

LUXOTTICA GROUP SPA  
Form 20-F  
June 28, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 20-F**

(Mark One)

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

**OR**

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

**For the fiscal year ended December 31, 2005**

**OR**

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

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

**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**  
ORDINARY SHARES, PAR VALUE  
EURO 0.06 PER SHARE\*

**Name of each exchange of which registered**  
NEW YORK STOCK EXCHANGE

AMERICAN DEPOSITORY  
SHARES, EACH REPRESENTING

NEW YORK STOCK EXCHANGE

Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

ONE ORDINARY SHARE

---

\* 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**

**457,975,723**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer

Accelerated filer

X - Non-accelerated filer

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

Item 17  Item 18

---

**PART I**

<b><u>ITEM 1.</u></b>	<b><u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u></b>
<b><u>ITEM 2.</u></b>	<b><u>OFFER STATISTICS AND EXPECTED TIMETABLE</u></b>
<b><u>ITEM 3.</u></b>	<b><u>KEY INFORMATION</u></b>
<b><u>ITEM 4.</u></b>	<b><u>INFORMATION ON THE COMPANY</u></b>
<b><u>ITEM 5.</u></b>	<b><u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></b>
<b><u>ITEM 6.</u></b>	<b><u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></b>
<b><u>ITEM 7.</u></b>	<b><u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u></b>
<b><u>ITEM 8.</u></b>	<b><u>FINANCIAL INFORMATION</u></b>
<b><u>ITEM 9.</u></b>	<b><u>THE OFFER AND LISTING</u></b>
<b><u>ITEM 10.</u></b>	<b><u>ADDITIONAL INFORMATION</u></b>
<b><u>ITEM 11.</u></b>	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>
<b><u>ITEM 12.</u></b>	<b><u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u></b>

**PART II**

<b><u>ITEM 13.</u></b>	<b><u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u></b>
<b><u>ITEM 14.</u></b>	<b><u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u></b>
<b><u>ITEM 15.</u></b>	<b><u>CONTROLS AND PROCEDURES</u></b>
<b><u>ITEM 16.</u></b>	<b><u>[RESERVED]</u></b>
<b><u>ITEM 16A.</u></b>	<b><u>AUDIT COMMITTEE FINANCIAL EXPERT</u></b>
<b><u>ITEM 16B.</u></b>	<b><u>CODE OF ETHICS</u></b>
<b><u>ITEM 16C.</u></b>	<b><u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u></b>
<b><u>ITEM 16D.</u></b>	<b><u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u></b>
<b><u>ITEM 16E.</u></b>	<b><u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u></b>

**PART III**

<b><u>ITEM 17.</u></b>	<b><u>FINANCIAL STATEMENTS</u></b>
<b><u>ITEM 18.</u></b>	<b><u>FINANCIAL STATEMENTS</u></b>
<b><u>ITEM 19.</u></b>	<b><u>EXHIBITS</u></b>

**SIGNATURES**

**EXHIBIT INDEX**

### **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 ), risks that expected synergies from the acquisition of Cole will not be realized as planned and that the combination of Luxottica Group's managed vision care business with Cole 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 otherwise 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, 2001, 2002, 2003, 2004 and 2005 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]

4

---

Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

	Year Ended December 31,					
	2001(9)(6)	2002(9)	2003(7)(9)	2004(8)(9)	2005(7)	2005(7)
	(In thousands of Euro)(3)					(In thousands of U.S.\$)(1)(3)
<b>STATEMENT OF INCOME DATA:</b>						
Net Sales	3,105,498	3,201,788	2,852,194	3,255,300	4,370,744	5,175,835
Cost of Sales	(923,537 )	(946,134 )	(903,617 )	(1,040,697 )	(1,380,653 )	(1,634,969 )
Gross Profit	2,181,960	2,255,654	1,948,577	2,214,603	2,990,091	3,540,866
<b>OPERATING EXPENSE</b>						
Selling and Advertising	(1,303,397 )	(1,360,339 )	(1,235,757 )	(1,376,546 )	(1,909,747 )	(2,261,522 )
General and Administrative	(369,071 )	(293,806 )	(281,033 )	(345,243 )	(477,790 )	(565,799 )
Total	(1,672,468 )	(1,654,146 )	(1,516,790 )	(1,721,789 )	(2,387,537 )	(2,827,321 )
Income from Operations	509,492	601,508	431,787	492,814	602,554	713,544
<b>OTHER INCOME (EXPENSE)</b>						
Interest Income	15,060	5,036	5,922	6,662	5,650	6,691
Interest Expense	(91,978 )	(65,935 )	(47,117 )	(56,115 )	(66,332 )	(78,550 )
Other Net	8,737	(1,167 )	(799 )	13,792	15,697	18,588
Other Income (Expenses) Net	(68,181 )	(62,066 )	(41,994 )	(35,661 )	(44,985 )	(53,271 )
Income Before Provision for Income Taxes	441,311	539,442	389,793	457,153	557,569	660,273
Provision for Income Taxes	(123,450 )	(162,696 )	(117,328 )	(161,665 )	(206,022 )	(243,971 )
Income Before Minority Interests in Consolidated Subsidiaries	317,861	376,746	272,465	295,488	351,547	416,302
Minority Interests in Income of Consolidated Subsidiaries	(1,488 )	(4,669 )	(5,122 )	(8,614 )	(9,253 )	(10,957 )
Net Income	316,373	372,077	267,343	286,874	342,294	405,345
Weighted Average Shares Outstanding (thousands)						
Basic	451,037.0	453,174.0	448,664.4	448,275.0	450,179.1	
Diluted	453,965.5	455,353.5	450,202.1	450,360.9	453,303.4	
Basic Earnings per Share(2)	0.70	0.82	0.60	0.64	0.76	0.90
Diluted Earnings per Share(2)	0.70	0.82	0.59	0.64	0.76	0.89
Cash Dividends Declared per Share(4)(5)	0.14	0.17	0.21	0.21	0.23	0.27

- (1) Translated for convenience at the rate of Euro 1.00 = U.S. \$1.1842, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2005. 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. 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.
- (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. In March 2005, we acquired the remaining 17.43 percent of the outstanding shares of OPSM and, from that date, 100 percent of the operating results of OPSM and its subsidiaries are included above.
- (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 2005 presentation.

	As of December 31,					
	2001	2002	2003	2004	2005	2005
	(In thousands of Euro except share data)					
	(In thousands of U.S. \$(1))					
<b>BALANCE SHEET DATA:</b>						
Working Capital(2)	(872,107 )	141,390	(56,185 )	130,587	267,858	317,197
Total Assets	3,948,362	3,586,332	3,912,676	4,556,058	4,973,522	5,889,645
Long-Term Debt	132,247	855,654	862,492	1,277,495	1,420,049	1,681,622
Shareholders' Equity	1,342,843	1,417,895	1,374,534	1,495,607	1,954,033	2,313,966
Capital Stock	27,172	27,256	27,269	27,312	27,479	32,541
Number of Shares Adjusted to Reflect Changes in Capital (thousands)	452,865.8	454,263.6	454,477.0	455,205.5	457,975.7	

- (1) Translated for convenience at the rate of Euro 1.00 = U.S. \$1.1842, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2005. 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 14, 2006, our shareholders approved the distribution of a cash dividend in the amount of Euro 0.29 per ordinary share. Our Board of Directors proposed, and the shareholders approved, the date of June 22, 2006 as the date for the payment of such dividend to all holders of record of our ordinary shares on June 16, 2006, including Deutsche Bank Trust Company Americas, 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 19, 2006, and dividends in respect of the ordinary shares represented by ADSs were paid to Deutsche Bank Trust Company Americas on June 22, 2006. Deutsche Bank Trust Company Americas converted the Euro amount of such dividend payment into U.S. dollars on June 22, 2006. The dividend amount for each ADS holder will be paid commencing on June 29, 2006 to all such holders of record on June 21, 2006. 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. \$)	
2001	0.140	0.120	
2002	0.170	0.165	
2003	0.210	0.242	
2004	0.210	0.254	
2005	0.230	0.276	
2006	0.290	(5)0.364	(6)

(1) Cash dividends per ordinary share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes.

(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 0.29 per ordinary share was approved by our Board of Directors on April 27, 2006 and was voted upon and approved by our shareholders at the annual general meeting of shareholders held on June 14, 2006.

(6) The dividend per ordinary share was converted into U.S. dollars by Deutsche Bank Trust Company Americas on June 22, 2006.

**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:

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Average(1)</b>	<b>End of Period</b>
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	1.2435	1.3538
Year Ended December 31, 2005	1.1667	1.3476	1.2444	1.1842

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

<b>Month</b>	<b>High</b>	<b>Low</b>
December 2005	1.1699	1.2041
January 2006	1.1980	1.2287
February 2006	1.1860	1.2100
March 2006	1.1886	1.2197
April 2006	1.2091	1.2624
May 2006	1.2607	1.2888

On June 23, 2006, the Noon Buying Rate was U.S. \$1.2522 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 States 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.

## **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 could decline, inventory levels could rise, leading to additional costs for storage and potential writedowns relating to the value of excess inventory, and production costs would be negatively impacted since fixed costs would represent a larger portion of total production costs due to the decline in quantities produced.

### **If we fail to maintain an efficient distribution network in our highly competitive markets, our business, results of operations and financial condition could suffer.**

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 sales may decline due to the inability to timely deliver products to customers and our profitability may decline due to an increase in our per unit distribution costs in the affected regions, which may have an adverse impact on our business, results of operations and financial condition.

### **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 and may result in the write down of excess inventory and idle manufacturing facilities.

### **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, Prada, Dolce & Gabbana, D&G, Versace, Bulgari, Miu Miu, Salvatore Ferragamo, Donna Karan, DKNY, Genny, Byblos, Brooks Brothers, Sergio Tacchini, Anne Klein, Moschino, Versus* and *Adrienne Vittadini* and, most recently, *Burberry* and *Polo Ralph Lauren*. These license agreements typically have terms of between three and ten years (except for the license agreement for the *Moschino* line, which is terminable upon 12 months' notice), may contain options for renewal for additional periods 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 agreements for the *Burberry* and *Polo Ralph Lauren* names. 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.

**If vision correction alternatives to prescription eyeglasses become more widely available, or consumer preferences for such alternatives increase, our business could be adversely affected.**

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.

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 result in the loss of sales or increased costs of doing business and 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.

**If we become subject to adverse judgments or determinations in legal proceedings to which we are, or may become, a party, then our business could be adversely affected.**

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

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 require us to change the way we do business or use substantial resources in adhering to the settlements and could have a material adverse effect on our business, results of operations and financial condition.

11

---

**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 and Item 8 – Financial Information – Legal Proceedings.

**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 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 assorted 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 manufacturing facility in China. In 2005, we manufactured approximately 33.9 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*, *Prada*, *Dolce & Gabbana*, *D&G*, *Versace*, *Bulgari*, *Miu Miu*, *Salvatore Ferragamo*, *Donna Karan*, *DKNY*, *Genny*, *Byblos*, *Brooks Brothers*, *Sergio Tacchini*, *Anne Klein*, *Moschino*, *Versus* and *Adrienne Vittadini* .. Commencing in October 2006, our designer lines will include *Burberry*, and commencing on January 1, 2007, they will include *Polo Ralph Lauren*.

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 2005, through our wholesale and retail networks, we distributed approximately 17.3 million prescription frames and approximately 21.8 million sunglasses in approximately 4,125 models. Our products are distributed in approximately 120 countries worldwide.

Our wholesale network is comprised of 29 wholly- or partially-owned subsidiaries operating in principal markets, over 1,300 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: in North America, LensCrafters, Inc. ( LensCrafters ), Sunglass Hut and Cole, which operates Pearle and our Licensed Brands; and in Australia, New Zealand and Asia, OPSM, of which we acquired majority control in August 2003 and full control in March 2005. Luxottica's North American retail business is the largest optical retail business in North America based on total sales. Our retail network in Asia has expanded in 2006 with two acquisitions. In April 2006, we completed our acquisition of Beijing Xueliang Optical Technology Co. Ltd., a 79-store chain located in Beijing, China and, in July 2006, we expect to complete our acquisition of Ming Long Optical, a 133-store chain and the largest premium optical chain in the province of Guangdong, China.

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.



## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

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.

13

---

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 (we acquired the remaining 17.43 percent interest in March 2005), 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. In 2005, we expanded our retail presence in China by entering into agreements to buy two premium retail chains, Beijing Xueliang Optical Technology Co. Ltd. and Ming Long Optical, to become a leading operator of premium optical stores in China based on the number of stores, with a total of 278 locations in two of the top premium optical markets in Mainland China, as well as Hong Kong, an important market in Asia for luxury goods. We are awaiting customary approvals by the relevant Chinese governmental authorities regarding the agreement to acquire Ming Long Optical and anticipate receiving such approvals by July 2006.

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 October 7, 2005, we announced the signing of a 10-year license agreement for the design, production and worldwide distribution of prescription frames and sunglasses under the Burberry name. The first Burberry eyewear collections under the agreement will be presented in October 2006.

On February 27, 2006, we announced the signing of a 10-year license agreement for the design, production and worldwide distribution of prescription frames and sunglasses under the Polo Ralph Lauren name. Performance under the agreement will commence on January 1, 2007.

#### *Retail Acquisitions*

On July 7, 2005, we announced that our subsidiary, SPV Zeta S.r.l., had entered into an agreement to acquire 100 percent of the equity interest in Beijing Xueliang Optical Technology Co. Ltd. for a purchase price of Chinese Renminbi ( RMB ) 169 million (approximately Euro 17 million), plus RMB 40 million (approximately Euro 4 million) in assumed liabilities. Xueliang Optical had unaudited sales for the 2004 fiscal year of RMB 102 million (approximately Euro 10 million). Xueliang Optical has 79 stores in Beijing. The Company completed the acquisition in April 2006.

On October 4, 2005, we announced that our subsidiary, SPV Eta S.r.l., had entered into an agreement to acquire 100 percent of the equity interests in Ming Long Optical, the largest premium optical chain, based on number of stores, in the province of Guangdong, China, with 133 stores, for a purchase price of RMB 290 million (approximately Euro 29 million). As a result, we will become the leading operator of premium optical stores in China based on the number of stores, with a total of 278 locations in two of the top premium optical markets in Mainland China, as well as in Hong Kong, the most important market in Asia for luxury goods. Completion of the transaction remains subject to customary approvals by the relevant Chinese governmental authorities. The Company currently anticipates receiving such approvals by July 2006.

On May 18, 2006, we announced that we had entered into agreement to acquire Shoppers Optical, a 74-store Canadian-based optical chain owned by King Optical Group Inc. Once the transaction is completed, we will manage a total of 268 optical stores in Canada. Shoppers Optical operates across eight of Canada's provinces. Twenty-six of Shoppers Optical's stores are in the province of Ontario, where nearly 40 percent of the Canadian population lives. In addition, this acquisition will bring into the organization the first full-service Canada-based central lens finishing lab with anti-reflective coating capability. The closing of the transaction, which is subject to customary closing conditions, is expected to take place at the end of June 2006.



In June 2006, we announced that we plan to acquire 100 percent of the equity interest in Modern Sight Optics, a leading premium optical chain that operates a total of 28 stores in Shanghai, China, for total consideration of RMB 140 million (approximately Euro 14 million). Completion of the transaction is subject to customary approvals by the relevant Chinese governmental authorities. We expect to receive such approvals by the end of 2006.

#### *Retail Expansion through Franchising*

In June 2006, we announced a five-year franchising agreement with Azal Group that will expand our Sunglass Hut chain by up to 50 stores in the Middle East by 2008. Azal Group has operations in the Middle East and Europe and has a franchise portfolio of over 30 brands, including some of the industry's most recognizable brands.

#### *Litigation Settlement*

On August 31, 2005, we agreed with the plaintiffs in the previously disclosed action commenced in May 2001 (the "Action") pending in the U.S. District Court for the Eastern District of New York relating to its acquisition of Sunglass Hut to a full and final settlement and release (the "Settlement") of all claims made in the Action. In the Action, the plaintiffs' principal claim was that certain payments made to the former Chairman of SGHI under a consulting, non-disclosure and non-competition agreement violated the "best price" rule under U.S. securities laws. The Settlement was approved by the Court, and final judgment has been entered dismissing the case with prejudice.

#### *California Vision Health Care Service Plan Lawsuit*

In March 2002, an individual commenced an action in the California Superior Court for the County of San Francisco against Luxottica Group S.p.A. and certain of our subsidiaries, including LensCrafters, Inc. and EYEXAM of California, Inc. The plaintiff, along with a second plaintiff named in an amended complaint, seeks to certify this case as a class action. The claims have been partially dismissed. The remaining claims, against LensCrafters, EYEXAM and EyeMed Vision Care, LLC, allege various statutory violations relating to the confidentiality of medical information, the operation of LensCrafters' stores in California, including violations of California laws governing relationships among opticians, optical retailers, manufacturers of frames and lenses and optometrists, false advertising and other unlawful or unfair business practices. The action seeks unspecified damages, disgorgement and restitution of allegedly unjustly obtained sums, statutory damages, punitive damages and injunctive relief, including an injunction that would prohibit defendants from providing eye examinations or other optometric services at LensCrafters stores in California. In May 2004, the trial court stayed all proceedings in the case pending the California Supreme Court's decision in a case against Cole and its subsidiaries expected to address certain legal questions related to the issues presented in this case. On June 12, 2006, the California Supreme Court rendered its decision in that case, ruling that optical stores such as those operated by Cole must comply with Sections 655 and 2556 of the California Business and Professions Code. It is expected that plaintiffs will now seek to resume their prosecution of this action. Although we believe that our operational practices in California comply with California law, an adverse decision in this action or the suit against Cole might cause LensCrafters, EYEXAM and EyeMed to modify or close certain activities in California. Further, LensCrafters, EYEXAM and EyeMed might be required to pay damages and/or restitution, the amount of which might have a material adverse effect on our operating results, financial condition and cash flow.

#### *People v. Cole*

In February 2002, the State of California commenced an action in the California Superior Court for the County of San Diego against Cole and certain of its subsidiaries, including Pearle Vision, Inc. and Pearle Vision Care, Inc. The claims allege various statutory violations related to the operation of Pearle Vision Centers in California including violations of California laws governing relationships among opticians, optical retailers, manufacturers of frames and lenses and optometrists, false advertising and other unlawful or unfair business practices. The action seeks disgorgement and restitution of allegedly unjustly obtained sums, civil penalties and injunctive relief, including an injunction that would prohibit defendants from providing eye examinations or other optometric services at Pearle Vision Centers in California. In July 2002, the trial court entered a preliminary injunction to enjoin defendants from certain business and advertising practices. Both Cole and the State of California appealed that decision. On November 26, 2003, the Court of Appeal issued an opinion in which it stated that because California law prohibited Pearle Vision from providing eye examinations and other optometric services at Pearle Vision Centers, the trial court should have enjoined Pearle Vision from advertising the availability of eye examinations at Pearle Vision Centers. The appellate court also ruled in Cole's favor with respect to charging dilation fees, which ruling partially lifted the preliminary injunction with respect to these fees that had been imposed in July 2002. On March 3, 2004, the California Supreme Court granted Cole's petition for review of the portion of the appellate court's decision stating that California law prohibited defendants from providing eye examinations and other optometric services at Pearle Vision Centers. The appellate court's decision directing the trial court to enjoin Pearle Vision from advertising these activities was stayed pending the Supreme Court's resolution of the issue. On June 12, 2006, the California Supreme Court affirmed the Court of Appeal's prior decision, and held that optical stores such as those operated by Cole must comply with Sections 655 and 2556 of the California Business and Professions Code. The matter

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

will now be remanded to the trial court for further proceedings to determine if, in fact, Cole's operations comply with those laws. In addition, the preliminary injunction previously issued to enjoin advertising of the availability of eye examinations at Pearle Vision Centers, may soon become operative. Although we believe that Cole's operational practices in California comply with California law, an adverse decision in this action may compel Cole and its subsidiaries to modify or close certain activities in California. Further, Cole and its subsidiaries might be required to pay civil penalties and/or restitution, the amount of which might have a material adverse effect on our operating results, financial condition and cash flow.

### *Cole SEC Investigation*

Following Cole's announcement in November 2002 of the restatement of its financial statements, the SEC began an investigation into Cole's previous accounting. The SEC subpoenaed various documents from Cole and deposed numerous former officers, directors and employees of Cole. During the course of this investigation the SEC staff had indicated that it intended to recommend that a civil enforcement action be commenced against certain officers and directors of Cole but not against Cole. Cole was obligated to advance reasonable attorneys' fees incurred by current and former officers and directors who were involved in the SEC investigation subject to undertakings provided by such individuals. Cole has insurance available with respect to a portion of these indemnification obligations. In March 2006, the SEC staff indicated that it had concluded its investigation and that, contrary to its earlier indication, it would not be recommending that an enforcement action be commenced against anyone in connection with the investigation.

### *Amended Credit Agreement*

On March 10, 2006, we and our subsidiary Luxottica U.S. Holdings Corp. ( U.S. Holdings ) and the bank group parties to their three-Tranche credit agreement signed on June 3, 2004, agreed to amend the outstanding credit agreement. The amended agreement reduces the interest margin as defined in the agreement, extends the termination date of Tranches B and C to five years from the date the amendment was signed, gives the option at the end of the first and second anniversaries to extend the termination for additional one-year periods and increases the borrowing capacity of Tranche C to Euro 725.0 million from Euro 335.0 million.

## 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*, *Persol*, *Ray-Ban*, *Revo*, *Killer Loop* and *Arnette*. We currently produce approximately 1,600 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 1937, the *Ray-Ban* line is the brand leader in the eyewear market based on sales, bringing together renowned sunglass lenses and a timeless style.

**Persol:** Created in 1917 and acquired by Luxottica in 1995, the *Persol* brand is synonymous with design, 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 trendy 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.

**Sferoflex:** This product line, which in 1981 became the first brand name acquired by Luxottica Group, 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 18 designer lines under the names *Chanel*, *Prada*, *Dolce & Gabbana*, *D&G*, *Versace*, *Bulgari*, *Miu Miu*, *Salvatore Ferragamo*, *Donna Karan*, *DKNY*, *Genny*, *Byblos*, *Brooks Brothers*, *Sergio Tacchini*, *Anne Klein*,

*Moschino, Versus* and *Adrienne Vittadini*. Commencing in October 2006, our designer lines will include *Burberry*, and commencing on January 1, 2007, they will include *Polo Ralph Lauren*. The license agreements governing these designer lines are exclusive contracts and typically have terms of between three and ten years (except 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 2,500 different styles.

16

---

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 characterized 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 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.

17

---

**Brooks Brothers:** . Characterized by lightweight materials and a slender line, the Brooks Brothers collections reflect the unique features of the style of this American brand. This is an affordable product line with classic style that delivers functionality, lightness and high quality.

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

**Donna Karan:** This product line reflects the design sensibility and spirit of the Donna Karan Collection, offering men and women styles that are sophisticated, using modern and lightweight materials.

**DKNY:** DKNY is fast fashion with an urban mind-set, the New York City street-smart look. DKNY Eyewear addresses modern, urban, fashion-conscious women and men with multifaceted lifestyles: international, eclectic, fun and real.

**Dolce & Gabbana:** Our first Dolce & Gabbana eyewear collection draws its inspiration from the 60s and 70s. This collection brings the period's shapes up to date and highlights its materials, characterized by precious details such as logos in Swarovski crystals or elegant metal circles.

**D&G:** The D&G eyewear collection has a youthful, innovative and anti-conventional spirit. The new D&G models manufactured by Luxottica are characterized by vintage forms that take their inspiration from the 70s and 80s, as well as loud and colorful sporty frames reminiscent of the racing world.

**Burberry:** A license agreement between Burberry Group Plc and Luxottica was signed in October 2005 for the first release of the Burberry Eyewear Collection in October 2006. This collection will feature the brand's core values of form and function, innovation and the essence of classic style.

**Polo Ralph Lauren:** During the first quarter of 2006, a ten-year license agreement was negotiated and signed with Polo Ralph Lauren Corp. for the manufacturing and distributing the Polo Ralph Lauren brands. The first eyewear collection will be presented in the fourth quarter of 2006 for sales beginning in January 2007.

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:

(as a percentage of total unit sales)	Year Ended December 31,				
	2001	2002	2003	2004	2005
Designer brands	40.6	39.5	33.6	32.8	35.9
House brands	59.4	60.5	66.4	67.2	64.1
Total unit sales	100.0	100.0	100.0	100.0	100.0

#### *Prescription Frames and Sunglasses*

In 2005, we produced a combined total of approximately 33.9 million prescription frames and sunglasses. In 2004 and 2003, we produced a combined total of approximately 30.5 million and 28.7 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

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

represented by sunglasses that we manufacture has grown significantly. This trend continued with the acquisition of Sunglass Hut. However, with the acquisitions of OPSM and Cole, which tend to focus on sales of ophthalmic products and accessories, we have seen a steady decrease in our percentage units of sunglass sales to total unit sales over the last few years. We believe that this percentage of sales of sunglass units will continue to slightly decline in 2006 and 2007 due to our acquisitions in China and

18

---

Canada before stabilizing in the low to mid 50 percent range. Unit sales of sunglasses manufactured by us and third parties in 2005, as a percentage of total unit sales, were 55.8 percent, as compared to 58.9 percent in 2003 and 57.3 percent in 2004.

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

	<b>Year Ended December 31,</b>				
	<b>(as a percentage of total unit sales)</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Prescription frames	42.8	40.3	41.1	42.7	44.2
Sunglasses	57.2	59.7	58.9	57.3	55.8
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 the Cole 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. The Cole National group of companies operates Pearle and our Licensed Brands Sears Optical, Target Optical and BJ's Optical. 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 893 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), FeatherWates Complete with Scotchgard™ (thin, light, scratch and impact resistant, anti-reflective and easy-to-clean 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, 2005, LensCrafters leased 893 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.

During the last few years we have shifted LensCrafters to a more premium brand. During this time we have added additional elements such as a new store concept, associate training, advertising and marketing that together represent the premium brand and future direction of LensCrafters.

One of the most visible changes in LensCrafters shift toward a premium and stylish eyewear shopping experience is a new design for the stores, which will be adopted in new and remodeled store locations across North America. The store design features elegant eyewear display boxes, wood flooring, fashion graphics, sleek decorative accents and artistic lighting fixtures. Every feature of the design directs the spotlight on the shopping gallery of designer eyewear collections, while the fit and finish stations are more private and separated from the shopping and frame selection. We have begun to display the eyewear collections by designer brand to help our customers shop for the style that is right for them.

As part of the brand transformation, LensCrafters has rolled out a new style-focused magazine advertising campaign to communicate the brand's approach to eyewear style. The ads have appeared in more than two dozen premium fashion,



lifestyle, cultural and entertainment magazines for women and men. Titled "Make an Appearance," they are distinguished from other LensCrafters ads, using bold, engaging visuals to emotionally appeal to the fashion and style desires within eyeglass wearers.

*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 about 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 61.9 percent in December 2005. 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 8.7 percent, 6.8 percent and 4.9 percent of our total merchandise purchases from suppliers in 2003, 2004 and 2005, respectively. Although we buy products from third parties, including Oakley Inc., we do not believe that the loss of any one supplier would have a significant impact on our future operations as we could easily replace lost supply with other sunglasses manufactured by us or other third-party vendors. 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, 2005, Sunglass Hut operated an aggregate of 1,849 outlets throughout North America, Europe and Australia. Sunglass Hut outlets are located mostly in enclosed malls and airports with an average retail space of approximately 500 square feet per kiosk/store.

*Cole National.* With the acquisition of Cole in October 2004, we acquired 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 name *Pearle Vision* as well as under the names *Sears Optical*, *Target Optical* and *BJ's Optical*, which we refer to as our Licensed Brands. It administers managed vision care programs and benefits previously sold through the Cole Managed Vision Division; renewals and new sales will be through Eyemed Visioncare. 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 nearly completed its strategic integration plan with respect to Cole. See Item 5 *Operating and Financial Review and Prospects Overview* for more information. As of December 31, 2005, Cole operated about 2,400 owned and leased department locations and over 450 franchise locations throughout North America as of December 31, 2005.

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, and 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, 2005, OPSM had 474 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 38 stores as of December 31, 2005, and has expanded into Asia, with 66 stores in Hong Kong. OPSM sold its businesses in Singapore and Malaysia during 2005.

*Mainland China and Hong Kong.* We signed agreements during 2005 to acquire two retailers in the Mainland China retail optical market and an agreement in 2006 to acquire a retailer in Shanghai. The acquisitions are expected to close after receiving customary approvals by the relevant Chinese governmental authorities. These agreements demonstrate our continued commitment to expand our retail presence in strategic markets throughout the world. The acquisitions will give us an additional 238 retail locations in Asia. These additional retail stores are located in premium optical markets in Mainland China. In addition, they will expand our presence in Hong Kong, which we believe to be the most important market in Asia for luxury goods.

#### Our Principal Markets

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



Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

	Year Ended December 31, (In thousands of Euro)		
	2003	2004	2005
Italy Wholesale	743,327	832,813	998,420
North America Retail	1,812,322	1,937,484	2,868,746
North America Wholesale	137,370	146,076	179,595
Asia-Pacific Retail	121,276	348,300	365,867
Asia-Pacific Wholesale	155,350	116,605	150,926
Other Retail	60,565	60,898	61,165
Other Wholesale	384,894	425,732	514,031
Adjustment/Eliminations(1)	(562,910 )	(612,608 )	(768,006 )
Total	2,852,194	3,255,300	4,370,744

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

22

### **Seasonality and Effect of 53-Week Year**

We have also historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses, which represented 55.8 percent and 57.3 percent of our units sold in 2005 and 2004, respectively. As a result, our net sales are typically higher in the second quarter, which includes wholesale sales to customers and increased sales in our Sunglass Hut retail outlets, and lower in the first quarter, as sunglass sales fall in the cooler climates of North America, Europe and Northern Asia. These seasonal variations could affect the comparability of our results from period to period. Our retail fiscal year is either a 53-week year or a 52-week year, which also can affect the comparability of our results from period to period. When a 53-week year occurs, we generally add the extra week to the fourth quarter. A 53-week year occurs in five to six year intervals and is expected to occur again in fiscal 2008.

### **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 our North American retail group and certain finished products 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 2005, approximately 56 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 29 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 Middle East FZE	United Arab Emirates	100%
Luxottica (Switzerland) 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	100%
Mirarian Marketing Ltd.	Singapore	51%
Ray Ban Sun Optics India Ltd.(1)	India	44.2%
Luxottica Korea Ltd.	Korea	100%



(1) 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 2005 revenues and believe we have become a leading player in the Australian prescription segment. We also sell watches and accessories in certain sunglass retail locations and under the store names Watch World and Watch Station and 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, 2005, our retail division consisted of 5,679 owned or leased department retail locations and 491 franchised locations as follows:

	North America	Europe	Asia- Pacific*	Total
LensCrafters	893			893
Sunglass Hut	1,557	110	182	1,849
OPSM Group			549	549
Cole National Group Optical	1,724			1,724
Things Remembered	664			664
Franchised Locations	462		29	491
	5,300	110	760	6,170

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



In 2005, approximately 68.4 percent, 12.5 percent, 21.2 percent and 61.9 percent of the total sales of frames based on units sold by LensCrafters, Cole, 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, Cole National 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 2003, 2004 and 2005.

#### ***Marketing Strategy for Our Wholesale Business***

Our marketing strategy in the wholesale distribution segment is focused on promoting our extensive brand portfolio, our corporate image and the value of our products. 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 displays, counter cards, catalogs, posters and product literature. 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 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, 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, 2005, 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 12.2 percent of our net sales in 2005. 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), FeatherWates Complete with Scotchgard™ (thin, light, scratch and impact resistant, anti-reflective and easy-to-clean 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 15, 2006.

<b>Licensor</b>	<b>Licensed Marks</b>	<b>Territory</b>	<b>Expiration</b>
Kasper ASL Ltd.	Anne Klein	U.S. 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
Moschino S.p.A.	Moschino	Worldwide exclusive license to distribute to authorized retailers and distributors (excluding Japan)	December 31, 2006
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)	April 1, 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)
Chanel SA, Chanel SAS, Chanel UK and Chanel USA	Chanel	Worldwide exclusive license	March 31, 2008
Donna Karan Studio LLC	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)
Burberry Group Plc	Burberry	Worldwide exclusive license	December 31, 2015
Polo Ralph Lauren Corp.	Polo Ralph Lauren Ralph Lauren Ralph (Polo Player Design) Lauren RLX RL Ralph Ralph/Ralph Lauren Lauren by Ralph Lauren Polo Jeans Company Chaps***	Worldwide exclusive license	March 31, 2017

\* 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.

\*\*\* U.S., Canada, Mexico and Japan only.

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 agreement for the *Moschino* line, which is terminable upon 12 months' notice, these license agreements typically have terms ranging from three to ten 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, 2005. 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 29 geographically oriented wholesale distribution subsidiaries. See

Distribution for a breakdown of the geographic areas.

Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

The significant subsidiaries controlled by Luxottica Group S.p.A., including holding companies, as of December 31, 2005, were:

Subsidiary	Country of Incorporation	Percentage of Ownership
<b>Manufacturing</b>		
Luxottica S.r.l.	Italy	100 %
Luxottica Tristar Optical Ltd	China	100 %
<b>Distribution</b>		
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	100 %
<b>Holding companies</b>		
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, 2005 is set forth below:

Location	Use	Owned/Leased	Approximate Area in Square Feet
Milan, Italy	Corporate Headquarters	Owned	51,548
Agordo, Italy	Administrative offices and manufacturing facility	Owned	814,004
Mason (Ohio), United States	North American retail division headquarters	Owned	288,876
Atlanta (Georgia), United States	North American retail division distribution center	Owned	183,521
Port Washington (NY), United States	U.S. offices and U.S. wholesale distribution center	Owned	140,700
Espoo, Finland	Offices, warehouse	Leased	2,884
Oulu, Finland	Offices	Leased	484
Goteborg, Sweden	Offices, warehouse	Owned	6,942
Stockholm, Sweden	Offices	Leased	258
Kongsberg, Norway	Offices	Leased	3,132
Macquarie Park, Australia	Offices	Leased	61,496
Chipping Norton, Australia	Ophthalmic laboratory	Leased	60,172
Revesby, Australia	Distribution center	Leased	61,054
Auckland, New Zealand	Offices	Leased	31,011
Hong Kong	Offices, warehouse	Leased	16,264
Causeway Bay, Hong Kong	Offices	Leased	980
Heemstede, Holland	Offices	Leased	8,073
São Paulo, Brazil	Offices, warehouse	Leased	18,363
Buenos Aires, Argentina	Offices, warehouse, showroom	Leased	5,119



Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

Salonica - Kountouriotou, Greece	Sales office	Leased	2,813
Athens-Anthoussa, Greece	Offices	Leased	40,137
Deurne, Belgium	Offices, archive-small deposit	Leased	4,560
Barcelona, Spain	Offices, warehouse, showroom	Leased	14,275
Madrid, Spain	Showroom	Leased	1,729
Hammersmith, London, UK	Offices	Leased	7,400
Neasden, London, UK	Warehouse for storage	Leased	3,000
Guangzhou, China	Factory, warehouse	Leased	2,900
Dongguan, China	Offices, factory, dormitory	Owned	884,810
Dongguan, China	Land	Owned	1,607,500
Klosterneuburg, Austria	Offices	Leased	3,767
Prague, Czech Republic	Showroom	Leased	215
Bratislava, Slovak Republic	Showroom	Leased	150
Tokyo, Japan	Sales office	Leased	13,153
Fukui, Japan	Offices, distribution center	Owned	45,209
Osaka, Japan	Sales office	Leased	1,948
Nagoya, Japan	Sales office	Leased	1,162
Fukuoka, Japan	Sales office	Leased	785
Shanghai, China	Sales office	Leased	1,356
Schonbuhl, Switzerland	Offices	Leased	3,164
Dubai, U.A.E.	Offices	Leased	1,645
Krakow, Poland	Offices	Leased	1,615
Lisbon, Portugal	Offices, warehouse	Owned	64,583
Munich, Germany	Offices, showroom	Leased	6,000
Bhiwadi, India	Manufacturing facility, corporate offices	Owned	343,474
Johannesburg, South Africa	Offices, showroom	Leased	5,382
Mexico City, Mexico	Offices, warehouse	Leased	17,222
Valbonne, France(1)	Offices	Owned	14,240
Seoul, Korea	Sales office	Leased	2,775
Singapore	Sales office	Leased	1,604
Mississauga, Canada	Offices	Owned	21,000
Hertzelya, Israel	Offices, warehouse	Leased	5,382
Umurbey/ Izmir, Turkey	Offices, warehouse	Leased	5,810
Rovereto, Italy	Frame manufacturing facility	Owned	215,026
Sedico, Italy	Frame manufacturing facility and distribution center	Owned	392,312
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
Sedico, Italy	distribution center	Owned	288,473

(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, 2005, LensCrafters leased 893 retail stores, Sunglass Hut leased 1,849 retail kiosks or stores,

Cole National leased 1,724 optical retail locations including licensed departments in host stores and 664 Things Remembered retail locations, and OPSM leased 549 retail stores. Such leases expire between 2006 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 127,000 square feet at a projected cost of U.S. \$13.5 million. This expansion is expected to be completed in 2006 and is part our integration 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 229.4 million for the year ended December 31, 2005 and Euro 42.5 million for the three-month period ended March 31, 2006. It is our expectation that 2006 annual capital expenditures will be approximately Euro 200 million, in addition to investment for any acquisitions. We will pay for these future capital expenditures with our current available borrowing capacity and available cash. For a description of capital expenditures for the previous three years, see Item 5 Operating and Financial Review and Prospects Liquidity and Financial Resources Our Cash Flows Investing Activities.



**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. As of December 31, 2005, the retail segment consisted of 5,679 owned or leased department retail locations and 491 franchised locations as follows:

	North America	Europe	Asia- Pacific*	Total
LensCrafters	893			893
Sunglass Hut	1,557	110	182	1,849
OPSM Group			549	549
Cole National Group Optical	1,724			1,724
Things Remembered	664			664
Franchised Locations	462		29	491
	5,300	110	760	6,170

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

LensCrafters and Cole 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 first 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.

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. \$1.1307 in 2003 to Euro 1.00 = U.S. \$1.2435 in 2004 to Euro 1.00 = U.S. \$1.2444 in 2005. 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 strengthens relative to certain other currencies, our profitability as a consolidated group will suffer.



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 that we 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 shares we did not already own. At the close of the offer on February 7, 2005, we held 98.5 percent of OPSM 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 not already owned by us. On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM shares and on February 18, 2005, it delisted OPSM shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 24, 2005.

On October 4, 2004, we acquired all of the issued and outstanding shares of Cole through a merger. 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 fair value of the principal balance of \$310.9 million. We believe that our combination with Cole has:

- strengthened our retail operations in the United States;
- strengthened our managed vision care business by increasing the number of people for whom we provide managed vision care benefits as well as by adding well established retailers to its existing family of retailers; and
- provided us with the opportunity to increase our sales of frames manufactured by the Company in Cole retail stores.

We have substantially completed our strategic integration plan with respect to Cole. Since the consummation of the acquisition, we have consolidated Cole's headquarters with our Luxottica Retail headquarters in Mason, Ohio, and combined various general and administrative functions.

The integration of our corporate, financial and human resources systems is now complete.

Our integration plans also include combining Luxottica Retail's and Cole's operating systems. We have integrated the inventory management and assortment planning systems. We plan to integrate the distribution centers by the end of 2006.

In October 2005, we integrated our Managed Vision Care system with Cole's, resulting in a single brand (EyeMed) going forward. We have already begun to sell the new combined product.

We expect that our North American retail operating margin levels will return to 2004 pre-acquisition operating margin levels by the end of 2006.

Our integration with Cole has resulted in synergies in the following areas:

- general and administrative; and
- sale of the Company's manufactured products.

We have substantially executed our integration plans and have begun to realize the anticipated cost savings.

## 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.

In some countries, the wholesale and retail divisions offer the customer 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 SFAS No. 48, Revenue Recognition When Right of Return Exists, are satisfied at the date of sale. We have estimated and accrued for the amounts to be returned in the subsequent period. This estimate is based on our right of return policies and practices along with historical data, sales trends and the timing of returns from the original transaction date when applicable. Changes to these policies and practices or a change in the trend of returns could lead to actual returns being different from the amounts estimated and accrued.

**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. Our insurance contracts require us to estimate the potential costs and exposures over the life of the agreement such that the amount charged to the customers will cover these costs. To mitigate the exposure risk, these contracts are usually short-term in nature. However, if we do not accurately estimate the future exposure and risks associated with these contracts, we may suffer losses as we would not be able to cover our costs incurred with revenues from the customer.**



### ***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 were approximately 65.0 percent and 75.4 percent of total frame inventory for 2004 and 2005, respectively. All inventories at December 31, 2005 were valued using the lower of cost (as determined under a weighted-average method which approximates the first in, first out method) or market. At December 31, 2004, certain retail inventory not manufactured by us was valued using the last in, first out method ( LIFO ). However, in order to reduce the inventory methods among different companies in the retail group and to simplify the process of valuing inventory, we changed the method of accounting for inventory valuation to the first in, first out method. This change had an immaterial effect on our consolidated financial statements. Inventories are recorded net of allowances for possible losses among other reserves. These reserves are calculated using various factors including quantity on hand, sales volume, historical shrink results, changes in market conditions and current trends. In addition, production schedules are made on similar factors which, if not estimated correctly, could lead to the production of potentially obsolete inventory. 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, 2005, the aggregate carrying value of intangibles, including goodwill, was approximately Euro 2.7 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 annually as of December 31 of each year and any other time a condition arises that may cause us to believe that an impairment has occurred. Since impairment tests use estimates of the impact of future events, actual results may differ and we may be required to record an impairment in future years.

Intangibles subject to amortization based on a finite useful life continue to be amortized on a straight-line basis over their useful lives. 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. Actual results may differ from our current estimates.

### Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ( 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 that 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 APB 25. 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 us on January 1, 2006. We have evaluated the impact of the adoption of SFAS No. 123-R and determined that the additional compensation cost which would have been recorded in fiscal 2005 is not material.

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 March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an Interpretation of FASB Statement No. 143 ( FIN 47 ), which clarifies the term conditional asset retirement obligation as used in SFAS 143 and requires the recognition of a liability for a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 is effective for reporting periods beginning after December 15, 2005. The adoption of FIN 47 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 ). SFAS 154 applies to all voluntary changes in accounting principles and changes required by accounting pronouncements in instances where the pronouncement does not include specific transition provisions. This Statement replaces APB No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 requires retroactive application to prior periods financial statements of changes in accounting principles unless it is impracticable to do so. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In June 2005, the Emerging Issues Task Force ( EITF ) reached a consensus on Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements ( EITF 05-6 ), which requires that leasehold improvements acquired in a business combination or purchased significantly after, and not contemplated at the inception of the lease be amortized over the lesser of the useful life of the asset or a term that includes lease renewals that are reasonably assured. EITF 05-6 is applicable for leasehold improvements acquired or purchased beginning after June 29, 2005 and will be followed in future periods if and when necessary.

In October 2005, the FASB issued Staff Position No. 13-1, Accounting for Rental Costs Incurred During a Construction Period ( FSP 13-1 ), that concluded rental costs associated with ground and building operating leases that are incurred during the construction period should be recognized as rental expense in such period. This guidance is effective for reporting periods beginning after December 15, 2005. The adoption of FSP 13-1 is not expected to have a material effect on our consolidated financial statements and will be followed in future periods if and when necessary.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140 ( SFAS 155 ), which amends SFAS 133, and SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The statement:

- Permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation;
- Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133;

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues





- Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;
- Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and
- Amends Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS 155 is not expected to have a material effect on our consolidated financial statements.

**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,		
	2003	2004	2005
Net Sales	100.0 %	100.0 %	100.0 %
Cost of Sales	31.7	32.0	31.6
Gross Profit	68.3	68.0	68.4
Operating Expenses:			
Selling and Advertising	43.3	42.3	43.7
General and Administrative	9.9	10.6	10.9
Total	53.2	52.9	54.6
Income From Operations	15.1	15.1	13.8
Other Income (Expense) Net	(1.5 )	(1.1 )	(1.0 )
Provision For Income Taxes	(4.1 )	(5.0 )	(4.7 )
Minority Interests in Income of Consolidated Subsidiaries	(0.2 )	(0.3 )	(0.2 )
Net Income	9.4	8.8	7.8

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, 2005 to the year ended December 31, 2004**

*Net Sales.* Net sales increased 34.3 percent to Euro 4,370.7 million during 2005 as compared to Euro 3,255.3 million for 2004. Net sales in the retail segment, through LensCrafters, Sunglass Hut, OPSM and Cole, increased by 40.5 percent to Euro 3,298.2 million for 2005 from Euro 2,346.7 million for 2004. This increase was primarily due to the inclusion of Cole sales from the date of acquisition on October 4, 2004, which amounted to Euro 998.0 million for the full fiscal year 2005 compared to Euro 240.5 million for the three-month period following the acquisition in 2004.

Net sales to third parties in the manufacturing and wholesale segment increased by 18.3 percent to Euro 1,075.0 million for 2005 as compared to Euro 908.6 million in 2004. This increase was mainly attributable to increased sales of our Ray-Ban brand, as well as Prada, Versace, Bulgari and Dolce & Gabbana (which we began distributing in October 2005). Wholesale sales were strong in all geographic areas.

On a geographic basis net of intercompany transactions, operations in North America resulted in net sales of Euro 3,048.3 million during 2005, comprising 69.7 percent of total net sales, an increase of Euro 964.8 million from 2004. This increase was primarily due to the inclusion of Cole sales from the date of acquisition on October 4, 2004, which amounted to Euro 998.0 million for the full fiscal year 2005 compared to Euro 240.5 million for the three-month period following the acquisition in 2004. This sales increase was mostly driven by our focus on selling premium frames and products at both our Sunglass Hut and LensCrafters North American retail outlets. This focus included the remodeling, opening or relocation of over 250 Sunglass Hut outlets. Net sales for operations in Asia-Pacific, which consists of Australia, New Zealand, Singapore, Malaysia, Hong Kong, Thailand, China, Japan and Taiwan, were Euro 461.2 million during 2005, comprising 10.6 percent of total net sales, an increase of Euro 26.2 million as compared to 2004. Net sales for the rest of the world accounted for the remaining Euro 861.2 million of net sales during 2005, which represented a 16.9 percent increase as compared to 2004.

During 2005, net sales in the retail segment accounted for approximately 75.4 percent of total net sales, as compared to approximately 72.1 percent of total net sales in 2004 due to the retail acquisition described above.

*Cost of Sales.* Cost of sales increased by 32.7 percent to Euro 1,380.7 million in 2005 from Euro 1,040.7 million in 2004. Cost of sales in the retail segment increased by Euro 315.4 million, which increase is primarily attributable to the inclusion of Cole in our results of operations for three months in 2004 compared to a full 12 months in 2005. Cost of sales in the manufacturing and wholesale segment increased by Euro 68.6 million due to the increase in net sales. As a percentage of net sales, cost of sales decreased to 31.6 percent from 32.0 percent. This was mostly attributable to the placement of more Luxottica manufactured products in our newly acquired Cole retail locations. Manufacturing labor costs increased by 17.3 percent to Euro 301.4 million in 2005 from Euro 256.9 million in 2004. This increase is attributable to the increase in net sales. As a percentage of net sales, cost of labor decreased to 6.9 percent in 2005 from 7.9 percent in 2004, due to higher productivity in the wholesale division, as well as due to the inclusion of Cole results, since Cole's cost of labor as a percentage of sales is lower than that of the rest of the Group. For 2005, the average number of frames produced daily in our facilities (including Tristar, our Chinese factory) was approximately 125,000, which was in line with 2004 production.

*Gross Profit.* For the reasons outlined above, gross profit increased by 35.0 percent to Euro 2,990.1 million in 2005, from Euro 2,214.6 million in 2004. As a percentage of net sales, gross profit increased to 68.4 percent in 2005 from 68.0 percent in 2004.

*Operating Expenses.* Total operating expenses increased by 38.7 percent to Euro 2,387.5 million in 2005 from Euro 1,721.8 million in 2004. As a percentage of net sales, operating expenses increased to 54.6 percent in 2005 from 52.9 percent in 2004.

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

Selling and advertising expenses, including royalty expenses, increased by 38.7 percent to Euro 1,909.7 million during 2005 from Euro 1,376.5 million in 2004. Euro 399.3 million of this increase is attributable to the inclusion of Cole in our results of operations for the full fiscal year in 2005 compared to only the fourth quarter of 2004 (from the date of acquisition). As a percentage of net sales, selling and advertising expenses increased to 43.7 percent in 2005 from 42.3 percent in 2004. This increase as a percentage of sales is primarily attributable to the consolidation of Cole's results in our results of operations.

General and administrative expenses, including intangible asset amortization, increased by 38.4 percent to Euro 477.8 million in 2005 from Euro 345.2 million in 2004. Euro 90.1 million of this increase is attributable to the inclusion of Cole in our results of operations for the full fiscal year in 2005 compared to only the fourth quarter of 2004 (from the date of acquisition). As a percentage of net sales, general and administrative expenses increased to 10.9 percent in 2005 from 10.6 percent in 2004. This increase was primarily due to the consolidation of Cole results in our results of operations. As we continue the integration of Cole, we expect its operating expenses as a percentage of sales to decrease due to the expected higher efficiency in the fixed cost structure.

*Income from Operations.* For the reasons outlined above, income from operations for 2005 increased by 22.3 percent to Euro 602.6 million from Euro 492.8 million in 2004. As a percentage of net sales, income from operations decreased to 13.8 percent in 2005 compared to 15.1 percent for 2004.

Operating margin, calculated as income from operations divided by net sales, in the manufacturing and wholesale distribution segment increased to 23.2 percent in 2005 from 21.3 percent in 2004. This increase in operating margin is attributable to higher efficiency in our fixed cost structure driven by increases in net sales and lower sales commissions, partially offset by higher advertising expenses.

Operating margin in the retail segment decreased to 11.5 percent in 2005 from 13.2 percent in 2004, due to the inclusion of the results for Cole, whose operating margin is lower than that of our other retail chains. However, we believe that when the final restructuring of the North American Retail Division is completed by the end of 2006, we will return to our historical operating margins.

*Other Income (Expense)-Net.* Other income (expense)-net was a net expense of Euro 45.0 million in 2005 as compared to a net expense of Euro 35.7 million in 2004. This increase in other income (expense)-net is mainly attributable to an increase in interest expense of Euro 11.2 million due to the debt incurred for the acquisition of Cole, as well as rising interest rates. We expect an increase in interest expense for 2006 due to the rising interest rate environment.

*Net Income.* Income before taxes increased by 22.0 percent to Euro 557.6 million in 2005 from Euro 457.2 million in 2004. As a percentage of net sales, income before taxes decreased to 12.8 percent in 2005 from 14.0 percent in 2004, mainly due to the integration of the Cole operations. Minority interest increased to Euro (9.3) million in 2005 from Euro (8.6) million in 2004. Our effective tax rate was 37.0 percent in 2005, while it was 35.4 percent in 2004. Net income increased by 19.3 percent to Euro 342.3 million in 2005 from Euro 286.9 million in 2004. Net income as a percentage of net sales decreased to 7.8 percent in 2005 from 8.8 percent in 2004.

Basic earnings per share for 2005 were Euro 0.76, increasing from Euro 0.64 for 2004. Diluted earnings per share for 2005 were Euro 0.76, increasing from Euro 0.64 for 2004.

### ***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, and include the results of operations of Cole for the full year 2004. 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 one of the primary indicators management uses for planning and forecasting in future periods. Operating measures that assume constant exchange rates between 2005 and 2004 are calculated using, for each currency, the average exchange rate for the year ended December 31, 2004.

Operating measures that exclude the impact of fluctuation in currency exchange rates are not measures of performance under U.S. GAAP. These non-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

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues



Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

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)	2004 U.S. GAAP results	2005 U.S. GAAP results	Adjustment for constant exchange rates	2005 adjusted results
Consolidated net sales	3,255.3	4,370.7	(16.9 )	4,353.8
Intercompany sales	(186.2 )	(237.8 )	0.9	(236.9 )
Manufacturing and wholesale net sales	1,094.8	1,310.3	(7.5 )	1,302.8
Retail net sales	2,346.7	3,298.2	(10.3 )	3,287.9

We have included the following table of consolidated adjusted sales and operating income for 2004. We believe that the adjusted amounts may be of assistance in comparing our operating performance between 2004 and 2005. 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 Cole for the full year 2004; and
2. the elimination of wholesale sales to Cole from Luxottica Group entities for the full year 2004.

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 Cole acquisition been completed as of January 1, 2004.

The following table reflects the Company's consolidated net sales and income from operations for 2004 as reported and as adjusted:

(in millions of Euro)	2004 U.S. GAAP Results	Adjustment for Cole	2004 adjusted results
Consolidated net sales	3,255.3	747.7	4,003.0
Consolidated income from operations	492.8	(10.6 )	482.2

The following table summarizes the combined effect on consolidated net sales of exchange rates and the Cole acquisition, to allow a comparison of net sales on a consistent basis:

(in millions of Euro)	Consolidated Net Sales			% change
	2004	2005		
U.S. GAAP results	3,255.3	4,370.7	34.3	%
Exchange rate effect		(16.9 )		
Constant exchange rate	3,255.3	4,353.8	33.7	%
Cole results in 2004	747.7			
Consistent basis	4,003.0	4,353.8	8.8	%

The 8.8 percent increase in net sales on a consistent basis in 2005 as compared to 2004, as adjusted, is mainly attributable to the additional sales of our Ray-Ban product lines, as well as to the additional sales of the Prada, Versace and Bulgari product lines and increased comp store sales (as previously defined) of our retail division.

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues which

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

The following table summarizes the effect on consolidated income from operations of the Cole acquisition to allow a comparison of operating performance on a consistent basis:

(in millions of Euro)	<b>Consolidated Income from Operations</b>			
	<b>2004</b>		<b>2005</b>	<b>% change</b>
U.S. GAAP results	492.8		602.6	22.3 %
% of net sales	15.1	%	13.8	%
Cole results in 2004	(10.6	)		
Consistent basis	482.2		602.6	25.0 %

43

% of net sales	12.0	% 13.8	%
----------------	------	--------	---

On a consolidated adjusted basis, including Cole's results for 2004, income from operations in 2005 would have increased by 25.0 percent and operating margin would have increased to 13.8 percent from 12.0 percent as compared to 2004.

#### 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.

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues which



Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

*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.

44

---

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 trade names 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.

Operating margin in the retail segment decreased to 13.2 percent in 2004 from 13.3 percent in 2003. This is a result of the consolidation of Cole results, whose operating margin is lower than that of our other retail chains. 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 (Expense)-Net.* Other income (expense)-net was Euro 35.7 million in 2004 as compared to Euro 42.0 million in 2003. This decrease in other income (expense)-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 be between 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
<b>Consolidated net sales</b>	2,852.2	3,255.3	213.0	3,468.3
<b>Intercompany sales</b>	(172.7 )	(186.2 )	(14.3 )	(200.5 )
<b>Manufacturing and wholesale net sales</b>	996.7	1,094.8	33.1	1,127.9
<b>Retail net sales</b>	2,028.2	2,346.7	194.2	2,540.9

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.



Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

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
<b>Consolidated net sales</b>	2,852.2	428.7	3,280.9
<b>Consolidated income from operations</b>	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:

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

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

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues wh

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.

**Taxes**

Our effective tax rates for the years ended December 31, 2003, 2004 and 2005 were approximately 30.1 percent, 35.4 percent and 37.0 percent, respectively. The 2003 and 2004 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. For fiscal 2005 we received a net permanent benefit caused by the Company complying with an Italian law that allows for the step up in tax basis of certain intangible assets for which this benefit offset the aggregate effect of different rates in foreign jurisdictions.

## Liquidity and Capital Resources

### *Our Cash Flows*

*Operating Activities.* Our cash provided by operating activities was Euro 623.5 million for 2005 as compared to Euro 528.7 million for 2004 and Euro 327.5 million for 2003. The Euro 94.8 million increase in 2005 compared to 2004 is primarily attributable to an increase in net income, as previously discussed, and an increase in depreciation and amortization for 2005 resulting from the additional depreciation and amortization of Cole including Euro 17.3 million relating to the amortization of its intangible assets. The increase in cash provided by operating activities of Euro 201.2 million from 2003 to 2004 is primarily attributable 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. Accounts receivable was a use of cash in 2005 of Euro (33.3) million as compared to a use of cash in 2004 of Euro 15.8 million. This increase in cash flows from accounts receivable is primarily due to the increase in sales and the corresponding increase in our manufacturing and wholesale segment outstanding receivable balances. Prepaid expenses and other was a source of cash of Euro 21.1 million in 2004, as compared to a use of cash in 2003 and 2005 of Euro 43.6 million and Euro 56.8 million, respectively. This change was attributable to advance payments of Euro 31.5 million made in 2003 and Euro 30.0 million made in 2005 by us to certain 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 20.5 million in 2005 compared to an increase of Euro 27.0 million in 2004 compared to 2003. This change in cash flow from inventory is primarily due to an increase in the inventory turns. Accounts payable and accrued expenses were a net source of cash of Euro 38.2 million in 2005 compared to a use of Euro 15.3 million in 2004 and a use of Euro 84.9 million in 2003. These improvements in cash flows from accounts payable and accrued expenses 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 source of cash in 2005 of Euro 124.0 million as compared to a use of cash in 2004 of Euro 0.8 million, mostly attributable to the adoption of the Italian tax law which allows for the step-up in tax basis of certain intangible assets and requires the accrual of current taxes to be paid in cash during fiscal 2006.

*Investing Activities.* Our cash used in investing activities was Euro 175.8 million in 2005. Cash used in investing activities consisted primarily of capital expenditures made to purchase fixed assets which included construction costs to expand our new North American Retail headquarters in Mason, Ohio and the acquisition of the remaining minority stake in OPSM offset by the sale of our investment in Pearle Europe. In 2004, our cash used in investing activities was Euro 480.5 million 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.

*Financing Activities.* Our cash provided by/(used in) financing activities for 2005, 2004 and 2003 was Euro (358.3) million, Euro (82.6) million and Euro 304.7 million, respectively. Cash used in financing activities for 2005 consisted primarily of net long-term repayments on maturing debt of approximately Euro 254.4 million and the payment of the annual dividend of Euro 103.5 million. In 2004, our cash used in financing activities consisted primarily of: (i) the net proceeds of Euro 88.6 million from all the credit facilities and (ii) Euro 446.9 million 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

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues



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.

Our capital expenditures were Euro 229.4 million for the year ended December 31, 2005 and Euro 42.5 million for the three-month period ended March 31, 2006. It is our expectation that 2006 annual capital expenditures will be approximately Euro 200 million, in addition to investment for any acquisitions. We will pay for these future capital expenditures with our current available borrowing capacity and available cash.

### *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 term loan portion of the credit facility provided U.S. \$200 million of borrowing and required equal quarterly principal installments beginning in March 2003. The revolving loan portion of the credit facility allowed for maximum borrowings of U.S. \$150 million. Interest accrued under the credit facility at LIBOR (as defined in the agreement) plus 0.5 percent and the credit facility allowed U.S. Holdings to select interest periods of one, two or three months. The credit facility contained certain financial and operating covenants. The credit facility was guaranteed by Luxottica Group S.p.A. and matured in June 2005, and at such time we repaid in full all of the outstanding amounts under this credit facility.

In July 2002, U.S. Holdings entered into a Convertible Swap Step-Up ( 2002 Swap ). The beginning and maximum notional amount of 2002 Swap was U.S. \$275 million, which decreased 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 were settled net every three months until the final expiration of the 2002 Swap which occurred on June 17, 2005. The 2002 Swap did not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and, as such, was marked to market with the gains or losses from the change in value reflected in current operations. These marked to market gains of Euro 635 thousand and Euro 1,491 thousand are included in current operations in 2003 and 2004, respectively, while in 2005 we recognized a loss of Euro 163 thousand in current operations.

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

In December 2002, we entered into an unsecured credit facility with Banca Intesa S.p.A. The unsecured credit facility provided borrowing availability of up to Euro 650 million. The facility included 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. The revolving portion provided borrowing availability of up to Euro 150 million which could be borrowed and repaid until final maturity. Interest accrued on the both the term and revolving loan at Euribor as defined in the agreement plus 0.45 percent. The final maturity of all outstanding principal amounts and interest was December 27, 2005 and at such time we repaid in full all of the outstanding amounts under this credit facility.

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 decreased by Euro 100 million on June 27, 2004 and by Euro 25 million during each subsequent three-month period. These Intesa Swaps expired 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 exchanged 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 and Related Interest Rate Swaps*

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, which entitled us to require the cancellation of all the performance rights and options still outstanding. The aggregate purchase price was AUD \$442.7 million (Euro 253.7 million), including acquisition-related expenses. The purchase price was paid for with the proceeds of a this credit facility with Banca Intesa S.p.A. of Euro 200 million, in addition to other short-term lines available. The 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 (3.04 percent on December 31, 2005). 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, 2005, 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 (2.76 percent on December 31, 2005). 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, 2005.

In June 2005, the Company entered into four interest rate swap transactions with various banks with an aggregate initial notional amount of Euro 120 million which will decrease by Euro 30 million every six months starting on March 30, 2007 ( Intesa OPSM Swaps ). These swaps will expire on September 30, 2008. The Intesa OPSM Swaps were entered into as a cash flow hedge on a portion of the Banca Intesa Euro 200 million unsecured credit facility discussed above. The Intesa OPSM Swaps exchange the floating rate of Euribor for an average fixed rate of 2.38 percent per annum.

*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, 2005.

In connection with the issuance of the Notes, U.S. Holdings entered into three interest rate swap agreements with Deutsche Bank AG (the DB Swap ). The three separate agreements notional amounts and interest payment dates coincide with those of the Notes. The DB Swap exchanged the fixed rate of the Notes to a floating rate of the six-month LIBOR rate plus 0.6575 percent for the Series A Notes and to a floating rate of the six-month LIBOR rate plus 0.73 percent for the Series B and Series C Notes. These swaps were treated as fair value hedges of the related debt and qualified for the shortcut method of hedge accounting (assuming no ineffectiveness in a hedge in an interest rate swap). Thus the interest income/expense on the swaps was recorded as an adjustment to the interest expense on the debt effectively changing the debt from a fixed rate of interest to the swap rate. Due to the rising interest rate environment, we terminated all three agreements of the DB Swap in December 2005 for an aggregate amount paid to the bank of Euro 7.0 million ( U.S.\$ 8.4 million), excluding interest.

*Amended and Restated Euro 1,130 Million and U.S. \$325 Million Credit Facility and Related Interest Rate Swaps*

In March 2006, we amended and restated our credit facility with a group of banks to provide for loans in the aggregate principal of Euro 1,130 million and U.S. \$325 million. See Item 4 Information on the Company Business Overview Recent Developments. The facility has a maturity date of five years from the date of the amendment, or March 2011, and consists of three Tranches (Tranche A, Tranche B, Tranche C). Tranche A is a Euro 405 million amortizing term loan requiring repayment of nine equal quarterly installments of principal of Euro 45 million beginning in June 2007, which is to be used for general corporate purposes, including the refinancing of existing Luxottica Group S.p.A. debt as it matures. Tranche B is a term loan of U.S. \$325 million which was drawn upon on October 1, 2004 by U.S. Holdings to finance the purchase price for the acquisition of Cole. Amounts borrowed under Tranche B will mature in June 2009. Tranche C is a Revolving Credit Facility of Euro 725 million-equivalent multi-currency ( /U.S. \$). Amounts borrowed under Tranche C may be repaid and reborrowed with all outstanding balances maturing in March 2011. The Company can select interest periods of one, two, three or six months with interest accruing on Euro-denominated loans based on the corresponding Euribor rate and U.S. \$ denominated loans based on the corresponding LIBOR rate, both plus a margin between 0.20 percent and 0.40 percent, based on the Net Debt/EBITDA ratio, as defined in the agreement. The interest rate on December 31,



## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

2005 was 2.94 percent for Tranche A, 4.56 percent for Tranche B and a weighted average rate of 4.49 percent on Tranche C. The credit facility contains certain financial and operating covenants. We were in compliance with those covenants as of December 31, 2005. Under this credit facility, Euro 974.3 million was outstanding as of December 31, 2005.

In June 2005, we entered into nine interest rate swap transactions with various banks with an aggregate initial notional amount of Euro 405 million which will decrease by Euro 45 million every three months starting on June 3, 2007 ( Club Deal Swaps ). These swaps will expire on June 3, 2009. The Club Deal Swaps were entered into as a cash flow hedge on Tranche A of the credit facility discussed above. The Club Deal Swaps exchange the floating rate of Euribor for an average fixed rate of 2.40 percent per annum. The cash flow hedges are deemed to be highly effective and, as such, the change in the fair value of the swaps will be included on the balance sheets in other comprehensive income ( OCI ). Any ineffectiveness and the amounts needed to properly reflect interest expense will be amortized out of OCI and recorded in the appropriate periods. As a result, approximately Euro 3.5 million is included in OCI as of December 31, 2005. Based on current interest rates and market conditions, the estimated aggregate amount to be recognized into earnings from OCI for these cash flow hedges in fiscal 2006 is approximately Euro 0.4 million, net of taxes.

### *Australian Dollar 50 Million Credit Facility*

In August 2004, OPSM renegotiated the recently expired multicurrency (AUD \$/ HK \$) loan facility with Westpac Banking Corporation. The credit facility has a maximum available line as of December 31, 2005 of AUD \$50 million. For borrowings denominated in Australian Dollars, the interest accrues on the basis of BBR (Bank Bill Rate), and for borrowings denominated in Hong Kong Dollars the rate is based on HIBOR (HK Inter bank Rate) plus an overall 0.40 percent margin. At December 31, 2005, the interest rates of BBR and HIBOR were 6.03 percent and 4.46 percent, respectively, and the facility was utilized for an amount of AUD 13.59 million. The final maturity of all outstanding principal amounts and interest is August 31, 2006. OPSM has the option to choose weekly or monthly interest periods. The credit facility contains certain financial and operating covenants. We were in compliance with those covenants as of December 31, 2005.

### *New Euro 100 Million Credit Facility*

In December 2005, we entered into a new unsecured credit facility with Banco Popolare di Verona e Novara. The 18-month credit facility consists of a revolving loan that provides borrowing availability of up to Euro 100 million, and the amounts borrowed under the revolving portion can be borrowed and repaid until final maturity. At December 31, 2005, Euro 100 million had been drawn from the revolving portion. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.25 percent (2.73 percent on December 31, 2005). The final maturity date of the credit facility is June 1, 2007. We may select interest periods of one, three or six months. Under this credit facility, Euro 100 million was outstanding as of December 31, 2005.

### ***Our Working Capital***

Set forth below is certain information regarding our Working Capital (total current assets minus total current liabilities)

	<b>As of December 31,</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>(In millions of Euro)</b>		
Current Assets	1,267.1	1,447.3	1,481.7
Current Liabilities	(1,323.3 )	(1,316.8 )	(1,213.8 )
Working Capital	(56.2 )	130.6	267.9

The increase in working capital in 2004 is mainly attributable to the asset held for sale, Pearle Europe, acquired in connection with the acquisition of Cole in October 2004. See Note 4(d) to the Consolidated Financial Statements for further details. The continued increase in working capital in 2005 reflects the repayment of maturing debt and the refinancing of current debt maturities with long-term debt.

We believe that the financial resources available to us will be sufficient to meet our currently anticipated working capital and capital expenditure requirements for the next 12 months.

We do not believe that the relatively moderate rates of inflation which have been experienced in the geographic markets where we compete have had a significant effect on our net sales or profitability. In the past, we have been able to offset cost increases by increasing prices, although we can give no assurance that we will be able to do so in the future.

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues consisting of



### Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

We use, from time to time, derivative financial instruments, principally interest rate and currency swap agreements, as part of our risk management policy to reduce our exposure to market risks from changes in foreign exchange rates. Although we have not done so in the past, we may enter into other derivative financial instruments when we assess that the risk can be hedged effectively.

### Contractual Obligations and Commercial Commitments

We are party to numerous contractual arrangements consisting of, among other things, royalty agreements with designers, leases for retail store, plant, warehouse and office facilities, as well as certain data processing and automotive equipment, and outstanding borrowings under credit agreements and facilities with financial institutions to finance our operations. These contractual arrangements may contain minimum annual commitments. A more complete discussion of the obligations and commitments is included in Notes 8 and 14 to our Consolidated Financial Statements included in this annual report.

The following table summarizes the scheduled maturities of our long-term debt, minimum lease commitments under noncancelable operating leases and minimum payments under noncancelable royalty arrangements as of December 31, 2005. The table does not include pension liabilities. Our pension plans are discussed in Note 9 to our Consolidated Financial Statements included in Item 18 of this annual report.

(in millions of Euro) Contractual Obligations	Payments Due by Period				Total
	1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	
Long-Term Debt and Current Maturities(1)	111.3	740.0	679.6	0.5	1,531.4
Interest Payments(2)	43.7	60.6	7.4	0.0	111.7
Operating Leases	209.9	310.9	183.7	186.2	890.7
Minimum Royalty Arrangements	47.7	88.9	81.9	153.3	371.8
Total	412.6	1,200.4	952.6	340.0	2,905.6

(1) As described previously, our long-term debt has certain financial and operating covenants that may cause the acceleration of future maturities if we do not comply with them. We were in compliance with these covenants as of December 31, 2005. In addition, the above table does not take into account the March 2006 amendment to a credit agreement as described above.

(2) These amounts do not include interest payments due under our various revolving credit facilities as the amounts to be borrowed in future years are uncertain at this time. In addition, interest rates used to calculate the future interest due on our variable interest rate term loans were calculated based on the interest rate as of December 31, 2005 and assume that we make all scheduled principal payments as they mature.

At December 31, 2005, we had available funds of approximately Euro 457.2 million under our unused short-term lines of credit. Substantially all of these lines are for less than one year but they have been renewed annually in prior years. In addition, certain U.S. subsidiaries obtained various letters of credit from banks outstanding of Euro 48.0 million as of December 31, 2005. Most of these letters of credit are used as security in risk management contracts or store leases. Most contain annual evergreen clauses under which they are automatically renewed unless the bank is notified of nonrenewal. There are no outstanding letters of credit with an original maturity over one year as of December 31, 2005. We do not have any other material commercial commitments.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****Directors and Senior Management**

The Board of Directors of Luxottica Group S.p.A. currently consists of 12 members.

Set forth below is certain information regarding the directors and senior management of Luxottica Group S.p.A. as of December 31, 2005, except as otherwise specified:

Name	Age(1)	Officer or Director Since(2)	Position(1)
Leonardo Del Vecchio	70	1961	Chairman of the Board of Directors
Luigi Francavilla	68	1968	Deputy Chairman
Andrea Guerra	40	2004	Chief Executive Officer and Director
Tancredi Bianchi	77	1990	Director
Mario Cattaneo	75	2003	Director
Enrico Cavatorta	44	1999/2003	Group Chief Financial Officer and Director
Roberto Chemello	51	1979	Head of Group Operations and Director
Claudio Del Vecchio	48	1978	Director
Sergio Erede	65	2004	Director
Sabina Grossi	40	2003	Director
Gianni Mion	60	2004	Director
Lucio Rondelli	81	1990	Director
Frank Baynham	52	1987	Executive Vice President Stores, Retail N.A.
Chris Beer	39	2003	Chief Operating Officer, Retail A.P.
Luca Biondolillo	39	2004	Head of Group Communications
Michael Boxer	44	1993	Senior V.P. General Counsel N.A.
Kerry Bradley	49	1988	Chief Operating Officer of Retail N.A.
Tom Coleman	57	1987	Executive V.P., Retail A.P.
Mildred Curtis	49	1988	Senior Vice President, Human Resources N.A.
Fabio D Angelantonio	36	2005	Head of Group Marketing
Jack Dennis	60	1982	C.F.O. and C.A.O. of Retail N.A.
Valerio Giacobbi	41	1991	E.V.P. Retail N. A.
Garland Gunter	55	1986	Chief Information Officer of Retail N.A.
Giuseppe La Boria	47	2001	Head of Wholesale Europe & South
Mario Lugli	58	2005	Group General Counsel and Corporate Secretary
Peter McClelland	37	2003	C.F.O. and C.A.O. of Retail A.P.
Seth McLaughlin	43	1994	S.V.P. Consumer Marketing of Retail N.A.
Enrico Mistrion	36	1995	Group Controller
Antonio Miyakawa	39	1993	Head of Wholesale and Group Marketing
Mario Pacifico	43	2003	Head of Group Internal Auditing
Nicola Pelà	43	2005	Head of Group Human Resources
Umberto Soccà	55	1988	Group Chief Information Technology Officer
Marco Vendramini	35	1997	Group C.A.O.

(1) Except as otherwise specified, all ages and positions are as of December 31, 2005.

(2) Reflects period of affiliation with Luxottica Group S.p.A. or any of our predecessors and affiliates.



## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

Executive officers serve at the discretion of the Board of Directors. The independent and non-executive directors are Messrs. Rondelli, Bianchi, Cattaneo and Mion. Mr. Erede and Mrs. Grossi are also non-executive directors.

Pursuant to Italian law, we also maintain a Board of Statutory Auditors, elected at the shareholders' meeting, composed of three experts in accounting matters who are required to have no other affiliation with Luxottica Group S.p.A. and who must satisfy certain professional and other standards. The Board of Statutory Auditors is required to verify that we: (i) comply with applicable law and our bylaws; (ii) respect the principles of correct administration; (iii) maintain adequate organizational structure, internal controls and administrative and accounting systems; and (iv) ensure that our accounting system represents the facts in a fair and true manner. Although members of the Board of Statutory Auditors are required to attend the meetings of the Board of Directors, the Executive Committee and the shareholders, they do not vote on matters submitted to such meetings. Currently the members of the Board of Statutory Auditors are Giancarlo Tomasin, Chairman, Mario Medici and Walter Pison. A short biography of each of our Directors and executive officers is set forth below:

**Leonardo Del Vecchio** is the founder of our operations and has been Chairman of the Board since the Group was formed in 1961. In 1986, the President of the Republic of Italy conferred on Mr. Del Vecchio the honor of Cavaliere dell' Ordine al Merito del Lavoro (Knight of the Order for Labor Merit). In May 1995, he received an honorary degree in Business Administration from the Venice Ca' Foscari University. In 1999, he received a Master honoris causa in International Business from MIB- Management School in Trieste, and in 2002, he received an honorary degree in Managerial Engineering from the University of Udine. In March 2006, Mr. Del Vecchio received another honorary degree in Materials Engineering from Politecnico of Milan.

**Luigi Francavilla** joined the Group in 1968, has been Deputy Chairman since 1981 and is Chairman of Luxottica S.r.l., our principal operating subsidiary. From 1972 to 1977, Mr. Francavilla was General Manager of Luxottica S.r.l. and, from 1969 to 1971, he served as Technical General Manager of Luxottica S.r.l. In April 2000, he received an honorary degree in Business Administration from Constantinian University.

**Andrea Guerra** was appointed a Director and Chief Executive Officer of the Company on July 27, 2004. Prior to joining the Company, Mr. Guerra was with Merloni Elettrodomestici since 1994, where from 2000, he was its Chief Executive Officer. Prior to being at Merloni, Mr. Guerra worked for Marriott Italia where he became Director of Marketing. Mr. Guerra is also director of the new Parmalat S.p.A. and of Banca Nazionale del Lavoro S.p.A. He received a degree in Business Administration from the La Sapienza University of Rome in 1989.

**Tancredi Bianchi** has been a Director since 1990 and is emeritus Professor of Credit and Banking at the Bocconi University in Milan where he was a professor from 1978 to 2003. In 1959, he qualified for University teaching and began teaching Banking Technique at the Venice University (Ca' Foscari), as well as the Pisa and Rome (La Sapienza) Universities. He has been a member of the Board of Directors of Montedison, Credito Bergamasco (where he was Executive Vice Chairman, Chief Executive Officer and Chairman from 1981 and 1989), Credito Emiliano, Credito Romagnolo and Cassa di Risparmio di Verona S.p.A. From 1982 until 2003, Mr. Bianchi was Chairman of the Italian Private Banking Association, and from 1991 to 1998, he was Chairman of the Italian Banking Association, where he is now Honorary Chairman.

**Mario Cattaneo** has been a Director of the Company since 2003. He is emeritus professor of Corporate Finance at the Catholic University of Milan. He was a director of Eni S.p.A. from 1998 until 2005 and of Unicredito from 1999 until 2005 and Statutory Auditor of the Bank of Italy from 1991 until 1999. He is a member of the Board of Directors of Banca Lombarda S.p.A., Bracco S.p.A. and Fin. Bansel S.p.A. and Chairman of CBI Factor S.p.A., and Chairman of the Board of Statutory Auditors of Intesa Mediofactoring S.p.A., Sara Assicurazioni S.p.A., Italiana Assicurazioni S.p.A. and B.P.U. Assicurazioni S.p.A.

**Enrico Cavatorta** has been a Director of the Company since 2003. He has been Chief Financial Officer since he joined the Group in 1999, and he is a director of the principal subsidiaries of the Company. Prior to joining Luxottica, Mr. Cavatorta was with Piaggio S.p.A., most recently as Group Controller, responsible for planning and control. From 1993 to 1996, Mr. Cavatorta was a consultant with McKinsey & Co., having joined the firm from Procter & Gamble

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues with

Italy, where he worked from 1985 to 1993, most recently as Controller. Mr. Cavatorta graduated with the highest honors from the LUISS University in Rome with a bachelor's degree in Business Administration.

**Roberto Chemello** joined the Group in 1979. He is a Director of the Company and Chief Executive Officer of Luxottica S.r.l., our principal operating subsidiary. Prior to 1985, Mr. Chemello was Chief Financial Officer of the Company,

55

---

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

and until July 27, 2004, he was Chief Executive Officer of the Company. Mr. Chemello graduated with a degree in Business Administration from the Ca' Foscari University in Venice.

**Claudio Del Vecchio**, a son of Leonardo Del Vecchio, joined the Group in 1978 and has been a Director since 1981. From 1979 to 1982, he managed our Italian and German distribution operations. From 1982 until 1997, he was responsible for all business operations of the Group in North America. He also serves as a Director of U.S. Holdings, a key subsidiary in North America. Claudio Del Vecchio is Chairman and Chief Executive Officer of Retail Brand Alliance, the owner of Brooks Brothers Inc. and other clothing apparel companies.

**Sergio Erede** has been a Director of the Company since 2004. Mr. Erede graduated magna cum laude from the University of Milan in 1962 with a degree in jurisprudence and obtained an LL.M. from Harvard Law School in 1964. From 1965 to 1969, he was head of the legal department of IBM Italia S.p.A. Prior to such time, Mr. Erede was an attorney at the law firm of Sullivan & Cromwell from 1964 to 1965, and the law firm of Hale & Dorr from 1963 to 1964. In 1999, he founded the law firm of Bonelli, Erede & Pappalardo (which is the successor by merger to the firm of Erede e Associati), a leading firm in Italian financial transactions. Additionally, Mr. Erede is Vice Chairman of Banca Nazionale del Lavoro S.p.A. and a member of the board of directors of several Italian companies including Marzotto S.p.A., Interpump S.p.A., Autogrill S.p.A., Carraro S.p.a, Valentino Fashion Group S.p.a. and Galbani S.p.a.

**Sabina Grossi** has been a Director of the Company since 2003. She joined Luxottica Group S.p.A. in 1996 and was Head of Investor Relations, a position which she held from 1996 until 2004. Prior to joining Luxottica Group S.p.A., she was a financial analyst with Caboto Sim S.p.A. from 1994 until 1996. From 1991 to 1993, Ms. Grossi was an associate professor in the school of engineering of the La Sapienza University in Rome, where she taught undergraduate courses as well as published papers on mathematics and statistics. Ms. Grossi, who is a C.P.A. in Italy, graduated with the highest honors from the LUISS University in Rome with a bachelor's degree in Business Administration. Ms. Grossi is currently a member of the Board of Directors of Molecular Medicine S.p.A. and of the non-profit Foundation Oliver Twist.

**Gianni Mion** has been a Director of the Company since 2004. He is Chief Executive Officer of Edizione Holding S.p.A. (the investment company of the Benetton family), a position he has held since 1986. Prior to joining Edizione Holding S.p.A., Mr. Mion was the Chief Financial Officer of Marzotto S.p.A. from 1985 to 1986, Managing Director of Fintermica S.p.A. from 1983 to 1985, Vice President of Gepi S.p.A. from 1974 to 1982, controller of McQuay Europa S.p.A. from 1972 to 1974 and an auditor at the accounting firm of KPMG from 1967 to 1972. Mr. Mion is currently a member of the board of directors of several public companies, including Benetton Group S.p.A., Autogrill S.p.A., Autostrade S.p.A., Olimpia and Telecom Italia. Gianni Mion graduated from the Venice University Ca' Foscari with a degree in Business Administration and is a Certified Public Accountant.

**Lucio Rondelli** has been a Director of the Company since 1990. Mr. Rondelli was the Chairman of UniCredito Italiano S.p.A until 2001, having held various positions with the bank continuously from 1947. Mr. Rondelli is currently Chairman of Assiparos GPA and Banca Italease and a director of Spafid. In 1976 he received the honor of Cavaliere di Gran Croce dell' Ordine (Knight of the Great Cross Order) for merit to the Republic of Italy and in 1988 the President of the Republic of Italy conferred on him the honor of Cavaliere dell' Ordine al Merito del Lavoro (Knight of the Order for Labor Merit).

**Frank Baynham** has been Executive Vice President, Stores of Retail North America since 1999. Mr. Baynham is responsible for store operations for all LensCrafters, Sunglass Hut and Cole stores. Mr. Baynham has held various other senior executive roles since joining LensCrafters in 1987. Prior to 1987, he worked in marketing for Procter and Gamble and was a captain in the U.S. Army. Mr. Baynham graduated with a degree in Finance from Murray State University.

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues wh

**Chris Beer** is Chief Operating Officer of Luxottica Retail - Asia Pacific. Mr. Beer has held this position since 2003, having had 22 years of experience with the OPSM Group (later acquired by Luxottica). He held senior executive positions in sales and operations before being appointed International HR Manager for the OPSM Group in 1999 and General Manager Retail for OPSM Australia in 2001. Mr. Beer oversees group operations, marketing, merchandise, distribution and manufacturing for the Asia Pacific Region.

**Luca Biondolillo**, head of communications, oversees media, corporate and investor relations for Luxottica Group. He joined the Group in March 2004 from JPMorgan Chase in New York, where he was vice president responsible for US-based relationships with the Bank's American Depositary Receipts (ADR) clients in Europe and Asia. Mr. Biondolillo previously served as a partner with Breakstone & Ruth, a New York-based financial and media communications specialist firm and as vice president within the financial communications and investor relations practice of Golin/Harris, a leading public relations firm and a member of the Interpublic Group of Companies (IPG). He holds a bachelor's degree in Business Administration

from Bernard M. Baruch College, City University of New York, and he is a member of the U.S. National Investor Relations Institute (NIRI), the UK Investor Relations Society (IRS), the Public Relations Society of America (PRSA) and the Italian association of communications professionals, FERPI.

**Michael Boxer** has been the Senior Vice President, General Counsel – North America since September 2005. Mr. Boxer is responsible for overseeing all legal matters for the Company's North American retail and wholesale operations. Mr. Boxer has held various other executive roles since joining the Company in 1993. Prior to joining Luxottica in 1993, Mr. Boxer served as a corporate attorney with the law firm of Winston & Strawn in New York. He received his undergraduate degree from Columbia University and his law degree from the New York University School of Law.

**Kerry Bradley** has been Chief Operating Officer of Retail North America since 2002, prior to which he served as Executive Vice President of LensCrafters since June of 1998. Mr. Bradley is responsible for all LensCrafters, Sunglass Hut, Cole and EyeMed sales, marketing and operations. Mr. Bradley has held various other senior executive roles since joining LensCrafters in 1988. Mr. Bradley has a Master's degree in Business from the University of Edinburgh, Scotland and a B.S. degree in Business from Auburn University in Alabama.

**Tom Coleman** has been Executive Vice President Retail Asia Pacific since 2003. Mr. Coleman is responsible for all activities of the Group in the Asia Pacific Region, which includes Australia, New Zealand, Hong Kong, Singapore and Malaysia, and prior to this, he served as Executive Vice President of LensCrafters since 1997. Mr. Coleman has held various other senior executive roles since joining LensCrafters in 1987.

**Mildred Curtis** has been Senior Vice President, Human Resources North America since 2005. She was Senior Vice President, Legal and Human Resources of LensCrafters from 2001 to 2005. She held other executive roles since joining LensCrafters in 1988. Ms. Curtis has a J.D. from the University of Cincinnati and a bachelor's degree from Chatham College.

**Fabio D Angelantonio** has been Head of Group Marketing since 2005. After experience with the European Union and in the Olivetti Marketing Department in Brussels and Madrid, Mr. D Angelantonio led the international department from 1995 to 2000 for the Belgian publishing house Editions Hemma (part of the Havas-Vivendi group). At the beginning of 2000, Mr. D Angelantonio joined Ciaoweb (Fiat-Ifil group) where he held the position of Channel Manager, eventually moving to Merloni Elettrodomestici, today Indesit Company, where he held increasingly senior positions ending in Brand & Advertising Manager, responsible for the management of the entire brand portfolio for the group. After receiving a degree in Business Administration in 1994 from the LUISS University in Rome, he completed an MBA in International Management at the UBI in Brussels in 1999.

**Jack Dennis** has been Chief Financial Officer and Chief Administrative Officer of Retail North America since 2001, prior to which time he served as Chief Financial Officer of LensCrafters since 1992 and Chief Administrative Officer since 1999. Prior to 1992, he was Controller of LensCrafters, Vice President of Finance in several divisions of U.S. Shoe, and a Senior Audit Manager with Arthur Andersen & Co. Mr. Dennis graduated with a degree in Accounting from the University of Kentucky.

**Valerio Giacobbi** has been Executive Vice President Retail North America since 2001. Prior to 2001, he was General Affairs Manager of Luxottica Group S.p.A. since 1991. Mr. Giacobbi graduated with a degree in Business Administration from the Ca' Foscari University in Venice.

**Garland Gunter** has been Chief Information Officer of Retail North America since 1992. Mr. Gunter is responsible for all information technology supporting Retail and Managed Vision Care in North America. Prior to 1992, Mr. Gunter served as Director of Information Systems since joining LensCrafters in 1986. Prior to 1986, he worked in various IT management roles in retail and healthcare. Mr. Gunter has a degree in Business Administration from Cleveland State University.

**Giuseppe La Boria** joined Luxottica Group S.p.A. in 2001 as Head of Sales for the Wholesale Division. Prior to joining Luxottica Group S.p.A., Mr. La Boria worked in Safilo S.p.A. as Sales Manager for Italy, during which period he was also responsible for all the commercial and marketing aspects of the Diesel Shades launch.

**Mario Lugli** has been General Counsel and Secretary to the Board of Directors of Luxottica Group S.p.A. since he joined the group in January 2005. He is an attorney at law. He served as head of legal affairs from 1973 to 2004 in various groups of companies such as Montedison, IRI-Italstat, Fiat, Rcs Media, and British Telecom Albacom. He is currently a member of the Board of Directors of various Luxottica Group companies. He is an auditor registered at the Ministry of Justice in Italy. He graduated cum laude from the University of Modena in 1969 and obtained an LL.M. from Oxford University.

**Peter McClelland** is Chief Finance & Administration Officer of Luxottica Retail Asia Pacific. As CFAO, he has responsibility for shared support services, including finance, IT and HR, for Luxottica operations in Australia, New Zealand, Hong Kong and China. Prior to joining OPSM Group, later acquired by Luxottica in 2003, he held senior strategic and business planning roles in the retail sector in Australia. He began his career with KPMG in audit supervisor risk management.

**Seth McLaughlin** has been Senior Vice President, Consumer Marketing of Luxottica Retail North America since October 2004. He is responsible for overseeing marketing activities across all Luxottica Retail brands. Prior to October 2004, he served as Vice President, Consumer Marketing since July 1998. Prior to joining the Luxottica Group he worked at Boston Consulting Group, from 1990 to 1994, and in strategic consulting for Procter & Gamble, from 1984 to 1990. Mr. McLaughlin has a Bachelor of Science degree from Iowa State University.

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues wh

**Enrico Mistrion** joined Luxottica Group S.p.A. in 1995 as Financial Analyst. Since joining us, he has handled various assignments in the Finance Department including mergers and acquisitions. Mr. Mistrion earned a degree with honors in Business Administration from the Ca' Foscari University in Venice. After graduation, Mr. Mistrion was involved in some research assignments for the Department of Economics at Ca' Foscari University in Venice and attended a course at SDA Bocconi in Corporate Finance. Mr. Mistrion's area of expertise is Economics and Business Administration. Presently, he is Group Controller of the Luxottica Group.

**Antonio Miyakawa** is currently the Head of Wholesale and Group Marketing for Luxottica Group S.p.A., a position he held since 2003. Previously he was head of our Asian wholesale operations, a position he has held since 1999. Prior to this he served as Executive Vice President of Luxottica's Japanese operations. Prior to joining Luxottica Group

58

---

S.p.A., Mr. Miyakawa was a junior consultant for Compact S.r.l. (an Italian consulting firm) working on various Luxottica matters.

**Mario Pacifico** has been Head of Internal Auditing since he joined Luxottica Group S.p.A in 2003. Prior to joining Luxottica Group S.p.A., he was VP of Internal Auditing of Prada Group. From 1990 to 2000, Mr. Pacifico was Controller of Eni's upstream Italy Division, Chief Financial Officer of Agip Trading B.V. and an Audit Manager in Agip S.p.A. Mr. Pacifico graduated from Luigi Bocconi University in Milan with a degree in Business Administration.

**Nicola Pelà** has been Head of Group Human Resources since 2005. Prior to joining the Company, he was Human Resources Director of Eli Lilly from 2001 to 2003, first in Indianapolis and later in Brussels, and VP HR Director for Italy of SmithKline Beecham from 2000 to 2001. He was HR Manager in various Italian companies such as Olivetti Group, Fiat Group and Barilla Group from 1988 to 2000. Mr. Pelà has a bachelor's degree in Law with honours and a master's degree in Business Administration from CUOA.

**Umberto Soccac** joined Luxottica Group S.p.A. in 1988 as Chief Information Technology Officer. As we expanded our distribution network, he became responsible for the computer systems of all of our European subsidiaries. Mr. Soccac previously worked as a software programmer and chief of the data processing center for the Provincial Industry Association.

**Marco Vendramini** joined Luxottica Group S.p.A. in 1997 as a financial analyst and was later appointed Corporate Forecasting and Reporting Manager. Since February 2005, he has been Chief Administrative Officer of Luxottica Group. Mr. Vendramini has a degree in Business Administration from University of Udine. During and after graduation, he attended several courses at the European Business Management School of Swansea and in Business Administration at the employers' association of Treviso. Prior to joining Luxottica, Mr. Vendramini worked in the accounting department of a textile company in Treviso.



**Compensation**

Set forth below is information regarding total cash compensation paid to the members of our Board of Directors and our Board of Statutory Auditors for services rendered to Luxottica Group S.p.A. and our subsidiaries during 2005:

<b>Name</b>	<b>Base Compensation (Euro)</b>	<b>Other Compensation (Euro)</b>	<b>Total Cash Compensation (Euro)</b>
Leonardo Del Vecchio <i>Chairman of the Board of Directors</i>	139,200	1,021,872	1,161,072
Luigi Francavilla <i>Deputy Chairman</i>	139,200	1,027,949	1,167,149
Andrea Guerra <i>Chief Executive Officer</i>	900,000	608,980	1,508,980
Tancredi Bianchi <i>Director</i>	91,194		91,194
Mario Cattaneo <i>Director</i>	81,198		81,198
Enrico Cavatorta <i>Director</i>	81,198	526,104	607,302
Roberto Chemello <i>Director</i>	81,198	1,002,255	1,083,453
Claudio Del Vecchio <i>Director</i>	81,198	251,188	332,386
Sergio Erede <i>Director</i>	81,198		81,198
Sabina Grossi <i>Director</i>	81,198	11,269	92,467
Gianni Mion <i>Director</i>	81,198		81,198
Lucio Rondelli <i>Director</i>	96,198		96,198
Giancarlo Tomasin <i>Chairman of the Board of Statutory Auditors</i>	93,549		93,549
Mario Medici <i>Member of the Board of Statutory Auditors</i>	59,389	13,192	72,581
Walter Pison <i>Member of the Board of Statutory Auditors</i>	56,298	53,677	109,975

Aggregate compensation paid by us to our senior management (excluding directors) as a group (21 people) was approximately Euro 10.2 million in 2005, of which approximately Euro 0.9 million represented provision for termination indemnities and social security charges required by Italian law. Members of this group were also granted options to purchase an aggregate of 369,000 of our ordinary shares at an exercise price of Euro 16.89 per share in 2005. These options expire on January 31, 2014. The aggregate amount set aside or accrued during the year ended December 31, 2005 to provide pension and retirement benefits for our directors who are also members of our management was Euro 643,000. Our directors who are not members of management do not receive such benefits.

## Employees

As of December 31, 2005, we employed approximately 55,000 employees worldwide, of whom approximately 39,500 were employed in the United States and 6,200 were employed in Italy. As of such date, about 190 employees were in management positions, approximately 10,300 were employed in our manufacturing and wholesale segment and approximately 44,400 were employed in our retail segment. Substantially all of our employees in Italy are covered by collective bargaining agreements. Other than those Pearle Vision employees subject to collective bargaining agreements described below, none of our employees in the United States are covered by collective bargaining agreements. We have enjoyed generally good relations with our employees.

Employment agreements in Italy are generally collectively negotiated between the national association of companies within a particular industry and the respective national unions. Individual companies must enter into contracts with their employees based on the relevant collective agreement. The agreement for optical workers, which is part of the national textile agreement, covers approximately 5,300 of our employees. This agreement is scheduled to be renewed in 2006. We expect an average wage increase rate of three percent per year under the new agreements. The agreement for mechanical workers, which covers approximately 586 of our employees, was renegotiated in 2006. In addition to the national collective bargaining agreement for workers, we typically enter into separate, local contracts with labor unions representing our employees. In March 2006, we renewed a local agreement with optical workers, supplementing the terms of the national textile contract. This new agreement covers approximately 5,300 employees and provides for a variable wage related to our financial results, instead of an increasing wage base.

Italian law provides that, upon termination of employment, employees are entitled to receive certain compulsory separation payments based on their compensation levels and length of employment. As of December 31, 2005, we had reserved Euro 56.6 million for such separation payments in our consolidated financial statements.

Pearle Vision currently has two collective bargaining agreements in place. One collective bargaining agreement, between Pearle Vision and the Local 888, United Food and Commercial Workers, is set to expire February 28, 2007 (the 888 CBA). The 888 CBA covers approximately 16 Pearle Vision employees holding the positions of Lab Associate, Lead Lab Associate, Sales Associate and Optician. The other collective bargaining agreement, between Pearle Vision and the Local 108, Retail, Wholesale and Department Store Union, is set to expire December 31, 2006 (the 103 CBA). The 103 CBA covers approximately 79 Pearle Vision employees holding the positions of Lab Associate, Lead Lab Associate, Sales Associate and Optician.

## Share Ownership

Set forth below is certain information concerning the beneficial ownership of our ordinary shares as of June 14, 2006, by each of our directors and executive officers who own in excess of one percent of our outstanding ordinary shares.

Shareholder	Issuer	Shares owned as of June 14, 2006	Percentage Ownership	
Leonardo Del Vecchio	Luxottica Group S.p.A.	314,803,339	(1)68.52	%

(1) Shares held of record by Leoinvest S.r.l., an entity established and controlled by Mr. Del Vecchio. Mr. Del Vecchio holds voting and investment power over the shares held by such entity.

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

Except as otherwise indicated above, each of our directors and our executive officers owns less than one percent of our outstanding ordinary shares.

In March 1998, we adopted an employee stock option plan providing for the issuance of options covering up to 12,250,000 ordinary shares of nominal value Euro .06 each. As a result of the change in the par value of our ordinary shares from Lire to Euro, which was approved by our shareholders at the annual meeting held on June 26, 2001, the number of ordinary shares available for issuance under the plan was reduced to 10,798,642. Our Board of Directors administers the stock option plan. The purpose of the plan is to provide additional incentives to our key employees. Grants under the stock option plan may be of non-qualified options and/or incentive stock options. Under the plan, the Board of Directors may not grant an option for a term of more than nine years from the date of grant, or for a term that expires after March 31, 2011. The exercise price of these options is equal to the market value of the underlying ordinary shares on the date of grant, defined as the higher of (i) the closing market price of our ADRs on the business day immediately preceding the date of the grant, and (ii) the average of the closing market prices for each business day during the 30-day period ending on the date of the grant. Options granted under the plan generally become exercisable in three equal installments beginning on January 31 of the year after the date of grant and expire nine years after such date.

In September 2001, we adopted an additional employee stock option plan providing for the issuance of options covering up to 11,000,000 ordinary shares of nominal value Euro 0.06 each. The purpose and administration of the 2001 stock option plan are similar to those of the 1998 stock option plan, with the only significant difference being that the latest option termination date is March 31, 2017.

In June 2006, we adopted an additional employee stock option plan providing for the issuance of options covering up to 20,000,000 ordinary shares of nominal value of Euro 0.06 each. The purpose of the plan is to provide additional incentives to key employees of the Group.

As of December 31, 2005, there had been 11 separate grants under the option plans described above, detailed as follows:

	Number of ordinary shares underlying options granted(1)	Exercise Price(1)	Expiration Date	Options held by officers and directors (1)(2)
<b>1998 Grant</b>	3,380,400	Euro	7.38 January 31, 2007	88,200
<b>1999 Grant</b>	3,679,200	Euro	4.38 January 31, 2008	113,400
<b>2000 Grant</b>	2,142,200	Euro	9.52 January 31, 2009	105,000
<b>2001 Grant</b>	2,079,300	U.S. \$	15.20 January 31, 2010	176,400
<b>2002 Grant</b>	2,348,400	U.S. \$	17.80 January 31, 2011	226,500
<b>2003 Grant</b>	2,397,300	Euro	10.51 January 31, 2012	225,900
<b>2004 Grant</b>	2,035,500	Euro	13.79 January 31, 2013	731,000
<b>2004 Performance Grant</b>	1,000,000	U.S. \$	18.59 January 31, 2012	920,000
<b>2004 Shareholder Grant</b>	9,600,000	Euro	13.67 December 31, 2014	9,600,000
<b>2005 Grant</b>	1,512,000	Euro	16.89 January 31, 2014	369,000

(1) As restated to reflect the June 2000 two-for-one stock split.

(2) As restated to reflect changes among our officers and directors during 2005.

### Summary of the Significant Differences Between Our Corporate Governance Practices and the Corporate Governance Standards of the New York Stock Exchange

#### Overview

On November 4, 2003, the New York Stock Exchange (the "NYSE"), established new corporate governance rules for listed companies. Under the new NYSE rules, we are permitted, as a listed foreign private issuer, to adhere to the corporate governance standards of our home country in lieu of certain NYSE corporate governance rules so long as we disclose the significant ways in which our corporate governance practices differ from those followed by U.S. companies under the NYSE listing standards.



## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

Our corporate governance practices are governed principally by the Italian Code of Corporate Governance issued by Borsa Italiana and generally by the rules and regulations of CONSOB (Commissione Nazionale per le Società e la Borsa) for Italian companies (collectively, the Italian Corporate Governance Policies ).

The following is a brief summary of the significant differences between our corporate governance practices in accordance with the Italian Corporate Governance Policies and those followed by U.S. companies under the NYSE listing standards.

### *Composition of Board of Directors; Independence*

The NYSE listing standards provide that the board of directors of a U.S. listed company must consist of a majority of independent directors and that certain committees must consist solely of independent directors. A director qualifies as independent only if the board affirmatively determines that the director has no material relationship with the company, either directly or indirectly. The listing standards enumerate a number of relationships that preclude independence. In addition, non-management directors of a U.S. listed company are required to meet at regularly scheduled executive sessions without management.

The Italian Corporate Governance Policies recommend that an adequate number of non-executive directors serve on the board of directors of an Italian company, but do not require the board of directors to consist of a majority of independent directors. The standards for determining director independence under the Italian Corporate Governance Policies are substantially similar to the NYSE listing standards for U.S. listed companies. The Italian Corporate Governance Policies do not require our non-executive directors to meet at executive sessions without management.

Based on standards under the Italian Corporate Policies, our Board of Directors has determined that, among its 12 members, four directors are independent. This number of independent directors complies with the adequate number of non-management directors recommended by the Italian Corporate Governance Policies. Luxottica's non-management directors do not have regularly scheduled executive sessions without management.

### *Board Committees*

The NYSE listing standards require a U.S. listed company to have an audit committee, a nominating/corporate governance committee and a compensation committee. Each of these committees must consist solely of independent directors and must have a written charter that addresses certain matters specified in the listing standards. The NYSE listing standards contain detailed requirements for the audit committees of U.S. listed companies. Commencing on July 31, 2005, some, but not all, of these requirements also apply to non-U.S. listed companies, such as us.

The Board of Directors has designated the Board of Statutory Auditors as the appropriate body to act as the Audit Committee, as defined in the Sarbanes-Oxley Act, SEC regulations and the NYSE listing standards. The Board of Statutory Auditors has acted as the Audit Committee beginning with the annual meeting of shareholders on June 14, 2006. Beginning on July 31, 2005 and until the annual meeting of shareholders on June 14, 2006, the functions of the Audit Committee were performed by the Internal Control Committee, as determined by the Board of Directors. Additional information regarding our Internal Control Committee and Board of Statutory Auditors is set forth below.

Italian law requires neither the establishment of board committees nor the adoption of written committee charters. With respect to the nomination of directors, the Italian Corporate Governance Policies recommend that each Italian listed company file with its registered office, at least ten days before its annual meeting of stockholders, a list of the personal and professional qualifications of each proposed director nominee. The Italian Corporate Governance Policies also recommend that, if an Italian listed company appoints a committee to select, or recommend the selection by the board of directors of, director nominees for the next annual meeting of stockholders, a majority of this committee be comprised of non-executive directors. Our director nominees are selected by our entire Board of Directors, and we comply with the Italian Corporate Governance Policies' recommendation that we timely file with our registered office a list of the personal and professional qualifications of each of our proposed director nominees.

The Italian Corporate Governance Policies recommend, but do not require, that Italian listed companies appoint a compensation committee and that a majority of this committee be comprised of non-executive directors. In accordance with Italian law, our Human Resources Committee, which does not consist of a majority of independent directors, performs the functions of a compensation committee, including the review of our officers' compensation and our stock option plans. The Italian Corporate Governance Policies also do not require Italian listed companies to have an audit committee, but do require companies to appoint a Board of Statutory Auditors. Additional information regarding our Board of Statutory Auditors is set forth below.

#### *Internal Control Committee*

Our Internal Control Committee consists of three independent directors. The committee has investigative, advisory and proposal-making functions concentrating on, among other matters, the internal control system and the proper use of accounting principles in conjunction with our administration managers and auditors. The committee reports to the Board of Directors at least twice a year.

#### *Board of Statutory Auditors*

Our Board of Statutory Auditors is appointed by our stockholders and serves for a period of three years. Italian law establishes the qualifications of candidates that may be appointed as members of the Board of Statutory Auditors, including the requirement that members not concurrently serve on the listed company's board of directors. Our By-Laws are required to ensure that at least one member of the Board of Statutory Auditors may be elected by our minority stockholders. Our By-laws comply with this provision providing that at least one effective and one alternate member may be elected by our stockholders holding at least 3 percent of our outstanding shares.

The Board of Statutory Auditors oversees our compliance with our By-laws and applicable laws and the adequacy of our internal control system and accounting and administrative system. The Board of Statutory Auditors is required to attend all meetings of our stockholders and the meetings of our Board of Directors. The Board of Statutory Auditors is also required to notify CONSOB if we fail to comply with our By-laws or any applicable laws.

#### *Corporate Governance Guidelines; Certification*

The NYSE listing standards require U.S. listed companies to adopt, and post on their websites, a set of corporate governance guidelines. The guidelines must address, among other things, director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing education, management succession, and an annual performance evaluation. In addition, the chief executive officer of a U.S. listed company must certify to the NYSE annually that he or she is not aware of any violations by the company of the NYSE's corporate governance listing standards. The certification must be disclosed in the company's annual report to stockholders.

Italian Corporate Governance Policies require that listed companies annually report to their shareholders at the annual general meeting on their corporate governance system. Our Company complies with such requirement. You may find our corporate governance report on our website at [www.luxottica.com](http://www.luxottica.com).

#### *Code of Business Conduct and Ethics*

The NYSE listing standards require each U.S. listed company to adopt, and post on its website, a code of business conduct and ethics for its directors, officers and employees. Under SEC rules, all companies required to submit periodic reports to the SEC, including us, must disclose in their annual reports whether they have adopted a code of ethics for their principal executive officer and senior financial officers. In addition, they must file a copy of the code with the SEC, post the text of the code on their website or undertake to provide a copy upon request to any person without charge. There is significant, though not complete, overlap between the code of business conduct and ethics required by the NYSE listing standards and the code of ethics for senior financial officers required by the SEC's rules.

In accordance with SEC rules we have adopted a Code of Ethics, which contains provisions in compliance with SEC requirements. Our Code of Ethics is available on our website at [www.luxottica.com](http://www.luxottica.com).

*Stockholder Approval of Equity Compensation Plans*

The NYSE listing standards require U.S. listed companies to seek stockholder approval for certain equity compensation plans. Italian law requires Italian listed companies to submit any capital increases of shares reserved for issuance under their equity compensation plans to stockholders for their approval at the annual meeting of stockholders. In accordance with the Italian Corporate Governance Policies, our stockholders approved capital increases of shares reserved for issuance under our existing stock option plans in 1998, 2001 and 2006.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**Major Shareholders**

The following table sets forth, as of June 14, 2006, the beneficial ownership of ordinary shares by (1) each person (or group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) known by us to own five percent or more of the outstanding ordinary shares (including ordinary shares represented by ADSs); and (2) all directors and executive officers as a group.

Identity of Person or Group	Amount of Shares Owned		Percent of Class	
Leonardo Del Vecchio	314,803,339	(1)	68.52	%
Directors and Executive Officers as a Group	322,847,870	(2)	70.27	%

(1) Includes ordinary shares held by entities controlled by Mr. Leonardo Del Vecchio and ordinary shares represented by ADSs over which Mr. Del Vecchio controls the power to vote. See Item 6 Directors, Senior Management and Employees Share Ownership.

(2) Includes ordinary shares represented by ADSs owned by directors and members of senior management in addition to shares owned by Mr. Leonardo Del Vecchio.

The ordinary shares held by Mr. Del Vecchio and our other directors and executive officers have the same voting rights as the shares held by other shareholders.

Mr. Del Vecchio beneficially owns approximately 68.52 percent of our outstanding ordinary shares (including any shares represented by ADSs) and serves as Chairman of our Board of Directors. We are not otherwise directly or indirectly owned or controlled by another corporation or by any foreign government.

To the best of our knowledge, to date there are no arrangements which may result in a change of control of Luxottica Group S.p.A.

**Related Party Transactions**

*Fixed Assets*

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues wh

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

In January 2002, a subsidiary of ours acquired certain assets for Euro 28.5 million and assumed a bank loan from Partimmo S.a.S. , a company owned by our Chairman. The assets acquired were a building, and all improvements thereto, for a total cost of Euro 42.0 million. We recorded these assets at their historic cost. Our headquarters are located in this building. The bank loan acquired had an outstanding balance of Euro 20.6 million on such date. In November 2004, the loan was fully repaid. In connection with the acquisition of this building, our subsidiary entered into an agreement leasing a portion of this building to our Chairman for Euro 0.5 million annually. The expiration date of this lease is 2010.

65

---



*License Agreements*

Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues wh

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

We have a worldwide exclusive license agreement to manufacture and distribute ophthalmic products under the Brooks Brothers name. The Brooks Brothers trade name is owned by Retail Brand Alliance, Inc. ( RBA ), which is controlled by Claudio Del Vecchio, one of our directors. The license agreement expired on March 31, 2003 and was renewed in January 2005. The license agreement expires in 2009. For the fiscal year 2005 conditions were not changed and royalties paid to RBA for such agreement were Euro 1.1 million, Euro 0.9 million and Euro 0.5 million in the years ended December 31, 2003, 2004 and 2005, respectively.

In July 2004, we signed a worldwide exclusive license agreement to manufacture and distribute ophthalmic products under the name of Adrienne Vittadini. The Adrienne Vittadini trade name is owned by RBA, which is controlled by Claudio Del Vecchio, one of our directors. The license agreement expires on December 31, 2007. For the years ended December 31, 2004 and 2005, royalties paid to RBA for such agreement were Euro 0.9 million and Euro 0.9 million, respectively.

### *Service Revenues*

During the years ended December 31, 2004 and 2005, U.S. Holdings performed certain services for RBA. Amounts received for the services provided were Euro 0.5 million, Euro 0.7 million and Euro 0.6 million in fiscal 2003, 2004 and 2005, respectively.

### *Shareholder Plan*

## Edgar Filing: LUXOTTICA GROUP SPA - Form 20-F

On September 14, 2004, our Chairman and majority shareholder, Mr. Leonardo Del Vecchio, had allocated shares held through La Leonardo Finanziaria S.r.l., an Italian holding company of the Del Vecchio family, representing 2.11 percent (or 9.6 million shares) of the Company's currently authorized and issued share capital, to a stock option plan for our top management at an exercise price of Euro 13.67 per share (see Note 10 to the Consolidated Financial Statements). The stock options to be issued under the stock option plan vest upon meeting certain economic objectives. During 2005, it became probable that the incentive targets would be met and, as such, the Company recorded compensation expense of approximately Euro 19.9 million net of taxes and recorded future unearned compensation expense in equity of approximately Euro 45.8 million net of taxes, with an offsetting increase in additional paid-in capital for such amounts.

### ITEM 8. FINANCIAL INFORMATION

#### Financial Statements

See Item 18 Financial Statements.

#### Legal Proceedings

The Company and its subsidiaries are involved in the following legal and regulatory proceedings of which the timing and outcomes are inherently uncertain, and such outcomes could have a material adverse effect on the Company's business, financial position or operating results.

66

---

*Sunglass Hut Shareholder Lawsuit*

In May and June 2001, certain former stockholders of Sunglass Hut commenced actions in the U.S. District Court for the Eastern District of New York against Luxottica Group S.p.A., and its acquisition subsidiary formed to acquire Sunglass Hut on behalf of a purported class of former Sunglass Hut stockholders. These actions were subsequently consolidated into a single amended consolidated class action complaint which alleged, among other claims, that the defendants violated certain provisions of U.S. securities laws and rules thereunder, in connection with the acquisition of Sunglass Hut in a tender offer and second-step merger. The plaintiffs' principal claim was that certain payments to James Hauslein, the former chairman of Sunglass Hut, under a consulting, non-disclosure and non-competition agreement (the "Agreement") violated the best price rule promulgated by the SEC by resulting in a payment for Mr. Hauslein's Sunglass Hut shares and his support of the tender offer that was higher than that paid to Sunglass Hut's stockholders in the tender offer. The plaintiffs also alleged that the Company and Mr. Leonardo Del Vecchio, our Chairman, violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The plaintiffs sought, among other remedies, the payment of such higher consideration to all tendering shareholders, other than Luxottica Group S.p.A. and its affiliates.

Luxottica Group S.p.A. and the other defendants filed a motion to dismiss the complaint in its entirety which, on November 26, 2003, the Court granted in part and denied in part. The Court granted Luxottica Group S.p.A.'s motion to dismiss plaintiffs' claim under Section 10(b) and Rule 10b-5, but denied our motion to dismiss plaintiffs' best price rule claim, as well as the claim that we aided and abetted Mr. Hauslein's breaches of his fiduciary duties. In so ruling the Court noted that it was obligated, for the purpose of rendering its decision on the motion to dismiss, to treat all of the plaintiffs' allegations in the complaint as true. On June 8, 2004, the consolidated complaint was further amended to add Mr. Leonardo Del Vecchio, our Chairman, as a defendant in respect of the two remaining claims.

On August 31, 2005, we agreed with the plaintiffs to a full and final settlement and release (the "Settlement") of all claims against the Company, our acquisition subsidiary and Mr. Del Vecchio. The Settlement, for a payment of Euro 11.6 million (or US\$ 14.5 million), was approved by the Court and final judgment has been entered dismissing the case with prejudice.

*California Vision Health Care Service Plan Lawsuit*

In March 2002, an individual commenced an action in the California Superior Court for the County of San Francisco against Luxottica Group S.p.A. and certain of our subsidiaries, including LensCrafters, Inc. and EYEXAM of California, Inc. The plaintiff, along with a second plaintiff named in an amended complaint, seeks to certify this case as a class action. The claims have been partially dismissed. The remaining claims, against LensCrafters, EYEXAM and EyeMed Vision Care, LLC, allege various statutory violations relating to the confidentiality of medical information, the operation of LensCrafters' stores in California, including violations of California laws governing relationships among opticians, optical retailers, manufacturers of frames and lenses and optometrists, false advertising and other unlawful or unfair business practices. The action seeks unspecified damages, disgorgement and restitution of allegedly unjustly obtained sums, statutory damages, punitive damages and injunctive relief, including an injunction that would prohibit defendants from providing eye examinations or other optometric services at LensCrafters stores in California. In May 2004, the trial court stayed all proceedings in the case pending the California Supreme Court's decision in a case against Cole and its subsidiaries expected to address certain legal questions related to the issues presented in this case. On June 12, 2006, the California Supreme Court rendered its decision in that case, ruling that optical stores such as those operated by Cole must comply with Sections 655 and 2556 of the California Business and Professions Code. It is expected that plaintiffs will now seek to resume their prosecution of this action. Although we believe that our operational practices in California comply with California law, an adverse decision in this action or the suit against Cole might cause LensCrafters, EYEXAM and EyeMed to modify or close certain activities in California. Further, LensCrafters, EYEXAM and EyeMed might be required to pay damages and/or restitution, the amount of which might have a material adverse effect on our operating results, financial condition and cash flow.

*People v. Cole*

In February 2002, the State of California commenced an action in the California Superior Court for the County of San Diego against Cole and certain of its subsidiaries, including Pearle Vision, Inc. and Pearle Vision Care, Inc. The claims allege various statutory violations related to the operation of Pearle Vision Centers in California including violations of California laws governing relationships among opticians, optical retailers, manufacturers of frames and lenses and optometrists, false advertising and other unlawful or unfair business practices. The action seeks disgorgement and restitution of allegedly unjustly obtained sums, civil penalties and injunctive relief, including an injunction that would prohibit defendants from providing eye examinations or other optometric services at Pearle Vision Centers in California. In July 2002, the trial court entered a preliminary injunction to enjoin defendants from certain business and advertising practices. Both Cole and the State of California appealed that decision. On November 26, 2003, the Court of Appeal issued an opinion in which it stated that because California law prohibited Pearle Vision from providing eye examinations and other optometric services at Pearle Vision Centers, the trial court should have enjoined Pearle Vision from advertising the availability of eye examinations at Pearle Vision Centers. The appellate court also ruled in Cole's favor with respect to charging dilation fees, which ruling partially lifted the preliminary injunction with respect to these fees that had been imposed in July 2002. On March 3, 2004, the California Supreme Court granted Cole's petition for review of the portion of the appellate court's decision stating that California law prohibited defendants from providing eye examinations and other optometric services at Pearle Vision Centers. The appellate court's decision directing the trial court to enjoin Pearle Vision from advertising these activities was stayed pending the Supreme Court's resolution of the issue. On June 12, 2006, the California Supreme Court affirmed the Court of Appeal's prior decision, and held that optical stores such as those operated by Cole must comply with Sections 655 and 2556 of the California Business and Professions Code. The matter will now be remanded to the trial court for further proceedings to determine if, in fact, Cole's operations comply with those laws. In addition, the preliminary injunction previously issued to enjoin advertising of the availability of eye examinations at Pearle Vision Centers, may soon become operative. Although we believe that Cole's operational practices in California comply with California law, an adverse decision in this action may compel Cole and its subsidiaries to modify or close certain activities in California. Further, Cole and its subsidiaries might be required to pay civil penalties and/or restitution, the amount of which might have a material adverse effect on our operating results, financial condition and cash flow.

*Cole SEC Investigation*

Following Cole's announcement in November 2002 of the restatement of its financial statements, the SEC began an investigation into Cole's previous accounting. The SEC subpoenaed various documents from Cole and deposed numerous former officers, directors and employees of Cole. During the course of this investigation, the SEC staff had indicated that it intended to recommend that a civil enforcement action be commenced against certain officers and directors of Cole but not against Cole. Cole was obligated to advance reasonable attorneys' fees incurred by current and former officers and directors who are involved in the SEC investigation subject to undertakings provided by such individuals. Cole has insurance available with respect to a portion of these indemnification obligations. In March 2006, the SEC staff indicated that it had concluded its investigation and that, contrary to its earlier indication, it would not be recommending that an enforcement action be commenced against anyone in connection with the investigation.



*Review by the Supreme Court of India regarding Ray Ban Sun Optics India Ltd.*

On August 29, 2003, the Securities Appellate Tribunal, or SAT, in India upheld the order of 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 at the end of January 2004, provided that our subsidiary issue a letter of credit for Rs 630.6 million (Euro 11.9 million) in favor of the Indian securities regulatory agency within the following four-week period. Our subsidiary complied with such requirement, and the 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 16 million, including stipulated interest increments.

*Cole National Shareholder Class Action*

On July 14, 2004, a shareholder of Cole filed a shareholders' class action complaint against Cole, its directors and the Company in the Delaware Chancery Court, known as *Pfeiffer v. Cole National Corp., et al.*, Civil Action No. 569-N. The complaint alleged, among other things, that the individual defendants breached their fiduciary duties as directors and/or officers to Cole by causing Cole to enter into an agreement to be acquired by the Company for \$22.50 per share without having exposed the company to the marketplace through fair and open negotiations with all potential bidders and/or an active market check or open auction for sale of the company. The complaint sought preliminary and permanent injunctive relief against the merger, rescission of the merger if it is consummated, and/or damages and other associated relief. No answer was served to this complaint. The Company believed the action to be without merit. In January 2006, the plaintiff voluntarily dismissed this action without prejudice.

It is the opinion of management that the outcome of existing claims against us will not have a material adverse effect on our consolidated financial position or results of operations. However, the outcome of these litigation claims is inherently uncertain, and there can be no assurance that one or more of these actions, if adversely determined, will not have a material adverse effect on our business, results of operations and financial condition. In addition, we may be subject to material claims, judgments or proceedings in the future which, if adversely determined, may have a material adverse effect on our business, results of operations and financial condition. See Item 3 Key Information Risk Factors Our business could be adversely affected by legal proceedings to which we are, or may become, a party.

**Dividend Distributions**

See Item 3 Key Information Dividends and Item 10 Additional Information.

**Significant Changes**

Except as otherwise indicated above, no significant changes have occurred since the date of our annual financial statements included in this Form 20-F.

**ITEM 9. THE OFFER AND LISTING**

Our ordinary shares were approved for trading on the Italian Stock Exchange on December 4, 2000. Our ADSs were admitted for trading on the NYSE on January 24, 1990. Our ADSs are evidenced by ADRs issuable by Deutsche Bank Trust Company Americas, as depositary, pursuant to a Deposit Agreement.

The table below sets forth, for the periods indicated, high and low closing prices of the ADSs on the NYSE (in U.S. dollars) and ordinary shares on the Italian Stock Exchange (in Euro).

	New York Stock Exchange (in U.S. \$)		Italian Stock Exchange (in Euro)	
	High	Low	High	Low
<b>2001</b>	17.99	12.15	20.62	13.41
<b>2002</b>	20.85	11.82	22.95	11.75
<b>2003</b>	18.15	10.23	14.82	9.25
<b>2004</b>				
First Quarter	17.85	15.18	14.09	12.43
Second Quarter	16.90	15.18	13.99	12.82
Third Quarter	17.85	16.30	14.54	13.31
Fourth Quarter	20.39	17.99	15.51	14.31
<b>2005</b>				
First Quarter	21.99	20.06	17.02	15.11
Second Quarter	21.32	19.69	17.55	15.31
Third Quarter	25.35	20.61	21.00	17.21
Fourth Quarter	25.83	23.75	21.94	19.62
December 2005	25.74	24.68	21.94	20.82
<b>2006</b>				
January 2006	26.86	24.90	22.21	20.37
February 2006	28.30	25.94	23.86	21.49
March 2006	29.05	27.25	24.12	22.74
April 2006	30.25	27.78	24.19	22.80
May 2006	30.54	26.51	23.93	21.27

The high and low closing prices of the ADSs on the NYSE for the first quarter of 2006 were U.S. \$29.05 and U.S. \$24.90, respectively. The high and low closing prices of the ordinary shares on the Italian Stock Exchange for the first quarter of 2006 were Euro 24.12 and Euro 20.37, respectively.



## ITEM 10. ADDITIONAL INFORMATION

### Memorandum and Articles of Association as of December 31, 2005

#### *Our Objectives*

Our Articles of Association provide that Luxottica Group S.p.A.'s principal objectives are, among other things, (i) the ownership and management of other companies or entities both in Italy and abroad, (ii) financing and managerial coordination of the owned companies and entities and (iii) providing credit support for our subsidiaries. The Legislative Decree No. 58 of February 24, 1998 regulating the Italian financial markets ( Decree No. 58 ) and our Articles of Association contain, among other things, provisions to the following effect:

#### *Directors*

The Board of Directors is invested with the fullest powers for ordinary and extraordinary management of the company, except for the acts that the law reserves for shareholders' meetings. Compensation of the directors is approved by the ordinary shareholders at the annual meeting of shareholders. The compensation of Directors who also serve as executive officers is determined by the Board of Directors with the favorable opinion of the Board of Statutory Auditors.

Directors are not required to hold ordinary shares of Luxottica Group S.p.A. as a qualification for office.

### Summary of Changes Occurring After December 31, 2005

On March 27, 2006, pursuant to the Italian Corporate Governance Policies, the Board of Directors of Luxottica Group S.p.A.:

- (i) adopted new Guidelines Concerning Transactions with Related Parties;
- (ii) adopted a new Procedure Concerning Internal Dealing;
- (iii) adopted a new Procedure for Handling Insider Information; and
- (iv) updated the Code of Ethics.

The above documents are available on the Company's website, [www.luxottica.com](http://www.luxottica.com).

On June 14, 2006, at an extraordinary and ordinary meeting of shareholders, the Company's By-laws were amended to implement the Italian Corporate Governance Policies. The principal amendments are as follows:

- requirements in order to attend a meeting of shareholders: those shareholders who have sent the Company a notice through the intermediary keeping the relevant accounts no later than two working days before the date scheduled for each meeting shall be entitled to attend the meeting, and the shares for which notice of attendance of the meeting was given may not be transferred before the meeting takes place;
- appointment of the Directors pursuant to lists submitted by the shareholders: only shareholders who individually or collectively with other shareholders represent at least 2.5% of the subscribed share capital at the time of submission of the list are entitled to submit a list. Such appointments shall be resolved by secret ballot if required by law. Such lists, together with the professional CVs of the candidates, shall be filed at the registered office of the Company at least 15 days prior to the first meeting of shareholders. At least one director shall be appointed from among the members included in the list that has obtained the second most votes;
- the appointment of the executive in charge of corporate accounting records will be subject to the non-binding opinion of the Board of Statutory Auditors;
- a meeting of the Board of Directors may be called by one member of the Board of Statutory Auditors;

- appointment of the Board of Statutory Auditors pursuant to lists submitted by the shareholders: only shareholders who individually or collectively with other shareholders represent at least 2.5% of the subscribed share capital at the

71

---

time of submission of the list are entitled to submit a list. Such appointments shall be resolved by secret ballot if required by law. Such lists, together with the professional CVs of the candidates, shall be filed at the registered office of the Company at least 15 days prior to the first meeting of shareholders. The first candidate on the list which has obtained the second most votes shall be appointed as Chairman of the Board of Statutory Auditors; and

- the term of the appointment of the independent auditor is fixed at 6 financial years and shall end on the date of the shareholders' meeting called to approve the financial statements for the sixth financial year following the appointment.

For more details, see the amended and restated by-laws of the Company, which are filed as an exhibit to this report.

### **Rights Attaching to Ordinary Shares**

#### *Dividends*

We are required to pay an annual dividend on the ordinary shares if approved by a majority of shareholders at the annual general meeting that must be held within 180 days after the end of each year. Before dividends may be paid with respect to the results of any year, an amount equal to five percent of our net income for such year must be set aside to the legal reserve until the reserve, including amounts set aside during prior years, is equal to at least one-fifth of the nominal value of our issued share capital. See Item 3 Key Information Dividends.

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 shareholders may determine. Dividends are usually paid in accordance with the dates set annually by Borsa Italiana S.p.A. Dividends which are not collected within five years of the date on which they become payable are forfeited. Dividends are paid to those persons who hold the ordinary shares through an intermediary on a dividend payment date declared at the shareholders' meeting. The intermediary, upon request by the shareholder, issues a certified statement of account allowing the shareholder to collect the dividends.

If dividends are not distributed and an appropriate reserve is created, the shareholders can adopt a resolution, at an extraordinary meeting, to convert such reserve into capital. In this case, the shares resulting from the increase are attributable to the shareholders in proportion to their ownership before the increase.

#### *Notification of the Acquisition of Shares and Voting Rights*

Pursuant to Italian securities laws and CONSOB (the Italian securities regulatory authority) implementing regulations thereof, any person acquiring any interest in excess of two percent in the voting shares of a listed company must give notice to CONSOB and the company whose shares are acquired. The voting rights attributable to the shares in respect of which such notification has not been made may not be exercised. Any resolution taken in violation of the foregoing may be annulled if the resolution would not have been passed in the absence of such votes.

In addition, any person whose aggregate shareholding in a listed company exceeds or falls below two percent, five percent, 7.5 percent, ten percent and successive percentage multiples of five, respectively, of the listed company's voting share capital is obligated to notify CONSOB and the listed company whose shares are acquired or disposed. For the purpose of calculating these ownership thresholds, shares owned by any person, irrespective of whether the relative voting rights are exercisable by such person or by a third party, are taken into consideration and, except in certain circumstances, account should also be taken of shares held through, or shares the voting rights of which are exercisable by, subsidiaries, fiduciaries or intermediaries. For the purpose of calculating the ownership thresholds of five percent, ten percent, 25 percent, 50 percent and 75 percent, shares which: (i) a person may, directly or indirectly, acquire or sell; and (ii) a person may acquire pursuant to the exercise of a warrant or conversion right which is exercisable within 60 days, should also be taken into account. The notification obligation is to be repeated when such person, upon the exercise of the right referred to in (i) or (ii) above, acquires or disposes of shares which causes his aggregate ownership in the listed company to exceed or fall below the relevant thresholds. Notification should be made (except in certain circumstances) within five trading days of the event that gives rise to the notification obligation.

Cross ownership between listed companies may not exceed two percent of their respective voting shares and cross ownership between a listed company and an unlisted company may not exceed two percent of the voting shares of the listed company and ten percent of the voting shares of the unlisted company. If the relevant threshold is exceeded, the company which is the latter to exceed such threshold may not exercise the voting rights attributable to the shares in excess of the threshold and must sell the excess shares within a period of twelve months. If the company does not sell the excess shares within twelve months, it may not exercise the voting rights in respect of its entire shareholding. If it is not possible to ascertain which is the later company to exceed the threshold, subject to any different agreement between the two companies, the limitation on voting rights and the obligation to sell the excess shares will apply to both of the companies concerned. The two percent limit for cross ownership is increased to five percent on the condition that such limit is only exceeded by the two companies concerned following an agreement authorized in advance by an ordinary shareholders' meeting of each of the two companies. Furthermore, if a party holds an interest in excess of two percent of a listed company's share capital, such listed company or the party which controls the listed company may not purchase an interest above two percent in a listed company controlled by the first party. In case of non-compliance, voting rights attributable to the shares held in excess may not be exercised. If it is not possible to ascertain which is the later party to exceed the limit, the limitation on voting rights will, subject to different agreement between the two parties, apply to both. Any shareholders' resolution taken in violation of the limitation on voting rights may be annulled by the relevant court if the resolution would not have been passed in the absence of such votes. The foregoing provisions in relation to cross ownership do not apply when the thresholds are exceeded following a public tender offer aimed at acquiring at least 60 percent of the company's shares.

The validity of any agreement which governs the voting rights of the shares of a listed company or of its parent company is subject to the notification of such agreement to CONSOB, the publication of a summary of such agreement in the press and the filing of the agreement with the Register of Enterprises, in each case, within five days, ten days and 15 days, respectively, of the date of the agreement. Failure to comply with the foregoing requirements will render the agreement null and void and the voting rights of the relative shares cannot be exercised.

The agreements subject to the above include those which: (i) regulate the exercise of, or prior consultation for the exercise of voting rights in, a listed company or its controlling company; (ii) contain limitations on the transfer of shares or securities which grant the right to purchase or subscribe for shares; (iii) provide for the purchase of shares or securities mentioned in (ii); or (iv) have as their object or effect the exercise (including joint exercise) of a dominant influence over the company.

Any agreement of the nature described above can have a legal maximum term of three years (and may be renewed for an additional three-year term at its expiration), and if executed for an unlimited term shall otherwise expire three years after its execution. Any such agreement executed for an unlimited term can be terminated by a party upon six months' prior notice. In the case of a public tender offer, shareholders who intend to participate in the tender offer may withdraw from the agreement without notice. CONSOB Regulation 11971/99 contains provisions which govern the method and content of the notification and publication of the agreements as well as any subsequent amendments thereto.

### *General Meetings*

Meetings of the shareholders may be held at our executive offices in Italy, in any country in the European Union and in the U.S., following publication of notice of the meeting including the agenda in the *Gazzetta Ufficiale* at least 30 days before the date fixed for the meeting. Deutsche Bank Trust Company Americas will mail to all record holders of ADRs a notice containing a summary of the information contained in any notice of a shareholders' meeting received by Deutsche Bank Trust Company Americas. See [Documents on Display](#).

Meetings of shareholders may be either ordinary meetings or extraordinary meetings. Shareholders' meetings may be called by the Board of Directors or the Board of Statutory Auditors. In the case of a listed company in Italy, Decree n. 58/98 provides that shareholders' meetings must be convened upon the request of holders of ten percent of the issued and outstanding share capital within 30 days following receipt of such a request, provided that the request contains a summary of the matters to be discussed. The Board of Directors may, however, resolve not to convene a meeting if the interest of Luxottica so requires. In this case, the Court of Milan, on appeal by the shareholders who have asked for such meeting, can order by decree, after having conferred with the Board of Directors and the Board of Statutory Auditors, that such meeting be convened.

Holders of ordinary shares are entitled to attend and vote at ordinary and extraordinary shareholders' meetings. Each holder is entitled to cast one vote for each ordinary share held. Votes may be cast personally or by proxy, in accordance with applicable Italian regulation. However, the voting rights of ordinary shares held in breach of applicable law may in some cases not be exercised.

Ordinary shareholders' meetings must be convened at least once a year to approve the annual financial statements of Luxottica Group S.p.A., which meeting must be convened within four months (or, under certain circumstances, six months) after the end of the financial year to which such financial statements relate. At ordinary shareholders' meetings, shareholders resolve upon dividend distribution, if any, appoint the Directors, Statutory Auditors and external auditors, determine their remuneration and vote on business matters submitted by the Directors.

The quorum required, in person or by proxy, for an ordinary meeting, upon first notice is at least 50 percent of the total number of issued and outstanding ordinary shares, while on second call there is no quorum requirement. Resolutions at ordinary meetings may be adopted, in first and second calls, by a simple majority of ordinary shares represented at such meeting.

Extraordinary meetings of shareholders may be called to vote upon, among other things, proposed amendments to the by-laws, capital increases, mergers, spin-offs, issuance of debentures, appointment of receivers and similar extraordinary actions. Pursuant to Decree n. 58/98, extraordinary shareholders' meetings shall be properly convened when, in the case of the first meeting, shareholders representing more than one-half of our share capital are present at the meeting, and in the case of the second and third meetings, shareholders representing, respectively, more than one-third and one-fifth of our share capital are present at the meeting. Resolutions are adopted on first, second and third calls of extraordinary shareholders' meetings with the affirmative vote of holders of at least two-thirds of the shares represented at the meeting.

The meeting notice period of 30 days is reduced to, respectively, 20 days with respect to meetings convened at the request of minority shareholders and meetings convened to resolve upon Luxottica Group S.p.A.'s dissolution, and 15 days for meetings convened pending a public tender offer launched with respect to our ordinary shares. The notice may specify a date for a second meeting in the event that a quorum is not obtained at the first meeting. Notice of any meeting on third notice, which must be held within 30 days from the previously adjourned meeting, must be published at least eight days prior to the date of the meeting. In addition, a meeting will be deemed duly convened if shareholders representing 100 percent of Luxottica Group S.p.A.'s share capital, together with all members of the Board of Directors and the Board of Statutory Auditors, are present at the meeting.

To attend any shareholders' meeting, a holder of ordinary shares must, at least two days prior to the date fixed for the meeting, deposit a certified statement of account which evidences its ownership of the ordinary shares at our offices or with such agent banks as may be specified in the notice of meeting in exchange for an admission ticket and proxy form for the meeting. Such statements may be obtained by beneficial owners of the ordinary shares through the intermediaries associated with Monte Titoli (or such authorized centralized securities custody and administration system with which their accounts are held). Alternatively, beneficial owners may instruct the relevant intermediary to procure the admission tickets and proxy forms.

Shareholders may appoint proxies by completing the form attached to the admission ticket. Directors, Statutory Auditors, external auditors or our employees as well as employees of companies controlled by us may not vote as proxies for shareholders and any one proxy cannot represent more than 200 shareholders of Luxottica Group S.p.A.

Pursuant to Decree n. 58/98, proxies may be solicited by an intermediary (for example, banks or investment firms) on behalf of a qualified soliciting stakeholder (generally, one or more shareholders who own, and have owned for more than six months, at least one percent (or such lesser percentage determined by CONSOB) of our voting capital and who has been registered in our shareholders' register as a holder of such shares for at least six months).

Proxies may be collected by a shareholders' association provided that such association has been formed by certified private agreement, does not carry out business activities and is made up of at least 50 individuals each of whom owns no more than 0.1 percent of our voting capital. Members of the shareholders' association may, but are not obliged to, grant proxies to the legal representative of the association and proxies may be granted in respect of only certain of the matters to be discussed at the relevant shareholders' meeting. The association may vote in different ways in compliance with the instructions expressed by each member who has granted a proxy to the association. CONSOB has established by implementing regulations provisions that govern the transparency and the proper performance of the solicitation and collection of proxies.

Our By-laws do not contain any limitations on the voting rights in respect of ordinary shares held by any shareholder. Resolutions adopted at a shareholders' meeting are binding on all shareholders. However, each absent or dissenting shareholder (as well as any Director or Statutory Auditor) has the right, under Italian law, to ask a court to annul resolutions taken in violation of applicable laws or the by-laws. In addition, in a limited number of cases (including the merger of a listed company with, and its incorporation into, an unlisted company) applicable law grants dissenting and absent shareholders the right to obtain the redemption of their shares by the issuer at the average market price of the shares during the previous six-month period. A redemption can be effected either by utilizing the available reserves of the issuer (in which case the shares may be held and registered in the name of the issuer) or alternatively by a reduction of share capital of the issuer.

#### *Preemptive Rights*

Pursuant to Italian law, holders of ordinary shares are entitled to subscribe for issuances of shares, debentures convertible into shares and rights to subscribe for shares in proportion to their holdings, unless such preemptive rights are waived or limited by a shareholders' resolution adopted by the affirmative vote of holders of more than 50 percent of the ordinary shares and such waiver or limitation is in the interest of Luxottica Group S.p.A. It is likely that the preemptive rights generally available to holders of ordinary shares may not be fully available to holders of ADRs. See Description of American Depositary Receipts Share Dividends and Other Distributions.

Pursuant to Decree n. 58/98, in the event that: (i) the newly issued shares are offered for subscription to our employees or employees of our subsidiaries; and (ii) the new shares to be issued by us for subscription by the aforementioned parties do not exceed one percent of our share capital, the resolution excluding preemptive rights is to be approved by shareholders representing the majority required for extraordinary meetings. If the aforementioned conditions are not satisfied, the resolution excluding the preemptive rights must be approved by shareholders representing more than 50 percent of our share capital, even if the resolution is taken at a meeting held on second or third notice.

#### *Preferential Shares*

Under Italian law, a company such as ours may issue shares that have a preference over ordinary shares with respect to the distribution of dividends or surplus assets. At present, we have no such preferential shares outstanding and any issuance of such shares would be subject to approval by a majority of shareholders.

#### *Rights on Liquidation*

On a liquidation or winding-up of the company, subject to the preferential rights of holders of any outstanding preferential shares, holders of ordinary shares will be entitled to participate in any surplus assets remaining after payment of the creditors. Shares rank *pari passu* among themselves in liquidation.

*Purchase of Shares by Luxottica Group S.p.A.*

We may purchase up to ten percent of our ordinary shares, subject to certain conditions and limitations provided by Italian law, including that the purchase be approved by shareholders. Shares may only be purchased out of profits available for dividends or out of distributable reserves in each case as appearing in the latest shareholder-approved unconsolidated financial statements. Further, we may only repurchase fully paid shares. As long as such shares are owned by us, they would not be entitled to dividends nor to subscribe for new ordinary shares in the case of capital increases, and their voting rights would be suspended. A corresponding reserve must be created in our balance sheet which is not available for distribution.

Decree n. 58/98 provides that the purchase by a listed company of its own shares and the purchase of shares of a listed company by its subsidiary must take place by way of a public offer or on the market in a manner agreed with Borsa Italiana S.p.A. which must ensure the equality of treatment among shareholders, subject to certain limitations. The foregoing does not apply to shares being purchased by a listed company from its employees or employees of its parent company or subsidiaries.

*Minority Shareholders' Rights*

Each absent or dissenting shareholder may, within three months, ask a court to annul shareholders' resolutions taken in violation of applicable laws or our by-laws. Each shareholder may bring to the attention of the Board of Statutory Auditors facts or acts which are deemed wrongful. Pursuant to Decree n. 58/98, if such shareholders represent more than two percent of our share capital, the Board of Statutory Auditors must investigate without delay and report its findings and recommendations at the shareholders' meeting.

Shareholders representing more than five percent of our share capital have the right to report major irregularities to the relevant court. In addition, shareholders representing at least five percent of our share capital who have been registered as shareholders for at least six months may initiate a liability suit against the Directors, Statutory Auditors and general managers of Luxottica Group S.p.A. We may waive or settle the suit only if less than five percent of the shareholders vote against such waiver or settlement. We will reimburse the legal costs of such action in the event that the claim of such shareholders is successful and (i) the court does not award such costs against the relevant Directors, Statutory Auditors or general managers, or (ii) such costs cannot be recovered from such Directors, Statutory Auditors or general managers. In compliance with decree n. 58/98, our by-laws give minority shareholders the right to appoint one Statutory Auditor and one Alternate Auditor to the Board of Statutory Auditors. See Item 6 Directors, Senior Management and Employees Directors and Senior Management.

*Italian Tender Offer Rules*

Under Decree n. 58/98, a public tender offer is required to be made by any person that through share purchases holds more than 30 percent of the voting stock of an Italian listed company. The public tender offer must cover the whole voting stock of the company. Similarly, under CONSOB rules, a public tender for the entire voting stock of a listed company must be made by any person who currently owns more than 30 percent of the voting stock of a company (but does not exercise majority voting rights at an ordinary shareholders' meeting) and purchases or acquires through the exercise of subscription or conversion rights during a 12-month period more than three percent of the ordinary capital. The offer must be launched within 30 days from the date on which the relevant threshold was exceeded, and must be made at a price not lower than the average of the weighted average of the market price for the shares in the previous 12 months, and the highest price paid for the shares by the offeror during the same period.

CONSOB regulates these provisions in greater detail through a number of exemptions from the duty to launch a tender offer. Such exemptions include, among others: (i) when another person or persons jointly control the company; (ii) when a party exceeds the threshold as a result of shares transferred to it by a related party; and (iii) when the threshold is exceeded by a party following the exercise of pre-emption or conversion rights to which such party was entitled. Article 107 of the Testo Unico provides, however, that the acquisition of an interest above 30 percent of the voting stock of a company does not trigger the obligation to launch a 100 percent tender offer if the person concerned has exceeded the threshold as a result of a public tender offer launched on 60 percent or more of the voting stock of the company. This provision is available only (i) if the tender offer is conditional on the acceptance by a majority of the shareholders of the company (excluding, for the purpose of calculating such majority, the offeror or any shareholder that holds an absolute or relative majority shareholding exceeding ten percent as well as the offeror's subsidiaries, controlling persons, related companies and other persons connected to it by virtue, among other things, of a shareholders agreement (together, persons or entities acting in concert with the offeror)), (ii) if the offeror (including the persons or entities acting in concert with the offeror) has not acquired more than one percent of the voting stock of the company in the preceding 12 months and during the offer period and (iii) upon receipt of satisfactory evidence that the terms of (i) and (ii) have complied with CONSOB rules that a mandatory bid need not be made. However, after the offer has been completed the offeror nevertheless becomes subject to the duty to launch an offer for 100 percent of the voting stock if, in the course of the subsequent 12 months, (i) it (including the persons or entities acting in concert with the offeror) has purchased more than one percent of the voting stock of the company, or (ii) the company has approved a merger or spin-off. Finally, anyone holding 90 percent or more of the voting stock of a company must launch an offer for the remaining shares, unless an adequate distribution of the shares is resumed so as to ensure proper trading within a period of four months. Any person who, following a tender offer for 100 percent of the voting stock, holds more than 98 percent of such voting stock is entitled to acquire the residual shareholding during a period of four months upon conclusion of the tender offer, if it has declared in the offering documentation its intention to make such acquisition. Shares held in breach of these rules cannot be voted and must be sold within 12 months.

#### *Derivative Suits*

Under Italian law, action against members of the Board of Directors, members of the Board of Statutory Auditors and General Managers of a company may be brought on behalf of the company if authorized by a resolution adopted at an ordinary meeting of shareholders. In respect of listed companies, the Testo Unico provides for a new form of shareholders' action against members of a board of directors, which may be brought by holders of at least five percent of the outstanding shares who have been registered in the shareholders' register for at least six months. We are allowed to not commence, or to settle, the suit provided that shareholders representing at least five percent of the issued and outstanding shares do not vote against a resolution to this effect. We will reimburse the legal costs of such action in the event that the claim of such shareholders is successful and (i) the court does not award these costs as part of the judgment against the relevant Directors, Statutory Auditors or general managers or (ii) these costs cannot be recovered from such Directors, Statutory Auditors or general managers. In addition, Italian law permits a shareholder acting alone to bring an action against members of a board or directors in the event that such shareholder has suffered damages directly related to negligence or willful misconduct.

#### *No Limitation of Ownership*

Neither Italian law nor any of our constituent documents impose any limitations on the right of non-resident or foreign shareholders to hold or exercise voting rights on our ordinary shares or the ADSs.

#### **Description of American Depositary Receipts**

The following is a summary of certain provisions of the Amended and Restated Deposit Agreement (the "Deposit Agreement"), dated as of March 28, 2006, among Deutsche Bank Trust Company Americas, as depositary, the holders from time to time of ADRs issued thereunder and us. The Deposit Agreement supersedes our earlier deposit agreement with The Bank of New York. This summary does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement, a copy of which has been filed as an exhibit to this annual report. For more complete information, the entire agreement should be read. Copies of the Deposit Agreement are available for inspection at the principal Corporate Trust Office of Deutsche Bank Trust Company Americas at 60 Wall Street, New York, New York 10005.



ADRs are issued by Deutsche Bank Trust Company Americas. Each ADR evidences an ownership interest in a number of American Depositary Shares, each of which represents one ordinary share that we deposit with Deutsche Bank Milan, as custodian under the Deposit Agreement. Each ADR will also represent securities, cash or other property deposited with Deutsche Bank Trust Company Americas but not distributed to ADR holders. Deutsche Bank Trust Company Americas Corporate Trust Office is located at 60 Wall Street, New York, New York 10005, and its principal executive office is located at 60 Wall Street, New York, New York 10005.

#### *Share Dividends and Other Distributions*

Deutsche Bank Trust Company Americas has agreed to pay to ADR holders the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities, after deducting its fees and expenses.

#### *Cash*

Deutsche Bank Trust Company Americas converts any cash dividend or other cash distribution we pay on the ordinary shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If it is not possible for Deutsche Bank Trust Company Americas to convert foreign currency in whole or in part into U.S. dollars, or if any approval or license of any government is needed and cannot be obtained, Deutsche Bank Trust Company Americas may distribute the foreign currency to, or in its discretion may hold the foreign currency uninvested and without liability for interest for the accounts of, ADR holders entitled to receive the same.

#### *Shares*

Deutsche Bank Trust Company Americas will, unless otherwise requested by us, distribute new ADRs representing any shares we may distribute as a dividend or free distribution. Deutsche Bank Trust Company Americas will only distribute whole ADRs. It will sell shares which would require it to issue a fractional ADR and distribute the net proceeds in the same way as it does with dividends or distributions of cash. If Deutsche Bank Trust Company Americas does not distribute additional ADRs, each ADR will also represent the additional deposited shares.

#### *Rights to Receive Additional Shares*

If we offer holders of our ordinary shares any rights to subscribe for additional ordinary shares or any other rights, Deutsche Bank Trust Company Americas may make these rights available to ADR holders. We must first instruct Deutsche Bank Trust Company Americas to do so and furnish it with satisfactory evidence that it is legal to do so. If we do not furnish this evidence and/or give these instructions, or if Deutsche Bank Trust Company Americas determines in its reasonable discretion that it is not lawful and feasible to make such rights available to all or certain owners, Deutsche Bank Trust Company Americas may sell the rights and allocate the net proceeds to holders' accounts. Deutsche Bank Trust Company Americas may allow rights that are not distributed or sold to lapse. In that case, ADR holders will receive no value for them.

If Deutsche Bank Trust Company Americas makes rights available to ADR holders, upon instruction from such holders it will exercise the rights and purchase the shares on behalf of the ADR holders.

#### *Deposit, Withdrawal and Cancellation*

ADRs may be turned in at the Corporate Trust Office of Deutsche Bank Trust Company Americas. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, Deutsche Bank Trust Company Americas will deliver the deposited securities underlying the ADRs at the office of the custodian, except that Deutsche Bank Trust Company Americas may deliver at its Corporate Trust Office any dividends or distributions with respect to the deposited securities represented by the ADRs, or any proceeds from the sale of any dividends, distributions or rights, which may be held by Deutsche Bank Trust Company Americas. Alternatively, at the request, risk and expense of the applicable ADR holder, Deutsche Bank Trust Company Americas will deliver the deposited securities at its Corporate Trust Office.

*Voting Rights*

ADR holders may instruct Deutsche Bank Trust Company Americas to vote the shares underlying ADRs but only if we ask Deutsche Bank Trust Company Americas to ask for such instructions. Otherwise, ADR holders will not be able to exercise their right to vote unless such holders withdraw the ordinary shares underlying the ADRs. However, an ADR holder may not know about a meeting at which such holder may be entitled to vote enough in advance to withdraw the shares.

If we ask for instructions of an ADR holder, Deutsche Bank Trust Company Americas will notify the ADR holder of the upcoming vote and arrange to deliver voting materials. The materials will (1) describe the matters to be voted on and (2) explain how ADR holders, on a certain date, may instruct Deutsche Bank Trust Company Americas to vote the shares or other deposited securities underlying the ADRs as directed. For instructions to be valid, Deutsche Bank Trust Company Americas must receive them on or before the date specified. Deutsche Bank Trust Company Americas will try, as far as practical, subject to Italian law and the provisions of our articles of association, to vote or to have its agents vote the shares or other deposited securities as instructed by the ADR holder. Deutsche Bank Trust Company Americas will only vote or attempt to vote as instructed by the ADR holder and will not vote any of such holder's shares or other deposited securities except in accordance with such instructions.

Deutsche Bank Trust Company Americas shall fix a record date whenever:

- any cash dividend or distribution shall become payable;
- any distribution other than cash shall be made;
- rights shall be issued with respect to the deposited securities;
- Deutsche Bank Trust Company Americas, for any reason, causes a change in the number of ordinary shares that are represented by each ADS; or
- Deutsche Bank Trust Company Americas receives notice of any meeting of holders of ordinary shares or other deposited securities.

The purpose of fixing a record date is to determine which ADR holders are:

- entitled to receive such dividend, distribution or rights;
- entitled to receive the net proceeds from the sale of such dividend, distribution or rights; and
- entitled to give instructions for the exercise of voting rights at any such meeting.

**Material Contracts**

The contracts described below have been entered into by Luxottica Group S.p.A. and/or its subsidiaries since January 1, 2004 and, as of the date of this annual report, contain provisions under which we or one or more of our subsidiaries has an obligation or entitlement which is or may be material to us. This discussion is not complete and should be read in conjunction with the agreements described below, each of which has been filed with the SEC as an exhibit to this annual report.

*Credit Agreements and Other Financing Agreements*

*Amended Euro 1,130 Million and U.S. \$325 Million Credit Facility and Related Interest Rate Swaps*

In March 2006, we amended our credit facility with a group of banks to provide for borrowings of an aggregate of Euro 1,130 million and an aggregate of U.S. \$325 million in favor of Luxottica Group S.p.A. and our subsidiary U.S. Holdings. The credit facility consists of three tranches: Tranche A is an amortizing term loan of Euro 405 million that is to be used to refinance Luxottica Group S.p.A.'s existing debt as it matures and for other general corporate purposes and will require nine equal quarterly installments of Euro 45 million beginning in June 2007; Tranche B is a term loan of U.S. \$325 million that was used by U.S. Holdings to finance the acquisition of Cole and will mature in March 2011; and Tranche C is a revolving credit facility equivalent to Euro 725 million, available in Euro or U.S.\$, in favor of both Luxottica Group S.p.A. and U.S. Holdings, that is to be used for general corporate purposes and all outstanding borrowings, if any, will mature in March 2011. At December 31, 2005, Euro 294.9 million had been drawn from Tranche C. We may select interest periods of one, two, three or six months with interest accruing on Euro-denominated loans based on the corresponding EURIBOR rate, plus a margin, and U.S. dollar-denominated loans based on the corresponding LIBOR rate, plus a margin of between 0.20 percent and 0.40 percent based on the Net Debt/EBITDA ratio, as defined in the agreement. The interest rates on December 31, 2005 was 2.94 percent for Tranche A, 4.56 percent for Tranche B and a 4.49 percent weighted average rate on Tranche C. The credit facility also contains certain financial and operating covenants. We were in compliance with those covenants as of December 31, 2005. Under this credit facility, Euro 974.3 million was outstanding as of December 31, 2005.

In June 2005, we entered into nine interest rate swap transactions with various banks with an aggregate initial notional amount of Euro 405 million which will decrease by Euro 45 million every three months starting on June 3, 2007 ( Club Deal Swaps ). These swaps will expire on June 3, 2009. The Club Deal Swaps were entered into as a cash flow hedge on Tranche A of the credit facility discussed above. The Club Deal Swaps exchange the floating rate of Euribor for an average fixed rate of 2.40 percent per annum. The cash flow hedges are deemed to be highly effective and as such the change in the fair value of the swaps will be included on the balance sheets in other comprehensive income. Any ineffectiveness and the amounts needed to properly reflect interest expense will be amortized out of OCI and recorded in the appropriate periods. As a result, approximately Euro 3.5 million is included in OCI as of December 31, 2005. Based on current interest rates and market conditions, the estimated aggregate amount to be recognized into earnings from OCI for these cash flow hedges in fiscal 2006 is approximately Euro 0.4 million, net of taxes.

### Italian Exchange Controls

The following is a summary of relevant Italian laws in force as at the date of this annual report but does not purport to be a comprehensive description of all exchange control considerations that may be relevant.

There are no exchange controls in Italy. Residents and non-residents of Italy may effect any investments, disinvestments and other transactions that entail a transfer of assets to or from Italy, subject only to the reporting, record-keeping and disclosure requirements described below. In particular, residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy, while non-residents may invest in Italian securities without restriction and may export from Italy cash, instruments of credit or payment and securities, whether in foreign currency or Euro, representing interest, dividends, other asset distributions and the proceeds of dispositions.

Updated reporting and record-keeping requirements are contained in recent Italian legislation which implements a European Union directive regarding the free movement of capital. Such legislation requires that transfers into or out of Italy of cash or securities in excess of Euro 12,500 be reported in writing to the *Ufficio Italiano Cambi* (the Italian Exchange Office) by residents or non-residents that effect such transfers directly, or by banks, securities dealers or *Poste Italiane S.p.A.* (Italian Mail) or other intermediaries that effect such transactions on their behalf. In addition, banks, securities dealers or *Poste Italiane S.p.A.* (Italian Mail) or other intermediaries effecting such transactions on behalf of residents or non-residents of Italy are required to maintain records of such transactions for five years, which may be inspected at any time by Italian tax and judicial authorities. Non-compliance with these reporting and record-keeping requirements may result in administrative fines or, in the case of false reporting and in certain cases of incomplete reporting, criminal penalties. The *Ufficio Italiano Cambi* will maintain reports for a period of ten years and may use them, directly or through other government offices, to police money laundering, tax evasion and any other crime or violation.

Individuals, non-profit entities and certain partnerships that are resident in Italy must disclose on their annual tax declarations all investments held outside Italy and financial assets held at the end of a taxable period, as well as the total amount of transfers effected during a taxable period to, from, within and between countries other than Italy relating to such foreign investments or financial assets, even if at the end of the taxable period such persons no longer owned such foreign investments or financial assets. No such disclosure is required if the total value of the investments and assets at the end of a taxable period, or the total amount of the transfers effected during the year, is not greater than Euro 12,500. Corporations and partnerships resident in Italy are exempt from such disclosure requirements with respect to their annual tax declarations because this information is required to be disc