on wholesale and manufacturing sales to third parties in 2004 was approximately Euro 12.7 million.

On a geographic basis net of intercompany transactions, operations in North America resulted in net sales of Euro 2,083.5 million during 2004, comprising 64.0 percent of total net sales, an increase of Euro 134.1 million from 2003. This increase was primarily due to the inclusion of Cole sales from the date of acquisition on October 4, 2004, which amounted to Euro 240.5 million, partially offset by the weakening of the U.S. dollar against the Euro. Net sales for operations in Asia Pacific , which consists of Australia, New Zealand, Singapore, Malaysia, Hong Kong, Thailand, China, Japan and Taiwan, were Euro 435.1 million during 2004, comprising 13.4 percent of total net sales, an increase of Euro 181.3 million as compared to 2003. This increase was mainly attributable to the inclusion of OPSM sales for an additional seven months in 2004. Net sales for the rest of the world accounted for the remaining Euro 736.7 million of net sales during 2004, which represented a 13.5 percent increase as compared to 2003. The increase in the rest of the world is mostly attributable to higher sales in the European and Latin American regions.

During 2004, net sales in the retail segment accounted for approximately 72.1 percent of total net sales, as compared to approximately 71.1 percent of total net sales in 2003 due to the two retail acquisitions previously mentioned.

Cost of Sales. Cost of sales increased by 15.2 percent to Euro 1,040.7 million in 2004 from Euro 903.6 million in 2003. Cost of sales in the retail segment increased by Euro 103.4 million, which increase is primarily attributable to the inclusion of Cole in our results of operations from the date of acquisition and to the inclusion of OPSM in our results of operations for an additional seven months in 2004. Cost of sales in the manufacturing and wholesale segment increased by Euro 32.5 million due to the increase in net sales. As a percentage of net sales, cost of sales increased to 32.0 percent from 31.7 percent. Manufacturing labor costs increased by 6.6 percent to Euro 256.9 million in 2004 from Euro 240.9 million in 2003. This increase is attributable to the increase in net sales. As a percentage of net sales, cost of labor decreased to 7.9 percent in the year 2004 from 8.4 percent in 2003, due to the inclusion of Cole results, since Cole s cost of labor as a percentage of sales is lower than the rest of the Group. For 2004, the average number of frames produced daily in our facilities (including Tristar, our Chinese factory) was approximately 123,000, which was in line with 2003 production.

Gross Profit. For the reasons outlined above, gross profit increased by 13.7 percent to Euro 2,214.6 million in 2004, from Euro 1,948.6 million in 2003. As a percentage of net sales, gross profit decreased to 68.0 percent in 2004 from 68.3 percent in 2003 for the reasons as previously discussed.

Operating Expenses. Total operating expenses increased by 13.5 percent to Euro 1,721.8 million in 2004 from Euro 1,516.8 million in 2003. As a percentage of net sales, operating expenses decreased to 52.9 percent in 2004 from 53.2 percent in 2003.

Selling and advertising expenses, including royalty payments, increased by 11.4 percent to Euro 1,376.5 million during 2004 from Euro 1,235.8 million in 2003. Euro 88.0 million of this increase is attributable to the inclusion of OPSM in our results of operations for the first seven months of 2004. Euro 110.2 million of this increase is attributable to the inclusion of Cole to our results of operations in the fourth quarter of 2004 (from the date of acquisition). These increases were offset by the weakening of the U.S. dollar, which decreased U.S. selling and advertising expenses by Euro 97.9 million. As a percentage of net sales, selling and advertising expenses decreased to 42.3 percent in 2004 from 43.3 percent in 2003. This decrease as a percentage of sales is primarily attributable to the increase in sales in the North American retail division without a corresponding increase in these costs based on the fixed cost sales structure of the retail operations.

General and administrative expenses, including intangible asset amortization, increased by 22.8 percent to Euro 345.2 million in 2004 from Euro 281.0 million in 2003. Euro 28.4 million of this increase is attributable to the inclusion of OPSM and the amortization of its tradenames in our results of operations for the first seven months of 2004, while Euro 24.9 million is attributable to the inclusion of Cole. This increase was offset by the weakening of the U.S. dollar, which decreased U.S. general and administrative expenses by Euro 17.6 million. As a percentage of net sales, general and administrative expenses increased to 10.6 percent in 2004 from 9.8 percent in 2003. This increase was primarily due to the consolidation of OPSM s results in our results of operations. As we continue the integration of OPSM, we expect its operating expenses as a percentage of sales to decrease due to the expected higher efficiency in the fixed cost structure. In addition, the restructuring of the Cole operations is underway and it is expected that the general and administrative costs of Cole will diminish during 2005.

Income from Operations. Income from operations for 2004 increased by 14.1 percent to Euro 492.8 million from Euro 431.8 million in 2003. As a percentage of net sales, income from operations remained constant at 15.1 percent for both 2004 and 2003.

Operating margin, calculated as income from operations divided by net sales, in the manufacturing and wholesale distribution segment increased to 21.3 percent in 2004 from 19.2 percent in 2003. This increase in operating margin is attributable to higher efficiency in our fixed cost structure driven by increases in net sales.

For the reasons outlined above, operating margin in the retail segment decreased to 13.2 percent in 2004 from 13.3 percent in 2003. The consolidation of Cole results, whose operating margin is lower than that of our other retail chains, will further dilute the operating margin during 2005. However, we believe that when the final restructuring of the North American Retail Division is completed, we will return to our historical operating margins by the end of 2006.

Other Income (Expenses)-Net. Other income (expenses)-net was Euro 35.7 million in 2004 as compared to Euro 42.0 million in 2003. This decrease in other income (expenses)-net is mainly attributable to an increase in other income-net of Euro 13.4 million attributable to higher realized and unrealized foreign exchange gains on certain transactions. With the acquisition of Cole, as discussed earlier, and a trend in rising interest rates, we expect a significant increase in interest expense for 2005.

Net Income. Income before taxes increased by 17.3 percent to Euro 457.2 million in 2004 from Euro 389.8 million in 2003 due to our increase in sales, which includes Cole sales for the last three months of 2004, while maintaining our gross profit margins and keeping our operating expenses constant as a percentage of sales. As a percentage of net sales, income before taxes increased to 14.0 percent in 2004 from 13.7 percent in 2003. Minority interest increased to Euro (8.6) million in 2004 from Euro (5.1) million in 2003. With our previously announced acquisition of the remaining shares of OPSM, we expect our minority interest to decrease in future periods. Our effective tax rate was 35.4 percent in 2004, while it was 30.1 percent in 2003. The effective tax rate is estimated to bebetween 37 to 40 percent in 2005 as we ended our permanent benefits from subsidiaries losses. Net income increased by 7.3 percent to Euro 286.9 million in 2004 from Euro 267.3 million in 2003. Net income as a percentage of net sales decreased to 8.8 percent in 2004 from 9.4 percent in 2003.

Basic earnings per share for 2004 were Euro 0.64, increasing from Euro 0.60 for 2003. Diluted earnings per share for 2004 were Euro 0.64, increasing from Euro 0.59 for 2003.

Non-GAAP Financial Measures

We use certain measures of financial performance that: (i) exclude the impact of fluctuations in currency exchange rates in the translation of operating results into Euro; (ii) include the results of operations of OPSM for the entire year ended December 31, 2003; (iii) include the results of operations of Cole for the three-month period ended December 31, 2003; and (iv) adjust for the fact that the North American retail calendar in 2003 included 53 weeks while fiscal 2004 was a 52-week year. We believe that these adjusted financial measures provide useful information to both management and investors by allowing a comparison of operating performance on a consistent basis. In addition, since we have historically reported such adjusted financial measures to the investment community, we believe that their inclusion provides consistency in our financial reporting. Further, these adjusted financial measures are some of the primary indicators that management uses for planning and forecasting in future periods. Operating measures that assume constant exchange rates between 2004 and 2003 are calculated using, for each currency, the average exchange rate for the year ended December 31, 2003.

Operating measures that exclude the impact of fluctuation in currency exchange rates are not measures of performance under U.S. GAAP. These non-U.S. GAAP measures are not meant to be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. In addition, our method of calculating operating performance to exclude the impact of changes in exchange rates may differ from methods used by other companies. See the table below for a reconciliation of the operating measures excluding the impact of fluctuations in currency exchange rates to their most directly comparable U.S. GAAP financial measures. The adjusted financial measures should be used as a supplement to results reported under U.S. GAAP to assist the reader in better understanding our operational performance.

(In millions of Euro)	2003 U.S. GAAP results	2004 U.S. GAAP results	Adjustment for constant exchange rates	2004 adjusted results
Consolidated net sales	2,852.2	3,255.3	213.0	3,468.3
Manufacturing and wholesale net sales	996.7	1,094.8	33.1	1,127.9
Less: intercompany sales	(172.7)	(186.2)	(14.3)	(200.5)
Wholesale sales to third parties	824.0	908.6	18.8	927.4
Retail net sales	2,028.2	2,346.7	194.2	2,540.9

Because of the significant changes, we have included the following table of consolidated adjusted sales and operating income for 2003. We believe that the adjusted amounts may be of assistance in comparing our operating performance between 2003 and 2004. However, adjusted financial information should not be viewed as a substitute for measures of performance calculated in accordance with U.S. GAAP. The consolidated adjusted amounts reflect the following adjustments:

1. the inclusion in the adjusted amounts of the consolidated results of OPSM for the seven-month period ended July 31, 2003, prior to the acquisition;

2. the elimination of wholesale sales to OPSM from Luxottica Group entities for the seven-month period ended July 31, 2003;

3. the inclusion in the adjusted amounts of the consolidated results of Cole for the last three months of 2003;

4. the elimination of wholesale sales to Cole from Luxottica Group entities for the last three months of 2003; and

5. the elimination of the effect of the 53rd week on 2003.

This information is being provided for comparison purposes only and does not purport to be indicative of the actual results that would have been achieved had the OPSM acquisition been completed as of January 1, 2003 and the Cole National acquisition been completed as of October 4, 2003.

The following table reflects the Company s consolidated net sales and income from operations for 2003 as reported and as adjusted:

(In millions of Euro)	2003 U.S. GAAP results	Adjustment for OPSM and Cole	2003 adjusted results
Consolidated net sales	2,852.2	428.7	3,280.9
Consolidated income from operations	431.8	15.2	447.0

The following table summarizes the combined effect on consolidated net sales of exchange rates, the OPSM and Cole acquisitions and the elimination of the effect of the 53rd week in 2003 to allow a comparison of net sales on a consistent basis:

	Consolidated Net Sales		
(In millions of Euro)	2003	2004	% change
U.S. GAAP results	2,852.2	3,255.3	+14.1%
Exchange rate effect		213.0	
Constant exchange rate	2,852.2	3,468.3	+21.6%
OPSM and Cole results in 2003	428.7		
w/o 53rd week in 2003 (1)	(36.9)		
Consistent basis	3,244.0	3,468.3	+6.9%

(1) U.S. $ 41.7 million converted in Euro at the fiscal year 2003 average exchange rate (calculated using the noon buying rates) of Euro 1.00=U.S. $1.1307.

At constant exchange rates between the periods, net sales would have increased by 21.6 percent during 2004 as compared to 2003. The 6.9 percent increase in net sales on a consistent basis in 2004 as compared to 2003 is mainly attributable to the additional sales of our Ray-Ban brand and the new Prada and Versace product lines, which sales began after the first quarter of 2003, and the increased sales of our retail division, as previously discussed.

The following table summarizes the effect on consolidated income from operations of the OPSM acquisition, the Cole acquisition and the elimination of the effect of the 53rd week in 2003 to allow a comparison of operating performance on a consistent basis:

	Consolidated Income from Operations		
(In millions of Euro)	2003	2004	% change
U.S. GAAP results	431.8	492.8	+14.1%
% of net sales	15.1%	15.1%	
OPSM and Cole results in 2003	15.2		
w/o 53rd week in 2003 (2)	(9.6)		
Consistent basis	437.4	492.8	+12.7%
% of net sales	13.5%	14.2%	

(2) U.S. $10.9 million converted at the fiscal year 2003 average exchange rate (calculated using the noon buying rates) of Euro 1.00=U.S. $1.1307.

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On a consolidated adjusted basis, including OPSM s and Cole s results for 2003 and eliminating the effect of the 53rd week in 2003, income from operations in 2004 would have increased by 12.7 percent as compared to 2003. The 12.7 percent increase is attributable to an increase in the U.S. retail business partially offset by the weakening of the U.S. dollar, which was previously discussed.

Comparison of the year ended December 31, 2003 to the year ended December 31, 2002

Net Sales. Net sales decreased 10.9 percent to Euro 2,852.2 million during 2003 as compared to Euro 3,201.8 million for 2002. This net decrease was primarily due to the weakening of the U.S. dollar against the Euro.

Net sales in the retail segment, through LensCrafters, Sunglass Hut and OPSM, decreased 9.0 percent to Euro 2,028.2 million for 2003 from Euro 2,227.7 million for 2002. This decrease was primarily due to the weakening of the U.S. dollar against the Euro.

Net sales to third parties in the manufacturing and wholesale segment decreased 15.4 percent to Euro 824.0 million in 2003 as compared to Euro 974.1 million in 2002. Net sales in this segment is affected by exchange rates, but not the 53rd week or the acquisition of OPSM, which apply only to our retail segment. Assuming constant exchange rates, wholesale sales to third parties in 2003 would have decreased by 10.4 percent as compared to 2002. This decline was primarily attributable to the reduction by almost 80 percent of Armani sales during the year following the termination of our license agreements with Armani.

On a geographic basis, our operations in North America had net sales, as adjusted to eliminate intercompany sales, of Euro 1,949.7 million during 2003, comprising 68.4 percent of total net sales, a decrease of Euro 396.1 million from 2002. This decrease was substantially due to the weakening of the U.S. dollar against the Euro. In U.S. dollars, net sales from our operations in North America decreased by U.S. $12.3 million as compared to 2002. Net sales for the remaining markets, as adjusted to eliminate intercompany sales, accounted for the remaining Euro 902.5 million of net sales during 2003, which represented a 5.4 percent increase as compared to 2002. This increase was due to the inclusion of OPSM sales for the five-month period following the acquisition in 2003, partially offset by the decrease in Armani sales following the termination of our license agreements with Armani.

Cost of Sales. Cost of sales decreased 4.5 percent to Euro 903.6 million in 2003, from Euro 946.1 million in 2002, and increased as a percentage of net sales to 31.7 percent from 29.6 percent, respectively. Manufacturing labor costs decreased 7.8 percent to Euro 240.9 million in 2003 from Euro 261.2 million in 2002. As a percentage of net sales, cost of labor increased to 8.4 percent in 2003 from 8.2 percent in 2002. The increase in cost of sales, including manufacturing labor costs, as a percentage of net sales, was mainly attributable to the currency translation of our unit sales, denominated in U.S. dollars, to Euro, such that the weakening of the U.S. dollar against the Euro increased our average cost of sales with respect to our unit sales denominated in U.S. dollars. For 2003, the average number of frames produced daily in Luxottica s facilities (including Tristar and that of the newly acquired IC Optics) was approximately 123,000 as compared to 131,000 for 2002.

Gross Profit. For the reasons outlined above, gross profit decreased 13.6 percent to Euro 1,948.6 million in 2003 from Euro 2,255.7 million in 2002. As a percentage of net sales, gross profit decreased to 68.3 percent in 2003 from

70.4 percent in 2002.

Operating Expenses. Total operating expenses decreased 8.3 percent to Euro 1,516.8 million in 2003, from Euro 1,654.1 million in 2002. As a percentage of net sales, operating expenses increased to 53.2 percent in 2003 from 51.7 percent in 2002.

Selling and advertising expenses, including royalty payments, decreased 9.2 percent to Euro 1,235.8 million during 2003 from Euro 1,360.3 million in 2002. As a percentage of net sales, these expenses increased to 43.3 percent in 2003 from 42.5 percent in 2002. While the reduction in selling and advertising expenses, including royalty payments, is largely due to the weakening of the U.S. dollar against the Euro, the increase as a percentage of net sales is mainly due to the greater percentage of fixed costs to total costs in our retail segment.

General and administrative expenses, including intangible asset amortization, decreased 4.3 percent to Euro 281.0 million 2003 from Euro 293.8 million in 2002. As a percentage of net sales, general and administrative expenses increased to 9.9 percent in 2003 from 9.2 percent in 2002. While the reduction in general and administrative expenses is primarily due to the weakening of the U.S. dollar against the Euro, the increase as a percentage of net sales is mainly due to the greater percentage of fixed costs to total costs in the manufacturing and wholesale distribution segment, due to the reduction in sales.

Income from Operations. Income from operations for 2003 decreased 28.2 percent to Euro 431.8 million from Euro 601.5 million in 2002. As a percentage of net sales, income from operations decreased to 15.1 percent in 2003 from 18.8 percent in 2002. The comparison between the results of 2003 and 2002 is affected by the fact that our 2003 results included the results of operations of OPSM as of August 1, 2003 and the effect of the 53rd week in the North American retail calendar, while 2002 was a 52-week year.

Other Income (Expenses)-Net. Other income (expenses)-net was Euro 42.0 million in 2003 as compared to Euro 62.1 million in 2002. This decrease was attributable to lower interest expense in the current period due to the reduction of interest rates.

Net Income. Income before taxes decreased 27.7 percent to Euro 389.8 million in 2003 from Euro 539.4 million in 2002. As a percentage of net sales, income before taxes decreased to 13.7 percent in 2003 from 16.8 percent in 2002. Minority interest of Euro (5.1) million in 2003 increased from Euro (4.7) million in 2002. Our effective tax rate was 30.1 percent in 2003 while it was 30.2 percent in 2002. Net income decreased 28.1 percent to Euro 267.3 million in 2003 from Euro 372.1 million in 2002. Net income as a percentage of net sales decreased to 9.4 percent in 2003 from 11.6 percent in 2002. The decrease in net income was a result of the factors described above.

Basic earnings per share for 2003 were Euro 0.60 decreasing from Euro 0.82 for 2002 and diluted earnings per share for 2003 were Euro 0.59 decreasing from Euro 0.82 for 2002.

Non-GAAP Financial Measures

We use certain measures of financial performance that exclude the impact of fluctuations in currency exchange rates in the translation of operating results into Euro, exclude the effect of a 53rd week in the North American retail calendar in 2003 and adjust the 2002 results to include the operations of OPSM for the last five months of 2002. We believe that these adjusted financial measures provide useful information to both management and investors by allowing a comparison of operating performance on a consistent basis. In addition, since we have historically reported such adjusted financial measures to the investment community, we believe that their inclusion provides consistency in our financial reporting. Further, these adjusted financial measures are some of the primary indicators that management uses for planning and forecasting in future periods. Operating measures that assume constant exchange rates between 2003 and 2002 are calculated using, for each currency, the average exchange rate for the year ended December 31, 2002.

Operating measures that exclude the impact of fluctuation in currency exchange rates are not measures of performance under U.S. GAAP. These non-U.S. GAAP measures are not meant to be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. In addition, our method of calculating operating performance to exclude the impact of changes in exchange rates may differ from methods used by other companies. See the table below for a reconciliation of the operating measures excluding the impact of fluctuations in currency exchange rates to their most directly comparable U.S. GAAP financial measures. The adjusted financial measures should be used as a supplement to results reported under U.S. GAAP to assist the reader in better understanding our operational performance.

The following table presents the effects of exchange rates, the OPSM acquisition and the 53rd week in 2003 on our consolidated net sales, in order to allow a comparison of net sales on a consistent basis:

	Consolidated Net Sales		
(In millions of Euro)	**Fiscal Year 2002**	**Fiscal Year 2003**	**% change**
U.S. GAAP results	3,201.8	2,852.2	-10.9%
Exchange rate effect		400.6	
Constant exchange rate	3,201.8	3,252.8	+1.6%
OPSM results in 2002	108.3		
with OPSM in both years	3,310.1	3,252.8	-1.7%
without 53rd week in 2003(1)		(44.1)	
Consistent basis	3,310.1	3,208.7	-3.1%

(1) U.S. $41.7 million converted to Euro at the fiscal year 2002 average exchange rate (calculated using the noon buying rates) of Euro 1.00 = U.S. $0.945.

The 3.1 percent decrease in net sales on a consistent basis in 2003 (excluding the effects of exchange rates, the OPSM acquisition and the 53rd week in 2003) as compared to 2002 is mainly attributable to reduced sales of the Armani product lines following the termination of the Armani license agreements as of December 31, 2002.

On a consistent basis, including OPSM s results for the five-month period ended December 31, 2002, and excluding the effect of the 53rd week from 2003 results, the decrease in income from operations in 2003, as adjusted, would have been 30.5 percent as compared to 2002, as adjusted (see following table).

	Consolidated Income from Operations		
(In millions of Euro)	**Fiscal Year 2002**	**Fiscal Year 2003**	**% change**
U.S. GAAP results	601.5	431.8	-28.2%
% of net sales	18.8%	15.1%	
OPSM results in 2002	6.1		
with OPSM in both years	607.6	431.8	-28.9%
% of net sales	19.0%	15.1%	
without 53rd week in 2003(1)		(9.6)	
Consistent basis	607.6	422.2	-30.5%
% of net sales	19.0%	14.8%	

(1) U.S. $10.9 million converted to Euro at the fiscal year 2003 average exchange rate (calculated using the noon buying rates) of Euro 1.00 = U.S. $1.1307.

Operating margin, calculated as income from operations divided by net sales, in the manufacturing and wholesale distribution segment decreased to 19.2 percent in 2003 from 25.5 percent in 2002.

Operating margin in the retail segment decreased to 13.3 percent in 2003 from 14.3 percent in 2002.

Taxes

Our effective tax rates for the years ended December 31, 2002, 2003 and 2004 were approximately 30.2 percent, 30.1 percent and 35.4 percent, respectively. The effective tax rates were less than the statutory tax rate due to permanent differences between our income for financial reporting and tax purposes which reflect the net loss carryforward caused by the prior funding of subsidiary losses through capital contributions that are deductible for income tax purposes under Italian law, and the reduction in certain investments in subsidiaries. Such subsidiary losses were primarily attributable to the amortization of certain intangible assets associated with our acquisitions. This remaining net loss carryforward was completely utilized in 2004.

Liquidity and Capital Resources

Our Cash Flows

Operating Activities. Our cash provided by operating activities was Euro 527.9 million for 2004 as compared to Euro 327.3 million for 2003 and Euro 436.3 million for 2002. The Euro 200.6 million increase in 2004 compared to 2003 is primarily attributable to an increase in net income, as previously discussed, and an increase in depreciation and amortization for 2004 resulting from the additional depreciation and amortization of the assets of OPSM, including Euro 5.8 million relating to the amortization of its trade name, and the amortization and depreciation of the assets of Cole including Euro 4.3 million relating to the amortization of its intangible assets. The decrease in cash provided by operating activities of Euro 109.0 million from 2002 to 2003 is primarily attributable to the decrease in net income. Accounts receivable was a source of cash in 2003 of Euro 23.9 million as compared to a use of cash in 2004 of Euro 15.8 million. This change in cash flows from accounts receivable is primarily due to the increase in collected sales of our manufacturing and wholesale segment thus reducing our receivable balances. Prepaid expenses and other was a source of cash in 2004 and 2002; as compared to a use of cash in 2003 of Euro 43.6 million. This change was attributable to advance payments of Euro 31.5 million made in 2003 by us to one of our licensors and the timing of certain tax payments by foreign subsidiaries. The amount of cash provided in 2004 by operating activities for inventory increased by Euro 47.3 million in 2004 compared to 2003. This change in cash flow from inventory is primarily due to an increase in the inventory turns. The amount of cash used in 2004 by operating activities for accounts payable and accrued expenses decreased by Euro 52.1 million and Euro 25.1 million, respectively, in 2004 compared to 2003. These declines were caused by the timing of payments to certain vendors by the manufacturing and wholesale segment and by the North American retail division as well as the settlement in 2003 of certain liabilities of businesses acquired. Income tax payable was a use of cash in 2004 of Euro 1.6 million as compared to a use of cash in 2003 of Euro 7.5 million.

Investing Activities. Our cash used in investing activities was Euro 480.5 million for 2004, primarily attributable to the Cole National acquisition, for an aggregate amount, net of cash acquired and including direct acquisition-related expenses, of Euro 363.0 million. In 2003, our cash used in investing activities was Euro 468.6 million, primarily due to the acquisitions of I.C. Optics, E.I.D. and 82.57 percent of OPSM s ordinary shares and all of OPSM s options and performance rights, for an aggregate amount of Euro 342.4 million. The Euro 11.9 million increase is also attributable to an increase in fixed assets relating to the U.S. retail segment in 2004. In 2002, cash used in investing activities consisted primarily of capital expenditures made to purchase fixed assets which included the purchase of our headquarters in Milan, and the land and construction costs to build our new North American Retail headquarters in Mason, Ohio.

Financing Activities. Our cash provided by/(used in) financing activities for 2004, 2003 and 2002 was Euro (81.8) million, Euro 305 million and Euro (307.2) million, respectively. Cash used in financing activities for 2004 consisted primarily of: (i) the net proceeds of Euro 88.6 million from all the credit facilities (translated at the noon buying rate of Euro 1.00 = U.S. $1.2417 on September 30, 2004; actual borrowing was U.S. $ 110.0 million) and (ii) Euro 446.9 million (U.S. $605.0 million translated at the noon buying rate of Euro 1=U.S. $1.3538 on December 31, 2004) of proceeds of Tranche B and Tranche C of the credit facility entered into in June 2004, used in connection with the acquisition of Cole including the repayment of Cole s existing notes. We borrowed Euro 405.0 million in June 2004 (consisting of the proceeds of Tranche A of the credit facility entered into in June 2004) to repay Euro 400.0 million of long-term debt. Additionally, we used cash provided by financing activities to reduce bank overdrafts and to pay Euro 94.1 million of dividends to our shareholders. Cash provided by financing activities for 2003 consisted primarily of: (i) the new Euro 200.0 million credit facility, the proceeds of which were used in connection with the acquisition of OPSM; (ii) the issuance in the U.S. of $300.0 million of notes (Euro 257.5 million), the proceeds of which were partially used for the OPSM acquisition and to refinance U.S. $140 million (Euro 120.2 million) of long-term debt; and (iii) borrowing on bank overdrafts to repay maturing long-term debt. These sources were offset by the payment of Euro 95.4 million of dividends to our shareholders. Additionally, we repurchased treasury shares for Euro 45.4 million in 2003 and these repurchase programs expired during 2004 with no additional shares purchased during 2004. Cash provided by financing activities for 2002 consisted primarily of: (i) the new Euro 600.0 million credit facility the proceeds of which were used to refinance maturing debt; (ii) the new U.S. $300.0 million credit facility the proceeds of which were partially used to refinance maturing long-term debt; and (iii) utilization of restricted cash to repay maturing long-term debt. These sources were offset by the payment of Euro 77.2 million of dividends to our shareholders. Additionally, we repurchased treasury shares for Euro 24.5 million.

Our Indebtedness

Our debt agreements contain certain covenants, including covenants that restrict our ability to incur additional indebtedness. We do not currently expect to require any additional financing that would require us to obtain consents or waivers of any existing restrictions on additional indebtedness set forth in our debt agreements.

The Company has relied primarily upon internally generated funds, trade credit and bank borrowings to finance its operations and expansion.

Bank Overdrafts

Bank overdrafts represent negative cash balances held in banks and amounts borrowed under various unsecured short-term lines of credit obtained by Luxottica Group S.p.A. and certain of our subsidiaries through local financial institutions. These facilities are usually short-term in nature or contain evergreen clauses with a cancellation notice period. Certain subsidiaries agreements require a guarantee from Luxottica Group S.p.A. Interest rates on these lines vary based on the country of borrowing among other factors. We use these short-term lines of credit to satisfy our short-term cash needs.

The U.S. $350 Million Credit Facility with UniCredito Italiano and the Convertible Swap Step-Up

To refinance previously issued Eurobonds, in June 2002, U.S. Holdings, a U.S. subsidiary, entered into a U.S. $350 million credit facility with a group of four Italian banks led by UniCredito Italiano S.p.A. The new credit facility is guaranteed by Luxottica Group S.p.A. and matures in June 2005. The term loan portion of the credit facility provides U.S. $200 million of borrowing and requires equal quarterly principal installments beginning in March 2003. The revolving loan portion of the credit facility allows for maximum borrowings of U.S. $150 million; the revolving loan was partially drawn as of December 31, 2004, with outstanding borrowings of U.S. $130.0 million. Interest accrues under the credit facility at LIBOR (as defined in the agreement) plus 0.5 percent (2.920 percent on the term loan portion and 2.917 percent on the revolver portion on December 31, 2004) and the credit facility allows U.S. Holdings to select interest periods of one, two or three months. Under this credit facility, U.S. $170 million was outstanding as of December 31, 2004. The credit facility contains certain financial and operating covenants. We were in compliance with those covenants as of December 31, 2004.

In July 2002, U.S. Holdings entered into a Convertible Swap Step-Up (2002 Swap). The beginning and maximum notional amount of 2002 Swap is U.S. $275 million, which will decrease by U.S. $20 million quarterly, beginning with the quarter commencing on March 17, 2003. The 2002 Swap was entered into to convert the floating rate credit agreement referred to in the preceding paragraph to a mixed position rate agreement by allowing U.S. Holdings to pay a fixed rate of interest if LIBOR remains under certain defined thresholds and for U.S. Holdings to receive an interest payment at the three-month LIBOR rate as defined in the agreement. These amounts are settled net every three months until the final expiration of the 2002 Swap on June 17, 2005. The 2002 Swap does not qualify for hedge accounting under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and, as such, is marked to market with the gains or losses from the change in value reflected in current operations. Gains of Euro 635 thousand and Euro 1,491 thousand are included in current operations in 2003 and 2004, respectively.

The Euro 650 Million Credit Facility with Banca Intesa and the Intesa Swaps

In December 2002, we entered into a new unsecured credit facility with Banca Intesa S.p.A. The new unsecured credit facility provides borrowing availability of up to Euro 650 million. The facility includes a Euro 500 million term loan, which required a balloon payment of Euro 200 million in June 2004 and repayment of equal quarterly installments of principal of Euro 50 million subsequent to that date. Interest accrues on the term loan at Euribor as defined in the agreement plus 0.45 percent (2.628 percent on December 31, 2004). The revolving portion provides borrowing availability of up to Euro 150 million which can be borrowed and repaid until final maturity. At December 31, 2004, Euro 75 million had been drawn under the revolving portion. Interest accrues on the revolving loan at Euribor as defined in the agreement plus 0.45 percent (2.623 percent on December 31, 2004). The final maturity of all outstanding principal amounts and interest is December 27, 2005. The Company has the option to choose interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. We were in compliance with these covenants as of December 31, 2004.

In December 2002, we entered into two interest rate swap transactions (the Intesa Swaps) beginning with an aggregate maximum notional amount of Euro 250 million, which will decrease by Euro 100 million on June 27, 2004 and by Euro 25 million during each subsequent three-month period. These Intesa Swaps will expire on December 27, 2005. The Intesa Swaps were entered into as a cash flow hedge of a portion of the Banca Intesa Euro 650 million unsecured credit facility discussed above. The Intesa Swaps exchange the floating rate based on Euribor to a fixed rate of 2.985 percent.

The OPSM Acquisition and the Euro 200 Million Credit Facility with Banca Intesa

In September 2003, we acquired 82.57 percent of the ordinary shares of OPSM and more than 90 percent of performance rights and options of OPSM for an aggregate of Australian dollar 442.7 million (Euro 253.7 million), including acquisition-related expenses. The purchase price was paid for with the proceeds of a new credit facility with Banca Intesa S.p.A. of Euro 200 million, in addition to other short-term lines available. The new credit facility includes a Euro 150 million term loan, which will require equal semiannual installments of principal repayments of Euro 30 million starting September 30, 2006 until the final maturity date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.55 percent (2.729 percent on December 31, 2004). The revolving loan provides borrowing availability of up to Euro 50 million; amounts borrowed under the revolving portion can be borrowed and repaid until final maturity. At December 31, 2004, Euro 25 million had been drawn from the revolving portion. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.55 percent (2.697 percent on December 31, 2004). The final maturity of the credit facility is September 30, 2008. We can select interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. We were in compliance with those covenants as of December 31, 2004.

The U.S. $300 Million Senior Unsecured Guaranteed Notes and the DB Swaps

On September 3, 2003, U.S. Holdings closed a private placement of U.S. $300 million (Euro 238 million) of senior unsecured guaranteed notes (the Notes), issued in three series (Series A, Series B and Series C). Interest on the Series A Notes accrues at 3.94 percent per annum and interest on Series B and Series C Notes accrues at 4.45 percent per annum. The Series A and Series B Notes mature on September 3, 2008 and the Series C Notes mature on September 3, 2010. The Series A and Series C Notes require annual prepayments beginning on September 3, 2006 through the applicable date of maturity. The Notes are guaranteed on a senior unsecured basis by Luxottica Group S.p.A. and Luxottica S.r.l., a wholly-owned subsidiary. The Notes can be prepaid at U.S. Holdings option under certain circumstances. The proceeds from the Notes were used for the repayment of outstanding debt and for other working capital needs. The Notes contain certain financial and operating covenants. We were in compliance with those covenants as of December 31, 2004.