

LUXOTTICA GROUP SPA  
Form 6-K  
December 23, 2005

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 6-K

### REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005  
COMMISSION FILE NO. 1 - 10421

### LUXOTTICA GROUP S.p.A.

VIA CANTÙ 2, MILAN 20123 ITALY

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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**FORM 6-K**

**for each of the three  
quarters ended March 31,  
June 30 and September 30  
of Fiscal Year 2005**

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**FINANCIAL STATEMENTS**  
**MARCH 31, 2005**  
**FORM 6-K**

LUXOTTICA GROUP S.p.A.

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## CONSOLIDATED BALANCE SHEETS US GAAP

DECEMBER 31, 2004 AND MARCH 31, 2005

	December 31, 2004 (Audited)		March 31, 2005 (Unaudited)		March 31, 2005 (Unaudited)
	(Thousands of Euro)		(Thousands of US dollars)(1)		
<b>ASSETS</b>					
<i>CURRENT ASSETS</i>					
Cash	€	257,349	€	365,500	\$ 474,017
Accounts receivable net		406,437		503,502	652,992
Sales and income taxes receivable		33,120		13,676	17,736
Inventories		433,158		410,191	531,977
Prepaid expenses and other		69,151		81,248	105,371
Asset held for sale Pearle Europe		143,617			
Net deferred tax assets current		104,508		87,056	112,903
<b>Total current assets</b>		<b>1,447,340</b>		<b>1,461,173</b>	<b>1,894,995</b>
<b>PROPERTY, PLANT AND EQUIPMENT net</b>					
		<b>599,245</b>		<b>629,029</b>	<b>815,788</b>
<i>OTHER ASSETS</i>					
Goodwill		1,500,962		1,593,208	2,066,232
Intangible assets net		972,091		985,284	1,277,815
Investments		13,371		13,707	17,777
Other assets		23,049		58,630	76,037
<b>Total other assets</b>		<b>2,509,473</b>		<b>2,650,829</b>	<b>3,437,860</b>
<b>TOTAL</b>	<b>€</b>	<b>4,556,058</b>	<b>€</b>	<b>4,741,031</b>	<b>\$ 6,148,643</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<i>CURRENT LIABILITIES</i>					
Bank overdrafts	€	290,531	€	373,274	\$ 484,099
Current portion of long-term debt		405,369		330,053	428,046
Accounts payable		222,550		216,050	280,195
Accrued expenses and other		376,779		371,692	482,047
Accrual for customers' right of return		8,802		11,021	14,293
Income taxes payable		12,722		35,296	45,775
<b>Total current liabilities</b>		<b>1,316,753</b>		<b>1,337,386</b>	<b>1,734,456</b>
<i>LONG-TERM LIABILITIES</i>					
Notes payable		221,598		231,321	300,000
Long-term debt		1,055,897		1,088,074	1,411,123
Liability for termination indemnities		52,656		53,225	69,028
Net deferred tax liabilities non current		215,891		200,257	259,713
Other		173,896		192,634	249,827
<b>Total long-term liabilities</b>		<b>1,719,937</b>		<b>1,765,511</b>	<b>2,289,691</b>

**MINORITY INTERESTS IN  
CONSOLIDATED  
SUBSIDIARIES**

23,760

10,735

13,922

**SHAREHOLDERS' EQUITY**

Capital stock par value Euro

0.06 455,205,473 and 455,924,373  
ordinary shares authorized and issued  
at December 31, 2004 and March 31,  
2005, respectively; 448,770,687 and  
449,489,587 shares outstanding at  
December 31, 2004 and March 31,  
2005, respectively.

27,312

27,355

35,477

Additional paid-in capital

47,167

53,857

69,848

Retained earnings

1,812,073

1,888,411

2,449,081

Accumulated other comprehensive  
loss

(320,958)

(272,237)

(353,065)

**Total** **1,565,594** **1,697,386** **2,201,340**
Less Treasury shares at cost;  
6,434,786 shares at December 31,  
2004 and March 31, 2005.

69,987

69,987

90,766

**Shareholders' equity** **1,495,607** **1,627,399** **2,110,574**
**TOTAL** € **4,556,058** € **4,741,031** \$ **6,148,643**

(1)

Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2969 on March 31, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

## STATEMENTS OF CONSOLIDATED INCOME US GAAP

FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2005 (UNAUDITED)

	2004		2005			
	(Thousands of Euro)(2)		(Thousands of US dollars)(1)(2)			
NET SALES	€	769,118	€	1,037,001	\$	1,344,887
COST OF SALES		244,045		334,058		433,240
<b>GROSS PROFIT</b>		<b>525,073</b>		<b>702,943</b>		<b>911,647</b>
OPERATING EXPENSES:						
Selling and advertising		324,225		455,765		591,082
General and administrative		80,738		110,730		143,606
<b>Total</b>		<b>404,963</b>		<b>566,495</b>		<b>734,688</b>
INCOME FROM OPERATIONS		120,110		136,448		176,959
OTHER INCOME (EXPENSE):						
Interest income		1,370		1,955		2,535
Interest expense		(12,082)		(15,807)		(20,500)
Other net		4,362		6,481		8,405
<b>Other income (expense) net</b>		<b>(6,351)</b>		<b>(7,371)</b>		<b>(9,560)</b>
INCOME BEFORE PROVISION FOR INCOME TAXES		113,759		129,077		167,399
PROVISION FOR INCOME TAXES		39,870		49,049		63,612
INCOME BEFORE MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES		73,889		80,028		103,787
MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES		2,714		3,690		4,784
NET INCOME	€	71,175	€	76,338	\$	99,003
<b>EARNINGS PER SHARE:</b>						
Basic	€	0.16	€	0.17	\$	0.22
Diluted	€	0.16	€	0.17	\$	0.22
WEIGHTED AVERAGE NUMBER						



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OF SHARES  
OUTSTANDING  
(thousands):

Basic	448,083.9	449,223.4
Diluted	450,048.0	452,000.7

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(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2969 on March 31, 2005 (see Note 7).

(2) Amounts in Thousands except per share data.

See Condensed Notes to Consolidated Financial Statements

**STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY US GAAP  
FOR THE THREE MONTHS ENDED MARCH 31, 2005 (UNAUDITED)**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Loss	Treasury Shares	Consolidated Shareholders' Equity
	Number of Shares	Amount						
(Thousands of Euro)								
BALANCES, January 1, 2005	455,205,473	27,312	47,167	1,812,073		(320,958)	(69,987)	1,495,607
Exercise of stock options	718,900	43	6,690					6,733
Translation adjustment					48,622	48,622		48,622
Change in fair value of derivative instruments, net of taxes					98	98		98
Net income				76,338	76,338			76,338
Comprehensive income					125,059			
BALANCES, March 31, 2005	455,924,373	27,355	53,857	1,888,411		(272,237)	(69,987)	1,627,399
Comprehensive income					\$ 162,189			
(Thousands of US dollars) <sup>(1)</sup>								
BALANCES, March 31, 2005	455,924,373	\$ 35,477	\$ 69,848	\$ 2,449,081		\$ (353,065)	\$ (90,766)	\$ 2,110,574
(Thousands of US dollars) <sup>(1)</sup>								

(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2969 on March 31, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

**STATEMENTS OF CONSOLIDATED CASH FLOWS US GAAP  
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2005 (UNAUDITED)**

	2004		2005			
	(Thousands of Euro)		(Thousands of US dollars)(1)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income	€	71,175	€	76,338	\$	99,003
Adjustments to reconcile net income to net cash provided by/(used in) operating activities: Minority interests in income of consolidated subsidiaries		2,714		3,690		4,786
Depreciation and amortization		35,302		46,504		60,311
Provision (benefit) for deferred income taxes		(848)		(2,168)		(2,812)
Gains (losses) on disposal of fixed assets net		(15)				
Termination indemnities matured during the period net		1,312		459		595
Changes in operating assets and liabilities, net of acquisition of business:						
Accounts receivable		(76,346)		(91,469)		(118,626)
Prepaid expenses and other		7,979		(28,460)		(36,909)
Inventories		17,019		31,900		41,371
Accounts payable		(8,159)		(11,235)		(14,571)
Accrued expenses and other		3,095		(8,481)		(10,999)
Accrual for customers' right of return		412		1,828		2,371
Income taxes payable		20,867		22,352		28,988
Total adjustments		3,332		(35,080)		(45,495)
Cash provided by operating activities	€	74,507	€	41,258	\$	53,507

(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2969 on March 31, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

**STATEMENTS OF CONSOLIDATED CASH FLOWS US GAAP  
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2005 (UNAUDITED)**

	2004		2005			
	(Thousands of Euro)		(Thousands of US dollars)(1)			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Property, plant and equipment:						
Additions	€	(12,957)	€	(39,693)	\$	(51,478)
Disposals						
Purchase of business				(61,962)		(80,358)
(Increase) decrease in investments		(54)		144,000		186,754
Increase in intangible assets		(2)		(1,839)		(2,385)
Cash used in investing activities		(13,013)		40,506		52,532
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Long-term debt:						
Proceeds				61,850		80,213
Repayments		(16,271)		(130,606)		(169,383)
Increase (decrease) in overdraft balances		(66,484)		80,743		104,715
Exercise of stock options		612		6,733		8,732
Cash (used in) provided by financing activities		(82,143)		18,719		24,277
CHANGE IN CASH AND CASH EQUIVALENTS		(20,649)		100,483		130,317
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD		299,937		257,349		333,756
Effect of exchange rate changes on cash and cash equivalents		5,033		7,668		9,944
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	€	284,322	€	365,500	\$	474,017
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>						
Cash paid during the period for interest	€	11,261	€	16,580	\$	21,503
Cash paid during the period for income taxes	€	4,345	€	6,479	\$	8,403

(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2969 on March 31, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The accompanying consolidated balance sheet as of March 31, 2005 and the related statements of consolidated income and cash flows for the three months ended March 31, 2004 and 2005 and the statement of consolidated shareholders' equity for the three months ended March 31, 2005 of Luxottica Group S.p.A. and subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. The consolidated balance sheet as of March 31, 2005, the statements of consolidated income and cash flows for the three months ended March 31, 2004 and 2005 and the statement of consolidated shareholders' equity for the three months ended March 31, 2005 are derived from unaudited financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations and cash flows as of March 31, 2004 and 2005 and for the three months ended March 31, 2004 and 2005 have been made.

The interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2004. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accounting policies have been consistently applied by the Company and are consistent with those applied in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2003. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the operating results for the full year.

The December 31, 2004 balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. However, the Company believes that the disclosures are adequate to make the information presented not misleading.

**2. ACQUISITION OF OPSM**

On June 16, 2003, the Company's wholly owned subsidiary, Luxottica South Pacific Pty Limited, commenced a cash offer to acquire all of the outstanding shares, performance rights and options of OPSM Group Ltd ("OPSM"), the largest eyewear retailer in Australia. On September 2, 2003, the cash offer was successfully completed and closed. At the close of the offer, Luxottica South Pacific Pty Limited acquired 82.57 percent of OPSM's ordinary shares, and more than 90 percent of OPSM's options and performance rights, which entitled the Company to require the cancellation of all the options and performance rights still outstanding. As a result of Luxottica South Pacific Pty Limited acquiring the majority of OPSM's shares on August 8, 2003, OPSM's financial position and results of operations have been reported in the Company's consolidated financial results since August 1, 2003.

On November 26, 2004, the Company through its wholly owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the unowned remaining outstanding shares of OPSM Group.

At the close of the offer on February 7, 2005, the Company held 98.5 percent of OPSM Group's shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, the Company announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by the Company.

On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 21, 2005 it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 23, 2005 and as of that date the Company held 100.0 percent of OPSM Group's shares. The difference between the purchase price and the value of the minority interest in OPSM has been preliminarily allocated entirely to goodwill.

### 3. ACQUISITION OF COLE NATIONAL

On July 23, 2003, the Company formed an indirect wholly owned subsidiary, Colorado Acquisition Corp., for the purpose of acquiring all the outstanding common stock of Cole, a publicly traded company on the New York Stock Exchange. On January 23, 2004, as amended as of June 2, 2004 and July 15, 2004, the Company and Cole entered into a definitive merger agreement with the unanimous approval of the Boards of Directors of both companies. On October 4, 2004, Colorado Acquisition Corp. consummated its merger with Cole. As a result of the merger, Cole became an indirect wholly owned subsidiary of the Company. The aggregate consideration paid by the Company to former shareholders, option holders and holders of restricted stock of Cole was approximately U.S. \$500.6 million. In connection with the merger, the Company assumed outstanding indebtedness with an approximate aggregate fair value of Euro 253.3 million (U.S. \$310.9 million). The results of Cole have been consolidated into the Company's consolidated financial statements as of the acquisition date. The acquisition was accounted for using the purchase method, and accordingly, U.S. \$520.1 million (including the purchase price of U.S. \$500.6 million plus approximately U.S. \$19.5 million of acquisition-related expenses) was allocated to the assets acquired and liabilities assumed based on their fair value at the date of the acquisition. The Company used various methods to calculate the fair value of the assets and liabilities and all valuations have not yet been completed. As such, the final allocation of assets may change during 2005. The excess of purchase price over net assets acquired ("goodwill") has been recorded in the accompanying consolidated balance sheet.

The purchase price (including acquisition-related expenses) has been allocated based upon the valuation of the Company's acquired assets and liabilities currently assumed as follows (Thousands of Euro):

<i>Assets purchased:</i>	
Cash and cash equivalents	60,762
Inventories	89,631
Accounts receivable	45,759
Prepaid expenses and other current assets	12,503
Property, plant and equipment	113,769
Trade names (useful lives 25 years, no residual value)	72,909
Distributor network (useful life 23 years, no residual value)	98,321
Customer lists and contracts (useful lives 21-23 years, no residual value)	68,385
Other intangibles	37,122
Asset held for sale Pearle Europe	143,617
Other assets including deferred tax assets	11,300
<i>Liabilities assumed:</i>	
Accounts payable	(47,854)
Accrued expenses and other current liabilities	(177,213)
Deferred tax liabilities	(21,550)
Long-term debt	(253,284)
Bank overdraft	(22,668)
Other non-current liabilities	(75,730)
Fair Value of Net Assets	155,779
Goodwill	267,961
Total Purchase Price	423,740

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The amount of goodwill has not changed materially from the December 31, 2004 valuation.

The Company believes that the preliminary allocation of the purchase price is reasonable, but it is subject to revision upon completion of the final valuation of certain assets and liabilities, which is expected to occur during the third quarter of 2005. As such, the purchase price allocation set forth above may change subsequent to March 31, 2005 to reflect the final amounts.

Included under the caption "Asset Held For Sale" in the above table and on the consolidated balance sheet at December 31, 2004 is the fair value of the Company's investment in Pearle Europe B.V. ("PE") established through negotiations with the majority shareholder of PE to acquire the asset. As part of the acquisition of Cole, the Company acquired approximately 21 percent of PE's outstanding shares. A change of control provision included in the Articles of Association of PE required Cole to make an offer to sell these shares to the shareholders of PE within 30 days of the change of control, which deadline was extended by agreement of the parties. In December 2004, substantially all the terms of the sale were established at a final cash selling price of Euro 144.0 million, subject to customary closing conditions. The sale transaction closed in January 2005. As the asset is denominated in Euros, which is not the functional currency of the subsidiary that held the investment, the Company has recorded a foreign exchange loss of approximately U.S. \$3.0 million during the three months ended March 31, 2005 relating to the changes in the U.S. dollar/Euro exchange rate between December 31, 2004 and January 5, 2005 (the date of closing).

On October 17, 2004, Cole caused its subsidiary to purchase U.S. \$150.0 million principal amount of its outstanding 8<sup>7</sup>/<sub>8</sub>% Senior Subordinated Notes due 2012 in a tender offer and consent solicitation for U.S. \$175.5 million, which amount represented all of the issued and outstanding notes of such series. On November 30, 2004, Cole caused its subsidiary to redeem all of its outstanding 8<sup>5</sup>/<sub>8</sub>% Senior Subordinated Notes due 2007 for U.S. \$126.4 million.

#### 4. INVENTORIES

Inventories consisted of the following (Thousands of Euro):

	December 31, 2004		March 31, 2005	
Raw materials	€	50,656	€	50,746
Work in process		24,486		23,113
Finished goods		358,016		336,331
Total	€	433,158	€	410,191

#### 5. EARNINGS PER SHARE

Earnings per share are computed by dividing net income by the number of weighted average shares outstanding during the period. Basic earnings per share are based on the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are based on the weighted average number of ordinary shares and ordinary share equivalents (options) outstanding during the period.

## 6. STOCK OPTION AND INCENTIVE PLANS

Options to purchase an aggregate of 13,142,660 ordinary shares of the Company were outstanding at March 31, 2005. Outstanding options granted under the Company's Stock Option Plans (12,142,660 ordinary shares) become exercisable in three equal annual installments and expire on or before January 31, 2014. During the first three months of 2005, 718,900 options were exercised.

Options granted in 2004 under a Company Incentive Plan (1,000,000 ordinary shares) vest and become exercisable from January 31, 2007 only if certain financial performance measures are met over the period ending December 2006.

As the Company has elected to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," no compensation expense was recorded for shares issued under the Stock Option Plans because each option's exercise price was equal to the fair market value of the underlying stock on the option's date of grant. Compensation expense will be recorded for the options issued under the Company's Incentive Plans based on the market value of the underlying ordinary shares only when the number of shares to be vested and issued is known.

On September 14, 2004, the Company announced that its majority shareholder, Mr. Leonardo Del Vecchio, had allocated shares held through La Leonardo Finanziaria S.r.l., a 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 top management of the Company. The stock options to be issued under the stock option plan vest upon meeting certain economic objectives. As such, compensation expense will be recorded for the options issued to management under this plan based on the market value of the underlying ordinary shares only when the number of shares to be vested and issued is known.

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

## 7. U.S. DOLLAR CONVENIENCE TRANSLATION

The consolidated financial statements presented in Euro as of and for the three months ended March 31, 2005 are also translated into U.S. Dollars, solely for the convenience of the readers of these financial statements, at the noon buying rate of Euro 1.00 = U.S. \$1.2969, as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") at March 31, 2005. Such translations should not be construed as representations that Euro amounts could be converted into U.S. Dollars at that or any other rate.

## 8. INCOME TAXES

The Company's 2004 effective tax rate is less than the statutory tax rate due to permanent differences between the Company's 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 the Company's acquisitions.



**9. SEGMENTS AND RELATED INFORMATION**

The Company operates in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution.

The following tables summarize the segmental information deemed essential by the Company's management for the purpose of evaluating the Company's performance and for making decisions about future allocations of resources.

The "Inter-segment transactions and corporate adjustments" column includes the elimination of inter-segment activities and corporate-related expenses not allocated to reportable segments. This has the effect of increasing reportable operating profit for the manufacturing and wholesale and retail segments. Identifiable assets are those tangible and intangible assets used in operations in each segment. Corporate identifiable assets are principally cash, goodwill and trade names. (Thousands of Euro)

Quarter ended March 31,	Manufacturing And Wholesale	Retail	Inter-Segment Transactions and Corporate Adjustments	Consolidated
<b>2005</b>				
Net revenues	326,873	756,772	(46,644)	1,037,001
Operating income	77,743	76,496	(17,791)	136,448
Identifiable assets	1,576,238	1,146,932	2,017,862	4,741,031
<b>2004</b>				
Net revenues	298,730	513,329	(42,941)	769,118
Operating income	68,002	64,008	(11,900)	120,110
Identifiable assets	1,559,702	892,679	1,530,653	3,983,034

**10. COMMITMENTS AND CONTINGENCIES**

The Company and its subsidiaries become involved in legal and regulatory proceedings from time to time, some of which are significant. The timing and outcome of these proceedings are inherently uncertain and the outcomes of certain cases as disclosed in the Company's 2004 consolidated financial statements could have a material adverse effect on the Company's business, financial position or future operating results. It is the opinion of management of the Company that it has meritorious defenses against these claims, which the Company will vigorously pursue.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2005**

The following discussion should be read in conjunction with the disclosure contained in the Company's Annual Report on Form 20-F for the year ended December 31, 2003, which contains, among other things, a discussion of the Company's significant accounting policies and risks and uncertainties that could affect the Company's future operating results or financial condition.

**OVERVIEW**

The Company operates in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution. Through its manufacturing and wholesale distribution operations, the Company is engaged in the design, manufacture, wholesale distribution and marketing of house brand and designer lines of mid- to premium-priced prescription frames and sunglasses. The Company operates in the retail segment through its retail division, consisting of LensCrafters, Inc. and other affiliated companies ("LensCrafters"), Sunglass Hut International, Inc. and its subsidiaries and affiliates ("Sunglass Hut"), OPSM Group Ltd. and subsidiaries and affiliates and, since October 2004, Cole National Corporation ("Cole") and its subsidiaries. As of March 31, 2005, the Company's retail division consisted of 5,657 owned or leased department retail locations and 505 franchised locations as follows:

	North America	Europe	Asia- Pacific <sup>(1)</sup>	Total
LensCrafters	893			893
Sunglass Hut	1,551	110	162	1,823
OPSM Group			561	561
Cole National Group	2,380			2,380
Franchised locations	475		30	505
	<u>5,299</u>	<u>110</u>	<u>753</u>	<u>6,162</u>

(1) "Asia-Pacific" in our Retail Division consists of Australia, New Zealand, Singapore, Malaysia and Hong Kong.

Our net sales consist of, among other items, 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. 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. We have historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses. As a result, net sales are typically higher in the second quarter and lower in the fourth quarter.

The Company's results of operations, which are reported in Euro, are susceptible to currency fluctuations between the Euro and the U.S. Dollar due to its significant U.S. retail business. The U.S. Dollar/Euro exchange rate has fluctuated from an average exchange rate in the first quarter of 2004 of Euro 1.00 = U.S. \$1.2497 to Euro 1.00 = U.S. \$1.3113 in the first quarter of 2005. Additionally, with the acquisition of OPSM, the Company's results of operations have also been rendered susceptible to currency rate fluctuation between the Euro and the Australian Dollar. The Australian Dollar/Euro exchange rate has fluctuated from an average exchange rate in the first quarter of 2004 of Euro 1.00 = AUD \$1.6337 to Euro 1.00 = AUD \$1.6878 in the first quarter of 2005. Although the Company engages in certain foreign currency hedging activities to mitigate the impact of these fluctuations, currency fluctuations have negatively impacted the Company's reported revenues and net income during the

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periods discussed herein. Fluctuations in currency exchange rates could significantly impact the Company's reported financial results in the future.

On November 26, 2004, the Company through its wholly owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the remaining outstanding shares of OPSM Group it did not already own. The offer was for AUD \$4.35 per share including a fully franked dividend of AUD \$0.15 per share declared by OPSM (resulting in a net price of AUD \$4.20 per share). For further details, see Note 2, "Acquisition of OPSM".

On October 4, 2004, the Company acquired all of the issued and outstanding shares of Cole National Corporation through a merger. The aggregate purchase price for the shares purchased in the merger and the cancellation of Cole outstanding options and restricted stock and acquisition-related costs was U.S. \$520.1 million (Euro 423.7 million based on the exchange rate in effect at such time).

The Company believes that its combination with Cole will:

strengthen its retail operations in the United States;

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

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

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

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

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

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

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

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

general and administrative; and

sale of the Company's manufactured products.

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

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

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

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

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

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2005**

The following table sets forth for the periods indicated the amount and percentage of net sales represented by certain items included in the Company's statements of consolidated income (Thousands of Euro).

	Three months ended March 31,			
	2004	%	2005	%
Net sales	769,118	100.0	1,037,001	100.0
Cost of sales	244,045	31.7	334,058	32.2
Gross profit	525,073	68.3	702,943	67.8
Selling, advertising general and administrative expense	404,963	52.7	566,495	54.6
Income from operations	120,110	15.6	136,448	13.2
Other (expense) income net	(6,351)	0.8	(7,371)	0.7
Income before provision for income taxes	113,759	14.8	129,077	12.4
Provision for income taxes	39,870	5.2	49,049	4.7
Minority interests	2,714	0.4	3,690	0.4
Net income	71,175	9.3	76,338	7.4

**Net Sales** Net sales increased 34.8 percent to Euro 1,037.0 million during the first three months of 2005 as compared to Euro 769.1 million for the same period of 2004.

Net sales in the retail segment through LensCrafters, Sunglass Hut, OPSM and Cole increased by 47.4 percent to Euro 756.8 million for the first three months of 2005 from Euro 513.3 million for the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the first three months of 2005, which amounted to Euro 236.5 million, partially offset by the weakening of the U.S. dollar against the Euro. The effect of the weakening of the U.S. dollar on the first three months of 2005 retail sales in North America was approximately Euro 32.3 million.

Net sales to third parties in the manufacturing and wholesale segment increased by 9.6 percent to Euro 280.2 million for the first three months of 2005 as compared to Euro 255.8 million in the same period of 2004. This increase was mainly attributable to increased sales of our Ray-Ban brand and Vogue product line as well as sales of Prada, Versace and Chanel branded products.

On a geographic basis, operations in the United States and Canada resulted in net sales of Euro 697.7 million during the first three months of 2005, comprising 67.3 percent of total net sales, an increase of Euro 248.2 million from the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the first three months of 2005, which amounted to Euro 236.5 million, partially offset by the weakening of the U.S. dollar against the Euro (in U.S. dollars, operations in the United States and Canada resulted in an increase in net sales of U.S. \$353.2 million as compared to the same period of 2004). Net sales for operations in "Asia-Pacific" were Euro 111.9 million during the first three months of 2005 compared to Euro 110.1 million in the same period of 2004; net sales for operations in "Asia Pacific" during the first three months of 2005 comprise 10.8 percent of total net sales. Net sales for the rest of the world accounted for the remaining Euro 227.4 million of net sales during the first three months of 2005, which represented an 8.5 percent increase as compared to the same period of 2004.

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During the first three months of 2005, net sales in the retail segment accounted for approximately 73.0 percent of total net sales, as compared to approximately 66.7 percent of net sales in the same period of 2004.

**Cost of Sales** Cost of sales increased by 36.9 percent to Euro 334.1 million in the first three months of 2005, from Euro 244.0 million in the same period of 2004, and increased as a percentage of net sales to 32.2 percent from 31.7 percent. Cost of sales in the retail segment increased by Euro 86.7 million, primarily due to the inclusion of Cole's cost of sales in our results of operations, partially offset by the weakening of the U.S. dollar against the Euro. Cost of sales in the manufacturing and wholesale segment increased by Euro 8.7 million due to the increase in net sales. Manufacturing labor costs increased by 9.1 percent to Euro 68.5 million in the first three months of 2005 from Euro 62.8 million in the same period of 2004. As a percentage of net sales, cost of labor decreased to 6.6 percent for the first three months of 2005 from 8.2 percent for the same period of 2004. For the first three months of 2005, the average number of frames produced daily in Luxottica's facilities was approximately 113,000 as compared to 128,000 for the same period of 2004.

**Gross Profit** For the reasons outlined above, gross profit increased by 33.9 percent to Euro 702.9 million in the first three months of 2005 from Euro 525.1 million in the same period of 2004. As a percentage of net sales, gross profit decreased to 67.8 percent in the first three months of 2005 from 68.3 percent in the same period of 2004 due to the inclusion of Cole results.

**Operating Expenses** Total operating expenses increased by 39.9 percent to Euro 566.5 million in the first three months of 2005 from Euro 405.0 million in the same period of 2004. As a percentage of net sales, operating expenses increased to 54.6 percent in the first three months of 2005 from 52.7 percent in the same period of 2004.

Selling and advertising expenses (including royalty expenses) increased by 40.6 percent to Euro 455.8 million during the first three months of 2005, from Euro 324.2 million in the same period of 2004. Euro 121.9 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. selling and advertising expenses by Euro 16.0 million. As a percentage of net sales, selling and advertising expenses increased to 44.0 percent in the first three months of 2005 from 42.2 percent in the same period of 2004. This increase as a percentage of sales is primarily attributable to the consolidation of Cole's results in our results of operations. Management believes that such increase is temporary, primarily because Cole's business is in the process of restructuring.

General and administrative expenses, including intangible asset amortization, increased by 37.1 percent to Euro 110.7 million in the first three months of 2005 from Euro 80.7 million in the same period of 2004. Euro 29.1 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. general and administrative expenses by Euro 2.9 million. As a percentage of net sales, general and administrative expenses increased to 10.7 percent in the first three months of 2005 from 10.5 percent in the same period of 2004. This increase was primarily due to the consolidation of Cole's results in our results of operations. The restructuring of Cole operations is underway and it is expected that the general and administrative costs of the Group will decrease as a percentage of sales during 2005.

**Income from Operations** Income from operations for the first three months of 2005 increased by 13.6 percent to Euro 136.4 million, from Euro 120.1 million in the same period of 2004. As a percentage of net sales, income from operations decreased to 13.2 percent in the first three months of 2005 from 15.6 percent in the same period of 2004.

Operating margin in the manufacturing and wholesale distribution segment increased to 23.8 percent in the first three months of 2005 from 22.8 percent in the same period of 2004. This increase

in operating margin is attributable to lower sales commissions and higher gross profit due to a more favorable product mix.

Operating margin in the retail segment decreased to 10.1 percent in the first three months of 2005 from 12.5 percent in the same period of 2004 due to the consolidation of Cole's results in our results of operations. In 2005, it is management's expectation that the retail segment operating margin will be lower than 2004, since Cole's operating margin is lower than the rest of the retail segment. Management expects that the North American retail operating margin levels will return to 2004 pre-acquisition operating margin levels by the end of 2006.

**Other Income (Expense) Net** Other income (expense) net was Euro (7.4) million in the first three months of 2005 as compared to Euro (6.4) million in the same period of 2004. This increase in other income (expense) net is mainly attributable to higher interest expenses due to the increase in net debt used to finance the Cole acquisition. With the acquisition of Cole and a trend in rising interest rates, the Company expects a significant increase in interest expense for 2005 as compared to 2004.

**Net Income** Income before taxes increased by 13.5 percent to Euro 129.1 million in the first three months of 2005 from Euro 113.8 million in the same period of 2004. As a percentage of net sales, income before taxes decreased to 12.4 percent in the first three months of 2005, from 14.8 percent in the same period of 2004. Minority interest increased to Euro (3.7) million in the first three months of 2005 from Euro (2.7) million in the same period of 2004. The Company's effective tax rate was 38.0 percent in the first three months of 2005, while it was 35.0 percent in the same period of 2004. The effective tax rate is estimated to be between 37 and 40 percent in 2005 as the Company has ended its permanent benefits from subsidiaries' losses. Net income increased by 7.3 percent to Euro 76.3 million in the first three months of 2005 from Euro 71.2 million in the same period of 2004. Net income as a percentage of net sales decreased to 7.4 percent in the first three months of 2005 from 9.3 percent in the same period of 2004.

Basic and diluted earnings per share for the first three months of 2005 were Euro 0.17, as compared to Euro 0.16 for the same period of 2004.

#### **Non-GAAP Financial Measures**

The Company uses 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 three-month period ended March 31, 2004. The Company believes 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 the Company has historically reported such adjusted financial measures to the investment community, the Company believes that their inclusion provides consistency in its 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 the first three months of 2005 and the first three months of 2004 are calculated using for each currency the average exchange rate for the three-month period ended March 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, the Company's method of calculating operating performance excluding 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

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a supplement to results reported under U.S. GAAP to assist the reader in better understanding the operational performance of the Company (in millions of Euro).

	1Q 04 U.S. GAAP results	1Q 05 U.S. GAAP results	Adjustment for constant exchange rates	1Q 05 adjusted results
Consolidated net sales	769.1	1,037.0	37.8	1,074.8
Manufacturing and wholesale net sales	298.7	326.9	4.5	331.4
Less: intercompany sales	(42.9)	(46.6)	(2.1)	(48.7)
Wholesale sales to third parties	255.8	280.2	2.5	282.7
Retail net sales	513.3	756.8	35.3	792.1

The Company has included the following table of consolidated adjusted sales and operating income for the first three months of 2004. The Company believes that the adjusted amounts may be of assistance in comparing the Company's operating performance between the 2004 and 2005 periods. However, adjusted financial information should not be viewed as a substitute for measures of performance calculated in accordance with generally accepted accounting principles. The consolidated adjusted amounts reflect the following adjustments:

1. the inclusion in the adjusted amounts of the consolidated results of Cole for the three-month period ended March 31, 2004; and
2. the elimination of wholesale sales to Cole from Luxottica Group entities for the three-month period ended March 31, 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 the first three months of 2004 as reported and as adjusted (in millions of Euro):

	1Q 04 U.S. GAAP results	Adjustment for Cole	1Q 04 adjusted results
Consolidated net sales	769.1	235.1	1,004.2
Consolidated income from operations	120.1	(10.7)	109.4



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The following table summarizes the combined effect on consolidated net sales of exchange rates and the Cole acquisition, to allow a comparison of operating performance on a consistent basis (in millions of Euro):

<b>Consolidated Net Sales</b>			
	<b>1Q 04</b>	<b>1Q 05</b>	<b>% change</b>
US GAAP results	769.1	1,037.0	+34.8%
Exchange rate effect		37.8	
Constant exchange rate	769.1	1,074.8	+39.7%
Cole results in 2004	235.1		
Consistent basis	1,004.2	1,074.8	+7.0%

The 7.0 percent increase in net sales on a consistent basis in the first three months of 2005 as compared to the same period of 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 new Prada and Versace product lines and increased comparable store sales<sup>1</sup> of our retail division.

(1)

Comparable store sales reflects the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period, and applies to both periods the average exchange rate for the prior period and the same geographic area. The calculation of comparable store sales for the first three months of 2005 includes relevant stores of the former Cole National business as if the Cole National acquisition had been completed as of January 1, 2004. Cole National results are actually consolidated with Luxottica Group results only as of the October 4, 2004 acquisition date.

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>1Q 04</b>	<b>1Q 05</b>	<b>% change</b>
US GAAP results	120.1	136.4	+13.6%
% of net sales	15.6%	13.2%	
Cole results in 2004	(10.7)		
Consistent basis	109.4	136.4	+24.8%
% of net sales	10.9%	13.2%	

On a consolidated adjusted basis, including Cole's results for the three-month period ended March 31, 2004, income from operations in the three-month period ended March 31, 2005 would have increased by 24.8 percent as compared to the same period of 2004.

### **BALANCE SHEET DISCUSSION**

#### ***Our Cash Flows***

**Operating Activities.** The Company's cash provided by operating activities was Euro 41.3 million for the first three months of 2005 as compared to Euro 74.5 million for the same period of 2004. This Euro 33.2 million decrease is primarily attributable to advance payments of Euro 30.0 million made by the Company to certain designers for future contracted minimum royalties, resulting in prepaid expenses and other being a use of cash in the first three months of 2005 of Euro 28.5 million compared to a source of cash of Euro 8.0 million for the same period of 2004. Depreciation and amortization increased by Euro 11.2 million in the first three months of 2005 to Euro 46.5 million from Euro 35.3 million in the same period of 2004, mainly due to the Cole acquisition resulting in additional depreciation and amortization of Euro 11.3 million in the first three months of 2005, including amortization relating to its trade names. Accounts receivable was a use of cash in the first three months of 2005 of Euro 91.5 million as compared to a use of



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cash in the same period of 2004 of Euro 76.3 million. This change in cash flows from accounts receivable is primarily due to the increase in sales of our manufacturing and wholesale segment, along with an increase in accounts receivable in the retail segment due to a temporary backlog in payments from the franchisees. Inventories were a source of cash in the first three months of 2005 of Euro 31.9 million compared to Euro 17.0 million in the same period of 2004. This change in cash flow from inventory is primarily due to an increase in the inventory turn. The amount of cash used by operating activities for accounts payable and accrued expenses increased by Euro 3.1 million and Euro 11.6 million, respectively, in the first three months of 2005 as compared to the same period of 2004. These declines were caused by the timing of payments to certain vendors by the North American retail division and an increase in the warranty deferral for Cole licensed brands because of an increase in sales. Income tax payable was a source of cash in the first three months of 2005 of Euro 22.4 million as compared to Euro 20.9 million in the same period of 2004 due to timing of tax payments.

*Investing Activities.* The Company's cash from investing activities was a source of Euro 40.5 million for the first three months of 2005 as compared to a use of Euro 13.0 million for the same period of 2004. This Euro 53.5 million increase is primarily attributable to the sale of Pearle Europe for Euro 144.0 million in January 2005, partly offset by the Company's acquisition of the remaining minority stake of OPSM for Euro 62.0 million which was completed in February 2005 and an increase of Euro 26.7 million of capital expenditures mostly due to the purchase of a new aircraft to replace the previous aircraft which became obsolete, along with an increase in fixed assets relating to the U.S. retail segment in the first three months of 2005 including costs associated with the expansion of the North American Retail Division's home office. The expected aggregate cost of the home office expansion is U.S.\$12.8 million and it is expected to be completed in 2006.

*Financing Activities.* The Company's cash provided by/(used in) financing activities for the first three months of 2004 and 2005 was Euro (82.1) million and Euro 18.7 million, respectively. Cash used in financing activities for the first three months of 2004 was used primarily to reduce bank overdrafts and to repay long-term debt. Cash provided by financing activities for the first three months of 2005 consisted primarily of the proceeds of Euro 50.0 million from long-term debt and Euro 80.7 million from unsecured short-term credit lines, which were used to repay long-term debt expiring during the first three months of 2005.

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

Bank overdrafts represent negative cash balances held in banks and amounts borrowed under various unsecured short-term lines of credit obtained by the Company and certain of its subsidiaries through local financial institutions. These facilities are usually short-term in nature or contain evergreen clauses with a cancellation notice period. Certain of these 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. The Company uses these short-term lines of credit to satisfy its short-term cash needs.

In June 2002, Luxottica U.S. Holdings Corp. ("U.S. Holdings"), a U.S. subsidiary, entered into a U.S. \$350 million credit facility with a group of four Italian banks led by UniCredito Italiano S.p.A. The new credit facility is guaranteed by Luxottica Group S.p.A. and matures in June 2005. The term loan portion of the credit facility provided U.S. \$200 million of borrowing and requires equal quarterly principal installments beginning in March 2003. The revolving loan portion of the credit facility allows for maximum borrowings of U.S. \$150 million. Interest accrues under the credit facility at LIBOR (as defined in the agreement) plus 0.5 percent (3.35 percent for the term loan portion and 3.35 percent for the revolving portion on March 31, 2005) and the credit facility allows U.S. Holdings to select interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. As of March 31, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. Under this credit facility, U.S. \$130 million was

outstanding as of March 31, 2005. The Company believes it currently has the borrowing capacity and other financial resources to pay such amount on its maturity date in June 2005.

In July 2002, U.S. Holdings entered into a Convertible Swap Step-Up (the "2002 Swap"), under which the beginning and maximum notional amount is U.S. \$275 million, which decreases by U.S. \$20 million quarterly starting with the quarter beginning 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 to receive an interest payment at the three-month LIBOR rate as defined in the agreement. These amounts are settled net every three months until the final expiration of the 2002 Swap on June 17, 2005. The 2002 Swap does not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, and as such is marked to market with the gains or losses from the change in value reflected in current operations.

In December 2002, the Company entered into a new unsecured credit facility with Banca Intesa S.p.A. The new unsecured credit facility provides borrowing availability of up to Euro 650 million. The facility includes a Euro 500 million term loan, which required a balloon payment of Euro 200 million in June 2004 and repayment of equal quarterly installments of principal of Euro 50 million subsequent to that date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.45 percent (2.59 percent on March 31, 2005). The revolving loan provides borrowing availability of up to Euro 150 million; amounts borrowed under the revolving loan can be borrowed and repaid until final maturity. At March 31, 2005, Euro 75 million had been drawn under the revolving loan. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.45 percent (2.57 percent on March 31, 2005). The final maturity of all outstanding principal amounts and interest is December 27, 2005. The Company has the option to choose interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. As of March 31, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. Under this credit facility, Euro 225 million was outstanding as of March 31, 2005.

In December 2002, the Company entered into two interest rate swap transactions ("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 in each subsequent three-month period. These Intesa Swaps will expire on December 27, 2005. The Intesa Swaps were entered into as a cash flow hedge on a portion of the Banca Intesa Euro 650 million unsecured credit facility discussed above. The Intesa Swaps exchange the floating rate of Euribor for a fixed rate of 2.99 percent per annum.

On September 3, 2003, U.S. Holdings closed a private placement of U.S. \$300 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 each of the 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 dates of maturity. The Notes are guaranteed on a senior unsecured basis by the Company and Luxottica S.r.l., the Company's 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. As of March 31, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. The Company was in compliance with those covenants as of March 31, 2005.

In connection with the issuance of the Notes, U.S. Holdings entered into three interest rate swap agreements with Deutsche Bank AG (collectively, the "DB Swap"). The three separate agreements' notional amounts and interest payment dates coincide with those of the Notes. The DB Swap exchanges

the fixed rate of the Notes for a floating rate of the six-month LIBOR rate plus 0.66 percent for the Series A Notes and the six-month LIBOR rate plus 0.73 percent for the Series B and Series C Notes.

In September 2003, the Company acquired 82.57 percent of the ordinary shares of OPSM and more than 90 percent of OPSM's performance rights and options, which entitled the Company 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 expenses, and was paid for with the proceeds of a new credit facility with Banca Intesa S.p.A. of Euro 200 million, in addition to other short-term lines available. The credit facility includes a Euro 150 million term loan, which will require repayment of equal semiannual installments of principal of Euro 30 million starting September 30, 2006 until the final maturity date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.55 percent (2.69 percent on March 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 March 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 (2.69 percent on March 31, 2005). The final maturity of the credit facility is September 30, 2008. The Company can select interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. As of March 31, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. Under this credit facility, Euro 175 million was outstanding as of March 31, 2005.

On June 3, 2004, the Company and U.S. Holdings entered into a new credit facility with a group of banks providing for loans in the aggregate principal amount of Euro 740 million and U.S. \$325 million. The five-year facility consists of three Tranches (Tranche A, Tranche B and 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 of the acquisition of Cole. Amounts borrowed under Tranche B will mature in June 2009. Tranche C is a Revolving Credit Facility of Euro 335 million-equivalent multi-currency (€/U.S. \$). Amounts borrowed under Tranche C may be repaid and reborrowed with all outstanding balances maturing in June 2009. At March 31, 2005, U.S. \$215.0 million (Euro 165.8 million) had been drawn from Tranche C by U.S. Holdings and Euro 50 million had been drawn from Tranche C by the Company. 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 0.40 percent and 0.60 percent based on the "Net Debt/EBITDA" ratio, as defined in the agreement. The interest rate on March 31, 2005 was 2.59 percent for Tranche A, 3.01 percent for Tranche B and 3.23 percent on Tranche C amounts borrowed by U.S. Holdings and 2.58 percent on Tranche C amounts borrowed by the Company. The new credit facility contains certain financial and operating covenants. The Company was in compliance with those covenants as of March 31, 2005. The Mandated Lead Arrangers and Bookrunners are ABN AMRO, Banca Intesa S.p.A., Bank of America, Citigroup Global Markets Limited, HSBC Bank plc, Mediobanca Banca di Credito Finanziario S.p.A., The Royal Bank of Scotland plc and UniCredit Banca Mobiliare S.p.A. Unicredito Italiano S.p.A. New York Branch and Unicredit Banca d'Impresa S.p.A. act as Facility Agents. Under this credit facility, Euro 871 million was outstanding as of March 31, 2005.

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 of AUD \$100 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 March 31, 2005, the interest rate was 4.56 percent and the facility was utilized for an amount of AUD 40.8 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. As of March 31, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable.

#### **RECENT DEVELOPMENTS AND OTHER EVENTS**

On January 4, 2005, the Company launched the off-market takeover offer for all the Australian Stock Exchange listed OPSM Group shares it did not already own. At the close of the offer on February 7, 2005, the Company held 98.5 percent of OPSM Group's shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, the Company announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by the Company.

On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 21, 2005 it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 23, 2005.

On January 5, 2005, the Company announced that its subsidiary, Cole National Corporation, sold all its shares in Pearle Europe B.V., representing approximately 21 percent of that company's outstanding shares, to HAL Investments B.V., a subsidiary of HAL Holding N.V., for a cash purchase price of Euro 144 million (or approximately U.S. \$191 million calculated for convenience at the January 4, 2005 noon buying rate). HAL Investments held the balance of Pearle Europe's outstanding shares (except for approximately one percent held by management). The Company gained control of the Pearle Europe shares in October 2004, as a result of its acquisition of the Cole National business. The sale was required by the Articles of Association of Pearle Europe in connection with the acquisition.

The Company and its subsidiaries become involved in legal and regulatory proceedings from time to time, some of which are significant. The timing and outcome of these proceedings are inherently uncertain and the outcomes could have a material adverse effect on the Company's business, financial position or operating results. See Item 3 "Key Items Risk Factors" in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2003.

#### **FORWARD LOOKING INFORMATION**

Certain statements in this Form 6-K may constitute "forward-looking statements" as defined in the Private Securities Litigation, Reform Act of 1995. 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 ability to successfully launch initiatives to increase sales and reduce costs, the availability of correction alternatives to prescription eyeglasses, the ability to effectively integrate recently acquired businesses, including Cole, risks that expected synergies from the acquisition by Luxottica Group of Cole will not be realized as planned and that the combination of Luxottica Group's managed vision care business with Cole's will not be as successful as planned, as well as other political, economic and technological factors and other risks referred to in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2003 (included under Item 3 "Key Items Risk Factors") and its other filings with the Securities and Exchange Commission. These forward-looking statements are made as of the date hereof and Luxottica Group does not assume any obligation to update them.

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**FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**FORM 6-K**



LUXOTTICA GROUP S.p.A.

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## CONSOLIDATED BALANCE SHEETS US GAAP

DECEMBER 31, 2004 AND JUNE 30, 2005

	December 31, 2004	June 30, 2005 (Unaudited)	June 30, 2005 (Unaudited)
	(Thousands of Euro)		(Thousands of US dollars)(1)
<b>ASSETS</b>			
<i>CURRENT ASSETS</i>			
Cash	€ 257,349	€ 381,362	\$ 461,372
Accounts receivable net	406,437	554,591	670,944
Sales and income taxes receivable	33,120	32,446	39,253
Inventories	433,158	399,833	483,718
Prepaid expenses and other	69,151	78,188	94,592
Asset held for sale Pearle Europe	143,617		
Net deferred tax assets current	104,508	87,362	105,691
<b>Total current assets</b>	<b>1,447,340</b>	<b>1,533,782</b>	<b>1,855,570</b>
<b>PROPERTY, PLANT AND EQUIPMENT net</b>			
	<b>599,245</b>	<b>685,379</b>	<b>829,172</b>
<i>OTHER ASSETS</i>			
Goodwill	1,500,962	1,678,741	2,030,941
Intangible assets net	972,091	1,019,842	1,233,804
Investments	13,371	14,520	17,566
Other assets	23,049	55,989	67,735
<b>Total other assets</b>	<b>2,509,473</b>	<b>2,769,092</b>	<b>3,350,046</b>
<b>TOTAL</b>	<b>€ 4,556,058</b>	<b>€ 4,988,253</b>	<b>\$ 6,034,788</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<i>CURRENT LIABILITIES</i>			
Bank overdrafts	€ 290,531	€ 410,148	\$ 496,197
Current portion of long-term debt	405,369	245,388	296,870
Accounts payable	222,550	282,808	342,141
Accrued expenses and other	376,779	423,240	512,036
Accrual for customers' right of return	8,802	12,368	14,963
Income taxes payable	12,722	35,565	43,027
<b>Total current liabilities</b>	<b>1,316,753</b>	<b>1,409,517</b>	<b>1,705,234</b>
<i>LONG-TERM LIABILITIES</i>			
Notes payable	221,598	247,975	300,000
Long-term debt	1,055,897	1,151,001	1,392,481
Liability for termination indemnities	52,656	54,602	66,057
Net deferred tax liabilities non current	215,891	205,904	249,103
Other	173,896	203,996	246,793
<b>Total long-term liabilities</b>	<b>1,719,937</b>	<b>1,863,478</b>	<b>2,254,434</b>

**MINORITY INTERESTS IN  
CONSOLIDATED  
SUBSIDIARIES****23,760****14,052****17,000****SHAREHOLDERS' EQUITY**

Capital stock par value Euro

0.06 455,205,473 and 456,367,573  
ordinary shares authorized and issued  
at December 31, 2004 and June 30,  
2005, respectively; 448,770,687 and  
449,932,787 shares outstanding at  
December 31, 2004 and June 30,  
2005, respectively.

27,312

27,382

33,127

Additional paid-in capital

47,167

57,819

69,949

Retained earnings

1,812,073

1,875,995

2,269,579

Accumulated other comprehensive  
loss

(320,958)

(190,003)

(229,865)

**Total** **1,565,594** **1,771,193** **2,142,789**Less Treasury shares at cost;  
6,434,786 shares at December 31,  
2004 and June 30, 2005

69,987

69,987

84,670

**Shareholders' equity** **1,495,607** **1,701,206** **2,058,121****TOTAL** € **4,556,058** € **4,988,253** \$ **6,034,788**

(1)

Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2098 on June 30, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

## STATEMENTS OF CONSOLIDATED INCOME US GAAP

FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2005 (UNAUDITED)

	2004		2005			
	(Thousands of Euro)(2)		(Thousands of US dollars)(1)(2)			
NET SALES	€	1,580,830	€	2,182,567	\$	2,640,470
COST OF SALES		498,888		698,478		845,018
<b>GROSS PROFIT</b>		<b>1,081,942</b>		<b>1,484,089</b>		<b>1,795,451</b>
OPERATING EXPENSES:						
Selling and advertising		660,614		950,424		1,149,823
General and administrative		162,091		231,494		280,061
<b>Total</b>		<b>822,705</b>		<b>1,181,917</b>		<b>1,429,885</b>
INCOME FROM OPERATIONS		259,237		302,172		365,567
OTHER INCOME (EXPENSE):						
Interest income		2,169		3,215		3,890
Interest expense		(24,380)		(31,753)		(38,415)
Other net		1,583		7,576		9,165
<b>Other income (expense) net</b>		<b>(20,628)</b>		<b>(20,962)</b>		<b>(25,360)</b>
INCOME BEFORE PROVISION FOR INCOME TAXES		238,609		281,210		340,208
PROVISION FOR INCOME TAXES		83,523		106,860		129,279
INCOME BEFORE MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES		155,086		174,350		210,928
MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES		4,943		6,945		8,402
NET INCOME	€	150,143	€	167,405	\$	202,526
<b>EARNINGS PER SHARE:</b>						
Basic	€	0.34	€	0.37	\$	0.45
Diluted	€	0.33	€	0.37	\$	0.45
WEIGHTED AVERAGE NUMBER OF SHARES						

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OUTSTANDING

(thousands):

Basic	448,112.9	449,524.0
Diluted	450,033.8	452,216.6

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(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2098 on June 30, 2005 (see Note 7).

(2) Amounts in thousands except per share data.

See Condensed Notes to Consolidated Financial Statements

**STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY US GAAP  
FOR THE SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Loss	Treasury Shares	Consolidated Shareholders' Equity
	Number of Shares	Amount						
(Thousands of Euro)								
BALANCES, January 1, 2005	455,205,473	27,312	47,167	1,812,073		(320,958)	(69,987)	1,495,607
Exercise of stock options	1,162,100	70	10,652					10,722
Translation adjustment					132,327	132,327		132,327
Change in fair value of derivative instruments, net of taxes					(1,371)	(1,371)		(1,371)
Dividends declared				(103,484)				(103,484)
Net income				167,405	167,405			167,405
Comprehensive income					298,361			
BALANCES, June 30, 2005	456,367,573	27,382	57,819	1,875,994		(190,002)	(69,987)	1,701,206
Comprehensive income (Thousands of US dollars)(1)					\$ 360,958			
BALANCES, June 30, 2005 (Thousands of US dollars)(1)	456,367,573	\$ 33,127	\$ 69,949	\$ 2,269,579		\$ (229,865)	\$ (84,670)	\$ 2,058,120

(1)

Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2098 on June 30, 2005 (see Note 7).



**STATEMENTS OF CONSOLIDATED CASH FLOWS US GAAP  
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2005 (UNAUDITED)**

	2004		2005			
	(Thousands of Euro)		(Thousands of US dollars)(1)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income	€	150,143	€	167,405	\$	202,526
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:						
Minority interests in income of consolidated subsidiaries		4,943		6,945		8,402
Depreciation and amortization		71,565		95,080		115,028
Provision (benefit) for deferred income taxes		1,898		2,596		3,141
Termination indemnities matured during the period net		2,593		1,648		1,994
Changes in operating assets and liabilities, net of acquisition of business:						
Accounts receivable		(97,941)		(129,403)		(156,552)
Prepaid expenses and other		7,586		(41,230)		(49,880)
Inventories		19,039		57,791		69,915
Accounts payable		22,130		46,717		56,518
Accrued expenses and other		21,458		17,313		20,946
Accrual for customers' right of return		617		2,442		2,954
Income taxes payable		7,044		21,780		26,349
Total adjustments		60,932		81,679		98,815
Cash provided by operating activities	€	211,075	€	249,083	\$	301,341

(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2098 on June 30, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements



**STATEMENTS OF CONSOLIDATED CASH FLOWS US GAAP  
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2005 (UNAUDITED)**

	2004		2005		2005
	(Thousands of Euro)		(Thousands of US dollars)(1)		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Property, plant and equipment:					
Additions	€	(38,972)	€	(101,703)	\$ (123,040)
Disposals		0		459	555
Purchase of business		0		(73,092)	(88,427)
Decrease in investments		0		144,000	174,211
Increase in intangible assets		(1,526)		(3,605)	(4,361)
		<u>(40,497)</u>		<u>(33,941)</u>	<u>(41,062)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Long-term debt:					
Proceeds		370,000		220,434	266,681
Repayments		(312,166)		(349,565)	(422,904)
Increase (decrease) in overdraft balances		(177,604)		113,509	137,323
Exercise of stock options		912		10,722	12,971
Dividends		(95,464)		(103,484)	(125,195)
		<u>(214,322)</u>		<u>(108,384)</u>	<u>(131,123)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(43,744)</b>		<b>106,758</b>	<b>129,155</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>		<b>299,937</b>		<b>257,349</b>	<b>311,341</b>
Effect of exchange rate changes on cash and cash equivalents		3,798		17,255	20,875
		<u>3,798</u>		<u>17,255</u>	<u>20,875</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>€</b>	<b>259,991</b>	<b>€</b>	<b>381,362</b>	<b>\$ 461,372</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid during the period for interest	€	21,173	€	30,931	\$ 37,420
Cash paid during the period for income taxes	€	47,073	€	68,465	\$ 82,829

(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2098 on June 30, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The accompanying consolidated balance sheet as of June 30, 2005 and the related statements of consolidated income and cash flows for the six months ended June 30, 2004 and 2005 and the statement of consolidated shareholders' equity for the six months ended June 30, 2005 of Luxottica Group S.p.A. and subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. The consolidated balance sheet as of June 30, 2005, the statements of consolidated income and cash flows for the six months ended June 30, 2004 and 2005 and the statement of consolidated shareholders' equity for the six months ended June 30, 2005 are derived from unaudited financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations and cash flows as of June 30, 2004 and 2005 and for the six months ended June 30, 2004 and 2005 have been made.

The interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2004. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accounting policies have been consistently applied by the Company and are consistent with those applied in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2004. The results of operations for the six months ended June 30, 2005 are not necessarily indicative of the operating results for the full year.

The December 31, 2004 balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. However, the Company believes that the disclosures are adequate to make the information presented not misleading.

**2. ACQUISITION OF OPSM**

On June 16, 2003, the Company's wholly owned subsidiary, Luxottica South Pacific Pty Limited, commenced a cash offer to acquire all of the outstanding shares, performance rights and options of OPSM Group Ltd ("OPSM"), the largest eyewear retailer in Australia. On September 2, 2003, the cash offer was successfully completed and closed. At the close of the offer, Luxottica South Pacific Pty Limited acquired 82.57 percent of OPSM's ordinary shares, and more than 90 percent of OPSM's options and performance rights, which entitled the Company to require the cancellation of all the options and performance rights still outstanding. As a result of Luxottica South Pacific Pty Limited acquiring the majority of OPSM's shares on August 8, 2003, OPSM's financial position and results of operations have been reported in the Company's consolidated financial results since August 1, 2003.

On November 26, 2004, the Company through its wholly owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the unowned remaining outstanding shares of OPSM Group.

At the close of the offer on February 7, 2005, the Company held 98.5 percent of OPSM Group's shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, the Company announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by the Company.

On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 21, 2005 it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 23, 2005 and as of that date the Company held 100.0 percent of OPSM Group's shares. The difference between the purchase price and the value of the minority interest in OPSM has been preliminarily allocated entirely to goodwill.

### 3. ACQUISITION OF COLE NATIONAL

On July 23, 2003, the Company formed an indirect wholly-owned subsidiary, Colorado Acquisition Corp., for the purpose of acquiring all the outstanding common stock of Cole, a publicly traded company on the New York Stock Exchange. On January 23, 2004, as amended as of June 2, 2004 and July 15, 2004, the Company and Cole entered into a definitive merger agreement with the unanimous approval of the Boards of Directors of both companies. On October 4, 2004, Colorado Acquisition Corp. consummated its merger with Cole. As a result of the merger, Cole became an indirect wholly owned subsidiary of the Company. The aggregate consideration paid by the Company to former shareholders, option holders and holders of restricted stock of Cole was approximately U.S. \$500.6 million. In connection with the merger, the Company assumed outstanding indebtedness with an approximate aggregate fair value of the principal balance of Euro 253.3 million (U.S. \$310.9 million). The results of Cole have been consolidated into the Company's consolidated financial statements as of the acquisition date. The acquisition was accounted for using the purchase method, and accordingly, U.S. \$520.1 million (including the purchase price of U.S. \$500.6 million plus approximately U.S. \$19.5 million of acquisition-related expenses) was allocated to the assets acquired and liabilities assumed based on their fair value at the date of the acquisition. The Company used various methods to calculate the fair value of the assets and liabilities and all valuations have not yet been completed. As such, the final allocation of assets may change during 2005. The excess of purchase price over net assets acquired ("goodwill") has been recorded in the accompanying consolidated balance sheet.

The purchase price (including acquisition-related expenses) has been allocated based upon the valuation of the Company's acquired assets and liabilities currently assumed as follows (in thousands of Euro):

<b>Assets purchased:</b>	
Cash and cash equivalents	60,762
Inventories	89,631
Accounts receivable	46,333
Prepaid expenses and other current assets	12,503
Property, plant and equipment	112,720
Trade names (useful lives 25 years, no residual value)	72,909
Distributor network (useful life 23 years, no residual value)	98,321
Customer lists and contracts (useful lives 21-23 years, no residual value)	68,385
Other intangibles	37,122
Asset held for sale Pearle Europe	143,617
Other assets including deferred tax assets	11,299
<b>Liabilities assumed:</b>	
Accounts payable	(47,781)
Accrued expenses and other current liabilities	(177,570)
Deferred tax liabilities	(21,550)
Long-term debt	(253,284)
Bank overdraft	(22,668)
Other non-current liabilities	(75,444)
Fair Value of Net Assets	155,305
Goodwill	268,435
Total Purchase Price	423,740

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The amount of goodwill has not changed materially from the December 31, 2004 valuation.

The Company believes that the preliminary allocation of the purchase price is reasonable, but it is subject to revision upon completion of the final valuation of certain assets and liabilities, which is expected to occur during the third quarter of 2005. As such, the purchase price allocation set forth above may change subsequent to June 30, 2005 to reflect the final amounts.

Included under the caption "Asset Held For Sale" in the above table and on the consolidated balance sheet at December 31, 2004 is the fair value of the Company's investment in Pearle Europe B.V. ("PE") established through negotiations with the majority shareholder of PE to acquire the asset. As part of the acquisition of Cole, the Company acquired approximately 21 percent of PE's outstanding shares. A change of control provision included in the Articles of Association of PE required Cole to make an offer to sell these shares to the shareholders of PE within 30 days of the change of control, which deadline was extended by agreement of the parties. In December 2004, substantially all the terms of the sale were established at a final cash selling price of Euro 144.0 million, subject to customary closing conditions. The sale transaction closed in January 2005. As the asset is denominated in Euro, which is not the functional currency of the subsidiary that held the investment, the Company has recorded a foreign exchange loss of approximately U.S. \$3.0 million during the six months ended June 30, 2005 relating to the changes in the U.S. dollar/Euro exchange rate between December 31, 2004 and January 5, 2005 (the date of closing).

On October 17, 2004, Cole caused its subsidiary to purchase U.S. \$150.0 million principal amount of its outstanding 8<sup>7</sup>/<sub>8</sub>% Senior Subordinated Notes due 2012 in a tender offer and consent solicitation for U.S. \$175.5 million, which amount represented all of the issued and outstanding notes of such series. On November 30, 2004, Cole caused its subsidiary to redeem all of its outstanding 8<sup>5</sup>/<sub>8</sub>% Senior Subordinated Notes due 2007 for U.S. \$126.4 million.

#### 4. INVENTORIES

Inventories consisted of the following (in thousands of Euro):

	December 31, 2004		June 30, 2005	
Raw materials	€	50,656	€	48,375
Work in process		24,486		25,434
Finished goods		358,016		326,042
Total	€	433,158	€	399,833

#### 5. EARNINGS PER SHARE

Earnings per share are computed by dividing net income by the number of weighted average shares outstanding during the period. Basic earnings per share are based on the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are based on the weighted average number of ordinary shares and ordinary share equivalents (options) outstanding during the period.

## 6. STOCK OPTION AND INCENTIVE PLANS

Options to purchase an aggregate of 12,680,660 ordinary shares of the Company were outstanding at June 30, 2005. Outstanding options granted under the Company's Stock Option Plans (11,680,660 ordinary shares) become exercisable in three equal annual installments and expire on or before January 31, 2014. During the first six months of 2005, 1,162,100 options were exercised.

Options granted in 2004 under a Company Incentive Plan (1,000,000 ordinary shares) vest and become exercisable from January 31, 2007 only if certain financial performance measures are met over the period ending December 2006.

As the Company has elected to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," no compensation expense was recorded for shares issued under the Stock Option Plans because each option's exercise price was equal to the fair market value of the underlying stock on the option's date of grant. Compensation expense will be recorded for the options issued under the Company's Incentive Plans based on the market value of the underlying ordinary shares only when the number of shares to be vested and issued is known.

On September 14, 2004, the Company announced that its majority shareholder, Mr. Leonardo Del Vecchio, had allocated shares held through La Leonardo Finanziaria S.r.l., a 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 top management of the Company. The stock options to be issued under the stock option plan vest upon meeting certain economic objectives. As such, compensation expense will be recorded for the options issued to management under this plan based on the market value of the underlying ordinary shares only when the number of shares to be vested and issued is known.

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

## 7. U.S. DOLLAR CONVENIENCE TRANSLATION

The consolidated financial statements presented in Euro as of and for the six months ended June 30, 2005 are also translated into U.S. Dollars, solely for the convenience of the readers of these financial statements, at the noon buying rate of Euro 1.00 = U.S. \$1.2098, as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") at June 30, 2005. Such translations should not be construed as representations that Euro amounts could be converted into U.S. Dollars at that or any other rate.

## 8. INCOME TAXES

The Company's 2004 effective tax rate is less than the statutory tax rate due to permanent differences between the Company's 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 the Company's acquisitions.

**9. SEGMENTS AND RELATED INFORMATION**

The Company operates in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution.

The following tables summarize the segmental information deemed essential by the Company's management for the purpose of evaluating the Company's performance and for making decisions about future allocations of resources.

The "Inter-segment transactions and corporate adjustments" column includes the elimination of inter-segment activities and corporate-related expenses not allocated to reportable segments. This has the effect of increasing reportable operating profit for the manufacturing and wholesale and retail segments. Identifiable assets are those tangible and intangible assets used in operations in each segment. Corporate identifiable assets are principally cash, goodwill and trade names (in thousands of Euro).

Six months ended June 30,	Manufacturing And		Inter-Segment Transactions and Corporate Adjustments	Consolidated
	Wholesale	Retail		
<b>2005</b>				
Net revenues	695,195	1,599,638	(112,266)	2,182,567
Operating income	168,031	177,121	(42,980)	302,172
Identifiable assets	1,670,142	1,263,055	2,055,057	4,988,253
<b>2004</b>				
Net revenues	611,799	1,062,700	(93,669)	1,580,830
Operating income	140,470	143,515	(24,749)	259,237
Identifiable assets	1,596,227	893,554	1,473,814	3,963,594

**10. COMMITMENTS AND CONTINGENCIES**

The Company and its subsidiaries become involved in legal and regulatory proceedings from time to time, some of which are significant. The timing and outcome of these proceedings are inherently uncertain and the outcomes of certain cases as disclosed in the Company's 2004 consolidated financial statements could have a material adverse effect on the Company's business, financial position or future operating results. It is the opinion of management of the Company that it has meritorious defenses against these claims, which the Company will vigorously pursue.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2004 AND 2005**

The following discussion should be read in conjunction with the disclosure contained in the Company's Annual Report on Form 20-F for the year ended December 31, 2004, which contains, among other things, a discussion of the Company's significant accounting policies and risks and uncertainties that could affect the Company's future operating results or financial condition.

**OVERVIEW**

The Company operates in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution. Through its manufacturing and wholesale distribution operations, the Company is engaged in the design, manufacture, wholesale distribution and marketing of house brand and designer lines of mid- to premium-priced prescription frames and sunglasses. The Company operates in the retail segment through its retail division, consisting of LensCrafters, Inc. and other affiliated companies ("LensCrafters"), Sunglass Hut International, Inc. and its subsidiaries and affiliates ("Sunglass Hut"), OPSM Group Ltd. and subsidiaries and affiliates and, since October 2004, Cole National Corporation ("Cole") and its subsidiaries. As of June 30, 2005, the Company's retail division consisted of 5,654 owned or leased department retail locations and 505 franchised locations as follows:

	North America	Europe	Asia- Pacific(1)	Total
LensCrafters	891			891
Sunglass Hut	1,562	104	163	1,829
OPSM Group			560	560
Cole National Group	2,374			2,374
Franchised locations	475		30	505
	<u>5,302</u>	<u>104</u>	<u>753</u>	<u>6,159</u>

(1) "Asia-Pacific" in our Retail Division consists of Australia, New Zealand, Singapore, Malaysia and Hong Kong.

Our net sales consist of, among other items, 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. 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. We have historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses. As a result, net sales are typically higher in the second quarter and lower in the fourth quarter.

The Company's results of operations, which are reported in Euro, are susceptible to currency fluctuations between the Euro and the U.S. Dollar due to its significant U.S. retail business. The U.S. Dollar/Euro exchange rate has fluctuated from an average exchange rate in the first six months of 2004 of Euro 1.00 = U.S. \$1.2273 to Euro 1.00 = U.S. \$1.2847 in the first six months of 2005. Additionally, with the acquisition of OPSM, the Company's results of operations have also been rendered susceptible to currency rate fluctuation between the Euro and the Australian Dollar ("AUD"). The Australian Dollar/Euro exchange rate has fluctuated from an average exchange rate in the first six months of 2004 of Euro 1.00 = AUD 1.6620 to Euro 1.00 = AUD 1.6628 in the first six months of 2005. Although the Company engages in certain foreign currency hedging activities to mitigate the impact of these fluctuations, currency fluctuations have negatively impacted the Company's reported revenues and net

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income during the periods discussed herein. Fluctuations in currency exchange rates could significantly impact the Company's reported financial results in the future.

On November 26, 2004, the Company through its wholly owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the remaining outstanding shares of OPSM Group it did not already own. The offer was for AUD 4.35 per share including a fully franked dividend of AUD 0.15 per share declared by OPSM (resulting in a net price of AUD 4.20 per share). For further details, see Note 2, "Acquisition of OPSM".

On October 4, 2004, the Company acquired all of the issued and outstanding shares of Cole National Corporation through a merger. The aggregate purchase price for the shares purchased in the merger and the cancellation of Cole outstanding options and restricted stock and acquisition-related costs was U.S. \$520.1 million (Euro 423.7 million based on the exchange rate in effect at such time).

The Company believes that its combination with Cole will:

strengthen its retail operations in the United States;

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

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

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

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

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

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

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

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

general and administrative; and

sale of the Company's manufactured products.

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



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

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

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

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

**RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2005**

The following table sets forth for the periods indicated the amount and percentage of net sales represented by certain items included in the Company's statements of consolidated income (in thousands of Euro).

	Six months ended June 30,			
	2004		2005	
	€	%	€	%
Net sales	1,580,830	100.0	2,182,567	100.0
Cost of sales	498,888	31.6	698,478	32.0
<b>Gross profit</b>	<b>1,081,942</b>	<b>68.4</b>	<b>1,484,089</b>	<b>68.0</b>
Selling, advertising, general and administrative expense	822,705	52.0	1,181,917	54.2
<b>Income from operations</b>	<b>259,237</b>	<b>16.4</b>	<b>302,172</b>	<b>13.8</b>
Other (expense) income net	(20,628)	1.3	(20,962)	1.0
<b>Income before provision for income taxes</b>	<b>238,609</b>	<b>15.1</b>	<b>281,210</b>	<b>12.9</b>
Provision for income taxes	83,523	5.3	106,860	4.9
Minority interests	4,943	0.3	6,945	0.3
<b>Net income</b>	<b>€ 150,143</b>	<b>9.5</b>	<b>€ 167,405</b>	<b>7.7</b>

**Net Sales** Net sales increased 38.1 percent to Euro 2,182.6 million during the first six months of 2005 as compared to Euro 1,580.8 million for the same period of 2004.

Net sales in the retail segment through LensCrafters, Sunglass Hut, OPSM and Cole increased by 50.5 percent to Euro 1,599.6 million for the first six months of 2005 from Euro 1,062.7 million for the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the first six months of 2005, which amounted to Euro 487.7 million, partially offset by the weakening of the U.S. dollar against the Euro. The effect of the weakening of the U.S. dollar on the first six months of 2005 retail sales in North America was approximately Euro 65.0 million.

Net sales to third parties in the manufacturing and wholesale segment increased by 13.0 percent to Euro 585.3 million for the first six months of 2005 as compared to Euro 518.1 million in the same period of 2004. This increase was mainly attributable to increased sales of our Ray-Ban brand and Vogue product line as well as sales of Prada, Versace and Chanel branded products, primarily in the European and North American markets.

On a geographic basis, operations in the United States and Canada resulted in net sales of Euro 1,482.1 million during the first six months of 2005, comprising 67.9 percent of total net sales, an increase of Euro 541.4 million from the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the first six months of 2005, which amounted to Euro 487.7 million, partially offset by the weakening of the U.S. dollar against the Euro (in U.S. dollars, operations in the United States and Canada resulted in an increase in net sales of U.S. \$749.7 million as compared to the same period of 2004). Net sales for operations in "Asia-Pacific" were Euro 227.5 million during the first six months of 2005 compared to Euro 215.8 million in the same period of 2004; net sales for operations in "Asia-Pacific" during the first six months of 2005 comprised 10.4 percent of total net sales. Net sales for the rest of the world accounted for the remaining Euro 473.0 million of net sales during the first six months of 2005, which represented an 11.5 percent increase as compared to the same period of 2004.

During the first six months of 2005, net sales in the retail segment accounted for approximately 73.2 percent of total net sales, as compared to approximately 67.2 percent of net sales in the same period of 2004.



**Cost of Sales** Cost of sales increased by 40.0 percent to Euro 698.5 million in the first six months of 2005, from Euro 498.9 million in the same period of 2004, and increased as a percentage of net sales to 32.0 percent from 31.6 percent. Cost of sales in the retail segment increased by Euro 187.2 million, primarily due to the inclusion of Cole's cost of sales in our results of operations, partially offset by the weakening of the U.S. dollar against the Euro. Cost of sales in the manufacturing and wholesale segment increased by Euro 24.8 million due to the increase in net sales. Manufacturing labor costs increased by 18.5 percent to Euro 150.6 million in the first six months of 2005 from Euro 127.1 million in the same period of 2004. As a percentage of net sales, cost of labor decreased to 6.9 percent for the first six months of 2005 from 8.0 percent for the same period of 2004. For the first six months of 2005, the average number of frames produced daily in Luxottica's facilities was approximately 118,500 as compared to 128,400 for the same period of 2004.

**Gross Profit** For the reasons outlined above, gross profit increased by 37.2 percent to Euro 1,484.1 million in the first six months of 2005 from Euro 1,081.9 million in the same period of 2004. As a percentage of net sales, gross profit decreased to 68.0 percent in the first six months of 2005 from 68.4 percent in the same period of 2004 due to the inclusion of Cole results.

**Operating Expenses** Total operating expenses increased by 43.7 percent to Euro 1,181.9 million in the first six months of 2005 from Euro 822.7 million in the same period of 2004. As a percentage of net sales, operating expenses increased to 54.2 percent in the first six months of 2005 from 52.0 percent in the same period of 2004.

Selling and advertising expenses (including royalty expenses) increased by 43.9 percent to Euro 950.4 million during the first six months of 2005, from Euro 660.6 million in the same period of 2004. Euro 248.7 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. selling and advertising expenses by Euro 31.6 million. As a percentage of net sales, selling and advertising expenses increased to 43.5 percent in the first six months of 2005 from 41.8 percent in the same period of 2004. This increase as a percentage of sales is primarily attributable to the consolidation of Cole's results in our results of operations. Management believes that such increase is temporary, primarily because Cole's business is in the process of restructuring.

General and administrative expenses, including intangible asset amortization, increased by 42.8 percent to Euro 231.5 million in the first six months of 2005 from Euro 162.1 million in the same period of 2004. Euro 59.1 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. general and administrative expenses by Euro 6.1 million. As a percentage of net sales, general and administrative expenses increased to 10.6 percent in the first six months of 2005 from 10.3 percent in the same period of 2004. This increase was primarily due to the consolidation of Cole's results in our results of operations. The restructuring of Cole operations is underway and it is expected that the general and administrative costs of the Group will decrease as a percentage of sales during 2005.

**Income from Operations** Income from operations for the first six months of 2005 increased by 16.6 percent to Euro 302.2 million, from Euro 259.2 million in the same period of 2004. As a percentage of net sales, income from operations decreased to 13.8 percent in the first six months of 2005 from 16.4 percent in the same period of 2004.

Operating margin in the manufacturing and wholesale distribution segment increased to 24.2 percent in the first six months of 2005 from 23.0 percent in the same period of 2004. This increase in operating margin is attributable to lower sales commissions and higher gross profit due to a more favorable product mix.

Operating margin in the retail segment decreased to 11.1 percent in the first six months of 2005 from 13.5 percent in the same period of 2004 due to the consolidation of Cole's results in our results of operations. In 2005, it is management's expectation that the retail segment operating margin will be

lower than 2004, since Cole's operating margin is lower than the rest of the retail segment. Management expects that the North American retail operating margin levels will return to 2004 pre-acquisition operating margin levels by the end of 2006.

**Other Income (Expense) Net** Other income (expense) net was Euro (21.0) million in the first six months of 2005 as compared to Euro (20.6) million in the same period of 2004. This increase in other income (expense) net is mainly attributable to higher interest expenses of Euro 6.3 million primarily due to the increase in net debt used to finance the Cole acquisition and rising interest rates in the U.S., partially offset by higher net realized and unrealized foreign exchange transaction gains and remeasurement gains mainly related to the strengthening of the U.S. dollar during the period. With the acquisition of Cole and a trend in rising interest rates, the Company expects a significant increase in interest expense for 2005 as compared to 2004.

**Net Income** Income before taxes increased by 17.9 percent to Euro 281.2 million in the first six months of 2005 from Euro 238.6 million in the same period of 2004. As a percentage of net sales, income before taxes decreased to 12.9 percent in the first six months of 2005, from 15.1 percent in the same period of 2004. Minority interest increased to Euro (6.9) million in the first six months of 2005 from Euro (4.9) million in the same period of 2004. The Company's effective tax rate was 38.0 percent in the first six months of 2005, while it was 35.0 percent in the same period of 2004. The effective tax rate is estimated to be between 37 and 40 percent in 2005 as the Company has ended its permanent benefits from subsidiaries' losses. Net income increased by 11.5 percent to Euro 167.4 million in the first six months of 2005 from Euro 150.1 million in the same period of 2004. Net income as a percentage of net sales decreased to 7.7 percent in the first six months of 2005 from 9.5 percent in the same period of 2004.

Basic and diluted earnings per share for the first six months of 2005 were Euro 0.37, as compared to Euro 0.34 (basic) and Euro 0.33 (diluted) for the same period of 2004.

#### **Non-GAAP Financial Measures**

The Company uses 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 six-month period ended June 30, 2004. The Company believes 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 the Company has historically reported such adjusted financial measures to the investment community, the Company believes that their inclusion provides consistency in its 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 the first six months of 2005 and the first six months of 2004 are calculated using for each currency the average exchange rate for the six-month period ended June 30, 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, the Company's method of calculating operating performance excluding 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

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a supplement to results reported under U.S. GAAP to assist the reader in better understanding the operational performance of the Company (in millions of Euro).

	1H 04 U.S. GAAP results	1H 05 U.S. GAAP results	Adjustment for constant exchange rates	1H 05 adjusted results
Consolidated net sales	1,580.8	2,182.6	69.3	2,251.9
Manufacturing and wholesale net sales	611.8	695.2	8.3	703.5
Retail net sales	1,062.7	1,599.6	65.3	1,664.9

The Company has included the following table of consolidated adjusted sales and operating income for the first six months of 2004. The Company believes that the adjusted amounts may be of assistance in comparing the Company's operating performance between the 2004 and 2005 periods. However, adjusted financial information should not be viewed as a substitute for measures of performance calculated in accordance with generally accepted accounting principles. The consolidated adjusted amounts reflect the following adjustments:

1. the inclusion in the adjusted amounts of the consolidated results of Cole for the six-month period ended June 30, 2004; and
2. the elimination of wholesale sales to Cole from Luxottica Group entities for the six-month period ended June 30, 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 the first six months of 2004 as reported and as adjusted (in millions of Euro):

	1H 04 U.S. GAAP results	Adjustment for Cole	1H 04 adjusted results
Consolidated net sales	1,580.8	491.9	2,072.7
Consolidated income from operations	259.2	(7.6)	251.6

The following table summarizes the combined effect on consolidated net sales of exchange rates and the Cole acquisition, to allow a comparison of operating performance on a consistent basis (in millions of Euro):

Consolidated Net Sales			
	1H 04	1H 05	% change
US GAAP results	1,580.8	2,182.6	+38.1%
Exchange rate effect		69.3	
Constant exchange rate	1,580.8	2,251.9	+42.5%
Cole results in 2004	491.9		
Consistent basis	2,072.7	2,251.9	+8.6%

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The 8.6 percent increase in net sales on a consistent basis in the first six months of 2005 as compared to the same period of 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 new Prada and Versace product lines and increased comparable store sales<sup>1</sup> of our retail division.

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- (1) Comparable store sales reflects the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period, and applies to both periods the average exchange rate for the prior period and the same geographic area. The calculation of comparable store sales for the first six months of 2005 includes relevant stores of the former Cole National business as if the Cole National acquisition had been completed as of January 1, 2004. Cole National results are actually consolidated with Luxottica Group results only as of the October 4, 2004 acquisition date.

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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>			
	1H 04	1H 05	% change
US GAAP results	259.2	302.2	16.6%
% of net sales	16.4%	13.8%	
Cole results in 2004	(7.6)		
Consistent basis	251.6	302.2	20.1%
% of net sales	12.1%	13.8%	

On a consolidated adjusted basis, including Cole's results for the six-month period ended June 30, 2004, income from operations in the six-month period ended June 30, 2005 would have increased by 20.1 percent and operating margin would have increased to 13.8 percent from 12.1 percent as compared to the same period of 2004.

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND 2005

The following table sets forth for the periods indicated the amount and percentage of net sales represented by certain items included in the Company's statements of consolidated income (in thousands of Euro).

<b>Three months ended June 30,</b>						
		2004	%			%
Net sales	€	811,711	100.0	€	1,145,566	100.0
Cost of sales		254,843	31.4		364,419	31.8
Gross profit		556,868	68.6		781,146	68.2
Selling, advertising, general and administrative expense		417,742	51.5		615,422	53.7
Income from operations		139,126	17.1		165,724	14.5
Other (expense) income net		(14,278)	1.8		(13,591)	1.2
Income before provision for income taxes		124,848	15.4		152,133	13.3
Provision for income taxes		43,652	5.4		57,811	5.0
Minority interests		2,229	0.3		3,255	0.3
Net income	€	78,967	9.7	€	91,067	7.9

**Net Sales** Net sales increased 41.1 percent to Euro 1,145.6 million during the second quarter of 2005 as compared to Euro 811.7 million for the same period of 2004.

Net sales in the retail segment through LensCrafters, Sunglass Hut, OPSM and Cole increased by 53.4 percent to Euro 842.9 million for the second quarter of 2005 from Euro 549.4 million for the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in



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our results of operations for the second quarter of 2005, which amounted to Euro 251.1 million, partially offset by the weakening of the U.S. dollar against the Euro. The effect of the weakening of the U.S. dollar on the second quarter of 2005 retail sales in North America was approximately Euro 32.7 million.

Net sales to third parties in the manufacturing and wholesale segment increased by 16.3 percent to Euro 305.0 million for the second quarter of 2005 as compared to Euro 262.3 million in the same period of 2004. This increase was mainly attributable to increased sales of our Ray-Ban brand and Vogue product line as well as sales of Prada, Versace and Bulgari branded products, primarily in the European and North American markets.

On a geographic basis, operations in the United States and Canada resulted in net sales of Euro 784.5 million during the second quarter of 2005, comprising 68.5 percent of total net sales, an increase of Euro 293.3 million from the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the second quarter of 2005, which amounted to Euro 251.1 million, partially offset by the weakening of the U.S. dollar against the Euro (in U.S. dollars, operations in the United States and Canada resulted in an increase in net sales of U.S. \$396.6 million as compared to the same period of 2004). Net sales for operations in "Asia-Pacific" were Euro 115.7 million during the second quarter of 2005 compared to Euro 105.8 million in the same period of 2004; net sales for operations in "Asia-Pacific" during the second quarter of 2005 comprised 10.1 percent of total net sales. Net sales for the rest of the world accounted for the remaining Euro 245.4 million of net sales during the second quarter of 2005, which represented a 14.3 percent increase as compared to the same period of 2004.

During the second quarter of 2005, net sales in the retail segment accounted for approximately 73.4 percent of total net sales, as compared to approximately 67.7 percent of net sales in the same period of 2004.

**Cost of Sales** Cost of sales increased by 43.0 percent to Euro 364.4 million in the second quarter of 2005, from Euro 254.8 million in the same period of 2004, and increased as a percentage of net sales to 31.8 percent from 31.4 percent. Cost of sales in the retail segment increased by Euro 100.5 million, primarily due to the inclusion of Cole's cost of sales in our results of operations, partially offset by the weakening of the U.S. dollar against the Euro. Cost of sales in the manufacturing and wholesale segment increased by Euro 16.1 million due to the increase in net sales. Manufacturing labor costs increased by 27.7 percent to Euro 82.1 million in the second quarter of 2005 from Euro 64.3 million in the same period of 2004. As a percentage of net sales, cost of labor decreased to 7.2 percent for the second quarter of 2005 from 7.9 percent for the same period of 2004. For the second quarter of 2005, the average number of frames produced daily in Luxottica's facilities was approximately 123,500 as compared to 129,000 for the same period of 2004.

**Gross Profit** For the reasons outlined above, gross profit increased by 40.3 percent to Euro 781.1 million in the second quarter of 2005 from Euro 556.9 million in the same period of 2004. As a percentage of net sales, gross profit decreased to 68.2 percent in the second quarter of 2005 from 68.6 percent in the same period of 2004 due to the inclusion of Cole results.

**Operating Expenses** Total operating expenses increased by 47.3 percent to Euro 615.4 million in the second quarter of 2005 from Euro 417.7 million in the same period of 2004. As a percentage of net sales, operating expenses increased to 53.7 percent in the second quarter of 2005 from 51.5 percent in the same period of 2004.

Selling and advertising expenses (including royalty expenses) increased by 47.0 percent to Euro 494.7 million during the second quarter of 2005, from Euro 336.4 million in the same period of 2004. Euro 126.8 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. selling and advertising expenses by Euro 15.6 million. As a percentage of net sales, selling and advertising expenses increased to 43.2 percent in the second quarter of 2005 from 41.4 percent in the same period of 2004. This increase as a percentage of sales is primarily attributable to the consolidation of Cole's results in our results of operations. Management believes that such increase is temporary, primarily because Cole's business is in the process of restructuring.

General and administrative expenses, including intangible asset amortization, increased by 48.4 percent to Euro 120.8 million in the second quarter of 2005 from Euro 81.4 million in the same period of 2004. Euro 30.0 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. general and administrative expenses by Euro 3.1 million. As a percentage of net sales, general and

administrative expenses increased to 10.5 percent in the second quarter of 2005 from 10.0 percent in the same period of 2004. This increase was primarily due to the consolidation of Cole's results in our results of operations. The restructuring of Cole operations is underway and it is expected that the general and administrative costs of the Group will decrease as a percentage of sales during 2005.

**Income from Operations** Income from operations for the second quarter of 2005 increased by 19.1 percent to Euro 165.7 million, from Euro 139.1 million in the same period of 2004. As a percentage of net sales, income from operations decreased to 14.5 percent in the second quarter of 2005 from 17.1 percent in the same period of 2004.

Operating margin in the manufacturing and wholesale distribution segment increased to 24.5 percent in the second quarter of 2005 from 23.1 percent in the same period of 2004. This increase in operating margin is attributable to lower sales commissions and higher gross profit due to a more favorable product mix that includes the sale of more designer products which carry higher operating margins.

Operating margin in the retail segment decreased to 11.9 percent in the second quarter of 2005 from 14.5 percent in the same period of 2004 due to the consolidation of Cole's results in our results of operations. In 2005, it is management's expectation that the retail segment operating margin will be lower than 2004, since Cole's operating margin is lower than the rest of the retail segment. Management expects that the North American retail operating margin levels will return to 2004 pre-acquisition operating margin levels by the end of 2006.

**Other Income (Expense) Net** Other income (expense) net was Euro (13.6) million in the second quarter of 2005 as compared to Euro (14.3) million in the same period of 2004. This decrease in other income (expense) net is mainly attributable to net realized and unrealized foreign exchange transaction and remeasurement gains recognized in the second quarter of 2005, as compared to losses on similar items in the same period of 2004, partially offset by higher interest expenses due to the increase in net debt used to finance the Cole acquisition. With the acquisition of Cole and a trend in rising interest rates, the Company continues to expect a significant increase in interest expense for 2005 as compared to 2004.

**Net Income** Income before taxes increased by 21.9 percent to Euro 152.1 million in the second quarter of 2005 from Euro 124.8 million in the same period of 2004. As a percentage of net sales, income before taxes decreased to 13.3 percent in the second quarter of 2005, from 15.4 percent in the same period of 2004. Minority interest increased to Euro (3.3) million in the second quarter of 2005 from Euro (2.2) million in the same period of 2004. The Company's effective tax rate was 38.0 percent in the second quarter of 2005, while it was 35.0 percent in the same period of 2004. Net income increased by 15.3 percent to Euro 91.1 million in the second quarter of 2005 from Euro 79.0 million in the same period of 2004. Net income as a percentage of net sales decreased to 7.9 percent in the second quarter of 2005 from 9.7 percent in the same period of 2004.

Basic and diluted earnings per share for the second quarter of 2005 were Euro 0.20, as compared to Euro 0.18 (both basic and diluted) for the same period of 2004.

#### **Non-GAAP Financial Measures**

The Company uses 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 three-month period ended June 30, 2004. The Company believes 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 the Company has historically reported such adjusted financial measures to the investment community, the Company believes that their inclusion provides consistency in its financial reporting. Further, these adjusted

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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 the second quarter of 2005 and the second quarter of 2004 are calculated using for each currency the average exchange rate for the three-month period ended June 30, 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, the Company's method of calculating operating performance excluding 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 the operational performance of the Company (in millions of Euro).

	2Q 04 U.S. GAAP results	2Q 05 U.S. GAAP results	Adjustment for constant exchange rates	2Q 05 adjusted results
Consolidated net sales	811.7	1,145.6	31.5	1,177.1
Manufacturing and wholesale net sales	313.1	368.3	3.8	372.1
Retail net sales	549.4	842.9	30.0	872.9

The Company has included the following table of consolidated adjusted sales and operating income for the second quarter of 2004. The Company believes that the adjusted amounts may be of assistance in comparing the Company's operating performance between the 2004 and 2005 periods. However, adjusted financial information should not be viewed as a substitute for measures of performance calculated in accordance with generally accepted accounting principles. The consolidated adjusted amounts reflect the following adjustments:

1. the inclusion in the adjusted amounts of the consolidated results of Cole for the three-month period ended June 30, 2004; and
2. the elimination of wholesale sales to Cole from Luxottica Group entities for the three-month period ended June 30, 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 the second quarter of 2004 as reported and as adjusted (in millions of Euro):

	2Q 04 U.S. GAAP Results	Adjustment for Cole	2Q 04 adjusted results
Consolidated net sales	811.7	256.8	1,068.5
Consolidated income from operations	139.1	3.2	142.3

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The following table summarizes the combined effect on consolidated net sales of exchange rates and the Cole acquisition, to allow a comparison of operating performance on a consistent basis (in millions of Euro):

Consolidated Net Sales			
	2Q 04	2Q 05	% change
US GAAP results	811.7	1,145.6	+41.1%
Exchange rate effect		31.5	
Constant exchange rate	811.7	1,177.1	+45.0%
Cole results in 2004	256.8		
Consistent basis	1,068.5	1,177.1	+10.2%

The 10.2 percent increase in net sales on a consistent basis in the second quarter of 2005 as compared to the same period of 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 new Prada and Versace product lines and increased comparable store sales<sup>2</sup> of our retail division.

(2)

Comparable store sales reflects the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period, and applies to both periods the average exchange rate for the prior period and the same geographic area. The calculation of comparable store sales for the second quarter of 2005 includes relevant stores of the former Cole National business as if the Cole National acquisition had been completed as of January 1, 2004. Cole National results are actually consolidated with Luxottica Group results only as of the October 4, 2004 acquisition date.

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):

Consolidated Income from Operations			
	2Q 04	2Q 05	% change
US GAAP results	139.1	165.7	19.1%
% of net sales	17.1%	14.5%	
Cole results in 2004	3.2		
Consistent basis	142.3	165.7	16.4%
% of net sales	13.3%	14.5%	

On a consolidated adjusted basis, including Cole's results for the three-month period ended June 30, 2004, income from operations in the three-month period ended June 30, 2005 would have increased by 16.4 percent and operating margin would have increased to 14.5 percent from 13.3 percent as compared to the same period of 2004.

### BALANCE SHEET DISCUSSION

#### *Our Cash Flows*

*Operating Activities.* The Company's cash provided by operating activities was Euro 249.1 million for the first six months of 2005 as compared to Euro 211.1 million for the same period of 2004. Depreciation and amortization increased by Euro 23.5 million in the first six months of 2005 to Euro 95.1 million from Euro 71.6 million in the same period of 2004, mainly due to the Cole acquisition resulting in additional depreciation and amortization of Euro 22.6 million in the first six months of 2005, including amortization relating to its trade names. Accounts receivable was a use of cash in the first six months of 2005 of Euro 129.4 million as compared to a use of cash in the same period of

2004 of Euro 97.9 million. This change in cash flows from accounts receivable is primarily due to the increase in sales

of our manufacturing and wholesale segment, along with an increase in accounts receivable in the retail segment due to the timing of payments in the North American retail division. Inventories were a source of cash in the first six months of 2005 of Euro 57.8 million compared to Euro 19.0 million in the same period of 2004. This change in cash flow from inventory is primarily due to an increase in the inventory turn. Prepaid expenses and other were a use of cash in the first six months of 2005 of Euro 41.2 million compared to a source of cash of Euro 7.6 million for the same period of 2004. This change in cash flow is primarily attributable to advance payments of Euro 30.0 million made by the Company to certain designers for future contracted minimum royalties. The amount of cash provided by operating activities for accounts payable and accrued expenses increased by Euro 24.6 million and decreased by Euro 4.1 million, respectively, in the first six months of 2005 as compared to the same period of 2004. The increase in accounts payable was caused primarily by the timing of payments to certain vendors by the North American retail division, the increase in amounts due for royalties to certain designers due to an increase in sales of branded products, and an increase in the warranty deferral for Cole licensed brands because of an increase in sales. Income tax payable was a source of cash in the first six months of 2005 of Euro 21.8 million as compared to Euro 7.0 million in the same period of 2004 due to timing of tax payments.

*Investing Activities.* The Company's cash from investing activities was a use of Euro 33.9 million for the first six months of 2005 as compared to a use of Euro 40.5 million for the same period of 2004. This Euro 6.6 million decrease is primarily attributable to the sale of Pearle Europe for Euro 144.0 million in January 2005, partly offset by the Company's acquisition of the remaining minority stake of OPSM for Euro 62.0 million which was completed in February 2005, two asset acquisitions carried out by the North American retail division for an aggregate amount of Euro 11.1 million, an increase of Euro 62.7 million of capital expenditures, partially due to the purchase of a new aircraft to replace the previous aircraft which became obsolete, and an increase in fixed assets relating to the U.S. retail segment in the first six months of 2005 including costs associated with the expansion of the North American Retail Division's home office. The expected aggregate cost of the home office expansion is U.S. \$13.3 million and is expected to be completed in 2006.

*Financing Activities.* The Company's cash provided by/(used in) financing activities for the first six months of 2004 and 2005 was Euro (214.3) million and Euro (108.4) million, respectively. Cash used in financing activities for the first six months of 2004 was used primarily to repay long-term debt in the amount of Euro 300.0 million, to reduce bank overdrafts and to pay Euro 95.5 million of dividends to the Company's shareholders. In addition, the Company borrowed Euro 370.0 million from a new credit facility signed on June 3, 2004. Cash used by financing activities for the first six months of 2005 consisted primarily of the proceeds of Euro 208.0 million from long-term debt and Euro 113.5 million from unsecured short-term credit lines, which were used to repay long-term debt expiring during the first six months of 2005 and to pay Euro 103.5 million of dividends to the Company's shareholders.

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

Bank overdrafts represent negative cash balances held in banks and amounts borrowed under various unsecured short-term lines of credit obtained by the Company and certain of its subsidiaries through local financial institutions. These facilities are usually short-term in nature or contain evergreen clauses with a cancellation notice period. Certain of these 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. The Company uses these short-term lines of credit to satisfy its short-term cash needs.

In June 2002, Luxottica U.S. Holdings Corp. ("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 credit facility was guaranteed by Luxottica Group S.p.A. and matured in June 2005. 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. 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. In June 2005, the Company 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 (the "2002 Swap"), under which the beginning and maximum notional amount was U.S. \$275 million, which decreased by U.S. \$20 million quarterly starting with the quarter beginning 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 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 on June 17, 2005. The 2002 Swap did not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, and as such was marked to market with the gains or losses from the change in value reflected in current operations. In June 2005, the 2002 Swap expired.

In December 2002, the Company entered into a new unsecured credit facility with Banca Intesa S.p.A. The new unsecured credit facility provides borrowing availability of up to Euro 650 million. The facility includes a Euro 500 million term loan, which required a balloon payment of Euro 200 million in June 2004 and repayment of equal quarterly installments of principal of Euro 50 million subsequent to that date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.45 percent (2.55 percent on June 30, 2005). The revolving loan provides borrowing availability of up to Euro 150 million; amounts borrowed under the revolving loan can be borrowed and repaid until final maturity. At June 30, 2005, Euro 140 million had been drawn under the revolving loan. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.45 percent (2.57 percent on June 30, 2005). The final maturity of all outstanding principal amounts and interest is December 27, 2005. The Company has the option to choose interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. As of June 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. Under this credit facility, Euro 240 million was outstanding as of June 30, 2005.

In December 2002, the Company entered into two interest rate swap transactions ("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 in each subsequent three-month period. These Intesa Swaps will expire on December 27, 2005. The Intesa Swaps were entered into as a cash flow hedge on a portion of the Banca Intesa Euro 650 million unsecured credit facility discussed above. The Intesa Swaps exchange the floating rate of Euribor for a fixed rate of 2.99 percent per annum.

On September 3, 2003, U.S. Holdings closed a private placement of U.S. \$300 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 each of the 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 dates of maturity. The Notes are guaranteed on a senior unsecured basis by the Company and Luxottica S.r.l., the Company's 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. As of June 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable.

In connection with the issuance of the Notes, U.S. Holdings entered into three interest rate swap agreements with Deutsche Bank AG (collectively, the "DB Swap"). The three separate agreements' notional amounts and interest payment dates coincide with those of the Notes. The DB Swap exchanges



the fixed rate of the Notes for a floating rate of the six-month LIBOR rate plus 0.66 percent for the Series A Notes and the six-month LIBOR rate plus 0.73 percent for the Series B and Series C Notes.

In September 2003, the Company acquired 82.57 percent of the ordinary shares of OPSM and more than 90 percent of OPSM's performance rights and options, which entitled the Company 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 expenses, and was paid for with the proceeds of a new credit facility with Banca Intesa S.p.A. of Euro 200 million, in addition to other short-term lines available. The credit facility includes a Euro 150 million term loan, which will require repayment of equal semiannual installments of principal of Euro 30 million starting September 30, 2006 until the final maturity date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.55 percent (2.65 percent on June 30, 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 June 30, 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 (2.68 percent on June 30, 2005). The final maturity of the credit facility is September 30, 2008. The Company can select interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. As of June 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. Under this credit facility, Euro 175 million was outstanding as of June 30, 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.

On June 3, 2004, the Company and U.S. Holdings entered into a new credit facility with a group of banks providing for loans in the aggregate principal amount of Euro 740 million and U.S. \$325 million. The five-year facility consists of three Tranches (Tranche A, Tranche B and 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 of the acquisition of Cole. Amounts borrowed under Tranche B will mature in June 2009. Tranche C is a Revolving Credit Facility of Euro 335 million-equivalent multi-currency (€/U.S. \$). Amounts borrowed under Tranche C may be repaid and reborrowed with all outstanding balances maturing in June 2009. At June 30, 2005, U.S. \$320.0 million (Euro 264.5 million) had been drawn from Tranche C by U.S. Holdings. 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 0.40 percent and 0.60 percent based on the "Net Debt/EBITDA" ratio, as defined in the agreement. The interest rate on June 30, 2005 was 2.60 percent for Tranche A, 3.65 percent for Tranche B and 3.75 percent on Tranche C amounts borrowed by U.S. Holdings. The new credit facility contains certain financial and operating covenants. The Company was in compliance with those covenants as of June 30, 2005. The Mandated Lead Arrangers and Bookrunners are ABN AMRO, Banca Intesa S.p.A., Bank of America, Citigroup Global Markets Limited, HSBC Bank plc, Mediobanca Banca di Credito Finanziario S.p.A., The Royal Bank of Scotland plc and UniCredit Banca Mobiliare S.p.A. Unicredito Italiano S.p.A. New York Branch and Unicredit Banca d'Impresa S.p.A. act as Facility Agents. Under this credit facility, Euro 938.1 million was outstanding as of June 30, 2005.

In June 2005, the Company entered into nine interest rate swap transactions with an aggregate initial notional amount of Euro 405 million with various banks 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.

In August 2004, OPSM renegotiated the recently expired multicurrency (AUD/HKD) loan facility with Westpac Banking Corporation. The credit facility has a maximum available line of AUD 100 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 June 30, 2005, the interest rate was 6.08 percent on the borrowings denominated in Australian Dollars and 2.36 percent on the borrowings denominated in Hong Kong Dollars. The facility was utilized for an amount of AUD 12.5 million and HKD 125.0 million (AUD 21.0 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. As of June 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable.

#### **RECENT DEVELOPMENTS AND OTHER EVENTS**

On August 31, 2005, the Company 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 International, Inc. ("SGHI"), 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, for a payment of \$14.5 million, is subject to final approval by the judge presiding over the Action. The amount of the settlement payment is not material and will not affect the Company's outlook for fiscal year 2005 previously communicated.

On January 4, 2005, the Company launched the off-market takeover offer for all the Australian Stock Exchange listed OPSM Group shares it did not already own. At the close of the offer on February 7, 2005, the Company held 98.5 percent of OPSM Group's shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, the Company announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by the Company.

On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 21, 2005 it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 23, 2005.

On January 5, 2005, the Company announced that its subsidiary, Cole National Corporation, sold all its shares in Pearle Europe B.V., representing approximately 21 percent of that company's outstanding shares, to HAL Investments B.V., a subsidiary of HAL Holding N.V., for a cash purchase price of Euro 144 million (or approximately U.S. \$191 million calculated for convenience at the January 4, 2005 noon buying rate). HAL Investments held the balance of Pearle Europe's outstanding shares (except for approximately one percent held by management). The Company gained control of the Pearle Europe shares in October 2004, as a result of its acquisition of the Cole National business. The sale was required by the Articles of Association of Pearle Europe in connection with the acquisition.

On July 7, 2005, the Company announced that its subsidiary, SPV Zeta S.r.l., will acquire 100 percent of the equity interest in Beijing Xueliang Optical Technology Co. Ltd. for a purchase price of 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. Completion of the transaction remains subject to customary approvals by the relevant Chinese governmental authorities. The Company currently anticipates receiving such approvals by the beginning of 2006.

The Company and its subsidiaries become involved in legal and regulatory proceedings from time to time, some of which are significant. The timing and outcome of these proceedings are inherently uncertain and the outcomes could have a material adverse effect on the Company's business, financial position or operating results. See Item 3 "Key Items Risk Factors" in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2004.

#### **FORWARD LOOKING INFORMATION**

Certain statements in this Form 6-K may constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. 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 ability to successfully launch initiatives to increase sales and reduce costs, the availability of correction alternatives to prescription eyeglasses, the ability to effectively integrate recently acquired businesses, including Cole, risks that expected synergies from the acquisition by Luxottica Group of Cole will not be realized as planned and that the combination of Luxottica Group's managed vision care business with Cole's will not be as successful as planned, as well as other political, economic and technological factors and other risks referred to in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2004 (included under Item 3 "Key Items Risk Factors") and its other filings with the Securities and Exchange Commission. These forward-looking statements are made as of the date hereof and Luxottica Group does not assume any obligation to update them.

**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**  
**FORM 6-K**

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LUXOTTICA GROUP S.p.A.

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## CONSOLIDATED BALANCE SHEETS U.S. GAAP

DECEMBER 31, 2004 AND SEPTEMBER 30, 2005

	December 31, 2004	September 30, 2005 (Unaudited)	September 30, 2005 (Unaudited)
	(Thousands of Euro)		(Thousands of US dollars)(1)
<b>ASSETS</b>			
<i>CURRENT ASSETS</i>			
Cash	€257,349	€347,886\$	419,481
Accounts receivable net	406,437	457,964	552,213
Sales and income taxes receivable	33,120	37,346	45,032
Inventories	433,158	422,867	509,893
Prepaid expenses and other	69,151	77,794	93,804
Asset held for sale Pearl Europe	143,617		
Net deferred tax assets current	104,508	76,511	92,257
<b>Total current assets</b>	<b>1,447,340</b>	<b>1,420,368</b>	<b>1,712,680</b>
<b>PROPERTY, PLANT AND EQUIPMENT net</b>			
	<b>599,245</b>	<b>694,047</b>	<b>836,882</b>
<i>OTHER ASSETS</i>			
Goodwill	1,500,962	1,689,217	2,036,858
Intangible assets net	972,091	1,000,469	1,206,365
Investments	13,371	14,822	17,872
Other assets	23,049	49,603	59,811
<b>Total other assets</b>	<b>2,509,473</b>	<b>2,754,111</b>	<b>3,320,906</b>
<b>TOTAL</b>	<b>€4,556,058</b>	<b>€4,868,526\$</b>	<b>5,870,468</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

<i>CURRENT LIABILITIES</i>			
Bank overdrafts	€290,531	€356,318\$	429,648
Current portion of notes payable		64,411	77,667
Current portion of long-term debt	405,369	173,764	209,524
Accounts payable	222,550	254,916	307,378
Accrued expenses and other	376,779	369,347	445,359
Accrual for customers' right of return	8,802	11,612	14,002
Income taxes payable	12,722	50,381	60,749
<b>Total current liabilities</b>	<b>1,316,753</b>	<b>1,280,749</b>	<b>1,544,327</b>
<i>LONG-TERM LIABILITIES</i>			
Notes payable	221,598	184,386	222,333
Long-term debt	1,055,897	1,126,895	1,358,810

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Liability for termination indemnities	52,656	57,125	68,881
Net deferred tax liabilities non current	215,891	188,978	227,870
Other	173,896	184,905	222,958
<b>Total long-term liabilities</b>	<b>1,719,937</b>	<b>1,742,289</b>	<b>2,100,852</b>
<b>MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES</b>	<b>23,760</b>	<b>14,598</b>	<b>17,602</b>
<i>SHAREHOLDERS' EQUITY</i>			
Capital stock par value Euro 0.06 455,205,473 and 457,264,223 ordinary shares authorized and issued at December 31, 2004 and September 30, 2005, respectively; 448,770,687 and 450,829,437 shares outstanding at December 31, 2004 and September 30, 2005, respectively.	27,312	27,436	33,082
Additional paid-in capital	47,167	134,222	161,845
Retained earnings	1,812,073	1,965,304	2,369,763
Unearned stock based compensation		(54,514)	(65,733)
Accumulated other comprehensive loss	(320,958)	(171,571)	(206,880)
<b>Total</b>	<b>1,565,594</b>	<b>1,900,877</b>	<b>2,292,078</b>
Less Treasury shares at cost; 6,434,786 shares at December 31, 2004 and September 30, 2005	69,987	69,987	84,391
<b>Shareholders' equity</b>	<b>1,495,607</b>	<b>1,830,890</b>	<b>2,207,687</b>
<b>TOTAL</b>	<b>€4,556,058</b>	<b>€4,868,526\$</b>	<b>5,870,468</b>

(1)

Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2058 on September 30, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

**STATEMENTS OF CONSOLIDATED INCOME U.S. GAAP  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2005 (UNAUDITED)**

	2004	2005	2005
	(Thousands of Euro)(2)		(Thousands of US dollars)(1)(2)
NET SALES	€2,306,993	€3,251,948	\$ 3,921,199
COST OF SALES	718,208	1,020,223	1,230,185
<b>GROSS PROFIT</b>	<b>1,588,784</b>	<b>2,231,725</b>	<b>2,691,014</b>
OPERATING EXPENSES:			
Selling and advertising	961,514	1,424,597	1,717,779
General and administrative	238,982	350,028	422,064
<b>Total</b>	<b>1,200,496</b>	<b>1,774,625</b>	<b>2,139,843</b>
INCOME FROM OPERATIONS	388,288	457,100	551,171
OTHER INCOME (EXPENSE):			
Interest income	4,560	4,188	5,050
Interest expense	(37,458)	(49,163)	(59,281)
Other net	2,377	7,665	9,243
<b>Other income (expense) net</b>	<b>(30,521)</b>	<b>(37,310)</b>	<b>(44,988)</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>357,767</b>	<b>419,790</b>	<b>506,183</b>
PROVISION FOR INCOME TAXES	124,033	155,322	187,287
INCOME BEFORE MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES	233,734	264,468	318,896
MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES	6,616	7,753	9,349
NET INCOME	€227,118	€256,715	\$ 309,547
<b>EARNINGS PER SHARE:</b>			
Basic	€0.51	€0.57	\$ 0.69



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Diluted	€0.50	€0.57	\$ 0.68
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WEIGHTED  
AVERAGE NUMBER  
OF SHARES  
OUTSTANDING

(thousands):

Basic	448,162.1	449,805.6
Diluted	450,125.2	452,757.4

(1) Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2058 on September 30, 2005 (see Note 7).

(2) Amounts in thousands except per share data.

See Condensed Notes to Consolidated Financial Statements

## STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY U.S. GAAP

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

	Common Stock		Additional Paid-in Capital	Retained Earnings	Unearned Stock-Based Compensation	Comprehensive Income	Accumulated Other Comprehensive Loss	Treasury Shares	Consolidated Shareholders' Equity
	Number of Shares	Amount							
(Thousands of Euro)									
BALANCES, January 1, 2005	455,205,473	27,312	47,167	1,812,073			(320,958)	(69,987)	1,495,607
Exercise of stock options	2,058,750	124	20,167						20,291
Translation adjustment						148,097	148,097		148,097
Non-Cash Stock-Based Compensation, net of taxes			66,889		(54,514)				12,375
Change in fair value of derivative instruments, net of taxes						1,290	1,290		1,290
Dividends declared				(103,484)					(103,484)
Net income				256,715		256,715			256,715
Comprehensive income						406,102			
BALANCES, September 30, 2005 (Unaudited)	457,264,223	27,436	134,222	1,965,304	(54,514)		(171,571)	(69,987)	1,830,890
Comprehensive income						\$ 489,678			
(Thousands of US dollars)(1)									
BALANCES, September 30, 2005 (Unaudited)	457,264,223	\$ 33,082	\$ 161,845	\$ 2,369,763	\$ (65,733)		\$ (206,880)	\$ (84,391)	\$ 2,207,687
(Thousands of US dollars)(1)									

(1)

Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2058 on September 30, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements



## STATEMENTS OF CONSOLIDATED CASH FLOWS U.S. GAAP

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2005 (UNAUDITED)

	2004	2005	2005
	(Thousands of Euro)		(Thousands of US dollars)(1)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	€227,118	€256,715	\$ 309,547
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Minority interests in income of consolidated subsidiaries	6,616	7,753	9,349
Depreciation and amortization	106,669	143,603	173,156
Provision (benefit) for deferred income taxes	666	(3,261)	(3,932)
Losses on disposal of fixed assets net	7,510	4,280	5,160
Termination indemnities matured during the period net	3,868	4,138	4,990
Changes in operating assets and liabilities, net of acquisition of business:			
Accounts receivable	(28,800)	(32,392)	(39,058)
Prepaid expenses and other	22,320	(38,961)	(46,980)
Inventories	21,515	44,010	53,067
Accounts payable	(15,324)	19,303	23,276
Accrued expenses and other	(10,466)	(30,044)	(36,227)
Accrual for customers' right of return	379	1,695	2,044
Income taxes payable	19,337	36,596	44,127
<b>Total adjustments</b>	<b>134,289</b>	<b>156,720</b>	<b>188,973</b>
Cash provided by operating activities	361,408	413,435	498,520
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Property, plant and equipment:			
Additions	(68,534)	(151,180)	(182,293)
Disposals		1,041	1,255
Purchase of business		(86,583)	(104,402)
Decrease in investments		144,000	173,635
Increase in intangible assets	(11,921)	(1,443)	(1,740)
Cash used in investing activities	(80,455)	(94,165)	(113,545)
<b>CASH FLOWS FROM FINANCING</b>			

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**ACTIVITIES:**

Long-term debt:			
Proceeds	684,115	272,064	328,054
Repayments	(422,960)	(499,245)	(601,989)
Increase (decrease) in overdraft balances	(185,508)	58,820	70,926
Exercise of stock options	2,447	20,291	24,467
Dividends	(95,464)	(103,484)	(124,781)
	<hr/>	<hr/>	<hr/>
Cash used in financing activities	(17,369)	(251,554)	(303,323)
	<hr/>	<hr/>	<hr/>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>263,584</b>	<b>67,716</b>	<b>81,652</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	<b>299,937</b>	<b>257,349</b>	<b>310,311</b>
Effect of exchange rate changes on cash and cash equivalents	2,058	22,821	27,518
	<hr/>	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>€565,580</b>	<b>€347,886</b>	<b>\$ 419,481</b>
	<hr/>	<hr/>	<hr/>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the period for interest	€40,604	€50,284	\$ 60,632
Cash paid during the period for income taxes	€75,942	€106,375	\$ 128,267

(1)

Translated at the Noon Buying Rate of Euro 1.00 = U.S. \$1.2058 on September 30, 2005 (see Note 7).

See Condensed Notes to Consolidated Financial Statements

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. BASIS OF PRESENTATION**

The accompanying consolidated balance sheet as of September 30, 2005 and the related statements of consolidated income and cash flows for the nine months ended September 30, 2004 and 2005 and the statement of consolidated shareholders' equity for the nine months ended September 30, 2005 of Luxottica Group S.p.A. and subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. The consolidated balance sheet as of September 30, 2005, the statements of consolidated income and cash flows for the nine months ended September 30, 2004 and 2005 and the statement of consolidated shareholders' equity for the nine months ended September 30, 2005 are derived from unaudited financial statements. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations and cash flows as of September 30, 2004 and 2005 and for the nine months ended September 30, 2004 and 2005 have been made.

The interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2004. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accounting policies have been consistently applied by the Company and are consistent with those applied in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2004. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the operating results for the full year.

The December 31, 2004 balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. However, the Company believes that the disclosures are adequate to make the information presented not misleading.

**2. ACQUISITION OF OPSM**

On June 16, 2003, the Company's wholly owned subsidiary, Luxottica South Pacific Pty Limited, commenced a cash offer to acquire all of the outstanding shares, performance rights and options of OPSM Group Ltd. ("OPSM"), the largest eyewear retailer in Australia. On September 2, 2003, the cash offer was successfully completed and closed. At the close of the offer, Luxottica South Pacific Pty Limited acquired 82.57 percent of OPSM's ordinary shares, and more than 90 percent of OPSM's options and performance rights, which entitled the Company to require the cancellation of all the options and performance rights still outstanding. As a result of Luxottica South Pacific Pty Ltd. acquiring the majority of OPSM's shares on August 8, 2003, OPSM's financial position and results of operations have been reported in the Company's consolidated financial results since August 1, 2003.

On November 26, 2004, the Company through its wholly owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the unowned remaining outstanding shares of OPSM Group.

At the close of the offer on February 7, 2005, the Company held 98.5 percent of OPSM Group's shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, the Company announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by the Company.

On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 21, 2005 it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 23, 2005 and as of that date the Company held 100.0 percent of OPSM Group's shares. The difference between the purchase price and the value of the minority interest in OPSM has been preliminarily allocated entirely to goodwill.

### 3. ACQUISITION OF COLE NATIONAL

On July 23, 2003, the Company formed an indirect wholly-owned subsidiary, Colorado Acquisition Corp., for the purpose of acquiring all the outstanding common stock of Cole, a publicly traded company on the New York Stock Exchange. On January 23, 2004, as amended as of June 2, 2004 and July 15, 2004, the Company and Cole entered into a definitive merger agreement with the unanimous approval of the Boards of Directors of both companies. On October 4, 2004, Colorado Acquisition Corp. consummated its merger with Cole. As a result of the merger, Cole became an indirect wholly owned subsidiary of the Company. The aggregate consideration paid by the Company to former shareholders, option holders and holders of restricted stock of Cole was approximately U.S. \$500.6 million. In connection with the merger, the Company assumed outstanding indebtedness with an approximate aggregate fair value of the principal balance of Euro 253.3 million (U.S. \$310.9 million). The results of Cole have been consolidated into the Company's consolidated financial statements as of the acquisition date. The acquisition was accounted for using the purchase method, and accordingly, U.S. \$520.1 million (including the purchase price of U.S. \$500.6 million plus approximately U.S. \$19.5 million of acquisition-related expenses) was allocated to the assets acquired and liabilities assumed based on their fair value at the date of the acquisition. The Company used various methods to calculate the fair value of the assets and liabilities. The excess of purchase price over net assets acquired ("goodwill") has been recorded in the accompanying consolidated balance sheet.

The purchase price (including acquisition-related expenses) has been allocated based upon the valuation of the Company's acquired assets and liabilities assumed as follows (in thousands of Euro):

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**Assets purchased:**

Cash and cash equivalents	60,762
Inventories	95,601
Accounts receivable	45,448
Prepaid expenses and other current assets	12,456
Property, plant and equipment	111,491
Trade names (useful lives 25 years, no residual value)	71,415
Distributor network (useful life 23 years, no residual value)	98,321
Customer lists and contracts (useful lives 21-23 years, no residual value)	68,385
Other intangibles	37,122
Asset held for sale Pearlle Europe	143,617
Other assets including deferred tax assets	11,252

**Liabilities assumed:**

Accounts payable	(49,191)
Accrued expenses and other current liabilities	(163,539)
Deferred tax liabilities	(25,292)
Long-term debt	(253,284)
Bank overdraft	(22,668)
Other non-current liabilities	(78,426)

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Fair Value of Net Assets	163,473
Goodwill	260,268
	<hr/>
Total Purchase Price	423,740
	<hr/>

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The amount of goodwill has not changed materially from the December 31, 2004 valuation.

Included under the caption "Asset Held For Sale" in the above table and on the consolidated balance sheet at December 31, 2004 is the fair value of the Company's investment in Pearle Europe B.V. ("PE") established through negotiations with the majority shareholder of PE to acquire the asset. As part of the acquisition of Cole, the Company acquired approximately 21 percent of PE's outstanding shares. A change of control provision included in the Articles of Association of PE required Cole to make an offer to sell these shares to the shareholders of PE within 30 days of the change of control, which deadline was extended by agreement of the parties. In December 2004, substantially all the terms of the sale were established at a final cash selling price of Euro 144.0 million, subject to customary closing conditions. The sale transaction closed in January 2005. As the asset is denominated in Euro, which is not the functional currency of the subsidiary that held the investment, the Company has recorded a foreign exchange loss of approximately U.S. \$3.0 million during the nine months ended September 30, 2005 relating to the changes in the U.S. dollar/Euro exchange rate between December 31, 2004 and January 5, 2005 (the date of closing).

On October 17, 2004, Cole caused its subsidiary to purchase U.S. \$150.0 million principal amount of its outstanding 8<sup>7/8</sup>% Senior Subordinated Notes due 2012 in a tender offer and consent solicitation for U.S. \$175.5 million, which amount represented all of the issued and outstanding notes of such series. On November 30, 2004, Cole caused its subsidiary to redeem all of its outstanding 8<sup>5/8</sup>% Senior Subordinated Notes due 2007 for U.S. \$126.4 million.

#### 4. INVENTORIES

Inventories consisted of the following (in thousands of Euro):

	December 31, 2004	September 30, 2005
Raw materials	€50,656	€50,110
Work in process	24,486	25,228
Finished goods	358,016	347,528
Total	€433,158	€422,866

#### 5. EARNINGS PER SHARE

Earnings per share are computed by dividing net income by the number of weighted average shares outstanding during the period. Basic earnings per share are based on the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are based on the weighted average number of ordinary shares and ordinary share equivalents (options) outstanding during the period.

#### 6. STOCK OPTION AND INCENTIVE PLANS

Options to purchase an aggregate of 11,758,210 ordinary shares of the Company were outstanding at September 30, 2005. Outstanding options granted under the Company's Stock Option Plans (10,758,210 ordinary shares) become exercisable in either three equal annual installments or two equal



installments in the second year and in the third year of the three-year vesting period and expire on or before January 31, 2014. During the first nine months of 2005, 2,058,750 options were exercised.

Options granted in 2004 under a Company Incentive Plan (1,000,000 ordinary shares) vest and become exercisable from January 31, 2007 only if certain financial performance measures are met over the period ending December 2006.

As the Company has elected to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," no compensation expense was recorded for shares issued under the Stock Option Plans because each option's exercise price was equal to the fair market value of the underlying stock on the option's date of grant. Compensation expense will be recorded for the options issued under the Company's Incentive Plans based on the market value of the underlying ordinary shares only when the number of shares to be vested and issued is known. During the three-month period ending September 30, 2005, it became apparent that the targets would be met. Accordingly, the Company has recorded aggregate stock compensation expense for these incentive grants of Euro 2.0 million. The unearned compensation costs have been recorded as an increase to additional paid-in capital and a corresponding adjustment to equity. This expense will be amortized over the remaining vesting period of the options.

On September 14, 2004, the Company announced that its majority shareholder, Mr. Leonardo Del Vecchio, had allocated shares held through La Leonardo Finanziaria S.r.l., a 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 top management of the Company. The stock options to be issued under the stock option plan vest upon meeting certain economic objectives. As such, compensation expense will be recorded for the options issued to management under this plan based on the market value of the underlying ordinary shares only when the number of shares to be vested and issued is known. During the three-month period ending September 30, 2005, it became apparent that the targets would be met. Accordingly, the Company has recorded aggregate stock compensation expense for these incentive grants of Euro 10.4 million. The unearned compensation costs have been recorded as an increase to additional paid-in capital and a corresponding adjustment to equity. This expense will be amortized over the remaining vesting period of the options.

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

## **7. U.S. DOLLAR CONVENIENCE TRANSLATION**

The consolidated financial statements presented in Euro as of and for the nine months ended September 30, 2005 are also translated into U.S. Dollars, solely for the convenience of the readers of these financial statements, at the noon buying rate of Euro 1.00 = U.S. \$1.2058, as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") at September 30, 2005. Such translations should not be construed as representations that Euro amounts could be converted into U.S. Dollars at that or any other rate.

**8. INCOME TAXES**

The Company's 2004 effective tax rate is less than the statutory tax rate due to permanent differences between the Company's income for financial reporting and tax purposes, which reflect the net loss carry forward 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 the Company's acquisitions.

**9. SEGMENTS AND RELATED INFORMATION**

The Company operates in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution.

The following tables summarize the segmental information deemed essential by the Company's management for the purpose of evaluating the Company's performance and for making decisions about future allocations of resources.

The "Inter-segment transactions and corporate adjustments" column includes the elimination of inter-segment activities and corporate-related expenses not allocated to reportable segments. This has the effect of increasing reportable operating profit for the manufacturing and wholesale and retail segments. Identifiable assets are those tangible and intangible assets used in operations in each segment. Corporate identifiable assets are principally cash, goodwill and trade names (in thousands of Euro).

Nine months ended September 30,	Manufacturing And Wholesale	Retail	Inter-Segment Transactions and Corporate Adjustments	Consolidated
<i>2005</i>				
Net revenues	978,928	2,448,596	(175,576)	3,251,948
Operating income	231,310	283,441	(57,651)	457,100
Identifiable assets	1,591,005	1,298,257	1,979,263	4,868,526
<i>2004</i>				
Net revenues	836,964	1,609,614	(139,585)	2,306,993
Operating income	187,690	235,921	(35,323)	388,288
Identifiable assets	1,507,135	877,534	1,776,603	4,161,272

**10. COMMITMENTS AND CONTINGENCIES**

The Company and its subsidiaries become involved in legal and regulatory proceedings from time to time, some of which are significant. The timing and outcome of these proceedings are inherently uncertain and the outcomes of certain cases as disclosed in the Company's 2004 consolidated financial statements could have a material adverse effect on the Company's business, financial position or future operating results. It is the opinion of management of the Company that it has meritorious defenses against these claims, which the Company will vigorously pursue.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2005**

The following discussion should be read in conjunction with the disclosure contained in the Company's Annual Report on Form 20-F for the year ended December 31, 2004, which contains, among other things, a discussion of the Company's significant accounting policies and risks and uncertainties that could affect the Company's future operating results or financial condition.

**OVERVIEW**

The Company operates in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution. Through its manufacturing and wholesale distribution operations, the Company is engaged in the design, manufacture, wholesale distribution and marketing of house brand and designer lines of mid- to premium-priced prescription frames and sunglasses. The Company operates in the retail segment through its retail division, consisting of LensCrafters, Inc. and other affiliated companies ("LensCrafters"), Sunglass Hut International, Inc. and its subsidiaries and affiliates ("Sunglass Hut"), OPSM Group Ltd. and subsidiaries and affiliates and, since October 2004, Cole National Corporation ("Cole") and its subsidiaries. As of September 30, 2005, the Company's retail division consisted of 5,647 owned or leased department retail locations and 508 franchised locations as follows:

	North America	Europe	Asia- Pacific(1)	Total
LensCrafters	891			891
Sunglass Hut	1,560	108	167	1,835
OPSM Group			538	538
Cole National Group	2,383			2,383
Franchised locations	479		29	508
	<u>5,313</u>	<u>108</u>	<u>734</u>	<u>6,155</u>

(1) "Asia-Pacific" in our Retail Division consists of Australia, New Zealand, Singapore, Malaysia and Hong Kong.

Our net sales consist of, among other items, 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. 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. We have historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses. As a result, net sales are typically higher in the second quarter and lower in the first quarter.

The Company's results of operations, which are reported in Euro, are susceptible to currency fluctuations between the Euro and the U.S. Dollar due to its significant U.S. retail business. The U.S. Dollar/Euro exchange rate has fluctuated from an average exchange rate in the first nine months of 2004 of Euro 1.00 = U.S. \$1.2255 to Euro 1.00 = U.S. \$1.2627 in the first nine months of 2005. The U.S. Dollar/Euro exchange rate has fluctuated from an average exchange rate in the third quarter of 2004 of Euro 1.00 = U.S. \$1.2220 to Euro 1.00 = U.S. \$1.2197 in the third quarter of 2005. Additionally, with the acquisition of OPSM, the Company's results of operations have also been rendered susceptible to currency rate fluctuation between the Euro and the Australian Dollar ("AUD"). The Australian Dollar/Euro exchange rate has fluctuated from an average exchange rate in the first nine months of 2004 of Euro 1.00 = AUD 1.6827 to Euro 1.00 = AUD 1.6432 in the first nine months of 2005. The Australian Dollar/

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Euro exchange rate has fluctuated from an average exchange rate in the third quarter of 2004 of Euro 1.00 = AUD 1.7226 to Euro 1.00 = AUD 1.6054 in the third quarter of 2005. Although the Company engages in certain foreign currency hedging activities to mitigate the impact of these fluctuations, currency fluctuations have negatively impacted the Company's reported revenues and net income during the nine-month period discussed herein. Fluctuations in currency exchange rates could significantly impact the Company's reported financial results in the future.

On November 26, 2004, the Company through its wholly owned subsidiary, Luxottica South Pacific Pty, Ltd., made an offer for all the remaining outstanding shares of OPSM Group it did not already own. The offer was for AUD 4.35 per share including a fully franked dividend of AUD 0.15 per share declared by OPSM (resulting in a net price of AUD 4.20 per share). For further details, see Note 2, "Acquisition of OPSM".

On October 4, 2004, the Company acquired all of the issued and outstanding shares of Cole National Corporation through a merger. The aggregate purchase price for the shares purchased in the merger and the cancellation of Cole outstanding options and restricted stock and acquisition-related costs was U.S. \$520.1 million (Euro 423.7 million based on the exchange rate in effect at such time).

The Company believes that its combination with Cole will:

strengthen its retail operations in the United States;

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

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

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

The integration of our financial and human resources systems and the migration of Cole's corporate functions are now complete.

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

In October 2005, the Company completed the integration of its Managed Vision Care system with Cole's, resulting in a single brand (EyeMed) going forward. The Company has already begun selling the new combined product.

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

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

general and administrative; and

sale of the Company's manufactured products.

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

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

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

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

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

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2005**

The following table sets forth for the periods indicated the amount and percentage of net sales represented by certain items included in the Company's statements of consolidated income (in thousands of Euro).

**Nine months ended September 30,**

	<b>2004</b>	<b>%</b>	<b>2005</b>	<b>%</b>
Net sales	€2,306,993	100.0	€3,251,948	100.0
Cost of sales	718,208	31.1	1,020,223	31.4
Gross profit	1,588,784	68.9	2,231,725	68.6
Selling and advertising expenses	961,514	41.7	1,424,597	43.8
General and administrative expense	238,982	10.4	350,028	10.8
Income from operations	388,288	16.8	457,100	14.1
Other income (expense) net	(30,521)	1.3	(37,310)	1.1
Income before provision for income taxes	357,767	15.5	419,790	12.9
Provision for income taxes	124,033	5.4	155,322	4.8
Minority interests	6,616	0.3	7,753	0.2
Net income	€227,118	9.8	€256,715	7.9

**Net Sales** Net sales increased 41.0 percent to Euro 3,251.9 million during the first nine months of 2005 as compared to Euro 2,307.0 million for the same period of 2004.

Net sales in the retail segment through LensCrafters, Sunglass Hut, OPSM and Cole increased by 52.1 percent to Euro 2,448.6 million for the first nine months of 2005 from Euro 1,609.6 million for the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the first nine months of 2005, which amounted to Euro 731.5 million, partially offset by the weakening of the U.S. dollar against the Euro. The effect of the weakening of the U.S. dollar on the first nine months of 2005 retail sales in North America was approximately Euro 64.6 million.

Net sales to third parties in the manufacturing and wholesale segment increased by 15.5 percent to Euro 805.7 million for the first nine months of 2005 as compared to Euro 697.4 million in the same period of 2004. This increase was mainly attributable to increased sales of our Ray-Ban brand and Vogue product line as well as sales of Prada, Versace and new Donna Karan branded products, primarily in the European and North American markets.

On a geographic basis, operations in the United States and Canada resulted in net sales of Euro 2,267.9 million during the first nine months of 2005, comprising 69.7 percent of total net sales, an increase of Euro 845.2 million from the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the first nine months of 2005, which amounted to Euro 731.5 million, partially offset by the weakening of the U.S. dollar against the Euro (in U.S. dollars, operations in the United States and Canada resulted in an increase in net sales of U.S. \$1,120.3 million as compared to the same period of 2004). Net sales for operations in "Asia-Pacific" were Euro 337.0 million during the first nine months of 2005 compared to Euro 316.6 million in the same period of 2004; net sales for operations in "Asia-Pacific" during the first nine months of 2005 comprised 10.4 percent of total net sales. Net sales for the rest of the world accounted for the remaining Euro 647.0 million of net sales during the first nine months of 2005, which represented a 14.0 percent increase as compared to the same period of 2004.



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During the first nine months of 2005, net sales in the retail segment accounted for approximately 75.2 percent of total net sales, as compared to approximately 69.8 percent of net sales in the same period of 2004.

**Cost of Sales** Cost of sales increased by 42.1 percent to Euro 1,020.2 million in the first nine months of 2005, from Euro 718.2 million in the same period of 2004, and increased as a percentage of net sales to 31.4 percent from 31.1 percent. Cost of sales in the retail segment increased by Euro 289.9 million, primarily due to the inclusion of Cole's cost of sales in our results of operations, partially offset by the weakening of the U.S. dollar against the Euro. Cost of sales in the manufacturing and wholesale segment increased by Euro 43.1 million due to the increase in net sales. Manufacturing labor costs increased by 20.9 percent to Euro 225.2 million in the first nine months of 2005 from Euro 186.2 million in the same period of 2004. As a percentage of net sales, cost of labor decreased to 6.9 percent for the first nine months of 2005 from 8.1 percent for the same period of 2004. For the first nine months of 2005, the average number of frames produced daily in Luxottica's facilities was approximately 127,000 as compared to 130,000 for the same period of 2004.

**Gross Profit** For the reasons outlined above, gross profit increased by 40.5 percent to Euro 2,231.7 million in the first nine months of 2005 from Euro 1,588.8 million in the same period of 2004. As a percentage of net sales, gross profit decreased to 68.6 percent in the first nine months of 2005 from 68.9 percent in the same period of 2004 due to the inclusion of Cole results.

**Operating Expenses** Total operating expenses increased by 47.8 percent to Euro 1,774.6 million in the first nine months of 2005 from Euro 1,200.5 million in the same period of 2004. As a percentage of net sales, operating expenses increased to 54.6 percent in the first nine months of 2005 from 52.0 percent in the same period of 2004.

Selling and advertising expenses (including royalty expenses) increased by 48.2 percent to Euro 1,424.6 million during the first nine months of 2005, from Euro 961.5 million in the same period of 2004. Euro 377.0 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. selling and advertising expenses by Euro 31.3 million. As a percentage of net sales, selling and advertising expenses increased to 43.8 percent in the first nine months of 2005 from 41.7 percent in the same period of 2004. This increase as a percentage of sales is primarily attributable to the consolidation of Cole's results in our results of operations. Management continues to believe that such increase is temporary, primarily because Cole's business is in the process of restructuring.

General and administrative expenses, including intangible asset amortization, increased by 46.5 percent to Euro 350.0 million in the first nine months of 2005 from Euro 239.0 million in the same period of 2004. Euro 87.3 million of this increase is attributable to the inclusion of Cole in our results of operations. This increase was partially offset by the weakening of the U.S. dollar, which decreased U.S. general and administrative expenses by Euro 5.6 million. As a percentage of net sales, general and administrative expenses increased to 10.8 percent in the first nine months of 2005 from 10.4 percent in the same period of 2004. This increase was primarily due to the consolidation of Cole's results in our results of operations. The restructuring of Cole operations is almost complete and it is expected that the general and administrative costs of the Group will continue to decrease as a percentage of sales during 2005 and into 2006.

**Income from Operations** Income from operations for the first nine months of 2005 increased by 17.7 percent to Euro 457.1 million, from Euro 388.3 million in the same period of 2004. As a percentage of net sales, income from operations decreased to 14.1 percent in the first nine months of 2005 from 16.8 percent in the same period of 2004.

Operating margin in the manufacturing and wholesale distribution segment increased to 23.6 percent in the first nine months of 2005 from 22.4 percent in the same period of 2004. This increase



in operating margin is attributable to lower sales commissions and higher gross profit due to a more favorable product mix, partially offset by an increase in advertising expenses (including royalty expenses).

Operating margin in the retail segment decreased to 11.6 percent in the first nine months of 2005 from 14.7 percent in the same period of 2004 due to the consolidation of Cole's results in our results of operations. In 2005, it is management's expectation that the retail segment operating margin will be lower than 2004, since Cole's operating margin is lower than the rest of the retail segment. Management expects that the North American retail operating margin levels will return to 2004 pre-acquisition operating margin levels by the end of 2006.

**Other Income (Expense) Net** Other income (expense) net was Euro (37.3) million in the first nine months of 2005 as compared to Euro (30.5) million in the same period of 2004. This increase in other income (expense) net is mainly attributable to higher interest expenses of Euro 12.1 million primarily due to the increase in net debt used to finance the Cole acquisition and rising interest rates in the U.S., partially offset by higher net realized and unrealized foreign exchange transaction gains and remeasurement gains mainly related to the strengthening of the U.S. dollar during the 2005 nine-month period. With the acquisition of Cole and a trend in rising interest rates, the Company expects a significant increase in interest expense for 2005 as compared to 2004.

**Net Income** Income before taxes increased by 17.3 percent to Euro 419.8 million in the first nine months of 2005 from Euro 357.8 million in the same period of 2004. As a percentage of net sales, income before taxes decreased to 12.9 percent in the first nine months of 2005, from 15.5 percent in the same period of 2004. Minority interest increased to Euro (7.8) million in the first nine months of 2005 from Euro (6.6) million in the same period of 2004. The Company's effective tax rate was 37.0 percent in the first nine months of 2005, while it was 34.7 percent in the same period of 2004. The effective tax rate is estimated to be 37 percent in 2005 as the Company has ended its permanent benefits from subsidiaries' losses. Net income increased by 13.0 percent to Euro 256.7 million in the first nine months of 2005 from Euro 227.1 million in the same period of 2004. Net income as a percentage of net sales decreased to 7.9 percent in the first nine months of 2005 from 9.8 percent in the same period of 2004.

Basic and diluted earnings per share for the first nine months of 2005 were Euro 0.57, as compared to Euro 0.51 (basic) and Euro 0.50 (diluted) for the same period of 2004.

#### **Non-GAAP Financial Measures**

The Company uses 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 nine-month period ended September 30, 2004. The Company believes 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 the Company has historically reported such adjusted financial measures to the investment community, the Company believes that their inclusion provides consistency in its 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 the first nine months of 2005 and the first nine months of 2004 are calculated using for each currency the average exchange rate for the nine-month period ended September 30, 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, the Company's method of calculating operating performance excluding 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

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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 the operational performance of the Company (in millions of Euro).

	9M 04 U.S. GAAP results	9M 05 U.S. GAAP results	Adjustment for constant exchange rates	9M 05 adjusted results
Consolidated net sales	2,307.0	3,251.9	60.4	3,312.3
Manufacturing and wholesale net sales	837.0	978.9	5.4	984.3
Retail net sales	1,609.6	2,448.6	58.9	2,507.5

The Company has included the following table of consolidated adjusted sales and operating income for the first nine months of 2004. The Company believes that the adjusted amounts may be of assistance in comparing the Company's operating performance between the 2004 and 2005 periods. However, adjusted financial information should not be viewed as a substitute for measures of performance calculated in accordance with generally accepted accounting principles. The consolidated adjusted amounts reflect the following adjustments:

1. the inclusion in the adjusted amounts of the consolidated results of Cole for the nine-month period ended September 30, 2004; and
2. the elimination of wholesale sales to Cole from Luxottica Group entities for the nine-month period ended September 30, 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 the first nine months of 2004 as reported and as adjusted (in millions of Euro):

	9M 04 U.S. GAAP results	Adjustment for Cole	9M 04 adjusted results
Consolidated net sales	2,307.0	748.5	3,055.5
Consolidated income from operations	388.3	(11.6)	376.7

The following table summarizes the combined effect on consolidated net sales of exchange rates and the Cole acquisition, to allow a comparison of operating performance on a consistent basis (in millions of Euro):

Consolidated Net Sales

	9M 04	9M 05	% change
US GAAP results	2,307.0	3,251.9	+41.0%
Exchange rate effect		60.4	
Constant exchange rate	2,307.0	3,312.3	+43.6%
Cole results in 2004	748.5		
Consistent basis	3,055.5	3,312.3	+8.4%



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The 8.4 percent increase in net sales on a consistent basis in the first nine months of 2005 as compared to the same period of 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 new Prada and Versace product lines and increased comparable store sales<sup>(1)</sup> of our retail division.

(1) *Comparable store sales reflects the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period, and applies to both periods the average exchange rate for the prior period and the same geographic area. The calculation of comparable store sales for the first nine months of 2005 includes relevant stores of the former Cole National business as if the Cole National acquisition had been completed as of January 1, 2004. Cole National results are actually consolidated with Luxottica Group results only as of the October 4, 2004 acquisition date.*

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):

### Consolidated Income from Operations

	9M 04	9M 05	% change
US GAAP results	388.3	457.1	17.7%
% of net sales	16.8%	14.1%	
Cole results in 2004	(11.6)		
Consistent basis	376.7	457.1	21.3%
% of net sales	12.3%	14.1%	

On a consolidated adjusted basis, including Cole's results for the nine-month period ended September 30, 2004, income from operations in the nine-month period ended September 30, 2005 would have increased by 21.3 percent and operating margin would have increased to 14.1 percent from 12.3 percent as compared to the same period of 2004.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2005**

The following table sets forth for the periods indicated the amount and percentage of net sales represented by certain items included in the Company's statements of consolidated income (in thousands of Euro).

**Three months ended September 30,**

	<b>2004</b>	<b>%</b>	<b>2005</b>	<b>%</b>
Net sales	€726,163	100.0	€1,069,381	100.0
Cost of sales	219,320	30.2	321,746	30.1
Gross profit	506,842	69.8	747,635	69.9
Selling and advertising expense	300,899	41.4	474,173	44.3
general and administrative expense	76,890	10.6	118,534	11.1
Income from operations	129,052	17.8	154,928	14.5
Other income (expense) net	(9,893)	1.4	(16,348)	1.5
Income before provision for income taxes	119,159	16.4	138,580	13.0
Provision for income taxes	40,510	5.6	48,462	4.5
Minority interests	1,673	0.2	808	0.1
Net income	€76,975	10.6	€89,309	8.4

**Net Sales** Net sales increased 47.3 percent to Euro 1,069.4 million during the third quarter of 2005 as compared to Euro 726.2 million for the same period of 2004.

Net sales in the retail segment through LensCrafters, Sunglass Hut, OPSM and Cole increased by 55.2 percent to Euro 849.0 million for the third quarter of 2005 from Euro 546.9 million for the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the third quarter of 2005, which amounted to Euro 243.9 million.

Net sales to third parties in the manufacturing and wholesale segment increased by 23.0 percent to Euro 220.5 million for the third quarter of 2005 as compared to Euro 179.3 million in the same period of 2004. This increase was mainly attributable to increased sales of our Ray-Ban brand as well as sales of Prada and Bulgari branded products, primarily in the European and North American markets.

On a geographic basis, operations in the United States and Canada resulted in net sales of Euro 785.8 million during the third quarter of 2005, comprising 73.5 percent of total net sales, an increase of Euro 303.9 million from the same period of 2004. This increase was primarily due to the inclusion of Cole's sales in our results of operations for the third quarter of 2005, which amounted to Euro 243.9 million. Net sales for operations in "Asia-Pacific" were Euro 109.5 million during the third quarter of 2005 compared to Euro 100.9 million in the same period of 2004; net sales for operations in "Asia-Pacific" during the third quarter of 2005 comprised 10.2 percent of total net sales. Net sales for the rest of the world accounted for the remaining Euro 174.1 million of net sales during the third quarter of 2005, which represented a 21.4 percent increase as compared to the same period of 2004.

During the third quarter of 2005, net sales in the retail segment accounted for approximately 79.4 percent of total net sales, as compared to approximately 75.3 percent of net sales in the same period of 2004.

**Cost of Sales** Cost of sales increased by 46.7 percent to Euro 321.7 million in the third quarter of 2005, from Euro 219.3 million in the same period of 2004, and decreased as a percentage of net sales to 30.1 percent from 30.2 percent. Cost of sales in the retail segment increased by

Euro 102.7 million,

primarily due to the inclusion of Cole's cost of sales in our results of operations. Cost of sales in the manufacturing and wholesale segment increased by Euro 18.2 million due to the increase in net sales. Manufacturing labor costs increased by 26.1 percent to Euro 74.6 million in the third quarter of 2005 from Euro 59.2 million in the same period of 2004. As a percentage of net sales, cost of labor decreased to 7.0 percent for the third quarter of 2005 from 8.1 percent for the same period of 2004. For the third quarter of 2005, the average number of frames produced daily in Luxottica's facilities was approximately 147,000 as compared to 133,000 for the same period of 2004.

**Gross Profit** For the reasons outlined above, gross profit increased by 47.5 percent to Euro 747.6 million in the third quarter of 2005 from Euro 506.8 million in the same period of 2004. As a percentage of net sales, gross profit increased to 69.9 percent in the third quarter of 2005 from 69.8 percent in the same period of 2004.

**Operating Expenses** Total operating expenses increased by 56.9 percent to Euro 592.7 million in the third quarter of 2005 from Euro 377.8 million in the same period of 2004. As a percentage of net sales, operating expenses increased to 55.4 percent in the third quarter of 2005 from 52.0 percent in the same period of 2004.

Selling and advertising expenses (including royalty expenses) increased by 57.6 percent to Euro 474.2 million during the third quarter of 2005, from Euro 300.9 million in the same period of 2004. Euro 128.3 million of this increase is attributable to the inclusion of Cole in our results of operations. As a percentage of net sales, selling and advertising expenses increased to 44.3 percent in the third quarter of 2005 from 41.4 percent in the same period of 2004. This increase as a percentage of sales is primarily attributable to the consolidation of Cole's results in our results of operations. Management continues to believe that such increase is temporary, primarily because Cole's business is in the process of restructuring.

General and administrative expenses, including intangible asset amortization, increased by 54.2 percent to Euro 118.5 million in the third quarter of 2005 from Euro 76.9 million in the same period of 2004. Euro 28.2 million of this increase is attributable to the inclusion of Cole in our results of operations. As a percentage of net sales, general and administrative expenses increased to 11.1 percent in the third quarter of 2005 from 10.6 percent in the same period of 2004. This increase was primarily due to the consolidation of Cole's results in our results of operations. The restructuring of Cole operations is almost complete and it is expected that the general and administrative costs of the Group will decrease as a percentage of sales into 2006.

**Income from Operations** Income from operations for the third quarter of 2005 increased by 20.1 percent to Euro 154.9 million, from Euro 129.1 million in the same period of 2004. As a percentage of net sales, income from operations decreased to 14.5 percent in the third quarter of 2005 from 17.8 percent in the same period of 2004.

Operating margin in the manufacturing and wholesale distribution segment increased to 22.3 percent in the third quarter of 2005 from 21.0 percent in the same period of 2004. This increase in operating margin is attributable to lower sales commissions and higher gross profit due to a more favorable product mix, partially offset by higher advertising expenses (including royalty expenses).

Operating margin in the retail segment decreased to 12.5 percent in the third quarter of 2005 from 16.9 percent in the same period of 2004 due to the consolidation of Cole's results in our results of operations. In 2005, it is management's expectation that the retail segment operating margin will be lower than 2004, since Cole's operating margin is lower than the rest of the retail segment. Management expects that the North American retail operating margin levels will return to 2004 pre-acquisition operating margin levels by the end of 2006.

**Other Income (Expense) Net** Other income (expense) net was Euro (16.3) million in the third quarter of 2005 as compared to Euro (9.9) million in the same period of 2004. This increase in other income (expense) net is mainly attributable to higher interest expenses primarily due to the increase in net debt used to finance the Cole acquisition and rising interest rates in the U.S. With the acquisition of Cole and a trend in rising interest rates, the Company continues to expect a significant increase in interest expense for 2005 as compared to 2004.

**Net Income** Income before taxes increased by 16.3 percent to Euro 138.6 million in the third quarter of 2005 from Euro 119.2 million in the same period of 2004. As a percentage of net sales, income before taxes decreased to 13.0 percent in the third quarter of 2005, from 16.4 percent in the same period of 2004. Minority interest decreased to Euro (0.8) million in the third quarter of 2005 from Euro (1.7) million in the same period of 2004. The Company's effective tax rate was 35.0 percent in the third quarter of 2005, while it was 34.0 percent in the same period of 2004. Net income increased by 16.0 percent to Euro 89.3 million in the third quarter of 2005 from Euro 77.0 million in the same period of 2004. Net income as a percentage of net sales decreased to 8.4 percent in the third quarter of 2005 from 10.6 percent in the same period of 2004.

Basic and diluted earnings per share for the third quarter of 2005 were Euro 0.20, as compared to Euro 0.17 (both basic and diluted) for the same period of 2004.

#### **Non-GAAP Financial Measures**

The Company uses 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 three-month period ended September 30, 2004. The Company believes 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 the Company has historically reported such adjusted financial measures to the investment community, the Company believes that their inclusion provides consistency in its 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 the third quarter of 2005 and the third quarter of 2004 are calculated using for each currency the average exchange rate for the three-month period ended September 30, 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, the Company's method of calculating operating performance excluding 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 the operational performance of the Company (in millions of Euro).

	<b>3Q 04 U.S. GAAP results</b>	<b>3Q 05 U.S. GAAP results</b>	<b>Adjustment for constant exchange rates</b>	<b>3Q 05 adjusted results</b>
Consolidated net sales	726.2	1,069.4	(9.0)	1,060.4
Manufacturing and wholesale net sales	225.2	283.7	(2.9)	280.8
Retail net sales	546.9	849.0	(6.5)	842.5

The Company has included the following table of consolidated adjusted sales and operating income for the third quarter of 2004. The Company believes that the adjusted amounts may be of



assistance in comparing the Company's operating performance between the 2004 and 2005 periods. However, adjusted financial information should not be viewed as a substitute for measures of performance calculated in accordance with generally accepted accounting principles. The consolidated adjusted amounts reflect the following adjustments:

1. the inclusion in the adjusted amounts of the consolidated results of Cole for the three-month period ended September 30, 2004; and
2. the elimination of wholesale sales to Cole from Luxottica Group entities for the three-month period ended September 30, 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 the third quarter of 2004 as reported and as adjusted (in millions of Euro):

	3Q 04 U.S. GAAP Results	Adjustment for Cole	3Q 04 adjusted results
Consolidated net sales	726.2	256.6	982.8
Consolidated income from operations	129.1	(4.0)	125.1

The following table summarizes the combined effect on consolidated net sales of exchange rates and the Cole acquisition, to allow a comparison of operating performance on a consistent basis (in millions of Euro):

	Consolidated Net Sales		
	3Q 04	3Q 05	% change
US GAAP results	726.2	1,069.4	+47.3%
Exchange rate effect		(9.0)	
Constant exchange rate	726.2	1,060.4	+46.0%
Cole results in 2004	256.6		
Consistent basis	982.8	1,060.4	+7.9%

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The 7.9 percent increase in net sales on a consistent basis in the third quarter of 2005 as compared to the same period of 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 comparable store sales<sup>(2)</sup> of our retail division.

(2)

*Comparable store sales reflects the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period, and applies to both periods the average exchange rate for the prior period and the same geographic area. The calculation of comparable store sales for the third quarter of 2005 includes relevant stores of the former Cole National business as if the Cole National acquisition had been completed as of January 1, 2004. Cole National results are actually consolidated with Luxottica Group results only as of the October 4, 2004 acquisition date.*

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):

### Consolidated Income from Operations

	3Q 04	3Q 05	% change
US GAAP results	129.1	154.9	20.1%
% of net sales	17.8%	14.5%	
Cole results in 2004	(4.0)		
Consistent basis	125.1	154.9	23.8%
% of net sales	12.7%	14.5%	

On a consolidated adjusted basis, including Cole's results for the three-month period ended September 30, 2004, income from operations in the three-month period ended September 30, 2005 would have increased by 23.8 percent and operating margin would have increased to 14.5 percent from 12.7 percent as compared to the same period of 2004.

## BALANCE SHEET DISCUSSION

### *Our Cash Flows*

**Operating Activities** The Company's cash provided by operating activities was Euro 413.4 million for the first nine months of 2005 as compared to Euro 361.4 million for the same period of 2004. Depreciation and amortization increased by Euro 36.9 million in the first nine months of 2005 to Euro 143.6 million from Euro 106.7 million in the same period of 2004, mainly due to the Cole acquisition resulting in additional depreciation and amortization of Euro 33.9 million in the first nine months of 2005, including amortization relating to its trade names and other intangibles. Accounts receivable was a use of cash in the first nine months of 2005 of Euro 32.4 million as compared to a use of cash in the same period of 2004 of Euro 28.8 million. This change in cash flows from accounts receivable is primarily due to the increase in sales of our manufacturing and wholesale segment, along with an increase in accounts receivable in the retail segment due to the timing of payments in the North American retail division. Inventories were a source of cash in the first nine months of 2005 of Euro 44.0 million compared to Euro 21.5 million in the same period of 2004. This change in cash flow from inventory is primarily due to an increase in the inventory turn. Prepaid expenses and other were a use of cash in the first nine months of 2005 of Euro 39.0 million compared to a source of cash of Euro 22.3 million for the same period of 2004. This change in cash flow is primarily attributable to advance payments of Euro 30.0 million made by the Company to certain designers for future contracted minimum royalties. The amount of cash provided by operating activities for accounts payable and accrued expenses increased by Euro 34.6 million and decreased by Euro 19.6 million, respectively, in the first nine months of 2005 as compared to the same period of 2004. The increase in accounts payable was caused primarily by the timing of payments to certain vendors by the North American retail division and the increase in amounts due for royalties to

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certain designers due to an increase in sales of branded products. The decrease in accrued expenses is mainly attributable to the payment by the Company of Euro 11.9 million (U.S. \$14.5 million) in September 2005 for the settlement of the class action described in "Recent Developments and Other Events". See "Recent Developments and Other Events". Income tax payable was a source of cash in the first nine months of 2005 of Euro 36.6 million as compared to Euro 19.3 million in the same period of 2004 due to timing of tax payments.

**Investing Activities** The Company's cash from investing activities was a use of Euro 94.2 million for the first nine months of 2005 as compared to a use of Euro 80.5 million for the same period of 2004. This Euro 13.7 million increase is primarily attributable to the sale of Pearle Europe for Euro 144.0 million in January 2005, partly offset by the Company's acquisition of the remaining minority stake of OPSM for Euro 62.0 million which was completed in February 2005, acquisitions carried out by the North American retail division for an aggregate amount of Euro 24.6 million, an increase of Euro 82.6 million of capital expenditures, partially due to the purchase of a new aircraft to replace the previous aircraft which became obsolete, and an increase in fixed assets relating to the U.S. retail division in the first nine months of 2005 including costs associated with the expansion of the North American Retail Division's home office. The expected aggregate cost of the home office expansion is U.S. \$13.3 million and is expected to be completed in 2006.

**Financing Activities** The Company's cash provided by/(used in) financing activities for the first nine months of 2004 and 2005 was Euro (17.4) million and Euro (251.6) million, respectively. Cash used in financing activities for the nine-month period ended September 30, 2004 consisted primarily of the borrowings of Euro 88.6 million (translated at the noon buying rate of Euro 1.00 = U.S. \$1.2417 on September 30, 2004; actual borrowing was U.S. \$110.0 million in connection with the acquisition of Cole). In addition, the Company borrowed Euro 575.0 million, the proceeds of which were used to repay Euro 350.0 million of long-term debt, reduce bank overdrafts and pay Euro 95.5 million of dividends to the Company's shareholders. Cash used by financing activities for the first nine months of 2005 consisted primarily of the proceeds of Euro 260.0 million from long-term debt and Euro 58.8 million from unsecured short-term credit lines, which were used to repay long-term debt expiring during the first nine months of 2005 and to pay Euro 103.5 million of dividends to the Company's shareholders.

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

Bank overdrafts represent negative cash balances held in banks and amounts borrowed under various unsecured short-term lines of credit obtained by the Company and certain of its subsidiaries through local financial institutions. These facilities are usually short-term in nature or contain evergreen clauses with a cancellation notice period. Certain of these 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. The Company uses these short-term lines of credit to satisfy its short-term cash needs.

In June 2002, Luxottica U.S. Holdings Corp. ("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 credit facility was guaranteed by Luxottica Group S.p.A. and matured in June 2005. 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. 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. In June 2005, the Company 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 (the "2002 Swap"), under which the beginning and maximum notional amount was U.S. \$275 million, which decreased by U.S. \$20 million quarterly starting with the quarter beginning 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 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 on June 17, 2005. The 2002 Swap did not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, and as such was marked to market with the gains or losses from the change in value reflected in current operations. In June 2005, the 2002 Swap expired.

In December 2002, the Company entered into a new unsecured credit facility with Banca Intesa S.p.A. The new unsecured credit facility provides borrowing availability of up to Euro 650 million. The facility includes a Euro 500 million term loan, which required a balloon payment of Euro 200 million in June 2004 and repayment of equal quarterly installments of principal of Euro 50 million subsequent to that date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.45 percent (2.59 percent on September 30, 2005). The revolving loan provides borrowing availability of up to Euro 150 million; amounts borrowed under the revolving loan can be borrowed and repaid until final maturity. At September 30, 2005, Euro 75 million had been drawn under the revolving loan. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.45 percent (2.57 percent on September 30, 2005). The final maturity of all outstanding principal amounts and interest is December 27, 2005. The Company has the option to choose interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. As of September 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. Under this credit facility, Euro 125 million was outstanding as of September 30, 2005.

In December 2002, the Company entered into two interest rate swap transactions ("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 in each subsequent three-month period. These Intesa Swaps will expire on December 27, 2005. The Intesa Swaps were entered into as a cash flow hedge on a portion of the Banca Intesa Euro 650 million unsecured credit facility discussed above. The Intesa Swaps exchange the floating rate of Euribor for a fixed rate of 2.99 percent per annum.

On September 3, 2003, U.S. Holdings closed a private placement of U.S. \$300 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 each of the 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 dates of maturity. The Notes are guaranteed on a senior unsecured basis by the Company and Luxottica S.r.l., the Company's 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. As of September 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable.

In connection with the issuance of the Notes, U.S. Holdings entered into three interest rate swap agreements with Deutsche Bank AG (collectively, the "DB Swap"). The three separate agreements' notional amounts and interest payment dates coincide with those of the Notes. The DB Swap exchanges the fixed rate of the Notes for a floating rate of the six-month LIBOR rate plus 0.66 percent for the Series A Notes and the six-month LIBOR rate plus 0.73 percent for the Series B and Series C Notes.

In September 2003, the Company acquired 82.57 percent of the ordinary shares of OPSM and more than 90 percent of OPSM's performance rights and options, which entitled the Company 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 expenses, and was paid for with the

proceeds of a new credit facility with Banca Intesa S.p.A. of Euro 200 million, in addition to other short-term lines available. The credit facility includes a Euro 150 million term loan, which will require repayment of equal semiannual installments of principal of Euro 30 million starting September 30, 2006 until the final maturity date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.55 percent (2.70 percent on September 30, 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 September 30, 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 (2.68 percent on September 30, 2005). The final maturity of the credit facility is September 30, 2008. The Company can select interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. As of September 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable. Under this credit facility, Euro 175 million was outstanding as of September 30, 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.

On June 3, 2004, the Company and U.S. Holdings entered into a new credit facility with a group of banks providing for loans in the aggregate principal amount of Euro 740 million and U.S. \$325 million. The five-year facility consists of three Tranches (Tranche A, Tranche B and 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 of the acquisition of Cole. Amounts borrowed under Tranche B will mature in June 2009. Tranche C is a Revolving Credit Facility of Euro 335 million-equivalent multi-currency (€/U.S. \$). Amounts borrowed under Tranche C may be repaid and reborrowed with all outstanding balances maturing in June 2009. At September 30, 2005, U.S. \$290.0 million (Euro 240.5 million) had been drawn from Tranche C by U.S. Holdings and Euro 50 million by Luxottica Group S.p.A. 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 0.40 percent and 0.60 percent based on the "Net Debt/EBITDA" ratio, as defined in the agreement. The interest rate on September 30, 2005 was 2.59 percent for Tranche A, 4.15 percent for Tranche B, 4.25 percent on Tranche C amounts borrowed in U.S. \$ and 2.59 percent on Tranche C amounts borrowed in Euro. The new credit facility contains certain financial and operating covenants. The Company was in compliance with those covenants as of September 30, 2005. The Mandated Lead Arrangers and Bookrunners are ABN AMRO, Banca Intesa S.p.A., Bank of America, Citigroup Global Markets Limited, HSBC Bank plc, Mediobanca Banca di Credito Finanziario S.p.A., The Royal Bank of Scotland plc and UniCredit Banca Mobiliare S.p.A. Unicredito Italiano S.p.A. New York Branch and Unicredit Banca d'Impresa S.p.A. act as Facility Agents. Under this credit facility, Euro 965.0 million was outstanding as of September 30, 2005.

In June 2005, the Company entered into nine interest rate swap transactions with an aggregate initial notional amount of Euro 405 million with various banks 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.

In August 2004, OPSM re-negotiated the recently expired multicurrency (AUD/HKD) loan facility with Westpac Banking Corporation. The credit facility had a maximum available line of AUD 100 million, which was reduced to AUD 50 million in September 2005. 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 September 30, 2005, the interest rate was 6.07 percent on the borrowings denominated in Australian Dollars and 4.30 percent on the borrowings denominated in Hong Kong Dollars. The facility was utilized for an amount of AUD 1.0 million and HKD 125.0 million (AUD 21.1 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. As of September 30, 2005, the Company was in compliance with all of its applicable covenants including calculations of financial covenants when applicable.

#### **RECENT DEVELOPMENTS AND OTHER EVENTS**

On August 31, 2005, the Company 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 International, Inc. ("SGHI"), 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, for a payment of \$14.5 million, is subject to final approval by the judge presiding over the Action. The amount of the settlement payment is not material and will not affect the Company's outlook for fiscal year 2005 previously communicated.

On January 4, 2005, the Company launched the off-market takeover offer for all the Australian Stock Exchange listed OPSM Group shares it did not already own. At the close of the offer on February 7, 2005, the Company held 98.5 percent of OPSM Group's shares, which is in excess of the compulsory acquisition threshold. On February 8, 2005, the Company announced the start of the compulsory acquisition process for all remaining shares in OPSM Group not already owned by the Company.

On February 15, 2005, the Australian Stock Exchange suspended trading in OPSM Group shares and on February 21, 2005 it delisted OPSM Group shares from the Australian Stock Exchange. The compulsory acquisition process was completed on March 23, 2005.

On January 5, 2005, the Company announced that its subsidiary, Cole National Corporation, sold all its shares in Pearle Europe B.V., representing approximately 21 percent of that company's outstanding shares, to HAL Investments B.V., a subsidiary of HAL Holding N.V., for a cash purchase price of Euro 144 million (or approximately U.S. \$191 million calculated for convenience at the January 4, 2005 noon buying rate). HAL Investments held the balance of Pearle Europe's outstanding shares (except for approximately one percent held by management). The Company gained control of the Pearle Europe shares in October 2004, as a result of its acquisition of the Cole National business. The sale was required by the Articles of Association of Pearle Europe in connection with the acquisition.

On July 7, 2005, the Company announced that its subsidiary, SPV Zeta S.r.l., will acquire 100 percent of the equity interest in Beijing Xueliang Optical Technology Co. Ltd. for a purchase price of 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. Completion of the transaction remains subject to customary approvals by the relevant Chinese governmental authorities. The Company currently anticipates receiving such approvals by the beginning of 2006.

On October 4, 2005, the Company announced that its subsidiary, SPV Eta S.r.l., will acquire 100 percent of the equity interests in Ming Long Optical, the largest premium optical chain in the

province of Guangdong, China, for a purchase price of RMB 290 million (approximately Euro 29 million). As a result, the Group becomes the leading operator of premium optical stores in China, with a total of 278 locations in two of the top three premium optical markets in mainland China, as well as in Hong Kong, the most important market in Asia for luxury goods.

On October 7, 2005, the Company 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 agreement will begin on January 1, 2006. The first Burberry eyewear collections under the agreement will be introduced in October 2006.

The Company and its subsidiaries become involved in legal and regulatory proceedings from time to time, some of which are significant. The timing and outcome of these proceedings are inherently uncertain and the outcomes could have a material adverse effect on the Company's business, financial position or operating results. See Item 3 "Key Items Risk Factors" in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2004.

#### **FORWARD LOOKING INFORMATION**

Certain statements in this Form 6-K may constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. 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 ability to successfully launch initiatives to increase sales and reduce costs, the availability of correction alternatives to prescription eyeglasses, the ability to effectively integrate recently acquired businesses, including Cole, risks that expected synergies from the acquisition by Luxottica Group of Cole will not be realized as planned and that the combination of Luxottica Group's managed vision care business with Cole's will not be as successful as planned, as well as other political, economic and technological factors and other risks referred to in the Company's annual report on Form 20-F for its fiscal year ended December 31, 2004 (included under Item 3 "Key Items Risk Factors") and its other filings with the Securities and Exchange Commission. These forward-looking statements are made as of the date hereof and Luxottica Group does not assume any obligation to update them.

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**LUXOTTICA GROUP S.p.A.**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LUXOTTICA GROUP S.P.A.

By: /s/ ENRICO CAVATORTA

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ENRICO CAVATORTA  
CHIEF FINANCIAL OFFICER

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Date December 23, 2005



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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)