LUXOTTICA GROUP SPA
Form 20-F
June 29, 2004

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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

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from __________ to __________

Commission file number 1-10421

LUXOTTICA GROUP S.p.A.
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)
REPUBLIC OF ITALY
(Jurisdiction of incorporation or organization)

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

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

Title of each class	Name of each exchange of which registered
AMERICAN DEPOSITARY SHARES EACH REPRESENTING ONE ORDINARY SHARE, PAR VALUE EURO .06 PER SHARE	**NEW YORK STOCK EXCHANGE**

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

ORDINARY SHARES, PAR VALUE
EURO .06 PER SHARE
(Title of Class)

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 .06 PER SHARE	**454,477,033**

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 /X/ No / /

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

Item 17 / /   Item 18 /X/

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. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from current expectations.

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, the risk that our merger with Cole National Corporation will not be completed, fluctuations in exchange rates, economic and weather factors affecting consumer spending, the ability to successfully introduce and market new products, the ability to effectively integrate recently acquired businesses, the ability to successfully launch initiatives to increase sales and reduce costs, the availability of correction alternatives to prescription eyeglasses 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, 1999, 2000, 2001, 2002 and 2003 is derived from our consolidated financial statements, which have been audited by Deloitte & Touche S.p.A., independent public accountants.

[TABLES APPEAR ON THE FOLLOWING PAGE]

	Year Ended December 31,					
	1999(6)(9)	**2000(9)**	**2001(9)(7)**	**2002(9)**	**2003(8)**	**2003(8)**
			(In thousands of Euro)(3)			**(In thousands of U.S. $)(1)(3)**
INCOME STATEMENT DATA:						
Net Sales	1,889,047	2,438,728	3,101,129	3,178,602	2,824,636	3,558,194
Cost of Sales	(574,092)	(719,241)	(920,183)	(924,404)	(878,340)	(1,106,445)
Gross Profit	1,314,955	1,719,487	2,180,946	2,254,198	1,946,296	2,451,749
OPERATING EXPENSE						
Selling and Advertising	(829,512)	(983,138)	(1,302,383)	(1,358,884)	(1,233,476)	(1,553,810)
General and Administrative	(247,785)	(324,428)	(369,071)	(293,806)	(281,033)	(354,017)
Total	(1,077,297)	(1,307,566)	(1,671,454)	(1,652,690)	(1,514,509)	(1,907,828)
Income from Operations	237,658	411,921	509,492	601,508	431,787	543,921
OTHER INCOME (EXPENSE)						
Interest Income	2,201	16,562	15,060	5,036	5,922	7,460
Interest Expense	(41,361)	(72,562)	(91,978)	(65,935)	(47,117)	(59,353)
Other Net	29,561	6,098	8,737	(1,167)	(799)	(1,007)
Other Income (Expense) Net	(9,599)	(49,902)	(68,181)	(62,066)	(41,994)	(52,900)
Income Before Provision for Income Taxes	228,060	362,019	441,311	539,442	389,793	491,021
Provision for Income Taxes	(64,154)	(101,488)	(123,450)	(162,696)	(117,328)	(147,798)
Income Before Minority Interests in Consolidated Subsidiaries	163,906	260,531	317,861	376,746	272,465	343,223
Minority Interests in Income of Consolidated Subsidiaries	(3,882)	(5,254)	(1,488)	(4,669)	(5,122)	(6,452)
Income Before Extraordinary Item	160,024	255,277	316,373	372,077	267,343	336,771
Extraordinary Loss on Debt Extinguishment, Net of Income Taxes	(7,561)					
Net Income	152,463	255,277	316,373	372,077	267,343	336,771
Weighted Average Shares Outstanding (thousands)						
Basic	449,299.8	449,987.9	451,037.0	453,174.0	448,664.4	
Diluted	450,228.5	452,920.2	453,965.5	455,353.5	450,202.1	
Basic Earnings per Share(2)	.34	.57	.70	.82	.60	.75
Diluted Earnings per Share(2)	.34	.56	.70	.82	.59	.75
Cash Dividends per Share(4)(5)	.07	.09	.14	.17	.21	.26

Year Ended December 31,

(1)
Translated for convenience at the rate of Euro 1.00 = U.S. $1.2597, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2003. See "Exchange Rate Information" below for more information regarding the Noon Buying Rate.

(2)
Earnings per Share for each year have been calculated based on the weighted-average number of shares outstanding during the respective years, giving effect to the two-for-one stock split in 2000 as if the split had occurred on January 1, 1999. Each American Depositary Share, or ADS, represents one ordinary share.

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

(4)
Cash Dividends per Share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes and have been restated to reflect the two-for-one stock split in 2000 as if the split had occurred on January 1, 1999.

(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 the Global Eyewear Division of Bausch & Lomb Incorporated, or the Ray-Ban business, in June 1999. As such, the results for 1999 include approximately six months of operating results of the Ray-Ban business.

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

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

(9) Certain amounts in prior years have been reclassified to conform with the 2003 presentation.

	As of December 31,					
	1999	**2000**	**2001**	**2002**	**2003**	**2003**
	(In thousands of Euro)					**(In thousands of U.S. $)(1)**
BALANCE SHEET DATA:						
Working Capital(2)	(457,606)	(38,755)	(872,107)	141,391	(56,185)	(70,776)
Total Assets	2,568,393	2,968,208	3,948,362	3,586,332	3,912,676	4,928,798
Long-Term Debt	356,917	506,159	132,247	855,654	862,492	1,086,481
Shareholders' Equity	786,292	1,049,163	1,342,843	1,417,895	1,374,534	1,731,500
Capital Stock	23,268	23,322	27,172	27,256	27,269	34,351

(1) Translated for convenience at the rate of Euro 1.00 = U.S. $1.2597, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2003. See "Exchange Rate Information" below for more information regarding the Noon Buying Rate.

(2) 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 17, 2004, our shareholders approved the distribution of a cash dividend in the amount of Euro 0.21 per ordinary share. Our Board of Directors proposed, and the shareholders approved, the date of June 24, 2004 as the date for the payment of such dividend to all holders of record of our ordinary shares on June 23, 2004, including The Bank of New York, as depositary on behalf of holders of our American Depositary Shares, or ADSs. Each ADS represents the right to receive one ordinary share and is evidenced by an American Depositary Receipt, or ADR. The ADSs were traded ex-dividend on June 21, 2004, and dividends in respect of the ordinary shares represented by ADSs were paid to The Bank of New York on June 24, 2004. The Bank of New York converted the Euro amount of such dividend payment into U.S. dollars on June 24, 2004. The dividend amount for each ADS holder will be paid commencing on July 1, 2004 to all such holders of record on June 23, 2004. 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 paid on each ordinary share in each year indicated.

Year	Cash Dividends per Ordinary Share(1)(2)(3)	Translated into U.S. $ per Ordinary Share(4)
	(Euro)	(U.S. $)
2004	0.210(5)	0.254(6)
2003	0.210	0.242
2002	0.170	0.165
2001	0.140	0.120
2000	0.085	0.081
1999	0.074	0.075

(1) Cash dividends per ordinary share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes and have been restated to reflect the two-for-one stock split in 2000 as if the split had occurred on January 1, 1999.

(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 0.210 per ordinary share was approved by our Board of Directors on May 4, 2004 and was voted upon and approved by our shareholders at the annual general meeting of shareholders held on June 17, 2004.

(6) The dividend per ordinary share was converted into U.S. dollars by The Bank of New York on June 24, 2004.

Exchange Rate Information

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

Period	High	Low	Average(1)	End of Period
Year Ended December 31, 2003	1.0361	1.2597	1.1307	1.2597
Year Ended December 31, 2002	0.8594	1.0485	0.9450	1.0485
Year Ended December 31, 2001	0.8384	0.9545	0.8957	0.8901
Year Ended December 31, 2000	0.8270	1.0332	0.9209	0.9388
Year Ended December 31, 1999	1.0015	1.1790	1.0642	1.0076

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

Month	High	Low
December 2003	1.1956	1.2597
January 2004	1.2389	1.2853
February 2004	1.2426	1.2848
March 2004	1.2088	1.2431
April 2004	1.1802	1.2358
May 2004	1.1801	1.2274

On June 24, 2004, the Noon Buying Rate was U.S. $1.2170 per Euro 1.00.

The introduction of the new European currency, the Euro, on January 1, 1999, resulted in two changes to the posting of certified rates by the Federal Reserve Bank of New York, commonly referred to as the "FRBNY."

1. Effective January 4, 1999, the FRBNY commenced posting a dollar-Euro exchange rate; and

2. After a brief courtesy period concluding January 15, 1999, the FRBNY ceased posting dollar rates against the currencies of the eleven countries participating in the monetary union (i.e., the Austrian schilling, Belgium franc, Finnish markka, French franc, German mark, Irish punt, Italian lire, Luxembourg franc, Dutch guilder, Portuguese escudo and Spanish peseta).

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. $", "dollars" or "U.S. dollars" are to United States dollars, references to "Euro" are to the Common European Currency, the Euro, references to "Rs" are to Indian rupees, and references to "A$" are to Australian dollars. On January 1, 2001, we began reporting our operating results and financial position in Euro, and as such all previous years have been translated from Italian Lire to Euro at the fixed exchange rate of Euro 1.00 = Lire 1,936.27.

Risk Factors

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

Our future operating performance depends upon our ability to successfully introduce new products.

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.

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

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

Our business is highly sensitive to economic conditions and changing consumer preferences.

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. Therefore, future economic downturns or uncertainties could have a material adverse effect on our business, results of operations and financial condition.

The eyewear industry is also subject to rapidly changing consumer preferences. While eyewear has achieved widespread acceptance as a fashion accessory, and the fashion eyewear industry has grown significantly in recent years, there can be no assurance that this growth 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.

We may be unable to achieve and manage growth, which could harm our business.

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 business, results of operations and financial condition could suffer.

Our business is highly dependent on our ability to negotiate and maintain favorable license arrangements.

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

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

Our business could be negatively impacted by the availability and acceptance of vision correction alternatives to prescription eyeglasses, such as contact lenses and refractive optical surgery. According to industry estimates, over 30 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, which would have a material adverse impact on our business, results of operations, financial condition and prospects.

Because our assets, liabilities, sales and costs are denominated in several currencies, we are vulnerable to exchange rate fluctuations.

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 and adversely affect 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 movements of the exchange rate of the Euro against the U.S. dollar and other currencies may negatively impact our reported results. In this regard, the U.S. dollar has continued to weaken against the Euro in the first six months of 2004 as compared to the same period in 2003.

See Item 11 "Quantitative and Qualitative Disclosures about Market Risk."

Our business is subject to risks relating to international sales and exposure to changing local conditions.

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

- exposure to local economic and political conditions;
- export and import restrictions;
- currency exchange rate fluctuations and currency controls;
- withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements; and
- local content laws requiring that certain products contain a specified minimum percentage of domestically-produced components.

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

We may be unable to protect our proprietary rights, which may adversely affect our business and financial results.

We rely on trade secret, unfair competition, trade dress, trademark, patent and copyright law 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.

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

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

We are subject to regulation by governmental authorities, and our compliance with these regulations could have an adverse affect 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 affect 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.

See Item 4 "Information on the Company Regulatory Matters."

We may not successfully complete and integrate strategic acquisitions to expand or complement our business.

As part of our growth strategy, we have made, and may continue to make, strategic business acquisitions to expand or complement our business. For example, we announced on January 26, 2004 that we entered into a merger agreement, dated as of January 23, 2004, as thereafter amended, for the acquisition of Cole National Corporation. 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 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 creation of tax or accounting issues. 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: manufacturing and wholesale distribution, and 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. 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 seven production facilities in Italy. In addition, we operate a facility in China for the production of certain low-cost private label products and certain finished products and components that are assembled in Italy for our wholesale business. In 2003, we manufactured approximately 28.7 million prescription frames and sunglasses.

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

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 2003, through our wholesale and retail networks, we distributed approximately 12.5 million prescription frames and approximately 18.7 million sunglasses in more than 2,450 models. Our products are distributed in approximately 120 countries worldwide.

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

Our retail network is mainly comprised of our subsidiaries, LensCrafters, Inc., Sunglass Hut International, Inc. and in Australia, New Zealand and Asia, OPSM Group Limited, which we acquired in August 2003. LensCrafters is the largest optical retailer in North America in terms of sales.

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

Company History

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

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

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

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

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

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

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

In April 2001, we continued to strengthen our sunglasses business by acquiring Sunglass Hut International, Inc. and its subsidiaries, a leading retailer of sunglasses worldwide. In May 2001, we acquired all of the issued and outstanding common stock of First American Health Concepts, Inc., a leading provider of managed vision care plans in the United States. In August 2003, we acquired 82.57 percent of the outstanding shares of OPSM, resulting in our leadership position in the prescription business, in the Australian and New Zealand markets, while at the same time presenting us with new growth opportunities in the Asian market.

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 February 18, 2004, we announced the renewal of the license agreement for the design, manufacture and worldwide distribution of prescription frames and sunglasses under the *Chanel* name. The licensing agreement provides for continuation of substantially the same terms and conditions of the current license agreement and will expire on March 31, 2008.

On June 16, 2004, we announced that we and Donna Karan International entered into an exclusive five-year license agreement for the design, production and worldwide distribution of *Donna Karan* and *DKNY* prescription frames and sunglasses. The initial term of the license agreement will begin on January 1, 2005, and is renewable for an additional five years through December 2014. The collections will be available worldwide to Donna Karan Collection and DKNY accounts and select specialty sun and optical stores. They will also be sold in Donna Karan Collection and DKNY domestic and international free standing boutiques.

On June 17, 2004, we announced the renewal of the license agreement for the design, manufacture and worldwide distribution of prescription frames and sunglasses under the *Bulgari* name. The licensing agreement provides for continuation of substantially the same terms and conditions of the current license agreement and will expire on December 31, 2010.

Our ADR Repurchase Plans

On March 25, 2004, one of our two authorized ADR repurchase plans expired. The first plan allowed our subsidiary Luxottica U.S. Holdings Corp., or U.S. Holdings, or any of its subsidiaries, to repurchase up to 11,500,000 ADRs, representing 2.5 percent of our authorized and issued capital, over the 18 month period commencing on September 25, 2002. Our other authorized ADR repurchase plan provides for the repurchase of up to an additional 10,000,000 ADRs, representing 2.2 percent of our authorized and issued share capital, over the 18 month period commencing on March 20, 2003. This ADR repurchase plan will expire on September 20, 2004. Through December 31, 2003, 6,434,786 ADRs had been repurchased at an aggregate purchase price of approximately Euro 70.0 million.

Ray Ban Sun Optics India Ltd.

On August 29, 2003, the Securities Appellate Tribunal, or SAT, in India upheld the lower Indian court's decision 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 in favor of the Indian securities regulatory agency within the following four week period of Rs 630.6 million (Euro 11.9 million). Our subsidiary complied with such requirement, and the Supreme Court of India directed the appeal to be listed in the week commencing on July 4, 2004. If we are ultimately required to make the public offer, we expect the aggregate cost of the offer to be approximately Euro 16 million, including stipulated interest increments.

Proposed Acquisition of Cole National Corporation

On January 26, 2004, we jointly announced with Cole National Corporation, or Cole National, that we entered into a definitive merger agreement dated as of January 23, 2004. Under the agreement, we would acquire all of the outstanding shares of Cole National for a cash purchase price of U.S. $22.50 per share, together with the purchase of all outstanding options and similar equity rights at the same price per share, less their respective exercise prices. The merger would be subject to the approval of Cole National's stockholders and the satisfaction of other customary conditions, including compliance with applicable antitrust clearance requirements.

On April 19, 2004, we learned of an unsolicited, non-binding offer received by Cole National from Moulin International Holdings Ltd. to acquire Cole National in a merger. Cole National announced on the same day in a press release its decision to postpone the special meeting of stockholders to vote on our proposed acquisition of Cole National in order to permit Cole National to file with the SEC and distribute to its stockholders updated proxy materials. The same press release noted that the recommendation by Cole National's board of directors in favor of the executed merger agreement between Cole National and us remained in effect. We issued a press release on the same day indicating that our Board of Directors did not deem it necessary to take any action in connection with the matters referred to in Cole National's announcement and that it would review such matters in due course.

On May 13, 2004, Cole National announced that Moulin International had informed Cole National that one of Moulin International's financing sources was not prepared to provide senior debt financing on the terms which had been contemplated in Moulin International's original acquisition proposal.

On June 2, 2004, Cole National and we announced that we entered into an amendment to our previously executed merger agreement. The amendment provides for Cole National's stockholders to receive an amount in addition to the original merger price upon the closing of the merger, provided that Cole National's stockholders approve the merger on or prior to July 20, 2004. The additional amount, which is payable in cash together with the merger price of U.S. $22.50 per share, would accrue at a rate of four percent per annum from and after the date on which Cole National's stockholders approve the merger agreement through the date of closing of the merger, which is subject to antitrust clearance in the United States. The transaction is expected to close in the second half of 2004.

New Euro 740 Million and U.S. $325 Million Credit Facility

On June 3, 2004, we entered into a new five-year credit facility with a group of banks for an aggregate of Euro 740 million and an aggregate of U.S. $325 million in favor of Luxottica Group S.p.A.

and our subsidiary, Luxottica U.S. Holdings Corp., or U.S. Holdings. The new credit facility consists of three tranches: (a) 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; (b) a term loan of U.S. $325 million that is to be used by U.S. Holdings to finance the acquisition of Cole National and will mature in June 2009; and (c) a revolving credit facility equivalent to Euro 335 million, available in Euro or U.S.$, in favor of both Luxottica Group S.p.A. and U.S. Holdings, that is to be used for general corporate purposes and will mature in June 2009. 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, as set forth in greater detail in the credit facility agreement. The new credit facility also contains certain financial and operating covenants.

Products and Services

Wholesale Operations

Our Brands

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

House Brands: Our house brands, almost entirely designed and manufactured by us, are sold worldwide under brand names such as *Luxottica, Sferoflex, Vogue*, and *Persol*, and, as a result of the Ray-Ban acquisition, *Ray-Ban, Revo, Killer Loop* and *Arnette*. We currently produce about 1,050 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:

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

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

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

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

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

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.

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.

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

Designer Lines: Our designer lines are produced and distributed through license agreements with major fashion houses. Currently, we produce 15 designer lines under the names *Chanel, Genny, Byblos, Salvatore Ferragamo, Emanuel Ungaro, Brooks Brothers, Sergio Tacchini,* *Anne Klein, Bulgari, Moschino, Versace, Versus, Prada, Miu Miu* and *Jil Sander*. Commencing on January 1, 2005, our designer lines will also include *Donna Karan* and *DKNY*. The license agreements governing these designer lines are exclusive contracts and typically have terms between three and six years, with the exception of the license agreement with Gianni Versace S.p.A., which has an initial term of ten years, with a ten year renewal period, and the license agreement with the Prada Group, which has a term of ten years. See " Trademarks 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 1,400 different styles.

The following is a summary description of each of our 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.

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.

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.

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.

Emanuel Ungaro: This product line presents collections with different characteristics; frames of classic and elegant form with natural colors as well as frames of innovative design with bright and contrasting colors.

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

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

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

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.

Moschino: Original and diff