LUXOTTICA GROUP SPA
Form 20-F
June 26, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

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

Commission file number 1-10421

LUXOTTICA GROUP S.p.A.

(Exact name of Registrant as specified in its charter)

(Translation of Registrant s name into English)

REPUBLIC OF ITALY

(Jurisdiction of incorporation or organization)

VIA C. CANTÙ 2, MILAN 20123, ITALY

(Address of principal executive offices)

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

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

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

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

None.

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

None.

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

ORDINARY SHARES, PAR VALUE EURO 0.06 PER SHARE	**462,623,620**

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

Yes x No o

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

Yes o No x

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

Yes x No o

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

x Large accelerated filer o Accelerated filer o Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

x U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board o Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes o No x

PART I

ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	4
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE	4
ITEM 3.	KEY INFORMATION	4
ITEM 4.	INFORMATION ON THE COMPANY	12
ITEM 4A.	UNRESOLVED STAFF COMMENTS	35
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	35
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	51
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	64
ITEM 8.	FINANCIAL INFORMATION	66
ITEM 9.	THE OFFER AND LISTING	68
ITEM 10.	ADDITIONAL INFORMATION	69
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	85
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	88

PART II

ITEM 13.	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	88
ITEM 14.	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	88
ITEM 15.	CONTROLS AND PROCEDURES	88
ITEM 16.	[RESERVED]	89
ITEM 16A.	AUDIT COMMITTEE FINANCIAL EXPERT	89
ITEM 16B.	CODE OF ETHICS	89
ITEM 16C.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	89
ITEM 16D.	EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	90
ITEM 16E.	PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	90

PART III

ITEM 17.	FINANCIAL STATEMENTS	90
ITEM 18.	FINANCIAL STATEMENTS	91
ITEM 19.	EXHIBITS	92

SIGNATURES

EXHIBIT INDEX

FORWARD-LOOKING INFORMATION

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

Such statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those which are anticipated. Such risks and uncertainties include, but are not limited to, the ability to successfully integrate Oakley s operations, the ability to realize expected synergies from the merger with Oakley, the ability to successfully introduce and market new products, the ability to maintain an efficient distribution network, the ability to predict future economic conditions and changes in consumer preferences, the ability to achieve and manage growth, the ability to negotiate and maintain favorable license arrangements, the availability of correction alternatives to prescription eyeglasses, fluctuations in exchange rates, the ability to effectively integrate other recently acquired businesses, as well as other political, economic and technological factors and other risks and uncertainties described in our filings with the U.S. Securities and Exchange Commission (the SEC). These forward-looking statements are made as of the date hereof, and we do not assume any obligation to update them.

Throughout this annual report, when we use the terms Luxottica, Company, Group, we, us and our, unless otherwise indicated or the cont otherwise requires, we are referring to Luxottica Group S.p.A. and its consolidated subsidiaries for periods prior to our acquisition of Oakley, Inc. (Oakley) on November 14, 2007. References to Luxottica, Company, Group, we, us and our, for periods after such acquis to Luxottica Group S.p.A. and its consolidated subsidiaries, including Oakley and its subsidiaries, unless otherwise indicated or the context otherwise requires. References to Oakley for periods prior to the acquisition refer to Oakley and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires.

TRADEMARKS

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

The following tables set forth selected consolidated financial data for the periods indicated and are qualified by reference to, and should be read in conjunction with, our consolidated financial statements, the related notes thereto, and Item 5 Operating and Financial Review and Prospects contained elsewhere herein. We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The selected consolidated income statement data for the years ended December 31, 2007, 2006 and 2005, and the selected consolidated balance sheet data as of December 31, 2007 and 2006, are derived from the audited Consolidated Financial Statements included in Item 18. The selected consolidated income statement data for the years ended December 31, 2004 and 2003, and the selected consolidated balance sheet data as of December 31, 2005, 2004 and 2003, are derived from audited consolidated financial statements which are not included in this Form 20-F.

[TABLES APPEAR ON THE FOLLOWING PAGE]

	Year Ended December 31,					
	2007 (In thousands of U.S.$) (1)(3)	**2007(10)**	**2006(8)(9)**	**2005(6)(8)(9)**	**2004(7)(8)(9)**	**2003(6)(9)**
			(In thousands of Euro)(3)			
STATEMENT OF INCOME DATA:						
Net Sales	7,251,929	4,966,054	4,676,156	4,134,263	3,179,613	2,852,194
Cost of Sales	(2,300,876)	(1,575,618)	(1,487,700)	(1,373,073)	(1,053,076)	(938,360)
Gross Profit	4,951,053	3,390,436	3,188,456	2,761,190	2,126,537	1,913,834
OPERATING EXPENSE						
Selling and Advertising	(3,021,770)	(2,069,280)	(1,948,466)	(1,755,536)	(1,329,083)	(1,216,385)
General and Administrative	(712,397)	(487,843)	(484,002)	(424,253)	(317,955)	(265,662)
Total	(3,734,167)	(2,557,123)	(2,432,468)	(2,179,789)	(1,647,038)	(1,482,047)
Income from Operations	1,216,886	833,313	755,987	581,401	479,499	431,787
OTHER INCOME (EXPENSE)						
Interest Income	24,952	17,087	9,804	5,650	6,662	5,922
Interest Expense	(130,694)	(89,498)	(70,622)	(66,171)	(55,378)	(47,117)
Other Net	28,885	19,780	(16,992)	18,429	13,792	(799)
Other Income (Expenses) Net	(76,857)	(52,631)	(77,810)	(42,092)	(34,924)	(41,994)
Income Before Provision for Income Taxes	1,140,029	780,681	678,177	539,309	444,575	389,793
Provision for Income Taxes	(399,393)	(273,501)	(238,757)	(199,266)	(156,852)	(117,328)
Income Before Minority Interests in Consolidated Subsidiaries	740,636	507,180	439,420	340,043	287,723	272,465
Minority Interests in Income of Consolidated Subsidiaries	(21,870)	(14,976)	(8,715)	(9,253)	(8,614)	(5,122)
Net Income from Continuing Operations	718,766	492,204	430,705	330,790	279,109	267,343
Discontinued Operations Net of Taxes and Gain on Sale	0	0	(6,419)	11,504	7,765	0
Net Income	718,766	492,204	424,286	342,294	286,874	267,343
Weighted Average Shares Outstanding (thousands)						
Basic	455,184.8	455,184.8	452,898.0	450,179.1	448,275.0	448,664.4
Diluted	458,530.6	458,530.6	456,186.0	453,303.4	450,360.9	450,202.1
Basic Earnings per Share from Continuing Operations (2)	1.58	1.08	0.95	0.73	0.62	0.60
Basic Earnings per Share from Discontinued Operations (2)	0.00	0.00	(0.01)	0.03	0.02	0.00
Basic Earnings per Share (2)	1.58	1.08	0.94	0.76	0.64	0.60
Diluted Earnings per Share from Continuing Operations (2)	1.57	1.07	0.94	0.73	0.62	0.59
Diluted Earnings per Share from Discontinued Operations (2)	0.00	0.0	(0.01)	0.03	0.02	0.00
Diluted Earnings per Share (2)	1.57	1.07	0.93	0.76	0.64	0.59
	0.61	0.42	0.29	0.23	0.21	0.21

Cash Dividends Declared
per Share (4)(5)

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(1) Translated for convenience at the rate of Euro 1.00 = U.S.$1.4603, based on the Noon Buying Rate of Euro to U.S. dollars on December 31, 2007. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

(2) Earnings per Share for each year have been calculated based on the weighted-average number of shares outstanding during the respective years. Each American Depositary Share, or ADS, represents one ordinary share.

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

(4) Cash Dividends Declared per Share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes.

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

(6) We acquired 82.57 percent of the outstanding shares of OPSM Group Limited (OPSM) in August 2003. As such, the results for 2003 include approximately five months of operating results of OPSM and its subsidiaries. In March 2005, we acquired the remaining 17.43 percent of the outstanding shares of OPSM and, from that date, 100 percent of the operating results of OPSM and its subsidiaries are included above.

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

(8) Results of Things Remembered, our former specialty retail business, which was sold in 2006, are classified as discontinued operations and are not included in results from continuing operations.

(9) Certain amounts in prior years have been reclassified to conform to the 2007 presentation.

(10) We acquired Oakley in November 2007. Therefore, fiscal year 2007 includes operating results of Oakley for the period from and after November 14, 2007, which was the date of the closing of the Oakley acquisition.

	2007 (in thousands of U.S.$)(1)	2007	As of December 31, 2006(3)	2005	2004	2003
		(In thousands of Euro except share data)				
BALANCE SHEET DATA:						
Working Capital(2)	(363,078)	(248,632)	68,187	368,863	218,807	(56,185)
Total Assets	10,451,755	7,157,266	4,968,878	4,973,522	4,556,058	3,912,676
Total Debt(4)	3,970,760	2,719,140	1,319,262	1,528,909	1,680,452	1,253,427
Shareholders Equity	3,643,680	2,495,158	2,215,849	1,954,033	1,495,607	1,374,534
Capital Stock	40,534	27,757	27,613	27,479	27,312	27,269
Number of Shares Adjusted to Reflect Changes in Capital (thousands)		462,623.6	460,216.2	457,975.7	455,205.5	454,477.0

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(1) Translated for convenience at the rate of Euro 1.00 = U.S.$1.4603, based on the Noon Buying Rate of Euro to U.S. dollars on December 31, 2007. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

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

(3) Certain amounts in prior years have been reclassified to conform to the 2007 presentation.

(4) The current portion of long-term debt was Euro 792.6 million, Euro 359.5 million, Euro 111.0 million, Euro 405.1 million and Euro 390.9 million for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, respectively.

Dividends

We are required to pay an annual dividend on our ordinary shares if such dividend has been approved by a majority of our shareholders at the ordinary meeting of shareholders. Before we may pay any dividends with respect to any fiscal year, we are required, as necessary, to set aside an amount equal to five percent of our statutory net income for such year in our legal reserve unless and until the reserve, including amounts remaining from prior years, is at least equal to one-fifth of the nominal value of our then issued share capital. Each year thereafter, such legal reserve requirement remains fulfilled so long as the reserve equals at least one-fifth of the nominal value of our issued share capital for each such year.

At our ordinary meeting of shareholders held on May 13, 2008, our shareholders approved the distribution of a cash dividend in the amount of Euro 0.49 per ordinary share. Our Board of Directors proposed, and the shareholders approved, the date of May 22, 2008 as the date for the payment of such dividend to all holders of record of our ordinary shares on May 16, 2008, including Deutsche Bank Trust Company Americas, as depositary on behalf of holders of our American Depositary Shares, or ADSs. Each ADS represents the right to receive one ordinary share and is evidenced by an American Depositary Receipt, or ADR. The ADSs were traded ex-dividend on May 19, 2008, and dividends in respect of the ordinary shares represented by ADSs were paid to Deutsche Bank Trust Company Americas on May 22, 2008. Deutsche Bank Trust Company Americas converted the Euro amount of such dividend payment into U.S. dollars on May 22, 2008. The dividend amount for each ADS holder was paid commencing on May 29, 2008 to all such holders of record on May 21, 2008. Future determinations as to dividends will depend upon, among other things, our earnings, financial position and capital requirements, applicable legal restrictions and such other factors as the Board of Directors and our shareholders may determine.

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

Year	Cash Dividends per Ordinary Share(1)(2)(3) (Euro)	Translated into U.S.$ per Ordinary Share(4) (U.S.$)
2003	0.210	0.242
2004	0.210	0.254
2005	0.230	0.276
2006	0.290	0.363
2007	0.420	0.564
2008	0.490 (5)	0.770

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

(2) Each ADS represents one ordinary share.

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

(4) Translated at the Noon Buying Rate on the payment date to holders of ADSs. See Exchange Rate Information below for more information regarding the Noon Buying Rate. Holders of ADSs received their dividend denominated in U.S. dollars based on the conversion rate used by our paying agent, Deutsche Bank Trust Company Americas, on the ADS dividend payment date. Deutsche Bank Trust Company Americas converted the dividend in respect of the 2007 fiscal year to U.S.$0.770 per ADS on May 22, 2008.

(5) The dividend of Euro 0.49 per ordinary share was approved by our Board of Directors on March 13, 2008 and was voted upon and approved by our shareholders at the ordinary meeting of shareholders held on May 13, 2008.

Exchange Rate Information

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

Period	Low	High	Average(1)	End of Period
Year Ended December 31, 2003	1.0361	1.2597	1.1411	1.2597
Year Ended December 31, 2004	1.1801	1.3625	1.2478	1.3538
Year Ended December 31, 2005	1.1667	1.3476	1.2400	1.1842
Year Ended December 31, 2006	1.1860	1.3327	1.2661	1.3197
Year Ended December 31, 2007	1.2904	1.4862	1.3705	1.4603

(1) The average of the Noon Buying Rates in effect on the last business day of each month during the period. When the Company consolidates its profit and loss statement, it translates U.S. dollar denominated amounts into Euro using an average U.S. dollar/Euro exchange rate of each business day during the applicable period.

Month	Low	High
December 2007	1.4344	1.4759
January 2008	1.4574	1.4877
February 2008	1.4495	1.5187
March 2008	1.5195	1.5805
April 2008	1.5568	1.6010
May 2008	1.5370	1.5784

On June 20, 2008, the Noon Buying Rate was U.S.$ 1.5626 per Euro 1.00.

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

In this annual report, unless otherwise stated or the context otherwise requires, references to $, U.S.$, dollars or U.S. dollars are to United State dollars, references to Euro and are to the Common European Currency, the Euro, references to Rs are to Indian rupees, and references to AUD or A$ are to Australian dollars.

Risk Factors

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

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

As part of our growth strategy, we have made, and may continue to make, strategic business acquisitions to expand or complement our business. Our acquisition activities, however, can be disrupted by overtures from competitors for the targeted candidates, governmental regulation and rapid developments in our industry. We may face additional risks and uncertainties following an acquisition, including: (i) difficulty in integrating the newly-acquired business and operations in an efficient and effective manner; (ii) inability to achieve strategic objectives, cost

savings and other benefits from the acquisition; (iii) the lack of success by the acquired business in its markets; (iv) the loss of key employees of the acquired business; (v) the diversion of the attention of senior management from our operations; and (vi) liabilities that were not known at the time of acquisition or the need to address tax or accounting issues.

Specifically, with regard to our acquisition of Oakley, we may face risks and uncertainties following such acquisition in addition to those outlined above, including: (i) difficulty in integrating the newly-acquired business and operations in an efficient and effective manner; (ii) inability to achieve strategic objectives, cost savings and other benefits from the acquisition; (iii) the loss of key employees of the acquired business; (iv) the diversion of the attention of senior management from our operations; (v) liabilities that were not known at the time of acquisition or the need to address tax or accounting issues; (vi) difficulty integrating Oakley s human resources systems, operating systems, inventory management systems and assortment planning systems with our systems; and (vii) the cultural differences between our organization and Oakley s organization.

If we fail to timely recognize or address these matters or to devote adequate resources to them, we may fail to achieve our growth strategy or otherwise realize the intended benefits of any acquisition. Even if we are able to integrate our business operations successfully, the integration may not result in the realization of the full benefits of synergies, cost

savings, innovation and operational efficiencies that may be possible from the integration or that the benefits will be achieved within the forecasted period of time.

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

The mid- and premium-price categories of the prescription frame and sunglasses markets in which we compete are particularly vulnerable to changes in fashion trends and consumer preferences. Our historical success is attributable, in part, to our introduction of innovative products which are perceived to represent an improvement over products otherwise available in the market. Our future success will depend on our continued ability to develop and introduce such innovative products. If we are unable to continue to do so, our future sales could decline, inventory levels could rise, leading to additional costs for storage and potential writedowns relating to the value of excess inventory, and production costs would be negatively impacted since fixed costs would represent a larger portion of total production costs due to the decline in quantities produced.

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

The mid- and premium-price categories of the prescription frame and sunglasses markets in which we operate are highly competitive. We believe that, in addition to successfully introducing new products, responding to changes in the market environment and maintaining superior production capabilities, our ability to remain competitive is highly dependent on our success in maintaining an efficient distribution network. If we are unable to maintain an efficient distribution network, our sales may decline due to the inability to timely deliver products to customers and our profitability may decline due to an increase in our per unit distribution costs in the affected regions, which may have an adverse impact on our business, results of operations and financial condition.

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

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

The industry is also subject to rapidly changing consumer preferences, and future sales may suffer if the fashion and consumer products industries do not continue to grow or if consumer preferences shift away from our products. Changes in fashion could also affect the popularity and, therefore, the value of the fashion licenses granted to us by designers. Any event or circumstance resulting in reduced market acceptance of one or more of these designers could reduce our sales and the value of our inventory of models based on that design. Unanticipated shifts in consumer preferences may also result in excess inventory and underutilized manufacturing capacity. In addition, our success depends, in large part, on our ability to anticipate and react to changing fashion trends in a timely manner. Any sustained failure to identify and respond to such trends would adversely affect our business, results of operations and financial condition and may result in the write down of excess inventory and idle manufacturing facilities.

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

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

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

We have entered into license agreements that enable us to manufacture and distribute prescription frames and sunglasses under certain designer names, including *Chanel, Prada, Miu Miu, Dolce & Gabbana, D&G, Bvlgari, Tiffany &*

Co., Versace, Versus, Salvatore Ferragamo, Burberry, *Polo Ralph Lauren, Donna Karan, DKNY, Brooks Brothers, Anne Klein* and, most recently, *Stella McCartney* and, through our acquisition of Oakley, *Paul Smith Spectacles.* These license agreements typically have terms of between three and ten years and may contain options for renewal for additional periods and require us to make guaranteed and contingent royalty payments to the licensor. See Item 4 Information on the Company Business Overview Recent Developments regarding our new license agreement for the Stella McCartney name. We believe that our ability to maintain and negotiate favorable license agreements with leading designers in the fashion and luxury goods industries is essential to the branding of our products and, therefore, material to the success of our business. For the years ended December 31, 2007 and 2006, the sales realized through the Prada and Miu Miu trade names together represented approximately 6.4 percent and 5.5 percent of total sales, respectively. For the year ended December 31, 2007, the sales realized through the Dolce & Gabbana and D&G trade names together represented approximately 5.5 percent of total sales. Accordingly, if we are unable to negotiate and maintain satisfactory license arrangements with leading designers, our growth prospects and financial results could suffer from a reduction in sales or an increase in advertising costs and royalty payments to designers.

If vision correction alternatives to prescription eyeglasses become more widely available, or consumer preferences for such alternatives increase, our profitability could suffer through a reduction of sales of our prescription eyewear products, including lenses and accessories.

Our business could be negatively impacted by the availability and acceptance of vision correction alternatives to prescription eyeglasses, such as contact lenses and refractive optical surgery. According to industry estimates, over 45 million people wear contact lenses in the United States, and disposable contact lenses is the fastest growing segment of the lens subsector. In addition, the use of refractive optical surgery has grown substantially since it was approved by the U.S. Food and Drug Administration in 1995.

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

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

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

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

- a substantial portion of our assets, liabilities, revenues and costs are denominated in various currencies other than

Euro, with most of our operating expenses being denominated in U.S. dollars. As a result, our operating results, which are reported in Euro, are affected by currency exchange rate fluctuations, particularly between the U.S. dollar and the Euro.

As our international operations grow, future changes in the exchange rate of the Euro against the U.S. dollar and other currencies may negatively impact our reported results.

See Item 11   Quantitative and Qualitative Disclosures about Market Risk.

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

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

- exposure to local economic and political conditions;

- export and import restrictions;

- currency exchange rate fluctuations and currency controls;
- disruptions of capital and trading markets;
- accounts receivable collection and longer payment cycles;
- potential hostilities and changes in diplomatic and trade relationships;
- changes in legal or regulatory requirements;
- withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements; and
- local content laws requiring that certain products contain a specified minimum percentage of domestically produced components.

The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable, but any such occurrence may result in the loss of sales or increased costs of doing business and may have a significant effect on our business, results of operations, financial condition and prospects.

If we are unable to protect our proprietary rights, our sales might suffer, and we may incur significant costs to defend such rights.

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

extent as the laws of the United States.

Consistent with our strategy of vigorously defending our intellectual property rights, we devote substantial resources to the enforcement of patents issued and trademarks granted to us, to the protection of our trade secrets, trade dress or other intellectual property rights and to the determination of the scope or validity of the proprietary rights of others that might be asserted against us. However, if the level of potentially infringing activities by others were to increase substantially, we might have to significantly increase the resources we devote to protecting our rights. From time to time, third parties may assert patent, copyright, trademark or similar rights against intellectual property that is important to our business. The resolution or compromise of any litigation or other legal process to enforce such alleged third party rights, regardless of its merit or resolution, could be costly and divert the efforts and attention of our management. We may not prevail in any such litigation or other legal process or we may compromise or settle such claims because of the complex technical issues and inherent uncertainties in intellectual property disputes and the significant expense in defending such claims. An adverse determination in any dispute involving our proprietary rights could, among other things, (i) require us to grant licenses to, or obtain licenses from, third parties, (ii) prevent us from manufacturing or selling our products, (iii) require us to discontinue the use of a particular patent, trademark, copyright or trade secret or (iv) subject us to substantial liability. Any of these possibilities could have a material adverse effect on our business including by reducing our future sales or causing us to incur significant costs to defend our rights.

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

Our sales depend in part on our relationships with the host stores that allow us to operate our Cole s Licensed Brands division, including Sears. Our leases and licenses with Sears are terminable upon short notice. If our relationship with

Sears were to end, we would suffer a loss of sales and the possible impairment of certain intangible assets. This could have a material adverse effect on our business, results of operations, financial condition and prospects.

If we become subject to adverse judgments or determinations in legal proceedings to which we are, or may become, a party, our future profitability could suffer through a reduction of sales or increased costs.

We are currently a party to certain legal proceedings as described in Item 8 Financial Information Legal Proceedings. In addition, in the ordinary course of our business, we become involved in various other claims, lawsuits, investigations and governmental and administrative proceedings, some of which are significant. Adverse judgments or determinations in one or more of these proceedings could require us to change the way we do business or use substantial resources in adhering to the settlements and could have a material adverse effect on our business, including, among other consequences, by significantly increasing our costs to operate our business.

If we become subject to additional regulation by governmental authorities, our compliance with these regulations could have an adverse effect on our financial condition, including adversely affecting the way we manufacture or distribute our products.

Our operations are subject to regulation by governmental authorities in the United States and other jurisdictions in which we conduct business. Governmental regulations, both in the United States and other jurisdictions, have historically been subject to change. New or revised requirements imposed by governmental regulatory authorities could have an adverse effect on us, including increased costs of compliance. We may also be adversely affected by changes in the interpretation or enforcement of existing laws and regulations by governmental authorities that could affect sales or the way we currently manufacture or distribute our products. Additionally, as a U.S. government contractor through our Oakley and Eye Safety Systems subsidiaries, we must comply with, and are affected by, laws and regulations related to our performance of our government business. These laws and regulations, including requirements to obtain applicable governmental approval, clearances and certain export licenses, may impose additional costs and risks on our business. We may also be subject to audits, reviews and investigations of our compliance with these laws and regulations. See Item 4 Information on the Company Regulatory Matters and Item 8 Financial Information Legal Proceedings.

Adverse weather conditions could affect consumer spending, which could adversely impact our future sales and financial results.

Weather conditions around the world can affect consumer spending and could have a significant impact on our sales. Our sunglass sales are particularly vulnerable to weather conditions. Unusually bad weather during the spring and summer months in one or more of our markets could adversely affect sales of our sunglasses in those markets. Additionally, severe weather, such as snowstorms and hurricanes, can inhibit consumers from discretionary shopping. This could affect both our ophthalmic and sunglass sales and create excess inventory which may cause writedowns in the future.

If our procedures designed to comply with Section 404 of the Sarbanes-Oxley Act of 2002 cause us to identify material weaknesses in our internal control over financial reporting, the trading price of our securities may be adversely impacted.

Commencing with last year s annual report on Form 20-F, we included a report from our management relating to its evaluation of our internal control over financial reporting, as required under Section 404 of the U.S. Sarbanes-Oxley Act of 2002, as amended. There are inherent

limitations on the effectiveness of internal controls, including collusion, management override and failure of human judgment. In addition, control procedures are designed to reduce, rather than eliminate, business risks. As a consequence of the systems and procedures we have implemented to comply with these requirements, we may uncover circumstances that we determine, with guidance from our independent auditors, to be material weaknesses, or that otherwise result in disclosable conditions. Although we intend to take prompt measures to remediate any such identified material weaknesses in our internal control structure, measures of this kind may involve significant effort and expense, and any disclosure of such material weaknesses or other disclosable conditions may result in a negative market reaction to our securities.

ITEM 4. INFORMATION ON THE COMPANY

Overview

We are a world leader in the design, manufacture and distribution of prescription frames and sunglasses in the mid- and premium-price categories. We operate in two industry segments: (i) manufacturing and wholesale distribution and

(ii) retail distribution. See Item 18 Financial Statements for additional disclosures about our operating segments. Through our manufacturing and wholesale distribution segment, we are engaged in the design, manufacture, wholesale distribution and marketing of house and designer lines of mid- to premium-priced prescription frames and sunglasses, and with the acquisition of Oakley in November 2007, we are a designer, manufacturer and worldwide distributor of performance optics products. We operate our retail segment principally through our retail brands, which include, among others, LensCrafters, Sunglass Hut, Pearle Vision, OPSM, Laubman & Pank and our Licensed Brands (Sears Optical and Target Optical), as well as through the retail brands of our newly-acquired business, Oakley, which include, among others, Oakley Stores and Vaults, Sunglass Icon, The Optical Shop of Aspen and Bright Eyes.

Our manufacturing activities are carried out through six manufacturing facilities in Italy, two manufacturing facilities in China, one manufacturing facility in India and two manufacturing facilities in the United States obtained as part of the Oakley acquisition. In 2007, we manufactured approximately 41.8 million prescription frames and sunglasses, of which 0.8 million were attributable to the inclusion of prescription frames and sunglasses manufactured by Oakley since the acquisition date. See Item 4 Information on the Company Recent Developments Acquisitions.

We operate our distribution activities through an extensive worldwide wholesale distribution network and a retail distribution network based primarily in North America, Europe, Australia, mainland China and Hong Kong. In 2007, through our wholesale and retail distribution networks, we distributed approximately 21.0 million prescription frames, of which approximately 0.1 million were attributable to the inclusion of prescription frames distributed by Oakley since the acquisition date, and approximately 29.0 million sunglasses, of which approximately 1.2 million were attributable to the inclusion of sunglasses distributed by Oakley since the acquisition date, in approximately 5,600 models. Our products are distributed in over 130 countries worldwide.

Our products are marketed under a variety of well-known brand names. Our house brands include *Ray-Ban, Persol, Vogue, Arnette, Revo, Luxottica*, *Sferoflex* and *Killer Loop.* They also include *Oakley, Eye Safety Systems, Mosley Tribes* and *Oliver Peoples,* all acquired in connection with our acquisition of Oakley. Our designer lines include *Chanel, Prada, Miu Miu, Dolce & Gabbana, D&G, Bvlgari, Tiffany & Co, Versace, Versus, Salvatore Ferragamo, Burberry*, *Polo Ralph Lauren, Donna Karan, DKNY, Brooks Brothers, Anne Klein* and *Puma* (distribution license only). Our designer lines also include *Paul Smith Spectacles,* obtained in connection with our acquisition of Oakley. Additionally, in the summer of 2009, we will launch the first collection of *Stella McCartney* eyewear. Stella McCartney sunglasses will be distributed through premium retail locations. After an initial launch phase during which the new collections will be distributed through Stella McCartney stores and exclusive doors in North America, Japan, Hong Kong and the Middle East, distribution will be broadened to reach all other key global eyewear markets.

Our wholesale network is comprised of 42 wholly- or majority-owned subsidiaries operating in principal markets, over 2,000 sales representatives and approximately 100 independent distributors. Our primary wholesale customers include retailers of mid- and premium-priced eyewear such as independent opticians, optical and sunglass chains, optical superstores, sunglass specialty stores, sporting goods and specialty sports stores and duty-free shops. In certain countries, and especially in North America, wholesale customers also include optometrists and ophthalmologists, health maintenance organizations, or HMOs, and department stores. In 2007, we continued to strengthen our wholesale network with the acquisition of Oakley. See Item 4 Information on the Company Recent Developments Acquisitions.

Our retail network is mainly comprised of the following retail brands: Sunglass Hut, which is operated globally; LensCrafters, which is operated in North America, China and Hong Kong; Pearle Vision, our Licensed Brands (Sears Optical and Target Optical), ILORI, the retail brands we acquired with Oakley (Oakley Stores and Vaults, Sunglass Icon, The Optical Shop of Aspen and Oliver Peoples) and Internet and telesales operations, which are all operated in North America; and OPSM, Laubman & Pank and Budget Eyewear, as well as the Bright Eyes stores that we acquired through the acquisition of Oakley, which are operated in Australia, New Zealand and Asia (other than China and Hong Kong). Our North American retail business is the largest optical retail business in North America based on total sales. In 2007, in addition to our acquisition

of Oakley, we continued to strengthen our North American retail business with the acquisition of certain assets of D.O.C Optics, which operated approximately 100 stores located primarily in the Midwest United States. We also expanded our global retail business by acquiring two prominent specialty sun chains in South Africa with a total of approximately 65 retail locations. See Products and Services below for a more detailed discussion of our business.

Company History

In 1961, Leonardo Del Vecchio and others established our original operations in Agordo, near Belluno, in northeastern Italy. Since that time, we have enjoyed significant growth in the scope and size of our operations. We have developed and grown in several phases, each of which is related to a specific business strategy. Throughout most of the

1960s, we manufactured molds, metal-cutting machinery, frame parts and semi-finished products for the optical market. We then progressively expanded our production capabilities to enable us to produce a finished frame product.

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

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

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

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

Throughout the 1990s, we continued to expand our distribution network by forming new wholesale subsidiaries. In June 1999, we acquired the Global Eyewear Division of Bausch & Lomb Incorporated, which we refer to as our Ray-Ban business. The Ray-Ban acquisition significantly increased our presence in the sunglasses market, strengthened our house brand portfolio and provided us with sunglass crystal lens manufacturing technology, manufacturing facilities and equipment.

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

Since 2000, we have made a number of key strategic acquisitions to strengthen our business. In April 2001, we acquired Sunglass Hut, a leading retailer of sunglasses worldwide based on sales. In May 2001, we acquired all of the issued and outstanding common stock of First American Health Concepts, Inc., which at that time was a leading provider of managed vision care plans in the United States based on sales. In August 2003, we acquired 82.57 percent of the outstanding shares of OPSM (we acquired the remaining 17.43 percent interest in March 2005), resulting in our leading position in the prescription business based on sales in the Australian and New Zealand markets, while at the same time presenting us with new growth opportunities in the Asia-Pacific markets. In October 2004, we strengthened and expanded our North American retail and managed vision care business with the acquisition of Cole, which, among other things, operates Pearle Vision and the Licensed Brands. In 2006, we expanded our retail presence in China by acquiring three premium retail chains, Beijing Xueliang Optical Technology Co. Ltd., Ming Long Optical and Modern Sight Optics, to become a leading operator of premium optical stores in China based on the number of stores, with a total of 274 locations in three of the top premium optical markets in mainland China, as well as Hong Kong, an important market in Asia for luxury goods. In November 2007, we acquired Oakley, a worldwide specialist in performance optics with brands including Oakley, Eye Safety Systems, Fox, Mosley Tribes, Oliver Peoples and Paul Smith Spectacles, and retail chains including Oakley Stores and Vaults, Sunglass Icon, The Optical Shop of Aspen, Oliver Peoples and Bright Eyes. See Item 4 Information on the Company Recent Developments Acquisitions.

Our capital expenditures for our continuing operations were Euro 334.8 million for the year ended December 31, 2007 and Euro 49.7 million for the three-month period ended March 31, 2008. We expect 2008 aggregate capital expenditures to be approximately Euro 300 million, in addition to investment for any acquisitions. The most significant investments planned are for the remodeling of existing stores for our North American retail operations, at an expected cost of approximately Euro 23.7 million. We will fund these future capital expenditures with our current available borrowing capacity and available cash. For a description of capital expenditures for the previous three years, see Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Cash Flows Investing Activities.

Our principal executive offices are located at Via C. Cantù 2, Milan, 20123, Italy, and our telephone number at that address is (011) 39-02-863341. We are domiciled in Milan, Italy.

Business Overview

Recent Developments

Acquisitions

On November 14, 2007, we completed the acquisition of Oakley, a worldwide leader in the design, development, manufacture, distribution and marketing of performance optics products, including market-leading premium sunglasses, prescription eyewear, goggles and electronically-enabled eyewear. As part of the merger, we acquired all of the outstanding shares of Oakley for a cash purchase price of U.S.$29.30 per share, together with the purchase of all outstanding options and other equity rights at the same price per share less the exercise price. The total purchase price was approximately U.S.$2.1 billion (approximately Euro 1.6 billion). In addition to Oakley-branded optics products, Oakley s eyewear portfolio also includes the Eye Safety Systems, Mosley Tribes, Oliver Peoples and Paul Smith Spectacles brands. Oakley also offers an array of Oakley-branded apparel, footwear, watches and accessories. We also acquired retail locations through Oakley, including Oakley Stores and Vaults, Sunglass Icon, The Optical Shop of Aspen, Oliver Peoples and Bright Eyes. We believe Oakley s principal strength is its ability to develop products that demonstrate superior performance and aesthetics through proprietary technology, manufacturing processes and styling.

During the second quarter of 2007, we completed the acquisitions of two prominent specialty sun chains in South Africa, with a total of 65 stores, for approximately Euro 10 million. The two acquisitions represent an important step in the expansion of our sun retail presence worldwide.

In February 2007, we completed the acquisition of the retail optical business of D.O.C Optics, comprising approximately 100 stores located primarily in the Midwest United States, for approximately U.S.$110 million in cash. We have since rebranded the acquired stores as either LensCrafters or Pearle Vision.

Ray Ban Indian Holdings Offer

On August 29, 2003, the Securities Appellate Tribunal, or SAT, in India upheld the decision of the Securities Exchange Board of India to require our subsidiary Ray Ban Indian Holdings, Inc. to make a public offer in India to acquire up to an additional 20 percent of the outstanding shares of RayBan Sun Optics India Ltd. (RayBan Sun Optics). The Supreme Court of India, by an order dated December 12, 2006, directed that a public offer be made within 45 days of the order, using April 28, 1999 as the reference date for calculating the offer price. The Supreme Court also directed that interest be paid at the rate of 10 percent per annum for the period between August 27, 1999 and the closing date to all persons who were shareholders of RayBan Sun Optics throughout such period. On April 25, 2007, pursuant to the December 12, 2006 Supreme Court order and in compliance with Regulation 10 and 12 of Chapter III of the SEBI Regulations 1997, we launched a public offer through our subsidiary, Ray Ban Indian Holdings, Inc., to acquire up to 4,895,900 shares, representing approximately 20 percent of the equity share capital of RayBan Sun Optics, which we subsequently increased to up to 7,545,200 shares, representing approximately 31 percent of the equity share capital of RayBan Sun Optics. 6,454,280 shares were tendered in the offer, which closed on May 14, 2007. Effective upon the entry of the share transfers in the share register on June 26, 2007, our stake in RayBan Sun Optics increased to 70.5 percent. We paid total consideration of approximately Euro 13.0 million for the tendered shares.

RayBan Sun Optics is listed on the Bombay Stock Exchange. We acquired our initial interest in RayBan Sun Optics in connection with the purchase of the RayBan eyewear business from Bausch & Lomb in 1999.

License Agreements

On April 17, 2008, we signed a long-term exclusive license agreement for the design, production and worldwide distribution of sunglasses under the luxury lifestyle brand Stella McCartney. The agreement, which will begin on January 1, 2009, is for an initial term of six years, automatically renewable for an additional five-year term. The first collection will be launched in the summer of 2009. Stella McCartney first introduced her eyewear line in 2003. She will continue to personally follow each step of the creative process, together with the Luxottica design and product team.

On January 30, 2008, we signed a new license agreement with Chanel. This marks the further extension of a long-term relationship between the two companies, which started in 1999 with the launch of Chanel s first eyewear collections and now seeks to capture the additional growth opportunities for this exclusive and iconic luxury fashion brand.

Credit Agreements

On May 29, 2008, we entered into a Euro 250 million revolving credit facility agreement, guaranteed by our subsidiary Luxottica U.S. Holdings Corp. (U.S. Holdings) with Intesa Sanpaolo S.p.A. as agent and Intesa Sanpaolo S.p.A., Banca Popolare di Vicenza S.c.p.A. and Banca Antonveneta S.p.A. as lenders. The final maturity of the credit facility is May 29, 2013. The credit facility is a Euro 250 million revolving facility, which will require repayment of equal quarterly instalments of principal of Euro 30 million starting August 29, 2011 and a last repayment of Euro 40 million on the final maturity date. Interest accrues at Euribor (as defined in the agreement) plus a margin between 0.40 percent and 0.60 percent based on the Net Debt/EBITDA ratio, as defined in the agreement.

In February 2008, we exercised an option included in the Amended Euro 1,130 Million and U.S.$325 Million Credit Facility entered into by us and our subsidiary U.S. Holdings on June 3, 2004, to extend the maturity date of Tranches B and C to March 2013.

To finance the Oakley acquisition discussed in Acquisitions above, on October 12, 2007, we and our subsidiary U.S. Holdings entered into two credit facilities with a group of banks providing for certain term loans and a short-term bridge loan for an aggregate principal amount of U.S.$2.0 billion. The term loan facility is a five-year term loan of U.S.$1.5 billion, with options to extend the maturity on two occasions for one year each time. The term loan facility is divided into two facilities, Facility D and Facility E. Facility D consists of an amortizing term loan in an aggregate amount of U.S.$1.0 billion, made available to U.S. Holdings, and Facility E consists of a bullet term loan in an aggregate amount of U.S.$500 million, made available to the Company. Each facility has a five-year term, with options to extend the maturity on two occasions for one year each time. The term loan has a spread of between 20 and 40 basis points over LIBOR, depending on the Group s ratio of net debt to EBITDA. Interest accrues on the term loan at LIBOR (as defined in the agreement) plus 0.40 percent (5.503 percent for Facility D and 5.458 percent for Facility E on December 31, 2007). The final maturity of the credit facility is October 12, 2012. This credit facility contains certain financial and operating covenants. We were in compliance with those covenants as of March 31, 2008. We had borrowed U.S.$1.5 billion under this credit facility as of December 31, 2007.

During the fourth quarter of 2007, we entered into ten interest rate swap transactions with an aggregate initial notional amount of U.S.$500 million with various banks (Tranche E Swaps). These swaps will expire on October 12, 2012. The Tranche E Swaps were entered into as a cash flow hedge on Facility E of the credit facility discussed above. The Tranche E Swaps exchange the floating rate of LIBOR for an average fixed rate of 4.26 percent per annum.

The short-term bridge loan facility is for an aggregate principal amount of U.S.$500 million. Interest accrues on the short-term bridge loan at LIBOR (as defined in the agreement) plus 0.15 percent (5.208 percent on December 31, 2007). The final maturity of the credit facility was eight months from the first utilization date. On April 29, 2008, we and our subsidiary U.S. Holdings entered into an amendment and transfer agreement to this facility. The terms of such amendment agreement among other things, reduced the total facility amount from U.S. $500 million to U.S. $150 million and provide for a final maturity date that is eighteen (18) months from the effective date of the agreement.

For additional information, see Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Our Indebtedness and Note 9 to our Consolidated Financial Statements included in Item 18 of this annual report.

Products and Services

Wholesale Operations

Our Brands

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

House Brands: Our house brands are sold worldwide under brand names such as *Ray-Ban* and *Oakley*. We currently develop approximately 2,180 distinct styles of frames within our house brands, of which approximately 1,230 are optical and 950 are sun. Each style is typically produced in three sizes and at least four colors. Actual availability of product styles, colors and sizes varies among geographic markets depending upon local demand.

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

- **Ray-Ban**: Created in 1937 and acquired by us in 1999, the *Ray-Ban* line is the brand leader in the eyewear market based on sales and consumer awareness, bringing together renowned sunglass lenses and a timeless style.

- **Oakley**: Founded in 1975, *Oakley* is a market-leading, strong, iconic brand of performance optics products, including premium sunglasses, prescription eyewear, goggles and electronically-enabled eyewear, whose loyal consumers and athletes have helped create a culture and brand that are intertwined.

- **Persol**: Created in 1926 and acquired by us in 1995, the *Persol* brand is synonymous with design, elegance, tradition and technical precision. Our *Persol* line, which includes a wide range of prescription frames and sunglasses, is marketed as a timeless fashion accessory due to the elegance and design of our products.

- **Oliver Peoples**: Founded in 1986, *Oliver Peoples* helped establish the luxury eyewear market. *Oliver Peoples* classic designs fuse old-world aesthetics with modern-day finesse and are worn by many of the world s most recognizable celebrities.

- **Vogue**: Created in 1973 and acquired by us in 1990, the *Vogue* brand is recognized as trendy and innovative and symbolizes a young and dynamic style that stresses attention to detail and fashion.

- **Arnette**: Created in California in 1992 and acquired by us in 1999, *Arnette* is targeted at young consumers. This sports product line is characterized by a very forward-thinking design and provides outstanding comfort and functionality, ideal for those who enjoy dynamic and extreme sports.

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

- **Luxottica**: *Luxottica* is our original product line, comprised of prescription frames and sunglasses. *Luxottica* targets a broad mix of eyewear consumers.

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

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

- **Mosley Tribes**: The *Mosley Tribes* brand, launched in 2005, is a modern brand fusing fashion and urban lifestyles.

- **Eye Safety Systems**: *ESS* designs, develops and markets advanced eye protection systems for military, firefighting and law enforcement professionals and is a leading supplier of protective eyewear to the U.S. military and firefighting markets.

Designer Lines: Our designer lines are produced and distributed through license agreements with major fashion houses. Currently, we sell designer lines under the names *Chanel, Prada, Miu Miu, Dolce & Gabbana, D&G, Bvlgari, Tiffany & Co., Versace, Versus, Salvatore Ferragamo, Burberry, Polo Ralph Lauren* with its six lines (*Purple Label, Polo, Ralph Lauren, Ralph, Chaps* and *Club Monaco*), *Donna Karan, DKNY, Brooks Brothers* and *Anne Klein.* They also include *Paul Smith Spectacles,* obtained in connection with our acquisition of Oakley. Additionally, in the summer of 2009, we will launch the first collection of *Stella McCartney* eyewear. The license agreements governing these designer lines are exclusive contracts and typically have terms of between three and ten years. See Trademarks, Trade Names, Patents and License Agreements License Agreements. Designer collections are developed through the collaborative efforts of our in-house design staff and the brand designer. Our designer lines presently feature approximately 3,300 different styles.

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

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

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

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

- **Dolce & Gabbana:** Under license since 2005, our *Dolce & Gabbana* eyewear collection is an expression of ultimate luxury. This collection brings the period s shapes up to date and highlights its materials, characterized by precious details such as logos in Swarovski crystals or elegant metal circles.

- **D&G**: The *D&G* eyewear collection has a youthful, innovative and unconventional spirit. The eyewear collection emphasizes the spirit of the brand: innovative, provocative and cosmopolitan.

- **Bvlgari**: Under license since 1997, Bvlgari eyewear is distinguished by the high quality of its materials, attention to detail and elegant design. This product line is targeted towards a clientele who seek something exclusive.

- **Tiffany & Co.**: For 169 years, *Tiffany & Co.* has designed and produced standard-setting jewelry and accessories. The first collection of *Tiffany & Co.* eyewear, launched in early 2008, remains true to the brand s high standards.

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

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

- **Paul Smith Spectacles**: The Paul Smith Spectacles brand, which launched in 1994, includes prescription eyewear and sunglasses that feature the whimsical yet classic designs and attention to detail that are synonymous with one of Britain s leading fashion designers.

- **Salvatore Ferragamo:** The *Salvatore Ferragamo* collections are characterized by the greatest attention to detail as well as by an original use of materials and choice of colors. The eyewear collection is inspired by the craftsmanlike tradition of this fashion house, reinterpreted according to contemporary trends.

- **Burberry**: The Burberry license agreement was signed in 2005, with the first release of the *Burberry* eyewear collection in October 2006. This collection features the brand s core values of form and function, innovation and the essence of classic style.

- **Polo Ralph Lauren**: *Polo Ralph Lauren* is comprised of six collections:

- **Purple Label**: An exclusive eyewear collection, the *Purple Label* combines the elegance of tradition with the requirements of the modern gentleman: high quality, precious materials, details and style.

- **Ralph Lauren**: The *Ralph Lauren* eyewear collection embraces a youthful sophisticated elegance that mixes refined luxury with cinematic glamour and an air of mystery. For the fashion-conscious woman seeking

timeless styling with a modern attitude.

- **Polo**: The *Polo* collection focuses on refined designs, inspired by the heritage of *Polo Ralph Lauren* apparel. This collection features emblematic models that are classic and never out of style. *Polo* is the ideal collection for men who appreciate quality and tradition and are seeking classic styles with a fresh design.

- **Ralph**: This line is an expression of the *Ralph Lauren* spirit at an accessible price point. It features the latest looks and trends, as well as some more classic looks, and vibrant colors for a feminine, flirty and fun look.

- **Chaps**: *Chaps* features easy, wearable designs in the classic tradition of *Polo Ralph Lauren*. The line offers a designer name to the young consumer of moderately-priced sportswear. Since its introduction, *Chaps* has come to represent classic design, excellent quality and value.

- **Club Monaco**: *Club Monaco* offers individuals a unique brand of quality eyewear at exceptional value and uncompromised style for an accessible luxury. The styling targets both men and women, between 20 and 40 years of age, who are urban professionals, style enthusiasts, and who appreciate sophisticated design at a mid-level price point.

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

- **DKNY**: *DKNY* is fast fashion with an urban mindset, the New York City street-smart look. *DKNY* eyewear caters to modern, urban, fashion-conscious women and men with multifaceted lifestyles: international, eclectic, fun and real.

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

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

- **Stella McCartney**: This eyewear collection is inspired by Stella McCartney s modern sense of innovation in the creation of desirable fashion. Combining everyday functionality with a strong fashion sensibility, the eyewear collection offers contemporary femininity with a sense of modern luxury.

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

	Year Ended December 31,				
(as a percentage of total unit sales)	**2007**	**2006**	**2005**	**2004**	**2003**
Designer brands	42.7	41.2	35.9	32.8	33.6
House brands	57.3	58.8	64.1	67.2	66.4
Total unit sales	100	100.0	100.0	100.0	100.0

Prescription Frames and Sunglasses

In 2007, our manufacturing facilities produced a combined total of approximately 41.8 million prescription frames and sunglasses, of which 0.8 million were attributable to the inclusion of prescription frames and sunglasses manufactured by Oakley since the acquisition date. In 2006 and 2005, our manufacturing facilities produced a combined total of approximately 37.0 million and 28.5 million prescription frames and sunglasses, respectively.

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

2007, with the expansion of our sunglass-based retail business in South Africa. We expect this growth trend in our sunglass business to continue as a result of our acquisition of Oakley. In addition to the more fashion-oriented sun and ophthalmic products for which we have earned a strong reputation, the Oakley acquisition brings to us a complementary technological expertise and know-how in high-performance optics, which includes sunglasses, prescription eyewear, goggles, shields, visors and electronically-enabled eyewear, most of which feature Oakley s High Definition Optics® (HDO®) technology.

Unit sales of sunglasses manufactured by us and third parties in 2007, as a percentage of our total aggregate unit sales, were 58.4 percent, as compared to 57.2 percent in 2006 and 55.8 percent in 2005.

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

	Year Ended December 31, (as a percentage of total unit sales)				
	2007	**2006**	**2005**	**2004**	**2003**
Prescription frames	41.6	42.8	44.2	42.7	41.1
Sunglasses	58.4	57.2	55.8	57.3	58.9
Total unit sales	100.0	100.0	100.0	100.0	100.0

Retail Operations

We operate our retail operations through our retail brands, which include, among others, LensCrafters, Sunglass Hut, Pearle Vision, ILORI, The Optical Shop of Aspen, OPSM, Laubman & Pank, Budget Eyewear and Bright Eyes. Due to the fragmented nature of the European retail market, we do not operate optical retail stores in Europe outside of the United Kingdom. As of March 31, 2008, our retail business consisted of 5,627 corporate store locations and 580 franchised locations as follows:

Geographic region	Retail brand	Number of corporate store locations	Number of franchised or licensed locations	Primary product
North America	LensCrafters	951		Prescription
	Pearle Vision	470	405	Prescription
	Sunglass Hut	1,567		Sun
	ILORI	7		Sun
	Sunglass Icon	132	11	Sun
	The Optical Shop of Aspen	20		Prescription
	Oliver Peoples	4	1	Prescription/Sun
	Oakley Stores and Vaults	83		Sun/Apparel
	Licensed Brands:			
	Sears Optical	881		Prescription
	Target Optical	304		Prescription
Asia-Pacific	OPSM	319		Prescription
	Laubman & Pank	134		Prescription
	Budget Eyewear	73	20	Prescription
	Sunglass Hut	214		Sun
	Bright Eyes	39	102	Sun
	Oakley Stores and Vaults	14	1	Sun/Apparel

	Oliver Peoples		1	Prescription/Sun
China and Hong Kong	LensCrafters	159		Prescription
	Sunglass Hut	6		Sun
	Other Brands	82		Prescription
Europe	Sunglass Hut	88		Sun
	Oakley Stores and Vaults	9	5	Sun/Apparel
Africa and Middle East	Sunglass Hut		27	Sun
	Oakley Stores and Vaults		1	Sun/Apparel
South Africa	Sunglass Hut	68		Sun
	Oakley Stores and Vaults	2		Sun/Apparel
Central and South America	Oakley Stores and Vaults	1	6	Sun/Apparel

LensCrafters. As of March 31, 2008, we operated a retail network of 1,110 LensCrafters locations worldwide (of which 951 locations are in North America) offering a wide selection of prescription frames, sunglasses, lenses and other optical products. LensCrafters is currently the largest optical retail chain in North America in terms of sales. LensCrafters stores sell not only Luxottica products, but also a wide range of lenses and optical products made by other suppliers. LensCrafters products include innovative lenses, such as FeatherWates® (lightweight, thin and impact-resistant lenses), DURALENS® (super scratch-resistant lenses), Advanced View Progressive™ (free-form, digitally surfaced progressive lenses), Invisibles® (anti-reflective lenses) and MVP Maximum View Progressives® (multi-focal lenses without visible lines). Substantially all of our LensCrafters stores are located in high-traffic commercial malls and shopping centers, have an employed optometrist or an independent, licensed optometrist on site (thereby allowing the customer to have an eye examination on site), provide a large range of prescription eyewear choices and, in North America, include a laboratory, which enables us to provide the selected frame with prescription lenses to our customers in approximately one hour. When we acquired LensCrafters in 1995, LensCrafters had approximately 600 stores. Between 1995 and 1998, we opened new stores and acquired other retail chains, reaching over 850 stores in North America by 1999.

From 1999 to 2004, LensCrafters expansion focused primarily on further development of those stores opened between 1996 and 1998. We continue to evaluate potential retail expansion opportunities in North America through the acquiring of retail chains and opening of stores in areas where we are not already heavily represented and in other prime locations. Since the LensCrafters acquisition, we have improved the efficiency of LensCrafters stores by managing the inventory from our central worldwide distribution center in Italy. This has improved inventory service and allowed for a more rapid supply of styles based on daily sales and inventory data. This has also increased the volume of our products available in LensCrafters stores. In addition, we have focused our promotional activities on those customers looking for a better purchase experience with high-quality products, rapid and efficient customer service and innovative lens and frame technology. As a result of these initiatives, LensCrafters net sales have increased significantly since 1995.

During the last few years, we have shifted LensCrafters to a more premium brand. During this time, we have added additional elements, such as a new premium store concept that is being adopted as stores are remodeled across North America, associate training, advertising and marketing, which together represent the premium brand and future direction of LensCrafters. With these new initiatives, we have seen the average transaction per customer grow. LensCrafters is becoming known as one of the best places to purchase fashionable, designer prescription frames and sunglasses. LensCrafters hopes to shorten the purchase cycle of typically two to three years with this new focus on prescription frames as fashion**.** LensCrafters is also working to increase its share of the contact lens market. This initiative focuses on selected products (mostly national brand names) and more competitive pricing. This new push for contact lenses is being supported through in-store displays, marketing and associate training.

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

In 2006, we began to expand the use of the LensCrafters name by rebranding certain retail locations to LensCrafters that we acquired as part of the acquisitions of three optical retailers in China, which had a combined total of 274 stores across Asia, including Hong Kong. Hong Kong is one of the most significant Chinese luxury markets where middle class and affluent mainland Chinese visit frequently to purchase luxury goods. Launching LensCrafters as a premium brand in Hong Kong was important for increasing awareness and consumer demand for our products and services. In September 2006, we launched LensCrafters in Beijing, beginning the re-branding strategy of our acquisitions. By the end of 2007, we rebranded 165 locations in China and Hong Kong with the LensCrafters name. Based on the strategy for 2008, the remaining not yet rebranded stores will maintain the original brand name.

Sunglass Hut. With the acquisition of Sunglass Hut in 2001, we became the world s leading specialty retailer of sunglasses based on sales, and a specialty retailer of popularly priced watches. As of March 31, 2008, Sunglass Hut had 1,567 retail locations in North America, 288 in Australia, New Zealand and South Africa, and 115 in the Middle East and Europe. Sunglass Hut operates in-line stores and kiosks in shopping malls, as well as stores in street centers on high-traffic streets and in airports. We have increased sales of Luxottica-manufactured products at Sunglass Hut locations from approximately 14.3 percent of total Sunglass Hut net sales in April 2001 (the first month following the acquisition) to 69.4 percent in December 2007, including Oakley products. In addition to sunglasses that we manufacture, Sunglass Hut continues to sell a variety of frames manufactured by third-party vendors, including Maui Jim, Inc. and others. Although we

buy products from third parties, we do not believe that the loss of any one supplier would have a significant impact on our future operations as we could easily replace lost supply with other sunglasses manufactured by us or other third-party vendors. After the acquisition of Sunglass Hut and Cole, we consolidated the administrative and certain other functions of these businesses with our existing business to allow significant synergies between sun and optical retail operations. Sunglass Hut outlets are located mostly in enclosed malls and airports with an average retail space of approximately 400 square feet per kiosk/store.

In the second quarter of 2007, we completed the acquisitions of two prominent specialty sun chains in South Africa, for a total of 65 stores, which will be rebranded to Sunglass Hut stores by the end of 2008. Both chains have prominent locations in shopping centers in urban areas, including Johannesburg and Cape Town, as well as attractive airport locations.

ILORI. ILORI is our new high-end fashion sunwear retail brand with seven stores in the United States as of March 31, 2008, including flagship stores in the SoHo neighborhood of New York City and in Beverly Hills, CA. ILORI caters to a different, more exclusive clientele than Sunglass Hut or Sunglass Icon with higher-priced collections and more pampered, personalized service in luxurious surroundings.

Sunglass Icon. Our Sunglass Icon multi-branded sunglass specialty retail locations offer a full range of eyewear, including brands owned or licensed by us, as well as eyewear from other designers and brands. As of March 31, 2008, Sunglass Icon operated 143 locations throughout North America (11 of which are operated under license). The Sunglass Icon retail stores are located in premium malls throughout the United States, with a concentration primarily in the southwest United States.

Pearle Vision. With the acquisition of Cole in October 2004, we acquired Pearle Vision, the second-largest optical chain after LensCrafters in North America. Although both brands address the mid- to high-end customer bracket, their positioning is complementary. Pearle Vision focuses on the factors that made the brand a success: customers trust in the doctor s experience and the quality of service they receive. Pearle Vision stores are mostly located in strip malls instead of the conventional malls where most LensCrafters and Sunglass Hut stores are located. In addition, Luxottica has franchised Pearle Vision locations located throughout North America.

Our relaunching of the Pearle Vision brand in 2004 and 2005 was centered on a return to its original values, which had made Pearle Vision the Home of Trusted Eyecare for generations of Americans.

A product mix increasingly geared to premium, high value-added products has helped restore strong customer relationships, as have efforts to portray doctors in various advertising campaigns. At the same time, a significant reduction in sales promotions helped improve the positioning of the stores and consumer perceptions, resulting in increasing profitability.

Sales of Luxottica products at Pearle Vision stores enjoyed strong growth, reaching nearly 78.7 percent of total sales in 2007. Ray-Ban, Prada, Brooks Brothers and Versace were some of the stronger-selling brands.

In order to centralize services and achieve economies of scale, most in-store labs were closed, and their work was transferred to nearby LensCrafters labs or to one of our eight large central lens finishing facilities.

Pearle Vision s franchises are increasingly turning to us as their preferred supplier, not only due to the strength of our brands and the quality of our products, but also because of Luxottica s Franchise Advantage Program. This program, which is available to franchisees, features marketing solutions, preferential pricing and savings on selected categories of products, including lenses, lab services, contact lenses and accessories, all of which are provided with a high level of service and merchandising support.

We firmly believe that the Pearle Vision brand has significant growth opportunities in both the United States and Canada, where the brand was strengthened in 2006 and is now the only optical chain represented throughout Canada.

As of March 31, 2008, Pearle Vision operated 470 corporate store locations and had 405 franchise locations throughout North America.

Licensed Brands. With the acquisition of Cole, we also acquired a group of distribution outlets under the names Sears Optical and Target Optical (the BJ s Optical license acquired with Cole was terminated in March 2008), which we refer to as our Licensed Brands. The Licensed Brands optical retail locations are located in the host stores that bear the names of the hosts. Both of these brands offer consumers the convenience of taking care of their optical needs where they

shop and have a precise market positioning. Sears, a department store with a vast and heterogeneous customer base, has further improved the services that were launched in 2005. In 2006, Ray-Ban was introduced in all stores. In 2007, Target Optical, which appeals to customers who enjoy fashion and novelty, reported improved performance in its 296 Target stores, which are mostly in large urban and suburban centers. Efforts were focused on improving service and consulting by the sales personnel, who adopted a new take it and try it sales method, as well as on strengthening its fashion positioning by offering brands such as Ray-Ban and Vogue.

As of March 31, 2008, we operated 881 Sears Optical and 304 Target Optical locations throughout North America.

Oakley Stores and Vaults. As of March 31, 2008, we operated 55 retail stores in North America under the Oakley Store name, which offer a full range of Oakley-branded optics products as well as Oakley apparel, footwear and accessories. These stores are designed and merchandised to immerse consumers in the Oakley brand through innovative use of product presentation, graphics, audio and visual elements. In addition to these full-price retail venues, we operated 30 Oakley Vaults, our Oakley outlet store concept, featuring discontinued and excess seasonal Oakley-branded merchandise in addition to newer products priced at full retail. Our retail stores are located in some of the nation s leading shopping malls and average approximately 2,500 square feet in size. We had 6 Oakley Stores and Vaults under franchise in Mexico as of March 31, 2008. Outside of North America, as of March 31, 2008, we operated 23 corporate-owned Oakley Stores and Vaults and had eight franchise locations.

The Optical Shop of Aspen. As of March 31, 2008, we operated 20 The Optical Shop of Aspen stores throughout the United States, which are luxury optical retail stores offering fashion and luxury eyewear from a variety of designers, as well as certain Oakley-owned brands, including Oliver Peoples.

Oliver Peoples. Our Oliver Peoples subsidiary operates four luxury optical retail stores (two in Southern California and two in New York City). An additional two Oliver Peoples retail locations are operated by others under license, one in Southern California and one in Tokyo.

OPSM, Laubman & Pank and Budget Eyewear. In Australia and New Zealand, we operate three brands, which are specialists in the prescription segment: OPSM, Australia s top eyewear brand for luxury and fashion-minded customers; Laubman & Pank, provider of high-quality eyecare and services; and Budget Eyewear, focused on price-conscious consumers. The three brands operate in all of Australia s states, primarily in larger cities. OPSM is our only brand in New Zealand and operates in the main urban areas. All brands have continued to extend further into the fashion segment through innovative store format, personnel training and product assortment programs that are tailored to their respective segments and leverage off of our portfolio of products. In the prescription segment, the three brands have a different positioning which allows us to cover complementary segments with product offerings catering to the needs of different consumer categories. Improved understanding of customers and initiatives have helped OPSM achieve a significant increase in sales and have solidified its position as the best-known brand on the market. Laubman & Pank s recognition as an optical fashion brand has continued to increase as promotional programs clearly position the brand as a national chain. The brand is perceived to have a special focus on eye health, resulting from a series of initiatives that include TV campaigns and national screening programs. Budget Eyewear has successfully extended its product offerings while remaining the preferred destination for those wanting good eyewear at lower prices. As of March 31, 2008, a total of 507 stores throughout Australia were operated under the three brands - OPSM (280 stores), Laubman & Pank (134 stores) and Budget Eyewear (73 stores)- including Budget Eyewear s 20 franchise locations. OPSM is the market leader in New Zealand, based on corporate-owned store locations, with 39 stores, as of March 31, 2008, operated by the OPSM brand.

Bright Eyes. Bright Eyes, first established in 1985, is one of Australia s largest and fastest growing sunglass chains, with over 140 sunglass stores across Australia operating under the Bright Eyes and Sunglass Worx names. As of March 31, 2008, Bright Eyes operated 39 corporate store locations and 102 franchise locations. The stores are located in highly desirable real estate locations and sell brands such as Oakley, Ray-Ban, Prada, Versace, Maui Jim and Arnette.

We continue to explore opportunities to expand our retail operations worldwide through the opening of new stores or kiosks, or strategic acquisitions, when appropriate.

Oakley Internet and Telesales Operations. We use our Oakley website (*www.oakley.com*) as a complementary sales channel to our Oakley retail operations and international distribution, allowing consumers to purchase Oakley products as efficiently as possible. The Oakley website is fully e-commerce capable, allowing consumers to purchase our Oakley products for delivery in the United States, Canada and Australia. In addition, the Oakley website includes information about our Oakley products and innovations, such as HDO® (High Definition Optics®), and news about the athletes and others who endorse Oakley products. We believe the Oakley website serves to increase consumer awareness of the Oakley brand,

improve customer service and increase sales through Oakley s retail and e-commerce channels. We also maintain a customer service team to respond to telephone inquiries and make sales directly to consumers.

EyeMed. With the acquisition of Cole, we also acquired a provider and administrator of managed vision care services. Managed vision care programs and benefits were previously sold through the Cole Managed Vision division; renewals and new sales are now serviced through EyeMed Vision Care. EyeMed Vision Care is one of the largest vision benefits organizations in the United States, serving 3,400 corporations, government entities and insurance companies through a network of optometrists, ophthalmologists, opticians and Luxottica retail stores.

In 2007, EyeMed gained 400 new clients with more than 7 million new members joining the nearly 140 million people already served by EyeMed through funded and discounted benefit plans. The primary contributors to EyeMed s growth are the increasing awareness of the importance of vision care and the expansion of existing relationships with health and ancillary benefit organizations. EyeMed also focused on targeting the smaller employer segment. EyeMed will continue to diversify its product offerings and provider networks to address the needs of its business-to-business customers, while continuing to identify and build demand in new market segments.

Our Principal Markets

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

	Year Ended December 31, (In thousands of Euro)		
	2007	**2006**	**2005**
Italy Wholesale	1,506,077	1,321,887	998,420
North America Retail(1)	2,744,454	2,840,977	2,632,265
North America Wholesale	328,632	235,526	179,595
Asia-Pacific Retail	453,223	388,505	365,867
Asia-Pacific Wholesale	232,338	215,135	150,926
Other Retail	64,641	64,678	61,165
Other Wholesale	1,049,788	697,278	514,031
Adjustment/Eliminations(2)	(1,413,099)	(1,087,828)	(768,006)
Total	4,966,054	4,676,156	4,134,263

(1) Excludes the sales of our Things Remembered specialty retail business, which was sold in September 2006. Things Remembered sales for fiscal 2006 (through its date of sale on September 29, 2006) and 2005 were Euro 157.1 million and Euro 236.5 million, respectively.

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

Seasonality and Effect of 53-Week Year

We have also historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses, which represented 58.4 percent and 57.2 percent of our units sold in 2007 and 2006, respectively. As a result, our net sales are typically higher in the second quarter, which includes sales to customers and increased sales in our Sunglass Hut stores, and lower in the first quarter, as sunglass sales are lower in the cooler climates of North America, Europe and Northern Asia. We believe that this seasonality effect, especially in the wholesale segment, will be offset by our acquisition of Oakley, which is primarily a wholesale business, because the wholesale seasonal peaks generally precede the retail seasonal peaks by a few months. These seasonal variations could affect the comparability of our results from period to period. Our North American retail fiscal year is either a 53-week year or a 52-week year, which also can affect the comparability of our results from period to period. When a 53-week year occurs, we generally add the extra week to the fourth quarter. A 53-week year occurs in five- to six-year intervals and will occur again in fiscal 2008.

Manufacturing Process

Overview

We manufacture both metal and plastic frames. In addition to our frame manufacturing capacity, since 1999 we have also produced crystal and polycarbonate sunglass lenses exclusively for our sunglasses collections. Production is principally carried out in our six Italian manufacturing facilities. In China, we manufacture certain products distributed mainly by our North American retail group and certain finished products for our wholesale business, mainly in our owned production facilities. Each of our facilities is tailored to a specific production technology that we believe allows us to achieve a high level of productivity. With the acquisition of Oakley, we have added manufacturing facilities in the United States where we manufacture or assemble most of our Oakley eyewear products.

Design and Prototype Selection

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

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

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

All prototypes are subject to review and approval by our licensors and our designers to ensure consistency with the distinctive image of each product line. Our collections consist of both new models and the most successful existing models. Each year, we add approximately 1,800 new models to our eyewear collections. The ability to constantly renew our product base has enabled us to meet consumer demand in each market segment in which our brands are targeted. See Item 3 Key Information Risk Factors. If we do not correctly predict future economic conditions and changes in consumer preferences, our sales of premium products and profitability will suffer.

Oakley develops and employs innovative technologies, materials and processes in the design, development and manufacture of its products. To date, Oakley has designed its products using primarily in-house staff in order to speed the concept-to-market timeline and preserve brand image and authenticity.

Sourcing

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

Oakley has built strong relationships with its major suppliers. With most suppliers, Oakley maintains agreements that prohibit disclosure of its proprietary information or technology to third parties. Although Oakley relies on outside suppliers for most of the specific molded components of its glasses, goggles, watches and footwear, it generally retains ownership of the molds used in the production of the components. We believe that most of the components that Oakley uses can be obtained from one or more alternative sources within a relatively short period of time, if necessary or desired. In addition, to further mitigate risk, Oakley has developed an in-house injection molding capability for sunglass frames.

We do not depend on any single supplier for any of our principal raw materials or frames. Although we do not have formal, long-term contracts with our suppliers, we have not experienced any significant interruptions in our supplies. For additional information, see Note 14 to our Consolidated Financial Statements included in Item 18 of this annual report. Historically, prices of the principal raw materials used in our manufacturing process have been stable.

Manufacturing

We have six frame manufacturing facilities in Italy. Five facilities are located in northeastern Italy, the area in which most of the country s optical industry is based, and the remaining facility is located near Turin. All of our facilities are highly automated, which has allowed us to maintain a high level of production without significant capital outlay. In certain of these facilities, we also produce sunglass crystal lenses and polycarbonate lenses. In 2006, we modernized our operations in Italy by building a new approximately 32,000-square-meter manufacturing facility to produce acetate frames and sunglasses for a total investment of approximately Euro 20.0 million. In 2007, we further expanded our manufacturing facilities in Italy by approximately 28,000 square meters in order to rationalize the product production flow, for a total investment of approximately Euro 23.4 million. We were able to rededicate one of our former facilities to our logistics operation for a total investment of Euro 6.2 million. From 1998 to 2001, we operated, through our 50 percent-owned joint venture (Tristar Optical Company Ltd.) with a Japanese partner, a facility in China to manufacture prescription frames. In 2001, we acquired from our Japanese partner the remaining 50 percent interest in this Chinese manufacturer so that it became one of our wholly-owned subsidiaries. In 2006, we increased our manufacturing capacity in China through the construction of a new approximately 26,000-square-meter manufacturing facility to produce both metal and plastic frames for a total investment of approximately Euro 20.0 million. After the construction of this new facility, our annual average daily production in China increased by approximately 80 percent compared to 2005. In 2007, we further expanded our manufacturing capacity in China by approximately 74,000 square meters, for a total investment of approximately Euro 7.2 million. The percentage of private label products produced at our facilities in China has been decreasing in favor of increased production of certain of our core, fashion and North American brands.

Over the past several years, we have consolidated our manufacturing processes by tailoring each of our manufacturing facilities in Italy to a specific production technology. This consolidation has allowed us to improve both the productivity and quality of our operations. We produce plastic frames in our facilities in Sedico, Pederobba and Lauriano, while metal frames are produced in our facilities in Agordo and Rovereto. Certain frame parts are produced in our facility in Cencenighe. Our manufacturing facility in China produces both metal and plastic frames. In 2007, approximately 59 percent of the frames manufactured by us were metal-based, and the remainder was plastic.

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

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

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

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

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

- reallocate inventory within our wholesale subsidiaries, thereby reducing overall inventory levels and the risk of obsolescence; and

- react quickly to changing market trends by providing rapid feedback to our in-house design team.

We engage in research and development activities relating to our manufacturing processes on an on-going basis. As a result of such activities, we have invested, and will continue to invest, in automation, thus increasing efficiency while improving quality.

The principal manufacturing facility for our newly acquired Oakley business is located in Foothill Ranch, California, where it manufactures or assembles most of Oakley s eyewear products. Oakley has a second manufacturing facility located in Dayton, Nevada, where it produces the frames used in its X Metal® (a proprietary alloy) eyewear products.

At Oakley s manufacturing facilities, we own, operate and maintain most of the equipment used in the manufacture of Oakley s eyewear products. Much of the equipment used has been specially designed and adapted for Oakley s manufacturing processes. Manufacturing processes that Oakley believes are unlikely to add significant value are currently contracted to outside vendors. State-of-the-art manufacturing practices allow Oakley to respond quickly to customer demand, offer protection against piracy and enable it to adhere to strict quality-control standards. Oakley has the unique ability to build customized eyewear products to meet individual consumer demand for unique combinations of frame, lens and lens coating and to ship those products in less than 48 hours.

Oakley utilizes third-party manufacturers to produce its apparel, footwear, watches, electronically-enabled eyewear and certain of its goggles. Costs associated with research and development activities are expensed when incurred and are not significant.

Lens Finishing Labs

In North America, we have eight central lens finishing labs that are of strategic importance to our North American retail business. Combining our broad presence in the market with additional capacity for handling lens finishing work, we anticipate increasing availability of our higher-margin lens treatments to consumers at our stores. Lens finishing labs are also expected to contribute to a reduction of the time and cost of finishing work provided by third parties.

Oakley operates optical lens laboratories in the United States, Ireland and Japan where it surfaces prescription lenses. These labs provide prescription lenses to the North and South American, European and Asian markets, respectively, enabling it to achieve expeditious delivery, better quality control and higher optical standards.

Quality Control

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

Oakley designs all of its products with the goal of meeting or exceeding their respective industry standards for safety, performance and durability. Throughout the development process, Oakley optics products undergo extensive testing against standards established specifically for eyewear by ANSI and ASTM. These standards relate to product safety and performance and provide quantitative measures of optical quality, UV protection, light transmission and impact resistance. In addition, Oakley performs a broad range of durability and mechanical integrity tests on its lens coatings that include extremes of exposure to UV light, heat, condensation and humidity. Oakley tests its apparel, footwear and accessories against strict guidelines established by ASTM and other industry authorities to ensure quality, performance and durability.

Distribution

We distribute our products through both wholesale and retail channels.

Distribution by Wholesale Division

We currently distribute our products in over 130 countries and operate 42 wholly- or majority-owned wholesale distribution subsidiaries strategically located in major markets worldwide. In markets where we do not have wholesale distribution subsidiaries, we employ approximately 130 independent distributors.

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

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

Subsidiary	**Country of Formation**	**Percentage Ownership**
Luxottica Italia S.r.l	Italy	100%
Luxottica India Eyewear Private Limited	India	100%
Luxottica Fashion Brillen Vertriebs GmbH	Germany	100%
Luxottica Portugal Comercio de Optica S.A	Portugal	100%
Luxottica France S.A.S	France	100%
Luxottica Iberica S.A	Spain	100%
Luxottica U.K. Ltd.	United Kingdom	100%
Luxottica Belgium N.V	Belgium	100%
Luxottica Nordic AB	Sweden	100%
Oy Luxottica Finland AB	Finland	100%
Luxottica Vertriebsgesellschaft MbH	Austria	100%
Luxottica Norge AS	Norway	100%
Avant-Garde Optics, LLC	United States	100%
Oakley, Inc.	United States	100%
Oakley Icon Limited	Ireland	100%
Oliver Peoples, Inc.	United States	100%
Eye Safety Systems Inc.	Australia	100%
Oakley Japan KK	Japan	100%
Oakley Athletic (PTY) Limited	South Africa	100%
Oakley U.K. LTD.	United Kingdom	100%
Oakley South Pacific PTY LTD.	Australia	100%
Oakley Canada, Inc.	Canada	100%
Oakley Brazil LTDA	Brazil	100%
Luxottica Canada Inc.	Canada	100%
Luxottica Do Brasil Ltda	Brazil	100%
Luxottica Mexico S.A. de C.V	Mexico	100%
Luxottica Argentina S.r.l	Argentina	75%
Mirari Japan Co Ltd.	Japan	100%
Luxottica South Africa Pty Ltd.	South Africa	100%
Luxottica (Switzerland) A.G	Switzerland	97%
Luxottica Australia Pty Ltd.	Australia	100%
Luxottica Optics Ltd.	Israel	74.9%
Luxottica Hellas A.E	Greece	70%
Luxottica Nederland B.V	The Netherlands	51%
Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi	Turkey	64.8%
Luxottica Poland Sp. Z.o.o	Poland	100%
Luxottica Central Europe KFT	Hungary	100%
Luxottica South Eastern Europe Ltd.	Croatia	70%
Luxottica Trading and Finance Limited	Ireland	100%
Miraria Marketing Pte Ltd.	Singapore	51%
RayBan Sun Optics India Ltd.(1)	India	70.5%
Luxottica Korea Ltd.	South Korea	100%

(1) The shares of RayBan Sun Optics are publicly traded on the BSE Stock Exchange, Mumbai. Since we did not own a 50 percent equity interest in the entity as of December 31, 2006, we accounted for this entity under the equity method of accounting for the year ending December 31, 2006. Effective as of June 26, 2007, our stake in Ray-Ban Sun Optics increased from 44.2 percent to 70.5 percent through the acquisition of additional shares in a public tender offer. See Item 4 Information on the Company Business Overview Recent Developments Ray Ban Indian Holdings Offer above for more information.

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

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

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

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

Currently, Oakley distributes its products in the United States through a base of approximately 11,000 retail accounts. Retail accounts are comprised of optical stores, sunglass retailers, department stores, sporting goods stores and specialty sports stores, including bike, surf, snow, skate, golf and motor sports stores.

Oakley s sales organization is comprised of a combination of employees and independent sales representatives. Relationships with Oakley s large international, national and regional accounts are managed and serviced by Oakley employees. Independent sales representatives service the remaining base of retailers that carry Oakley s various product categories.

Distribution by Retail Division

Through our retail division, we believe we operate the largest group of optical superstores in the United States and Canada based on both sales and store count. We believe we are the largest specialty retailer of sunglasses in the world based on 2007 revenues and believe we have become a leading player in the Australian prescription segment.

In our optical retail stores, customers can choose from a large selection of frames and lenses offering a high level of comfort and fit. In North America, LensCrafters customers can obtain a completed pair of prescription glasses in approximately one hour because of on-site lens grinding laboratories. In our Sunglass Hut, ILORI, Sunglass Icon and Bright Eyes locations, customers can choose from a large selection of Luxottica- and third-party-vendor-manufactured sunglasses. In addition, most locations can assist customers in purchasing other accessories to complement their eyewear purchases. As of March 31, 2008, our retail business consisted of 5,627 corporate store locations and 580 franchised locations. See Products and Services Retail Operations above for more information about our retail locations and a breakdown of the geographic regions.

In 2007, units manufactured with our own brand names or our licensed brands, represented approximately 68.4 percent of the total sales of frames based on units sold by the retail division. In contrast, when OPSM was acquired in August 2003, only 3.5 percent of the total sales of frames sold were supplied by us and, when Cole was acquired in October 2004, less than one percent of the total sales of frames sold were supplied by us. The retail division s stores sell not only frames that we manufacture but also a wide range of frames, lenses and other ophthalmic products manufactured by other companies.

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

Competition

The prescription frame and sunglasses industry is highly competitive and fragmented. As we market our products throughout the world, we compete with many prescription frame and sunglass companies in various local markets. The major competitive factors include fashion trends, brand recognition, marketing strategies, distribution channels and the number and range of products offered. We believe that our principal competitor in the design, manufacture and distribution of eyewear

within the prescription frames market is Safilo Group S.p.A., or Safilo. We believe that our principal competitors in the sunglasses market include Safilo and De Rigo S.A.

Several of our most significant competitors in the manufacture and distribution of eyewear are significant vendors to our retail division. Our success in these markets will depend on, among other things, our ability to manage an efficient distribution network and to market our products effectively as well as the popularity and market acceptance of our brands. See Item 3 Key Information Risk Factors If we are unable to successfully introduce new products, our future sales and operating performance will suffer and If we fail to maintain an efficient distribution network in our highly competitive markets, our business, results of operations and financial condition could suffer.

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

Similarly, the consumer product markets in which Oakley operates are also highly competitive in the United States and abroad. We believe that Oakley s innovative technology and design, integrated sunglass manufacturing capabilities, effective brand and product marketing efforts and vigorous protection of its intellectual property rights are important aspects of competition and are among Oakley s primary competitive advantages.

In the non-prescription sports eyewear market, Oakley competes with mostly smaller sunglass and goggle companies in various niches of the sports market and a limited number of larger competitors. We believe Oakley is a leader in this segment of the market, although various companies, including Marchon Eyewear, Inc. and Safilo Group S.p.A., and numerous smaller brands actively compete with Oakley.

Marketing

Our marketing and advertising activities are designed primarily to enhance the image of Luxottica and our brand portfolio and to drive traffic into our retail locations. Advertising expenses amounted to approximately seven percent of our net sales in each of 2007 and 2006 and approximately six percent of our net sales in 2005.

Marketing Strategy for Our Wholesale Distribution Business

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

In our media advertising, we utilize direct media, such as print, radio and television, as well as billboard advertising. The extent of our advertising activities and the selection of different media depend upon the competitive conditions in each particular market. In addition, we advertise in publications targeted to independent practitioners and other market-specific magazines.

Our point-of-sale marketing materials consist of displays, counter cards, catalogs, posters and product literature. Many of these materials are linked to our consumer advertising campaigns. Because the point-of-sale has become increasingly important both as a communication medium and in terms of the consumer brand experience, in 2007, we developed a new approach for our Ray-Ban brand with a shop-in-shop modular concept. This concept can be adapted to the stores we identify as the most suitable, permitting the best delivery of Ray-Ban s clear and unique brand signature.

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

Oakley uses less-conventional marketing methods in addition to those mentioned above, including sports marketing, grass-roots sporting events and targeted product allocations. We believe the exposure generated by athletes wearing Oakley products during competition and in other media appearances serves as a more powerful endorsement of product performance and style than traditional commercial endorsements. Consequently, Oakley will continue to use sports marketing and

endorsement arrangements extensively to achieve exposure that results in strong brand recognition and authenticity on a global level.

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

Marketing Strategy for Our Retail Business

In addition to the marketing activities described above, we engage in promotional and advertising activities through our retail business with both short- and long-term objectives. Our short-term objectives are to attract customers to our stores and promote sales. Our long-term objective is to build the image and visibility of our retail brands throughout the world, such as the LensCrafters and Pearle Vision brands in North America, the Sunglass Hut brand worldwide and the OPSM, Laubman & Pank and Budget Eyewear brands in Australia and New Zealand, thereby encouraging customer loyalty and repeat purchases. Oakley s Stores and Vaults rely on similar short-term objectives. Oakley s long-term objectives are to utilize high profile retail locations to drive brand equity and create awareness for eyewear, apparel, footwear and accessories marketed under the Oakley brand.

We believe that the product quality and service provided by our retail business contribute to our short- and long-term marketing objectives.

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

Trademarks, Trade Names, Patents and License Agreements

Trademarks, Trade Names and Patents

Our principal trademarks or trade names include *Luxottica, Ray-Ban, Oakley, Persol, Vogue, Arnette, Revo, LensCrafters, Sunglass Hut, ILORI, Pearle Vision, OPSM, Laubman & Pank, Budget Eyewear* and the Oakley ellipsoid *O* and square *O* logos. Our principal trademarks are registered worldwide. Other than *Luxottica, Ray-Ban, Oakley, LensCrafters, Sunglass Hut, Pearle Vision*, *OPSM* and the Oakley ellipsoid *O* and square *O* logos, we do not believe that any single trademark or trade name is material to our business or results of operations. *Ray-Ban* products accounted for approximately 14.8 percent of our net sales in 2007. We believe that our trademarks have significant value for the marketing of our products and that having distinctive marks that are readily identifiable is important for creating and maintaining a market for our products; identifying our brands and distinguishing our products from those of our competitors. Therefore, we utilize a combination of trademarked logos, names and other attributes on nearly all of our products.

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

We utilize patented and proprietary technologies and precision manufacturing processes in the production of our products. As of June 20, 2008, Oakley held a portfolio of over 600 patents worldwide that protect its designs and innovations. Some of the most important of these patents relate to the following categories: innovations in dual-spherical lens technology and the associated optical advances; electronically enabled eyewear; innovations in frame design and functionality; biased, articulating and dimensionally stable eyewear; and interchangeable lenses.

See Item 3 Key Information Risk Factors If we are unable to protect our proprietary rights, our sales might suffer, and we may incur significant costs to defend such rights.

License Agreements

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

Licensor	**Licensed Marks**	**Territory**	**Expiration**
Burberry Limited	Burberry Burberry Black Label**	Worldwide exclusive license	December 31, 2015
Bvlgari S.p.A	Bvlgari	Worldwide exclusive license	December 31, 2010
Chanel Group	Chanel	Worldwide exclusive license	March 31, 2011 (renewable until March 31, 2014)
Club Monaco Corp.	Club Monaco	U.S. and Canada exclusive license	March 31, 2012 (renewable until March 31, 2017)
Dolce & Gabbana S.r.l	Dolce & Gabbana, D&G	Worldwide exclusive license	December 31, 2010 (renewable until December 31, 2015)
Donna Karan Studio LLC	Donna Karan, DKNY	Worldwide exclusive license	December 31, 2009 (renewable until December 31, 2014)
Gianni Versace S.p.A	Gianni Versace, Versace, Versace Sport, Versus	Worldwide exclusive license	December 31, 2012 (renewable until December 31, 2022)
Jones Investment Co. Inc	Anne Klein New York Lion Head Design AK Anne Klein	U.S. and rest of world exclusive licenses	December 31, 2009
Paul Smith Limited	Paul Smith PS Paul Smith	Worldwide exclusive license	February 28, 2009
Prada S.A	Prada, Miu Miu	Worldwide exclusive license	December 31, 2013 (renewable until December 31, 2018)
PRL USA The Polo/Lauren Company LP	Polo by Ralph Lauren Ralph Lauren Ralph (Polo Player Design) Lauren RLX RL Ralph Ralph/Ralph Lauren Lauren by Ralph Lauren Polo Jeans Company The Representation of the Polo Player Chaps***	Worldwide exclusive license	March 31, 2017
Retail Brand Alliance, Inc.*	Brooks Brothers	Worldwide exclusive license	December 31, 2009
Salvatore Ferragamo Italia S.p.A	Salvatore Ferragamo Ferragamo	Worldwide exclusive license	December 31, 2008 (renewable until December 31, 2013)
Stella McCartney	Stella McCartney	Worldwide exclusive license	(Begins January 1, 2009) December 31, 2014 (renewable until December 31, 2019)
Tiffany & Co.	TIFFANY & CO. Tiffany	Worldwide exclusive license	December 31, 2017

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

** Japan only.

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

Under these license agreements, we are required to pay a royalty which generally ranges from five percent to 14 percent of the net sales of the relevant collection, which may be offset by any guaranteed minimum royalty payments. The license agreements also provide for a mandatory marketing contribution that generally amounts to between five and ten percent of net sales. Each licensor is responsible for the manner and form of advertising for its collection. These license agreements typically have terms ranging from three to ten years, but may be terminated early by either party for a variety of reasons, including non-payment of royalties, failure to meet minimum sales thresholds, product alteration and, under certain agreements, a change in control of Luxottica Group S.p.A.

Other than Dolce & Gabbana and D&G and Prada and Miu Miu (which accounted for 5.5 percent and 6.4 percent of our 2007 net sales, respectively), no single designer line accounted for more than five percent of net sales for the year ended December 31, 2007. We believe that early termination of one or a small number of the current license agreements would not have a material adverse effect on our results of operations or financial condition. Upon any early termination of an existing license agreement, we expect that we would seek to enter into alternative arrangements with other designers to reduce any negative impact of such a termination.

Regulatory Matters

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

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

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

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

Through our acquisition of Oakley, we produce and sell to the U.S. government, including the U.S. military, and to international governments, certain Oakley and Eye Safety Systems protective eyewear products. As a result, our operations are subject to various regulatory requirements, including the necessity of obtaining government approvals for both new and continuing operations, U.S.-imposed embargoes of sales to specific countries, foreign import controls, expropriation of assets and various decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied. Additionally, we could be subject to periodic audits by U.S.

government personnel for contract and other regulatory compliance.

Organizational Structure

We are a holding company, and virtually all of our operations are conducted through our wholly-owned subsidiaries. We operate in two industry segments: (i) manufacturing and wholesale distribution, and (ii) retail distribution. In the retail segment, we primarily conduct our operations through LensCrafters, Sunglass Hut, Pearle Vision, Cole Licensed Brands and OPSM. In the manufacturing and wholesale distribution segment, we operate through 11 manufacturing plants and 42 geographically-oriented wholesale distribution subsidiaries. See Distribution for a breakdown of the geographic regions.

The significant subsidiaries controlled by Luxottica Group S.p.A., including holding companies, are:

Subsidiary	Country of Incorporation	Percentage of Ownership
Manufacturing		
Luxottica S.r.l	Italy	100%
Luxottica Tristar (Dongguan) Optical Co.	China	100%
Distribution		
Avant-Garde Optics, LLC	United States	100%
Cole Vision Corporation	United States	100%
LensCrafters, Inc.	United States	100%
Sunglass Hut Trading, LLC	United States	100%
Pearle Vision, Inc.	United States	100%
OPSM Group Limited	Australia	100%
Holding companies		
Luxottica U.S. Holdings Corp.	United States	100%
Luxottica South Pacific Holdings Pty Ltd.	Australia	100%
Cole National Corporation	United States	100%
Oakley, Inc.(1)	United States	100%
Arnette Optic Illusions, Inc.	United States	100%
The United States Shoe Corporation	United States	100%

(1) In addition to being a holding company, Oakley, Inc. is also a manufacturer and a distributor.

Property, Plants and Equipment

Our corporate headquarters is located at Via C. Cantù 2, Milan, Italy. Information regarding the location, use and approximate size of our principal offices and facilities as of April 30, 2008 is set forth below:

Location	Use	Owned/Leased	Approximate Area in Square Feet
Milan, Italy	Corporate Headquarters	Owned	61,237
Agordo, Italy(1)(2)	Administrative offices and manufacturing facility	Owned	926,200
Mason (Ohio), United States	North American retail division headquarters	Owned	415,776
Atlanta (Georgia), United States	North American retail division distribution center	Owned	183,521
Port Washington (NY), United States	U.S. corporate and wholesale headquarters and wholesale division	Owned	140,700
Foothill Ranch (CA), United States	Oakley headquarters, manufacturing, ophthalmic laboratory and distribution center	Owned	550,000
Ontario (CA), United States	Oakley eyewear, apparel and footwear distribution center	Leased	408,000
Dayton (NV), United States	Oakley manufacturing facility	Owned	63,000
Macquarie Park, Australia	Offices	Leased	61,496
Chipping Norton, Australia	Ophthalmic laboratory	Leased	60,172
Revesby, Australia	Distribution center	Leased	61,054
Cincinnati (Ohio), United States		Leased	132,000

	Ophthalmic laboratory, warehouse, distribution center		
Dallas (Texas), United States	Ophthalmic laboratory, distribution center, office	Leased	128,869
Memphis (Tennessee), United States	Ophthalmic laboratory	Leased	59,350
Columbus (Ohio), United States(2)	Ophthalmic laboratory, distribution center	Leased	121,036
Knoxville (Tennessee), United States(1)	Ophthalmic laboratory	Leased	48,880
London (Hammersmith), UK	Offices	Leased	7,400

Dongguan, China (1)(3)	Office, manufacturing facility and land	Owned	3,589,116
Fukui, Japan	Offices, distribution center	Owned	45,364
Shanghai, China	Office, distribution center and warehouse	Leased	22,927
Bhiwadi, India	Manufacturing facility, corporate offices	Owned	343,474
Rovereto, Italy(2)	Frame manufacturing facility	Owned	228,902
Sedico, Italy(1)	Distribution center	Owned	392,312
Cencenighe, Italy	Semi-finished product manufacturing facility	Owned	59,892
Lauriano, Italy(2)	Frame and crystal lenses manufacturing facility	Owned	292,078
Pederobba, Italy(1)(2)(4)	Frame manufacturing facility	Owned	191,722
Sedico, Italy(1)	Frame manufacturing facility	Owned	342,830
Izmir, Turkey	Headquarters, offices, warehouse and frame manufacturing facility	Leased	92,750

(1) Such facility is comprised of several different premises located within the same municipality.

(2) Such facility was expanded during 2007.

(3) In May 2007, we began expanding and improving this facility, and we are adding a total of 528,376 square feet. The estimated expenditure for such expansion and improvement is approximately Euro 5.0 million, of which Euro 4.2 million has already been paid. Following the finalization of the expansion, scheduled for July 2008, we anticipate that production capacity at the facility will increase by 20%.

(4) 25,963 square feet of this facility are leased.

In 2007, our manufacturing facilities produced a combined total of approximately 41.8 million prescription frames and sunglasses, of which 0.8 million were attributable to the inclusion of prescription frames and sunglasses manufactured by Oakley since the acquisition date. In 2006 and 2005, our manufacturing facilities produced a combined total of approximately 37.0 million and 28.5 million prescription frames and sunglasses, respectively.

Substantially all of our retail stores are leased. See Products and Services Retail Operations above for more information about our retail locations and a breakdown of the geographic regions.

All of our leases expire between 2008 and 2025 and have terms that we believe are generally reasonable and reflective of market conditions.

We believe that our current facilities (including our manufacturing capacity) are adequate to meet our present and reasonably foreseeable needs. There are no encumbrances on any of our principal owned properties.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We operate in two industry segments: (i) manufacturing and wholesale distribution and (ii) retail distribution. Through our manufacturing and wholesale distribution segment, we are engaged in the design, manufacture, wholesale distribution and marketing of house brand and designer lines of mid- to premium-priced prescription frames and sunglasses. We operate in our retail segment principally through the key brands LensCrafters, Sunglass Hut, Pearle Vision and OPSM and our Licensed Brands (Sears Optical and Target Optical) and, since November 14, 2007, through Oakley s retail brands. As of December 31, 2007, the retail segment consisted of 5,885 corporate store retail locations and 522 franchised locations as follows:

	North America	Europe/ Middle East	Australia / New Zealand	China / Hong Kong	Other (7)	Total
LensCrafters	951			165		1,116
Sunglass Hut and ILORI (1)	1,738	110	287	6		2,141
Pearle Vision and Licensed Brands (2)	1,815					1,815
Oakley retail locations (3)	107				39	146
OPSM Group (4)			551			551
Other (5)			32	84		116
Franchised or Licensed Locations (6)	414		108			522
	5,025	110	978	255	39	6,407

(1) Includes Sunglass Icon locations.

(2) Licensed brands include Sears Optical, Target Optical and BJ s Optical (BJ s Optical license terminated in March 2008).

(3) Includes Oakley Stores, Oakley Vaults, The Optical Shop of Aspen and Oliver Peoples.

(4) Includes OPSM, Laubman & Pank and Budget Eyewear.

(5) Includes Bright Eyes.

(6) Includes Pearle Vision, Sunglass Icon and Bright Eyes franchised and licensed locations.

(7) Includes Oakley stores in Japan and South America.

LensCrafters, ILORI, Pearle Vision, our Licensed Brands (Sears Optical and Target Optical), as well as the retail brands we acquired with Oakley (Oakley Stores and Vaults, Sunglass Icon, The Optical Shop of Aspen and Oliver Peoples), have retail distribution operations located throughout the United States, Canada and Puerto Rico, while OPSM, Laubman & Pank, Budget Eyewear and Bright Eyes operate retail outlets located in Australia and New Zealand. Sunglass Hut is a leading retailer of sunglasses worldwide based on sales. In 2006, we began operating retail locations in mainland China and currently we have rebranded 165 locations to our premium LensCrafters brand in mainland China and Hong Kong. Our net sales consist of direct sales of finished products manufactured with our own brand names or our licensed brands to opticians and other independent retailers through our wholesale distribution channel and sales directly to consumers through our retail division retail channel. Our average retail unit selling price is significantly

higher than our average wholesale unit selling price, as our retail sales typically include lenses as well as frames.

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

As a result of our acquisition of LensCrafters in May 1995 and the subsequent expansion of our business activities in the United States through the acquisitions of the Ray-Ban business, Sunglass Hut, Pearle Vision and the Licensed Brands business and Oakley, our results of operations, which are reported in Euro, have been rendered more susceptible to currency rate fluctuations between the Euro and the U.S. dollar. The Euro/U.S. dollar exchange rate has fluctuated from an average exchange rate of Euro 1.00 = U.S.$1.2444 in 2005 to Euro 1.00 = U.S.$1.2553 in 2006 to Euro 1.00 = U.S.$1.3705 in 2007. Additionally, with the acquisition of OPSM and Bright Eyes (acquired through Oakley), our results of operations have been rendered susceptible to currency fluctuations between the Euro and the Australian dollar. Although we engage in certain foreign currency hedging activities to mitigate the impact of these fluctuations, they have impacted our reported revenues and expenses during the periods discussed herein. See Item 11 Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Sensitivity and Item 3 Key Information Risk Factors If the Euro continues to strengthen relative to certain other currencies, our profitability as a consolidated group will suffer.

The Oakley Merger

On November 14, 2007, we completed the merger with Oakley, for a total purchase price of approximately U.S.$2.1 billion. In accordance with the terms of the merger agreement, Oakley s outstanding shares of common stock were converted into the right to receive U.S.$29.30 per share in cash and Oakley became an indirect wholly-owned subsidiary of Luxottica. The merger was accounted for as a business combination for accounting purposes. For additional information, see Note 5 to our Consolidated Financial Statements included in Item 18 of this annual report.

We believe that our combination with Oakley will:

- leverage our brand portfolio through global exposure for all Oakley owned and licensed brands and by selectively applying active lifestyle and account merchandising optimization;
- strengthen our international sales through significant opportunities in Europe and emerging markets, complementary sales structures in many different markets and the realization of economies of scale;
- strengthen our trade channels through Oakley s experience in the active lifestyle and sports performance channels and Luxottica s experience in the optical channel, as well as through the global key account management and department store dedicated structure;
- strengthen our retail operations through the optimization of sales of all our brands through Luxottica s and Oakley s retail chains and improved consumer reach through enhanced positioning of sun retail brands;
- combine Luxottica s and Oakley s areas of expertise, developing Oakley s women s and prescription eyewear offerings as a result of Luxottica s expertise, blending performance and luxury/fashion, creating new eyewear solutions to serve new customer needs and applying Oakley brand-building and grass-roots marketing approaches to other portfolio brands;
- improve lens technology through the extension of Oakley s best-in-class research and development capabilities, new opportunities in prescription sun lenses and sourcing benefits; and
- strengthen our sourcing through greater scale, new worldwide opportunities and a faster time to market.

In connection with the acquisition, we increased our outstanding debt by approximately U.S. $2.2 billion.

Since the consummation of the acquisition, we have begun to implement our strategic integration plan with respect to Oakley. We immediately launched a full portfolio of project tasks, with specific objectives, dedicated joint teams and designated accountabilities to address key integration and synergy areas, with direct significant involvement of our top management.

We expect that our integration with Oakley will result in synergies in the following areas:

- international wholesale development;

- developments related to specific brands (especially Revo and Arnette);
- sourcing retail operations synergies in the key markets of North America and Asia-Pacific; and
- general and administrative expenses.

Currently, all integration project activities are proceeding substantially according to the plan. In particular, specific integration tasks have been completed, including the integration of the retail operations in North America, the integration of the Oakley dedicated sales force and marketing within the Luxottica commercial infrastructure in selected European countries and joint sourcing initiatives, while others are in the implementation or detailed planning phase and are expected to be executed within the planned timeframe.

We expect that the transaction will result in approximately Euro 100 million per year in operating synergies within three years of the completion of the merger, driven by revenue growth and efficiencies. We expect to realize approximately Euro 20 million, Euro 60 million and Euro 100 million of operating synergies in 2008, 2009 and 2010, respectively. We are currently on schedule to realize the initial estimate of such operating synergies. In addition, we anticipate incurring approximately Euro 30 million in one-time charges related to the acquisition and integration, spread out over a two-year period, beginning in 2008.

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

- difficulty in integrating the newly-acquired business and operations in an efficient and effective manner;
- inability to achieve strategic objectives, cost savings and other benefits from the acquisition;
- the loss of key employees of the acquired business;
- the diversion of the attention of senior management from our operations;
- liabilities that were not known at the time of acquisition or the need to address tax or accounting issues;
- difficulty integrating Oakley s human resources systems, operating systems, inventory management systems, and assortment planning systems with our systems; and
- the cultural differences between our organization and Oakley s organization.

Critical Accounting Policies

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

Revenue Recognition

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

Revenue is recognized when it is realized or realizable and earned. Revenue is considered to be realized or realizable and earned when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured.

In some countries, the wholesale and retail divisions offer the customer the right to return products for a limited period of time after the sale. However, such right of return does not impact the timing of revenue recognition as all conditions of SFAS No. 48, Revenue Recognition When Right of Return Exists, are satisfied at the date of sale. We have estimated and accrued for the amounts to be returned in the subsequent period. This estimate is based on our right of return policies and practices along with historical data, sales trends and the timing of returns from the original transaction date when applicable. Changes to these policies and practices or a change in the trend of returns could lead to actual returns being different from the amounts estimated and accrued.

Also included in retail division revenues are managed vision care revenues consisting of (i) insurance revenues which are recognized when earned over the terms of the respective contractual relationships and (ii) administrative services revenues which are recognized when services are provided during the contract period. Accruals are established for amounts due under these relationships determined to be uncollectible. Our insurance contracts require us to estimate the potential costs and exposures over the life of the agreement such that the amount charged to the customers will cover these costs. To mitigate the exposure risk, these contracts are usually short-term in nature. However, if we do not accurately estimate the future exposure and risks associated with these contracts, we may suffer losses as we would not be able to cover our costs incurred with revenues from the customer.

Income Taxes

Income taxes are recorded in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined

based on the difference between the consolidated financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. These estimated tax rates and the deferred tax assets, including valuation allowances placed upon those deferred tax assets, and liabilities recorded are based on information available at the time of calculation. This information is subject to change due to subsequent tax audits performed by different taxing jurisdictions and changes in corporate structure not contemplated at the time of calculation, as well as various other factors.

As of January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. In addition, it provides additional requirements regarding measurement, de-recognition, disclosure, interest and penalties and classification. FIN 48 must be applied to all existing tax positions for all open tax periods as of the date of adoption (see Note 8 to our Consolidated Financial Statements included in Item 18 of this annual report for a tabular reconciliation of uncertain tax positions). The cumulative effect of adoption of FIN 48 of Euro 8.1 million was recorded as a reduction to retained earnings on the date of adoption. This information is subject to change due to subsequent tax audits, lapse of open tax periods as well as various other factors.

Inventories

Our manufactured inventories were approximately 66.2 percent and 66.7 percent of total frame inventory for 2007 and 2006, respectively. All inventories at December 31, 2007 were valued using the lower of cost, as determined under a weighted-average method, or market. Inventories are recorded net of allowances for possible losses. These reserves are calculated using various factors including sales volume, historical shrink results, changes in market conditions and current trends. In addition, production schedules are made on similar factors which, if not estimated correctly, could lead to the production of potentially obsolete inventory. As such, actual results could differ significantly from the estimated amounts.

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

In connection with various acquisitions, we have recorded as intangible assets certain goodwill, trade names and certain other identifiable intangibles. At December 31, 2007, the aggregate carrying value of intangibles, including goodwill, was approximately Euro 3.9 billion or approximately 54.6 percent of total assets.

As acquisitions are an important element of our growth strategy, valuations of the assets acquired and liabilities assumed on the acquisition dates could have a significant impact on our future results of operations. Fair values of those assets and liabilities on the date of the acquisition could be based on estimates of future cash flows and operating conditions for which the actual results may vary significantly. This may lead to, among other items, impairment charges and payment of liabilities different than amounts originally recorded, which could have a material impact on future operations.

SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), sets forth requirements relating to accounting for ongoing intangibles. Under SFAS No. 142, goodwill and intangible assets deemed to have an indefinite life are no longer amortized in the same manner as under the previous standards, but rather are tested for impairment annually and, under certain circumstances, between annual periods. An impairment charge will be recorded if the fair value of goodwill and other intangible assets is less than the carrying value. The calculation of fair value may be based on, among other items, estimated future cash flows if quoted market prices in active markets are not available. We test our goodwill for

impairment annually as of December 31 of each year and any other time a condition arises that may cause us to believe that an impairment has occurred. Since impairment tests use estimates of the impact of future events, actual results may differ and we may be required to record an impairment in future years.

Intangibles subject to amortization based on a finite useful life continue to be amortized on a straight-line basis over their useful lives. Our long-lived assets, other than goodwill, are tested for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, we measure impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted future cash flows were less than the carrying amount of the assets, we would recognize an impairment loss, if determined to be necessary. Actual results may differ from our current estimates.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The guidance in SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We are currently assessing the impact of SFAS 161.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51*, establishing new accounting and reporting standards for noncontrolling interests (formally known as minority interests) in a subsidiary and, when applicable, how to account for the deconsolidation of such subsidiary. Among its key changes, SFAS 160 provides that noncontrolling interests will be recorded as a component of equity, that the consolidated income statements and statements of comprehensive income will be adjusted to include the noncontrolling interest and that certain disclosures are to be updated. The statement is effective for the fiscal years and interim periods within those years beginning on or after December 15, 2008. Earlier adoption is prohibited. We have minority interests in certain subsidiaries and as such are currently evaluating the effect of adoption.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations-Revised* (SFAS 141(R)), which revises SFAS 141. The significant changes include a change from the cost allocation process to determine the value of assets and liabilities to a full fair value measurement approach. In addition, acquisition-related expenses will be expensed as incurred and not included in the purchase price allocation, and contingent liabilities will be separated into two categories - contractual and non-contractual and accounted for based on the category into which the contingency falls. This statement applies prospectively and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Since it will be applied prospectively, it will not have an effect on the current financial statements; however, since we participate in numerous business combinations annually, we believe this statement after the adoption date will have a significant effect on future operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which allows us to record at fair value financial assets and liabilities, with any changes being recorded in earnings. This can be done on an instrument-by-instrument basis in most circumstances, is irrevocable after election for that instrument and must be applied to the entire instrument. The adoption of such standard is effective for fiscal years beginning after November 15, 2007 and is not expected to have a material effect on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which establishes a definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require new fair value measurements but clarifies the definition, method and disclosure requirements of previously issued standards that address fair value measurements. Additionally, in February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2 (FSP 157-2), which delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 and interim periods with those fiscal years for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until January 1, 2009 for calendar year-end entities. We will adopt this Statement except as it applies to nonfinancial assets and liabilities as noted in FSP 157-2 beginning in fiscal year 2008. We are currently evaluating the effect that the adoption of SFAS No. 157, as it relates to nonfinancial assets and liabilities, will have on our results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, which requires us to recognize an asset or liability for the funded status (the difference between the fair value of plan assets and benefit obligation, which for defined benefit pension plans is deemed to be the projected benefit obligation) of its retirement plans and recognize changes in the funded status annually through other comprehensive income (loss). The statement also changes the date in which the funded status can be measured (eliminating the 90-day window) with limited exceptions. The effective date of the recognition of the funded status is for years ending after December 15, 2006. See Note 10 to our Consolidated Financial Statements included in Item 18 of this annual report for the effect of adoption. The effective date for the change in acceptable measurement date is for fiscal years ending after December 15, 2008. We are currently evaluating the impact of changing the measurement date on our consolidated financial statements.

Results of Operations

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

	Year Ended December 31,		
	2007	**2006(1)**	**2005(1)**
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	31.7	31.8	33.2
Gross Profit	68.3	68.2	66.8
Operating Expenses:			
Selling and Advertising	41.7	41.7	42.5
General and Administrative	9.8	10.4	10.3
Total	51.5	52.0	52.7
Income From Operations	16.8	16.2	14.1
Other Income (Expense) Net	(1.1)	(1.7)	(1.0)
Provision For Income Taxes	(5.5)	(5.1)	(4.8)
Minority Interests in Income of Consolidated Subsidiaries	(0.3)	(0.2)	(0.2)
Net Income From Continuing Operations	9.9	9.2	8.0
Discontinued Operations	0.0	(0.1)	0.3
Net Income	9.9	9.1	8.3

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(1) Results of Things Remembered, our former specialty gift business, which was sold in September 2006, are reclassified as discontinued operations and are not included in results from continuing operations for 2006 and 2005.

For additional financial information by operating segment and geographic region, see Note 13 to our Consolidated Financial Statements included in Item 18 of this annual report.

Comparison of the fiscal year ended December 31, 2007 to the fiscal year ended December 31, 2006

Net Sales. Net sales increased by Euro 289.9 million, or 6.2 percent, to Euro 4,966.1 million during 2007 from Euro 4,676.2 million in 2006. Of such increase, Euro 87.0 million is attributable to the inclusion of net sales of Oakley for the period from November 14, 2007, which was the date of the closing of the Oakley acquisition (acquisition date), until the end of the year. The remaining increase in net sales primarily resulted from the strong performance of the manufacturing and wholesale segment, which was partially offset by Euro 36.7 million in negative currency fluctuations between the Euro, which is our reporting currency, and other currencies in which we conduct our business, particularly the U.S. dollar.

Net sales in the retail segment decreased by Euro 31.9 million, or 1.0 percent, to Euro 3,262.3 million in 2007 from Euro 3,294.2 million in 2006. The decrease in net sales for the period is primarily attributable to the strengthening of the Euro, mainly versus the U.S. dollar, which decreased net sales for the period by Euro 250.1 million. The net decrease in sales created by the foreign currency fluctuations offset the growth

in net sales in 2007 mainly due to the following: (i) a Euro 28.5 million increase attributable to the inclusion of Oakley s net sales related to its retail operations for the period from the acquisition date; (ii) a 0.2 percent increase in same-store sales; (iii) the addition of Euro 15.4 million in sales from the approximately 70 new Canadian retail stores which were acquired in June 2006, and therefore owned for only a portion of 2006; (iv) the addition of Euro 44.5 million in sales from approximately 90 new U.S. retail stores which were acquired in February 2007; and (v) a Euro 62.9 million increase in net sales from the Asia-Pacific retail business, of which Euro 15.8 million in net sales was due to the newly acquired stores in China and the remaining amount was mainly attributable to sales growth in Asia-Pacific.

Net sales to third parties in the manufacturing and wholesale segment increased by Euro 321.8 million, or 23.3 percent, to Euro 1,703.8 million in 2007 from Euro 1,382.0 million in 2006. Of such increase, Euro 58.5 million is attributable to the inclusion of Oakley net sales for the period from the acquisition date, and the remaining increase was mainly attributable to increased sales of our Ray-Ban brand as well as the continued success of sales of branded products of our designer lines, such as Prada, Dolce & Gabbana, Versace and Bvlgari, and the launch of new products from our license agreements with Burberry and Ralph Lauren. These increases occurred primarily in the European and North American markets, which, together, accounted for approximately 78.1 percent and 78.5 percent of our net sales to third parties in our manufacturing and wholesale segment in 2007 and 2006, respectively. This increase was partially offset by the strengthening of the Euro, mainly versus the U.S. dollar, which decreased net sales by Euro 46.5 million.

During 2007, net sales in the retail segment accounted for approximately 65.7 percent of total net sales, as compared to approximately 70.4 percent of net sales in 2006. This decrease in retail net sales as a percentage of total net sales is primarily

attributable to a significant increase in net sales to third parties in our manufacturing and wholesale segment, which grew by 23.3 percent in 2007, and to negative currency effects, which primarily affected net sales in the retail segment, which are primarily concentrated in North America, Australia and China, where the Euro is not the functional currency.

On a geographic basis, which includes Oakley from the date of acquisition, combined retail and manufacturing and wholesale operations in the United States and Canada comprised 61.5 percent, or Euro 3,053.6 million, of total net sales in 2007, which decreased as compared to net sales in the United States and Canada of Euro 3,076.4 million in 2006, mainly due to the negative impact of the strengthening of the Euro compared to the U.S. dollar. Net sales for operations in Asia-Pacific comprised 11.8 percent of total net sales and totaled Euro 584.2 million in net sales during 2007, as compared to Euro 498.4 million in 2006, which represented a 17.2 percent increase in net sales, mainly due to the newly acquired stores in China. Net sales for the rest of the world comprised 26.7 percent of total net sales and accounted for Euro 1,328.3 million of net sales during 2007, which represented an increase in net sales of Euro 226.9 million or 20.6 percent as compared to 2006. The increase in net sales for the rest of the world was primarily attributable to strong performance in almost all major European markets.

During 2007, net sales to third parties in our manufacturing and wholesale segment in Europe comprised 59.9 percent of our total net sales in this segment and experienced an increase of 20.2 percent from Euro 849.8 million in 2006 to Euro 1,021.1 million in 2007. Net sales to third parties in our manufacturing and wholesale segment in the United States and Canada comprised 18.1 percent of our total net sales in this segment in 2007 and experienced an increase in its local currency of 44.6 percent from U.S.$295.5 million in 2006 to U.S.$427.2 million in 2007. In Euro, net sales in the United States and Canada increased by 31.3 percent because the local currency increase was offset by the strengthening of the Euro compared to the U.S. dollar. Net sales to third parties in our manufacturing and wholesale segment in the rest of the world comprised 21.9 percent of our total net sales in this segment and experienced an increase of 25.9 percent from Euro 296.8 million in 2006 to Euro 373.5 million in 2007.

During 2007, net sales in the retail segment in the United States and Canada comprised 84.1 percent of our total net sales in this segment. In Euro, net sales in the United States and Canada decreased by 3.4 percent because the local currency increase was offset by the strengthening of the Euro compared to the U.S. dollar. In U.S. dollars, retail net sales in the United States and Canada experienced an increase of 5.5 percent from U.S.$3,566.4 million in 2006 to U.S.$3,763.7 million in 2007. Net sales in the retail segment in the rest of the world comprised 15.9 percent of our total net sales in this segment and experienced an increase of 14.3 percent from Euro 453.2 million in 2006 to Euro 517.9 million in 2007.

Cost of Sales. Cost of sales increased by Euro 87.9 million, or 5.9 percent, to Euro 1,575.6 million in 2007, from Euro 1,487.7 million in 2006, primarily attributable to our overall sales growth and the inclusion of Oakley s cost of sales for the period from the acquisition date of Euro 37.6 million. As a percentage of net sales, cost of sales decreased to 31.7 percent in 2007, as compared to 31.8 percent in 2006. In 2007, excluding the frames manufactured at our acquired Oakley facilities, the average number of frames produced daily in our facilities increased to approximately 175,800, as compared to 154,900 in 2006, which was attributable to increased production in both the Italian and Chinese manufacturing facilities.

Gross Profit. Our gross profit increased by Euro 202.0 million, or 6.3 percent, to Euro 3,390.4 million in 2007 from Euro 3,188.5 million in 2006, of which Euro 49.3 million is attributable to the inclusion of Oakley s gross profit for the period from the acquisition date. As a percentage of net sales, gross profit increased to 68.3 percent in 2007 from 68.2 percent in 2006.

Operating Expenses. Total operating expenses increased by Euro 124.7 million, or 5.1 percent, to Euro 2,557.1 million in 2007 from Euro 2,432.5 million in 2006, of which Euro 45.6 million is attributable to the inclusion of Oakley s operating expenses for the period from the acquisition date. As a percentage of net sales, operating expenses decreased to 51.5 percent in 2007 from 52.0 percent in 2006 primarily due to the maintenance of strong cost controls in our manufacturing and wholesale segment.

Selling and advertising expenses (including royalty expenses) increased by Euro 120.8 million, or 6.2 percent, to Euro 2,069.3 million in 2007 from Euro 1,948.5 million in 2006, primarily due to increases in sales, for which we were required to pay additional commissions to sales associates and royalty expenses to designers of our licensed brands of Euro 65.7 million and Euro 25.1 million, respectively. Euro 28.7 million of the increase is attributable to the inclusion of Oakley s selling and advertising expenses (including royalty expenses) for the period from the acquisition date. As a percentage of net sales, selling and advertising expenses remained flat at 41.7 percent both in 2007 and in 2006.

General and administrative expenses, including intangible asset amortization, increased by Euro 3.8 million, or 0.8 percent, to Euro 487.8 million in 2007 from Euro 484.0 million in 2006, primarily due to an increase of Euro 16.9 million attributable to

the inclusion of Oakley general and administrative expenses, including intangible asset amortization, for the period from the acquisition date and was partially offset by a one time gain of Euro 20.0 million due to a real estate sale in Milan, Italy in May. As a percentage of net sales, general and administrative expenses decreased to 9.8 percent in 2007 from 10.4 percent in 2006.

Income from Operations. For the reasons described above, income from operations in 2007 increased by Euro 77.3 million, or 10.2 percent, to Euro 833.3 million from Euro 756.0 million in 2006, of which Euro 3.7 million is attributable to the inclusion of Oakley s income of operations for the period from the acquisition date. As a percentage of net sales, income from operations increased to 16.8 percent in 2007 from 16.2 percent in 2006. Income from operations without the one-time gain from the real estate sale described in the previous paragraph would have been equal to Euro 813.3 million, or 16.4 percent of net sales, with an increase of Euro 57.3 million, or 7.6 percent, as compared to 2006.

Other Income (Expense) Net. Other income (expense) - net was Euro (52.6) million in 2007 as compared to Euro (77.8) million in 2006, of which Euro (10.9) million is attributable to the inclusion of Oakley s other income (expense) - net for the period from the acquisition date. This decrease in net expense is mainly attributable to a net realized and unrealized foreign exchange transaction and remeasurement gain in 2007 as compared to a loss in 2006. Net interest expense was Euro 72.4 million in 2007 as compared to Euro 60.8 million in 2006, attributable to an increase in outstanding indebtedness.

Net Income from Continuing Operations. Income before taxes increased by Euro 102.5 million, or 15.1 percent, to Euro 780.7 million in 2007 from Euro 678.2 million in 2006, despite the inclusion of Oakley s income before taxes for the period from the acquisition date of Euro (7.2) million. We expect Oakley in future periods to have a positive impact on net income from continuing operations. As a percentage of net sales, income before taxes increased to 15.7 percent in 2007 from 14.5 percent in 2006. Minority interests increased to Euro 15.0 million in 2007 from Euro 8.7 million in 2006. Our effective tax rate was 35.0 percent in 2007, as compared to 35.2 percent in 2006.

Net income from continuing operations increased by Euro 61.5 million, or 14.3 percent, to Euro 492.2 million in 2007 from Euro 430.7 million in 2006, despite the inclusion of Oakley s net income for the period from the acquisition date of Euro (4.7) million. Net income from continuing operations as a percentage of net sales increased to 9.9 percent in 2007 from 9.2 percent in 2006.

Basic earnings per share from continuing operations were Euro 1.08 in 2007 as compared to Euro 0.95 in 2006. Diluted earnings per share from continuing operations were Euro 1.07 in 2007 as compared to Euro 0.94 in 2006.

Discontinued Operations. Discontinued operations resulted in a loss in 2006 mainly due to the seasonal nature of the operations of the discontinued Things Remembered business, in which substantially all operational profits were realized during the second and fourth quarters. The operations were sold before the fourth quarter of 2006.

Net Income. Net income increased by Euro 67.9 million, or 16.0 percent, to Euro 492.2 million in 2007 from Euro 424.3 million in 2006. Net income as a percentage of net sales increased to 9.9 percent in 2007 from 9.1 percent in 2006.

Basic earnings per share were Euro 1.08 in 2007 as compared to Euro 0.94 in 2006. Diluted earnings per share were Euro 1.07 in 2007 as compared to Euro 0.93 in 2006.

Comparison of the fiscal year ended December 31, 2006 to the fiscal year ended December 31, 2005

Net Sales**.** Net sales increased 13.1 percent to Euro 4,676.2 million during 2006 as compared to Euro 4,134.3 million in 2005. The increases in our net sales primarily resulted from the strong performance in both the retail and the manufacturing and wholesale segments, which was partially offset by approximately Euro 34.9 million (equivalent to 0.9 percent) in negative currency fluctuations between the Euro, which is our reporting currency, and other currencies in which we conduct our business, including the U.S. dollar and the Australian dollar. After the effect of currency fluctuations, the manufacturing and wholesale segment had an increase in net sales to third parties of approximately Euro 307.0 and the retail segment had an increase in net sales to third parties of approximately Euro 234.9 million. Currency fluctuations offset the net sales for the manufacturing and wholesale segment by approximately Euro 1.9 million and by approximately Euro 33.0 million for the retail segment.

Net sales in the retail segment increased by 7.6 percent to Euro 3,294.2 million for 2006 from Euro 3,061.7 million in 2005. Euro 208.1 million of this increase was attributable to the positive performance of the North American retail operations primarily due to: (i) a 7.1 percent increase in same-store sales; and (ii) the addition of U.S.$26.7 million in sales from the approximately 70 new Canadian retail outlets which were acquired in June 2006, which was partially offset by a

negative exchange rate effect of Euro 25.0 million. An additional Euro 20.2 million of the increase was attributable to an increase in net sales in the Asia-Pacific retail business, primarily due to Euro 11.3 million in additional net sales contributed by the newly acquired stores in China.

Net sales to third parties in the manufacturing and wholesale segment increased by 28.6 percent to Euro 1,382.0 million for 2006 as compared to Euro 1,075.0 million in 2005. This increase was mainly attributable to increased sales of our Ray-Ban brand as well as the continued success of sales of branded products of our designer lines, such as Prada and Bvlgari, and the continued development of new branded products such as Dolce & Gabbana (which we began distributing in October 2005). These increases occurred primarily in the European and North American markets, which account for approximately 78.5 percent of our net sales to third parties in our manufacturing and wholesale segment.

On a geographic basis, combined retail and manufacturing and wholesale operations in the United States and Canada resulted in net sales of Euro 3,076.4 million in 2006, comprising 65.8 percent of total net sales and an increase of Euro 264.5 million or 9.4 percent as compared to 2005. Net sales for operations in Asia-Pacific were Euro 498.4 million during 2006 as compared to Euro 461.2 million in 2005, which represented an 8.1 percent increase in net sales. Net sales for the rest of the world accounted for the remaining Euro 1,101.4 million of net sales during 2006, which represented a 27.9 percent increase in net sales as compared to 2005. The increase in the rest of the world was primarily attributable to strong performance in almost all major European markets that led to an increase in sales of Euro 190.4 million in 2006 as compared to 2005.

During 2006, net sales in the retail segment accounted for approximately 70.4 percent of total net sales, as compared to approximately 74.0 percent of net sales in 2005. This decrease in retail net sales as a percentage of total net sales is attributable to a significant increase in net sales to third parties in our manufacturing and wholesale segment, which grew by 28.6 percent in 2006.

Cost of Sales. Cost of sales increased by 8.3 percent to Euro 1,487.7 million in 2006, from Euro 1,373.1 million in 2005, primarily attributable to our overall sales growth. As a percentage of net sales, cost of sales decreased to 31.8 percent from 33.2 percent. This decrease as a percentage of net sales was primarily attributable to the change in sales mix resulting from increased sales of our Ray-Ban brand and sales of branded products of our designer lines, Prada, Bvlgari and Dolce & Gabbana, which carry a higher gross margin than other lines, increased efficiency in our manufacturing facilities leveraging the fixed cost structure to produce more frames, and increased production to cover the additional demand for our products. In 2006, the average number of frames produced daily in Luxottica s facilities was approximately 154,900 as compared to 115,000 for the same period of 2005, attributable to increased production in the Tristar facility, as well as improved productivity in our Italian factories.

Gross Profit. For the reasons described above, gross profit increased by 15.5 percent to Euro 3,188.5 million in 2006 from Euro 2,761.2 million in 2005. As a percentage of net sales, gross profit increased to 68.2 percent in 2006 from 66.8 percent in 2005, primarily due to the increase in gross profit of the manufacturing and wholesale segment.

Operating Expenses. Total operating expenses increased by 11.6 percent to Euro 2,432.5 million in 2006 from Euro 2,179.8 million in 2005. As a percentage of net sales, operating expenses decreased to 52.0 percent in 2006 from 52.7 percent in 2005 primarily attributable to the increase in net sales while maintaining strong cost controls in both our manufacturing and wholesale and our retail segments.

Selling and advertising expenses (including royalty expenses) increased by 11.0 percent to Euro 1,948.5 million in 2006, from Euro 1,755.5 million in 2005, primarily due to increased net sales. As a percentage of net sales, selling and advertising expenses decreased to 41.7 percent in 2006 from 42.5 percent in 2005, primarily attributable to a reduced commissions percentage relative to sales earned by the wholesale sales force and to lower store costs in the North American retail business leveraging the fixed cost store structure by an increase in same store sales. As we integrate the newly acquired stores in both Canada and China, we expect to further realize a reduction in selling expenses as a percentage of sales.

General and administrative expenses, including intangible asset amortization, increased by 14.1 percent to Euro 484.0 million in 2006 from Euro 424.3 million in 2005. This includes approximately Euro 48.0 million of expense relating to stock options expensed in accordance with SFAS No. 123(R), which we adopted on January 1, 2006, as compared to Euro 22.7 million in 2005 (calculated according to APB 25). As a percentage of net sales, general and administrative expenses increased to 10.4 percent in 2006 from 10.3 percent in 2005.

Income from Operations. For the reasons described above, income from operations for 2006 increased by 30.0 percent to Euro 756.0 million from Euro 581.4 million in 2005. As a percentage of net sales, income from operations increased to 16.2 percent in 2006 from 14.1 percent in 2005.

Operating margin, which is income from operations divided by net sales, in the manufacturing and wholesale segment increased to 26.0 percent in 2006 from 23.2 percent in 2005. This increase in operating margin is attributable to lower sales commissions as a percentage of sales and higher gross profit due to a more favorable brand mix, partially offset by higher advertising expenses (including royalty expenses).

Operating margin in the retail segment increased to 13.1 percent in 2006 from 11.6 percent in 2005. This increase in operating margin is attributable to lower store costs in the North American retail business, as well as increased net sales in the North American retail business due to the fixed cost store structure.

Other Income (Expense)-Net. Other income (expense)-net was Euro (77.8) million in 2006 as compared to Euro (42.1) million in 2005. This increase in other income (expense)-net is mainly attributable to net realized and unrealized foreign exchange transaction and remeasurement losses in 2006 as compared to gains on similar items in 2005. Net interest expense was Euro 60.8 million in 2006 as compared to Euro 60.5 million in 2005 attributable to an increase in interest rates which offset a decrease in outstanding indebtedness.

***Net Income from Continuing Operations*.** Income before taxes increased by 25.7 percent to Euro 678.2 million in 2006 from Euro 539.3 million in 2005. As a percentage of net sales, income before taxes increased to 14.5 percent in 2006 from 13.0 percent in 2005. Minority interest decreased to Euro 8.7 million in 2006 from Euro 9.3 million in 2005. The Company s effective tax rate was 35.2 percent in 2006, as compared to 37.0 percent in 2005 due to a reduction in taxes in foreign jurisdictions. The most significant portion of the benefit is due to the adoption in Australia of a consolidated tax regime, which resulted in an increase in the tax basis of certain assets. We have completed our evaluation of the impact of adoption of FIN 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. See Income Taxes above for a more detailed discussion.

Net income from continuing operations increased by 30.2 percent to Euro 430.7 million in 2006 from Euro 330.8 million in 2005. Net income from continuing operations as a percentage of net sales increased to 9.2 percent in 2006 from 8.0 percent in 2005.

Basic earnings per share from continuing operations for 2006 were Euro 0.95 as compared to Euro 0.73 in 2005. Diluted earnings per share from continuing operations for 2006 were Euro 0.94 as compared to Euro 0.73 in 2005.

Discontinued Operations. Discontinued operations resulted in income in 2005 and a loss in 2006 mainly attributable to the seasonal nature of the operations of the Things Remembered discontinued business, which results in substantially all operational profits being realized during the fourth quarter. The operations were sold before the fourth quarter of 2006. In addition, the sale resulted in an accrual recorded by the Company for a potential tax liability.

Net Income. Net income increased by 24.0 percent to Euro 424.3 million in 2006 from Euro 342.3 million in 2005. Net income as a percentage of net sales increased to 9.1 percent in 2006 from 8.3 percent in 2005.

Basic earnings per share for 2006 were Euro 0.94 as compared to Euro 0.76 in 2005. Diluted earnings per share for 2006 were Euro 0.93 as compared to Euro 0.76 in 2005.

Taxes

Our effective tax rates for the fiscal years ended December 31, 2007, 2006 and 2005 were approximately 35.0 percent, 35.2 percent and 37.0 percent, respectively. For fiscal year 2007, we received a tax benefit of 5.3 percent related to the business reorganization of certain Italian companies resulting in the release of deferred tax liabilities, which was partially offset by an increase of 2.1 percent in our 2007 tax liability due to the change in the Italian statutory tax rates. For fiscal year 2006, the tax rate included the results from the adoption of a change in the tax law in Australia, which introduced a tax consolidation regime for wholly-owned group entities. The tax consolidation rules effectively pushed down the cost of acquiring an entity (or group of entities) to the assets that the entity (or group) owns. This results in the resetting of the cost basis of the assets for tax purposes and, for OPSM, in the related increases in fixed assets and intangibles as of the date of tax consolidation in December 2006, when OPSM filed its consolidated 2005 tax return, providing a one-time permanent benefit to the tax provision. For fiscal year 2005, we received a net permanent benefit caused by our compliance with an Italian law that allows for the step up in tax basis of certain intangible assets, which benefit offset the aggregate effect of different rates in foreign jurisdictions.

Liquidity and Capital Resources

Cash Flows

Operating Activities. The Company s cash provided by operating activities was Euro 342.8 million, Euro 603.3 million and Euro 605.7 million for 2007, 2006 and 2005, respectively. The Euro 260.5 million decrease in 2007 as compared to 2006 was primarily attributable to advance payments from us of U.S.$199.0 million to a certain designer for future contracted minimum royalties in January 2007 and to payments for income taxes which in 2007 generated a cash out-flow of approximately Euro 92.1 million in 2007. The Euro 2.4 million decrease in 2006 as compared to 2005 was primarily attributable to increased net income, partially offset by advance payments we made to a certain designer for future contracted minimum royalties, increases in accounts receivable and inventory and tax payments to comply with an Italian tax law allowing for the step-up in tax basis of certain intangible assets.

Depreciation and amortization were Euro 232.8 million in 2007 as compared to Euro 220.8 million in 2006. This increase was primarily attributable to increased fixed assets due to the acquisition of new stores that occurred in 2007, new investments (mainly leasehold improvements) in the wholesale segment and the acquisition of Oakley, which accounted for a Euro 7.7 million increase from the acquisition date.

Deferred taxes were Euro 45.0 million in 2007 as compared to Euro 72.5 million in 2006. This decrease was primarily attributable to the reorganization of certain Italian subsidiaries which resulted in the release of deferred tax liabilities, partially offset by the increase in our 2007 tax liability due to the change in the Italian statutory tax rates, which resulted in the reduction of deferred tax assets. Non-cash stock-based compensation expenses were Euro 42.1 million as compared to Euro 48.0 million in 2006. The decrease was primarily attributable to the completion in 2006 of the vesting period of the 2004 performance plan (expenses associated with this plan were none in 2007 and Euro 24.5 million in 2006), partially offset by the recognition of a full year of expense for the two 2006 performance plans granted in the second half of 2006 (expenses associated with these plans were Euro 34.1 million in 2007 and Euro 17.6 million in 2006). The lower increase in accounts receivable of Euro 55.7 million in 2007 as compared to Euro 83.1 million in 2006 was mainly due to the improvement of DSO (days of sale outstanding) in the wholesale segment. The inventory increase of Euro 41.9 million in 2007 (Euro 27.7 million in 2006) was mainly due to the growth in the inventory level caused by the slowdown in net sales experienced in the last months of the year. The decrease in accounts payable by Euro 31.0 million in 2007 was mainly caused by an improvement in the payment terms negotiated in 2006 with some vendors which accounted for the 2006 increase in accounts payable. Accrued expenses and other were Euro 9.4 million in 2007 as compared to Euro 25.2 million in 2006. The decrease was mainly due to the discontinuance in 2006 of the extended warranty sold separately by the retail division in North America. The decrease in income tax payable of Euro 92.1 million (increase of Euro 5.9 million in 2006) was primarily attributable to the timing of tax payments executed in 2007 as compared to 2006.

Investing Activities. The Company s cash used in investing activities was Euro 1,800.0 million, Euro 263.7 million and Euro 166.4 million in 2007, 2006 and 2005, respectively. The increase of Euro 1,536.3 million in 2007 as compared to 2006 was primarily attributable to the acquisition of Oakley which occurred in November 2007, for a total purchase price of US $2.1 billion, partially offset by the sale of Things Remembered, which occurred in 2006 and which generated a cash inflow of approximately Euro 128 million in 2006. Total 2007 acquisitions, net of the acquired cash and cash equivalents, generated a cash outflow of Euro 1,491.1 million and was mainly due to the Oakley acquisition, as well as the acquisition of the D.O.C Optics optical retail business for approximately Euro 83.7 million (U.S.$110.2 million) in cash, the acquisition of two specialty sun chains in South Africa, for approximately Euro 10 million and some other minor acquisitions in the retail segment in Australia and New Zealand. Total 2006 acquisitions, net of

acquired cash and cash equivalents, generated a cash outflow of Euro 134.1 million, mainly due to the acquisition of Shoppers Optical, a Canadian-based optical chain, for approximately Euro 48.7 million, the acquisition of Beijing Xueliang Optical Technology Co. Ltd. for approximately Euro 17.0 million, the acquisition of Ming Long Optical for approximately Euro 29.0 million and the acquisition of Modern Sight Optics for approximately Euro 14.0 million.

Our capital expenditures were Euro 334.8 million in 2007 as compared to Euro 272.2 million in 2006. The increase was primarily attributable to the investment in manufacturing facilities for the wholesale division and the opening, remodeling and relocation of stores in the retail division. Capital expenditures were Euro 49.7 million in the three-month period ended March 31, 2008. We believe that 2008 annual capital expenditures will be approximately Euro 300.0 million, in addition to investments for any acquisitions. We will pay for these future capital expenditures with our currently available borrowing capacity and available cash.

Cash received from disposals of property, plant and equipment was Euro 29.7 million in 2007 as compared to Euro 21.6 million in 2006. Cash provided by the disposal of fixed assets is primarily attributable to the sale of a building located in Milan in May 2007. Acquisitions of intangible assets resulted in a use of cash of Euro 3.9 million in 2007 compared to Euro 1.1 million in 2006.

Financing Activities. The Company s cash generated from/(used in) financing activities was Euro 1,427.2 million, Euro (349.9) million and Euro (350.0) million in 2007, 2006 and 2005, respectively. Cash generated from financing activities in 2007 consisted primarily of the proceeds of Euro 2,145.4 million from debt incurred for the acquisition of Oakley and for long-term repayments of maturing debt. Cash used in financing activities in 2006 consisted primarily of the proceeds of Euro 84.1 million from long term debt which were used to partially repay long-term maturing debt. Cash used in financing activities for 2005 consisted primarily of net long-term repayments on maturing debt of approximately Euro 254.4 million. Dividends paid to our shareholders in 2007, 2006 and 2005 were Euro 191.1 million, Euro 131.4 million and Euro 103.5 million, respectively.

Our Indebtedness

We manage our financing requirements by maintaining an adequate level of liquidity and committed and uncommitted financing facilities. To this end, we take a series of actions to ensure compliance with these financing requirements. In particular:

- Our treasury department monitors our cash flow forecast in conjunction with our liquidity and financing credit lines;
- We utilize debt instruments and other credit lines in order to obtain funding for our operations;
- We maintain adequate access to liquidity in our bank accounts;
- We monitor our liquidity risk in order to avoid unacceptable concentrations of such risk.

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

Our credit facilities contain certain financial covenants including ratios of Net Financial Position (NFP) (as defined in the agreements) to shareholders equity, NFP to EBITDA (earnings before interest, taxes and depreciation as defined in the agreements) and EBITDA to net financial charges (as defined in the agreements). As of March 31, 2008, we were in compliance with these financial covenants and we expect to continue to be in compliance in the foreseeable future periods. We believe that after giving effect to any additional financing that we may incur, such restrictions would not materially affect our compliance with these covenants, our ability to incur the additional debt or our future business operations.

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

Bank Overdrafts

Bank overdrafts represent negative cash balances held in banks and amounts borrowed under various unsecured short-term lines of credit obtained by 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 subsidiaries agreements require a guaranty 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.

Group total indebtedness was Euro 2,871.8 million as of December 31, 2007. Available additional borrowings under credit facilities as of such date were Euro 474.0 million.

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

On September 3, 2003, Luxottica U.S. Holdings Corp. (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 required 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 s 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 December 31, 2007, 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 exchanged 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. U.S. Holdings terminated all three agreements comprising the DB Swap in December 2005.

The Euro 200 Million Credit Facility with Banca Intesa and Related Interest Rate Swaps

In September 2003, the Company entered into a credit facility with Banca Intesa S.p.A. of Euro 200 million. The credit facility included a Euro 150 million term loan, which required repayment of equal semi-annual 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 (5.315 percent on December 31, 2007). 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. As of December 31, 2007, 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 (4.988 percent on December 31, 2007). 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, 2008, the Company was in compliance with all of its applicable covenants, including calculations of financial covenants when applicable. Under this credit facility, Euro 85 million was outstanding as of December 31, 2007.

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 began to decrease by Euro 30 million every six months starting on March 30, 2007 (Intesa OPSM Swaps). These swaps 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 2.45 percent per annum.

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

On June 3, 2004, the Company and U.S. Holdings entered into a 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 facility consists of three tranches (Tranche A, Tranche B and Tranche C). On March 10, 2006, this agreement was amended to increase the available Tranche C borrowings to Euro 725 million, decrease the interest margin and define a new maturity date of five years from the date of the amendment for 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 for the acquisition of Cole National. Amounts borrowed under Tranche B will mature in March 2012. Tranche C is a revolving credit facility of Euro 725 million-equivalent multi-currency (Euro/U.S. dollar). Amounts borrowed under Tranche C may be repaid and reborrowed with all outstanding balances maturing in March 2012. On December 31, 2007, U.S.$645 million (Euro 441.7 million) had been drawn from Tranche C by U.S. Holdings and U.S.$185 million (Euro 125.7 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 accruing on U.S. dollar-denominated loans based on the corresponding LIBOR rate, both plus a margin between 0.20 percent and 0.40 percent based on the Net Debt/EBITDA ratio, as defined in the agreement. The interest rate on December 31, 2007 was 4.976 percent for Tranche A, 5.449 percent for Tranche B and 5.239 percent for Tranche C amounts borrowed in U.S. dollars. This credit facility contains certain financial and operating covenants. The Company was in compliance with those covenants as of March 31, 2008. Under this credit facility, Euro 1,059.9 million was borrowed as of December 31, 2007. In February 2008, we exercised an option included in the amendment to extend the maturity date of Tranches B and C to March 2013. For additional information, see Note 9 to our Consolidated Financial Statements included in Item 18 of this annual report.

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 began to decrease by Euro 45 million every three months starting on June 3, 2007 (Club Deal Swaps). These swaps 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 2.48 percent per annum.

During the fourth quarter of 2007, the Group entered into thirteen interest rate swap transactions with an aggregate initial notional amount of U.S.$325 million with various banks (Tranche B Swaps). These swaps will expire on March 10, 2012. The Tranche B Swaps were entered into as a cash flow hedge on Tranche B of the credit facility discussed above. The Tranche B Swaps exchange the floating rate of LIBOR for an average fixed rate of 4.62 percent per annum.

In December 2005, the Company entered into an unsecured credit facility with Banca Popolare di Verona e Novara Soc. Coop. a R.L (LLC). The 18-month credit facility consisted of a revolving loan that provided borrowing availability of up to Euro 100 million. The final maturity of the credit facility was June 1, 2007. We repaid the outstanding amount on the maturity date with the proceeds of a new unsecured credit facility with Banca Popolare di Verona e Novara Soc. Coop. a R.L. The new 18-month credit facility consists of a revolving loan that provided borrowing availability of up to Euro 100 million. Amounts borrowed under the revolving portion can be borrowed and repaid until final maturity. As of December 31, 2007,

Euro 100 million was borrowed under this credit facility. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.25 percent (4.980 percent on December 31, 2007). The Company can select interest periods of one, three or six months. The final maturity of the credit facility is December 3, 2008.

The U.S.$1,500 Million Credit Facility, U.S.$500 Million Bridge Loan and Related Interest Rate Swaps

To finance the acquisition of Oakley, on October 12, 2007, we and our subsidiary U.S. Holdings entered into two credit facilities with a group of banks providing for certain term loans and a short-term bridge loan for an aggregate principal amount of U.S.$2.0 billion. The term loan facility is a five-year term loan of U.S.$1.5 billion, with options to extend the maturity on two occasions for one year each time. The Mandated Lead Arrangers and Bookrunners for the term loan are Intesa San Paolo S.p.A., The Royal Bank of Scotland plc, UniCredit Markets and Investment Banking (acting through Bayerische Hypo und Vereinsbank AG Milan Branch) (acting also as Facility Agent) and Citigroup N.A. (acting also as Documentation Agent). The term loan facility is divided into two facilities, Facility D and Facility E. Facility D consists of an amortizing term loan in an aggregate amount of U.S.$1.0 billion, made available to U.S. Holdings, and Facility E consists of a bullet term loan in an aggregate amount of U.S.$500 million, made available to the Company. Each facility has a five-year term, with options to extend the maturity on two occasions for one year each time. The term loan has a spread of between 20 and 40 basis points over LIBOR, depending on the Group s ratio of debt to EBITDA, except for the period between the date of the first utilization date and the calculation of the covenants for the first six months of 2008, for which the spread is fixed at 40 basis points. Interest accrues on the term loan at LIBOR (as defined in the agreement) plus 0.40 percent (5.503 percent for Facility D and 5.458 percent for Facility E on December 31, 2007). The final maturity of the credit facility is October 12, 2012. This credit facility contains certain financial and operating covenants. The Company was in compliance with those covenants as of March 31, 2008. U.S.$1.5 billion was borrowed under this credit facility as of December 31, 2007.

During the fourth quarter of 2007, we entered into ten interest rate swap transactions with an aggregate initial notional amount of U.S.$500 million with various banks (Tranche E Swaps). These swaps will expire on October 12, 2012. The Tranche E Swaps were entered into as a cash flow hedge on Facility E of the credit facility discussed above. The Tranche E Swaps exchange the floating rate of LIBOR for an average fixed rate of 4.26 percent per annum.

The short term bridge loan facility is for an aggregate principal amount of U.S.$500 million. This facility is underwritten by Bank of America Securities Limited and UniCredit Market and Investment Banking (acting through Bayerische Hypo und Vereinsbank AG Milan Branch). Interest accrues on the short term bridge loan at LIBOR (as defined in the agreement) plus 0.15 percent (5.208 percent on December 31, 2007). The final maturity of the credit facility was eight months from the first utilization date. On April 29, 2008, we and our subsidiary U.S. Holdings entered into an amendment and transfer agreement to this facility. The terms of such amendment agreement among other things, reduced the total facility amount from U.S. $500 million to U.S. $150 million, and provide for a final maturity date that is eighteen (18) months from the effective date of the agreement.

The Euro 250 Million Revolving Credit Facility

On May 29, 2008, we entered into a Euro 250 million revolving credit facility agreement, guaranteed by our subsidiary U.S. Holdings, with Intesa Sanpaolo S.p.A. as agent and Intesa Sanpaolo S.p.A., Banca Popolare di Vicenza S.c.p.A. and Banca Antonveneta S.p.A. as lenders. The final maturity of the credit facility is May 29, 2013. The credit facility is a Euro 250 million revolving facility, which will require repayment of equal quarterly instalments of principal of Euro 30 million starting August 29, 2011 and a last repayment of Euro 40 million on the final maturity date. Interest accrues at Euribor (as defined in the agreement) plus a margin between 0.40 percent and 0.60 percent based on the Net Debt/EBITDA ratio, as defined in the agreement.

Our Working Capital

Set forth below is certain information regarding our working capital (total current assets minus total current liabilities):

	As of December 31,		
	2007	2006	2005
		(In millions of Euro)	
Current Assets	1,910.6	1,493.5	1,604.6
Current Liabilities	(2,159.2)	(1,425.3)	(1,235.7)
Working Capital	(248.6)	68.2	368.9

The increase in working capital in 2005 reflects the repayment of maturing debt and the refinancing of current debt maturities with long-term debt. In 2007 and 2006, working capital decreased due to an increase in the current portion of long-term debt scheduled to mature in 2008 and 2007, respectively.

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

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

Off-Balance Sheet Arrangements

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

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

Contractual Obligations and Commercial Commitments

We are party to numerous contractual arrangements consisting of, among other things, royalty agreements with designers, leases for retail store, plant, warehouse and office facilities, as well as certain data processing and automotive equipment, and outstanding borrowings under credit agreements and facilities with financial institutions to finance our operations. These contractual arrangements may contain minimum annual commitments. A more complete discussion of the obligations and commitments is included in Notes 9 and 15 to our Consolidated Financial Statements included in Item 18 of this annual report.

The following table summarizes the scheduled maturities of our long-term debt, minimum lease commitments under non-cancelable operating leases and minimum payments under non-cancelable royalty arrangements, purchase commitments (including long-term) and endorsement contracts as of December 31, 2007. The table does not include pension liabilities. Our pension plans are discussed in Note 10 to our

Consolidated Financial Statements included in Item 18 of this annual report.

	Payments Due by Period				
(in millions of Euro) Contractual Obligations	**1 Year**	**1 to 3 Years**	**3 to 5 Years**	**After 5 Years**	**Total**
Long-Term Debt and Current Maturities(1)(2)	792.6	279.1	1,646.9	0.5	2,719.1
Interest Payments(3)	87.9	131.5	83.8		303.2
Operating Leases	240.9	395.7	260.0	328.1	1,224.7
Minimum Royalty Arrangements	85.5	154.7	89.4	128.5	458.1
Long-Term Purchase Commitments	4.6	12.0	1.5		18.1
Endorsement Contracts	5.9	3.2	0.3		9.4
Total	1,217.4	976.2	2,081.9	457.1	4,732.6

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(1) As described previously, our long-term debt has certain financial and operating covenants that may cause the acceleration of future maturities if we do not comply with them. We were in compliance with these covenants as of December 31, 2007. In addition, the above table does not take into account the February 2008 extension of the Amended Euro 1,130 Million and U.S.$325 Million Credit Facility as described above.

(2) The calculation of Long-Term Debt and Current Maturities includes capital lease obligations, pursuant to which the following amounts are scheduled to become due and payable: Euro 0.9 million (less than 1 year) and Euro 0.9 million (1 to 3 years).

(3) These amounts do not include interest payments due under our various revolving credit facilities as the amounts to be borrowed in future years are uncertain at this time. In addition, interest rates used to calculate the future interest due on our variable interest rate term loans were calculated based on the interest rate as of December 31, 2007 and assume that we make all scheduled principal payments as they mature.

At December 31, 2007, we had available funds of approximately Euro 291.4 million under our unused short-term lines of credit. Substantially all of these lines have terms of less than one year, but they have been renewed annually in prior years. In addition, certain U.S. subsidiaries obtained various letters of credit from banks outstanding of Euro 30.9 million as of December 31, 2007. Most of these letters of credit are used as security in risk management contracts or store leases. Most contain annual evergreen clauses under which they are automatically renewed unless the bank is notified of non-renewal. As of December 31, 2007, substantially all of our outstanding letters of credit mature within one year.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The Board of Directors of Luxottica Group S.p.A. currently consists of 14 members, each of whom was appointed at the shareholders meeting held on June 14, 2006.

The current term of the Board of Directors expires at the time of the approval of the statutory financial statements as of and for the year ended December 31, 2008.

Set forth below is certain information regarding the directors and senior management of Luxottica Group S.p.A.:

Name	Age	Senior Manager (1) or Director (2) Since	Position
Leonardo Del Vecchio	72	1961	Chairman of the Board of Directors
Andrea Guerra	42	2004	Chief Executive Officer and Director
Enrico Cavatorta	46	1999/2003	Chief Financial Officer and Director
Roberto Chemello	53	1979	Group Operations Director and Director
Luigi Francavilla	70	1968	Group Product and Design Director and Deputy Chairman

Roger Abravanel	61	2006	Director
Tancredi Bianchi	79	1990	Director
Mario Cattaneo	77	2003	Director
Claudio Costamagna	52	2006	Director
Claudio Del Vecchio	50	1978	Director
Sergio Erede	67	2004	Director
Sabina Grossi	42	2003	Director
Gianni Mion	62	2004	Director
Lucio Rondelli	83	1990	Director
Colin Baden	45	1999	President, Oakley
Frank Baynham	54	1987	Executive V.P. and General Manager LensCrafters, Retail N.A.
Chris Beer	41	2003	Chief Operating Officer, Retail, Australia/NZ

Michael A. Boxer	46	1993	Senior V.P. and General Counsel N.A.
Kerry Bradley	51	1988	Chief Operating Officer of Retail N.A.
Alessandro Curotti	48	2007	Group General Counsel and Corporate Secretary
Fabio D Angelantonio	38	2005	Group Marketing Director
Jack S. Dennis	62	1982	Chief Financial and Administrative Officer of Retail N.A.
Valerio Giacobbi	43	1991	Executive V.P. Retail N. A.
Giuseppe La Boria	49	2001	Head of Wholesale Europe and South
Seth McLaughlin	45	1994	Senior V.P. and General Manager Pearle Vision, Retail N.A.
George Minakakis	50	1994	Chief Operating Officer of Retail Greater China
Antonio Miyakawa	41	1993	Executive Vice President, Wholesale and Marketing
D. Scott Olivet	44	2005	Chief Executive Officer, Oakley
Nicola Pelà	45	2005	Group Human Resources Director
Carlo Privitera	38	2005	Chief Information Technology Officer

(1) For our senior managers, the periods listed in the table reflect periods of affiliation with Luxottica Group S.p.A. or any of its predecessors and affiliates, and not necessarily the period since they were appointed to their current position.

(2) For our directors, the periods listed in the table reflect their respective periods of directorship with Luxottica Group S.p.A. or any of its predecessors.

Executive officers serve at the discretion of the Board of Directors. Messrs. Rondelli, Bianchi, Cattaneo, Mion, Abravanel, Costamagna, Claudio Del Vecchio and Erede and Ms. Grossi are all non-executive directors. In addition, Messrs. Rondelli, Bianchi, Cattaneo, Mion, Abravanel and Costamagna are also independent directors under Italian law.

Pursuant to Italian law, we maintain a Board of Statutory Auditors, elected at the shareholders meeting, composed of three experts in accounting matters who are required to have no other affiliation with Luxottica Group S.p.A. and who must satisfy certain professional and other standards. The Board of Statutory Auditors is required to verify that we: (i) comply with applicable law and our bylaws; (ii) respect the principles of correct administration; (iii) maintain adequate organizational structure, internal controls and administrative and accounting systems; (iv) ensure that our accounting system represents the facts in a fair and true manner; and (v) comply with the Italian Code of Corporate Governance. Although members of the Board of Statutory Auditors are required to attend the meetings of the Board of Directors and of the shareholders, they are not deemed to be members of the Board of Directors and do not vote on matters submitted to such meetings. Effective as of June 14, 2006, the members of the Board of Statutory Auditors are Marco Reboa, Chairman, Giorgio Silva and Enrico Cervellera. There are also two alternate members of the Board of Statutory Auditors, Francesco Nobili and Mario Magenes. Such alternate members will replace current members who leave their position during the current term. The current term of the Board of Statutory Auditors expires at the time of the approval of the statutory financial statements as of and for the year ended December 31, 2008.

See Summary of the Significant Differences Between Our Corporate Governance Practices and the Corporate Governance Standards of the New York Stock Exchange below for more information regarding the designation of the Board of Statutory Auditors to act as our audit committee.

Pursuant to Italian law, we also maintain a Human Resources Committee, elected within the members of the Board of Directors. The Human Resources Committee has verification, advisory and proposal-making functions, including: (i) recommending to the Board the aggregate remuneration payable to the Company s Directors and determining the remuneration criteria for the top management of the Company and of the entire Group, (ii) reviewing the Luxottica Group employees incentive plans and the criteria for the composition of the management bodies of the relevant subsidiaries. Effective as of February 19, 2007, the members of the Human Resources Committee are non-executive directors Gianni Mion, Roger Abravanel, Claudio Costamagna and Sabina Grossi, three of whom are independent. Although the Human Resources Committee

does not have a specific term, its term is co-extensive with the term of our Board of Directors since its members are also members of our Board of Directors.

See Summary of the Significant Differences Between Our Corporate Governance Practices and the Corporate Governance Standards of the New York Stock Exchange below for more information regarding the designation of the Human Resources Committee to act as our compensation committee.

A short biography of each of our Directors and executive officers is set forth below:

Leonardo Del Vecchio is the founder of our operations and has been Chairman of the Board since the Group was formed in 1961. In 1986, the President of the Republic of Italy conferred on Mr. Del Vecchio the honor of Cavaliere dell Ordine al Merito del Lavoro (Knight of the Order for Labor Merit). In May 1995, he received an honorary degree in Business Administration from the Venice Ca Foscari University. In 1999, he received a Master honoris causa in International Business from MIB- Management School in Trieste, and in 2002, he received an honorary degree in Managerial Engineering from the University of Udine. In March 2006, Mr. Del Vecchio received another honorary degree in Materials Engineering from Politecnico of Milan. Mr. Del Vecchio is also a director of Assicurazioni Generali S.p.A., Beni Stabili S.p.A., vice chairman of the Surveillance Committee of Fonciere des Regions and a director of Delfin S.a.r.l.

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

Enrico Cavatorta has been a Director of the Group since 2003. He has been Chief Financial Officer since he joined the Group in 1999, and he is a director of the principal subsidiaries of the Company. Prior to joining Luxottica, Mr. Cavatorta was with Piaggio S.p.A., most recently as Group Controller, responsible for planning and control. From 1993 to 1996, Mr. Cavatorta was a consultant with McKinsey & Co., having joined the firm from Procter & Gamble Italy, where he worked from 1985 to 1993, most recently as Controller. Mr. Cavatorta graduated with the highest honors from the LUISS University in Rome with a bachelor s degree in Business Administration.

Roberto Chemello joined the Group in 1979. He is a Director and Group Operations Director of the Company and Chief Executive Officer of Luxottica S.r.l., our principal operating subsidiary. Prior to 1985, Mr. Chemello was Chief Financial Officer of the Company, and, until July 27, 2004, he was Chief Executive Officer of the Company. Mr. Chemello graduated with a degree in Business Administration from the Ca Foscari University in Venice.

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

Constantinian University.

Roger Abravanel has been a director since 2006. He worked at McKinsey & Company from 1972 until June 2006. Mr. Abravanel is also involved in international consulting projects for the high direction on strategic, organizational and operational development issues. He graduated with a degree in Engineering from the Politecnico di Milano and received a Masters in Business Administration from Insead in Fontainebleau (with High Distinctions). He is author of several studies and articles on business organization and a director of Banca Nazionale del Lavoro S.p.A., Marazzi Group S.p.A. and Teva Pharmaceutical Industries Ltd.

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

Mario Cattaneo has been a Director since 2003. He is emeritus professor of Corporate Finance at the Catholic University of Milan. He was a director of Eni S.p.A. from 1998 until 2005 and of Unicredito from 1999 until 2005 and Statutory Auditor of the Bank of Italy from 1991 until 1999. He is the vice chairman of Euromobiliare Asset Management SGR S.p.A. and Euromobiliare Alternative Investment SGR S.p.A. and he is a member of the Board of Directors of Bracco S.p.A. and Sella Holding Banca S.p.A. Furthermore, Mr. Cattaneo is the chairman of the Board of Statutory Auditors of

Italiana Assicurazioni S.p.A., Intesa Mediofactoring S.p.A. and Sara Assicurazioni S.p.A. He is an auditor of Michelin Italiana S.p.A. and a member of the Surveillance Committee of UBI Banca S.C.p.A.

Claudio Costamagna has been a Director since 2006. He held executive positions in international companies such as Montedison, Citigroup and Goldman Sachs. Mr. Costamagna is currently Chairman of ALUB (Association of graduates from Bocconi) and a director of Bvlgari S.p.A. and DEA Capital S.p.A.

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

Sergio Erede has been a Director since 2004. Mr. Erede graduated magna cum laude from the University of Milan in 1962 with a degree in jurisprudence and obtained an LL.M. from Harvard Law School in 1964. From 1965 to 1969, he was head of the legal department of IBM Italia S.p.A. Prior to such time, Mr. Erede was an attorney at the law firm of Sullivan & Cromwell from 1964 to 1965, and the law firm of Hale & Dorr from 1963 to 1964. In 1999, he founded the law firm of Bonelli, Erede & Pappalardo (which is the successor by merger to the firm of Erede e Associati), a leading firm in Italian financial transactions. Additionally, he is a member of the Board of Directors of Manifatture Lane Gaetano Marzotto & Figli S.p.A., Interpump Group S.p.A., Autogrill S.p.A., Carraro S.p.A., Gruppo Editoriale L Espresso S.p.A., Società Italo Britannica L. Manet i - H. Roberts S.p.A., Manuli Rubber Industries S.p.A., AON Italia S.p.A. and Gruppo IPG Holding S.r.l. Additionally, Mr. Erede is vice chairman of the Board of Directors of Banca Nazionale del Lavoro S.p.A. and a member of the Surveillance Committee and of the Audit Committee of Fonciere des Regions.

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

Gianni Mion has been a Director since 2004. He is Chief Executive Officer of Edizione Holding S.p.A. (the investment company of the Benetton family), a position he has held since 1986. Prior to joining Edizione Holding S.p.A., Mr. Mion was the Chief Financial Officer of Marzotto S.p.A. from 1985 to 1986, Managing Director of Fintermica S.p.A. from 1983 to 1985, Vice President of Gepi S.p.A. from 1974 to 1982, controller of McQuay Europa S.p.A. from 1972 to 1974 and an auditor at the accounting firm of KPMG from 1967 to 1972. He has been chief executive officer of Edizione Holding S.p.A. since 1986 and prior to that he was the chief executive officer of Sintonia S.p.A.

Mr. Mion also sits on the Board of Directors of Benetton Group, Autogrill S.p.A., Sintonia S.A., Schemaventotto S.p.A., Atlantia S.p.A., Aeroporti di Roma S.p.A., Burgo Group S.p.A. and Telecom Italia S.p.A. Mr. Mion graduated from the Venice University Ca Foscari with a degree in Business Administration and is a Certified Public Accountant.

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

Colin Baden joined Oakley in February 1996 as Director of Design and served as Vice President of Design from February 1997 to February 1999. In February 1999, Mr. Baden was named President. Prior to joining Oakley, Mr. Baden was a partner at Lewis Architects of Seattle, Washington for six years and began advising Oakley on company image and design issues in 1993.

Frank Baynham has been Executive Vice President and General Manager LensCrafters, Luxottica Retail North America since March 2008. From 1999 to March 2008, he served as Executive Vice President, Stores of Retail North America. Mr. Baynham has held various other senior executive roles since joining LensCrafters in 1987. Prior to 1987, he worked in marketing for Procter and Gamble and was a captain in the U.S. Army. Mr. Baynham graduated with a degree in Finance from Murray State University.

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

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

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

Alessandro Curotti joined the Group as General Counsel and Corporate Secretary in 2007. Prior to joining Luxottica he served as a corporate lawyer at companies such as Telecom Italia, Telecom Italia Mobile and Montedison. He received his law degree from the University of Siena.

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

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

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

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

Seth McLaughin has been Senior Vice President and General Manager Pearle Vision, Luxottica Retail North America since March 2008. From October 2004 to March 2008, he served as Senior Vice President, Consumer Marketing of Luxottica Retail North America. From July 1998 to October 2004, he served as Vice President, Consumer Marketing. Prior to joining the Luxottica Group he worked at Boston Consulting Group, from 1990 to 1994, and in strategic consulting for Procter & Gamble, from 1984 to 1990. Mr. McLaughin has a Bachelor of Science degree from Iowa State University.

George Minakakis has been Chief Operating Officer for Greater China since September 2006. He has been with Luxottica for 13 years, most recently in Canada as Senior Vice President and General Manager of our retail operations. Prior to Luxottica, Mr. Minakakis worked with PepsiCo for 7 years. He holds a Masters Degree in Business Administration from Athabasca University, Alberta, Canada.

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

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

D. Scott Olivet joined Oakley in October 2005 as its Chief Executive Officer and as an Oakley director. From August 2001 to October 2005, he served as Nike Inc. s Vice President, Nike Subsidiaries and New Business Development where he led, developed and executed the company s multi-branding strategy including the Cole Haan, Converse, Hurley, Starter and Bauer-Nike Hockey brands. Prior to Nike, Mr. Olivet served as The Gap, Inc. s Senior Vice President of Real Estate, Store Design and Construction, responsible for The Gap, Banana Republic and Old Navy brands from 1998 to 2001. He worked with Bain & Company from 1984 to 1998, serving as a partner and head of the firm s worldwide practice in organizational effectiveness and change management from 1993 to 1998. Mr. Olivet received his B.A. in Government from Pomona College and his M.B.A. from the Graduate School of Business, Stanford University.

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

Carlo Privitera joined Luxottica in 2005 as Group Industrial Supply Chain Director. Since January 2008, he has been the Chief Information Technology Officer. From December 2001 to February 2005, Mr. Privitera served in various capacities, including Planning Manager and Production Control & Logistic Director of Fiat Group and its subsidiaries. From 1996 to 2001, he served as Senior Manager in Efeso Consulenze. Mr. Privitera has a bachelor degree in Engineering from the Politecnico in Milan. He also holds a master s degree from Osaka University.

Compensation

Set forth below is information regarding total compensation paid to the members of our Board of Directors and our Board of Statutory Auditors for services rendered to Luxottica Group S.p.A. and our subsidiaries during 2007:

Name	Base Compensation (Euro)	Other Compensation (Euro)	Total Compensation (Euro)
Leonardo Del Vecchio *Chairman of the Board of Directors*	721,198(1)	636,348(8)	1,357,546
Luigi Francavilla *Group Product and Design Director and Deputy Chairman*	139,200(2)	1,614,045(8)(9)(10)	1,753,245
Andrea Guerra *Chief Executive Officer and Director*	899,994(3)	1,709,902(9)(10)	2,609,896
Enrico Cavatorta *Chief Financial Officer and Director*	81,198	708,081(8)(9)(10)	789,279
Roberto Chemello *Group Operations Director and Director*	81,198	1,550,480(8)(9)(10)	1,631,678
Roger Abravanel *Director*	91,198(4)		91,198
Tancredi Bianchi *Director*	99,115(5)		99,115
Mario Cattaneo *Director*	99,115(5)		99,115
Claudio Costamagna *Director*	90,365(4)		90,365
Claudio Del Vecchio *Director*	81,198		81,198
Sergio Erede *Director*	81,198		81,198
Sabina Grossi *Director*	81,198	323(10)	81,521
Gianni Mion *Director*	81,198		81,198
Lucio Rondelli *Director*	104,115(6)		104,115
Marco Reboa *Chairman of the Board of Statutory Auditors*	105,000		105,000
Enrico Cervellera *Member of the Board of Statutory Auditors*	70,000		70,000
Giorgio Silva *Member of the Board of Statutory Auditors*	90,000(7)		90,000

(1) Compensation paid as Director and Chairman of the Board of Directors.

(2) Compensation paid as Director and Deputy Chairman.

(3) Compensation paid as Director and Chief Executive Officer.

(4) Compensation paid as Director and member of the Human Resources Committee.

(5) Compensation paid as Director and member of the Internal Control Committee.

(6) Compensation paid as Director and Chairman of the Internal Control Committee.

(7) Includes compensation paid as auditor and for services rendered as member of the Supervisory Body created pursuant to legislative decree 231/2001.

(8) Includes compensation paid for services rendered in subsidiary companies.

(9) Includes compensation paid as employee. This compensation also includes the bonus paid in 2007.

(10) Includes fringe benefits granted (such as insurance premiums and cars).

Aggregate compensation paid by us to our senior management (who are not directors) as a group (16 people) was approximately Euro 24.2 million in 2007, of which Euro 10.3 million related to one-time payments to Oakley senior management made in connection with the Oakley acquisition and approximately Euro 1.0 million represented provision for termination indemnities and social security charges required by Italian law. Members of this group were also granted options to purchase an aggregate of 160,000 of our ordinary shares at a weighted average exercise price of Euro 24.05 per share in 2007. These options expire on March 6, 2016. The aggregate amount set aside or accrued during the year ended December 31, 2007 to provide pension and retirement benefits for our directors who are also members of our management was Euro 1.4 million. Our directors who are not members of management do not receive such benefits.

With the exception of termination benefits provided for Mr. Guerra, our Chief Executive Officer, as described below, none of our directors have service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

In case of termination other than for good cause, we will pay our Chief Executive Officer a separation allowance, in addition to providing for termination indemnities provided by Italian law, in the amount of two times the sum of:

- annual base salary, provided as a sum of annual base remuneration and director s emoluments; and

- variable pay, corresponding to the average bonus compensation received in the three years (or shorter period, as the case may be) preceding his termination.

This separation allowance is also due in the case of termination for cause or in the case our Chief Executive Officer terminates the employment relationship within the 60 days following one of the events listed below that leads to a reduction in responsibilities and tasks assigned:

- substantial change to the authority given to the Chief Executive Officer; and

- change of control.

Employees

As of December 31, 2007, we employed approximately 64,000 employees worldwide, of whom approximately 40,000 were employed in the United States and Canada, 9,000 were employed in Italy, 12,000 were employed in Asia-Pacific, 2,000 were employed in Europe and 1,000 were employed in subsidiaries located in other countries. As of such date, approximately 18,000 were employed in our manufacturing and wholesale segment, approximately 45,000 were employed in our retail segment and approximately 1,000 were employed at corporate. Substantially all of our employees in Italy are covered by collective bargaining agreements. Other than those Pearle Vision employees subject to collective bargaining agreements described below, none of our employees in the United States are covered by collective bargaining agreements. We have enjoyed generally good relations with our employees.

Employment agreements in Italy are generally collectively negotiated between the national association of companies within a particular industry and the respective national unions. Individual companies must enter into contracts with their employees based on the relevant collective agreement. The agreement for optical workers, which is part of the national textile agreement, covers approximately 6,450 of our employees. This agreement was renewed in 2008 resulting in an average wage increase rate of approximately three percent per year. In addition to the national collective bargaining agreement for workers, we typically enter into separate local contracts with labor unions representing our employees. In December 2006, we renewed a local agreement with optical workers, supplementing the terms of the national textile contract. The new agreement provided for new profitability targets for employee variable wages.

Italian law provides that, upon termination of employment, employees are entitled to receive certain compulsory severance payments based on their compensation levels and length of employment. As of December 31, 2007, we had established a reserve of Euro 51.6 million for such severance payments, which is reflected in our consolidated financial statements.

Pearle Vision currently has two collective bargaining agreements in place. One collective bargaining agreement, between Pearle Vision and the Local 888, United Food and Commercial Workers (the 888 CBA), has been extended (by agreement) while the parties are negotiating a new agreement. The 888 CBA covers approximately 16 Pearle Vision employees holding the positions of Lab Associate, Lead Lab Associate, Sales Associate and Optician. The other collective bargaining agreement, between Pearle Vision and the Local 108, Retail, Wholesale and Department Store Union (the 108

CBA), has also been extended (by agreement) while the parties are negotiating a new agreement. The 108 CBA covers approximately 60 Pearle Vision employees holding the positions of Lab Associate, Lead Lab Associate and Sales Associate.

Share Ownership

Set forth below is certain information concerning the beneficial ownership of our ordinary shares as of May 13, 2008, by each of our directors and executive officers who beneficially owns in excess of one percent of our outstanding ordinary shares.

Shareholder	Issuer	Shares owned as of May 13, 2008	Percentage Ownership
Leonardo Del Vecchio	Luxottica Group S.p.A.	314,403,339(1)	67.9%
Luigi Francavilla	Luxottica Group S.p.A.	5,540,400(2)	1.2%

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

(2) Includes 3,434,900 shares held by Mr. Francavilla and 2,105,500 shares that are issuable upon exercise of vested stock options.

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

In addition, set forth below is certain information regarding share ownership for our directors and our senior managers (who are not directors) as a group, prepared and disclosed as required by applicable Italian law:

Shareholder	**Shares held at the beginning of 2007**	**Shares bought during 2007**	**Shares sold during 2007**	**Shares held at the end of 2007**
Leonardo Del Vecchio	314,803,339(1)		400,000	314,403,339(1)
Luigi Francavilla	3,434,900(2)			3,434,900(2)
Roberto Chemello	1,077,875(3)			1,077,875(3)
Claudio Del Vecchio	3,475,000(4)		94,000	3,381,000(5)
Sabina Grossi	7,400	4,800		12,200
Senior Managers as a group	30,400	523,800	352,795	201,405

(1) Shares held by Leonardo Del Vecchio through Delfin S.a.r.l. Mr. Del Vecchio holds voting and investment power over the shares held by such entity.

(2) 3,364,800 shares are held in usufruct with Mr. Francavilla s wife. Mr. Francavilla and his wife hold voting and investment power over these shares.

(3) Shares held by Filuni S.A., an entity established and controlled by Mr. Chemello. Mr. Chemello holds voting and investment power over the shares held by such entity.

(4) Includes 134,000 represented by ADRs, 30,000 of which are held through the Del Vecchio Family Foundation. Mr. Del Vecchio holds voting and investment power over the shares held through this foundation.

(5) Includes 40,000 represented by ADRs, 10,000 of which are held through the Del Vecchio Family Foundation. Mr. Del Vecchio holds voting and investment power over the shares held through this foundation.

In March 1998, we adopted an employee stock option plan providing for the issuance of options covering up to 12,250,000 ordinary shares of nominal value Euro 0.06 each. As a result of the change in the par value of our ordinary shares from Lire to Euro, which was approved by our shareholders at the annual meeting held on June 26, 2001, the number of ordinary shares available for issuance under the plan was reduced to 10,798,642. Our Board of Directors administers the stock option plan. The purpose of the plan is to provide additional incentives to our key employees. Grants under the stock

option plan may be of non-qualified options and/or incentive stock options. Under the plan, the Board of Directors may not grant an option for a term of more than nine years from the date of grant, or for a term that expires after March 31, 2011. The exercise price of these options is equal to the market value of the underlying ordinary shares on the date of grant, defined as the higher of (i) the closing market price of our ADRs on the business day immediately preceding the date of the grant, and (ii) the average of the closing market prices for each business day during the 30-day period ending on the date of the grant. Options granted under the plan generally become exercisable in three equal installments beginning on January 31 of the year after the date of grant and expire nine years after such date.

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

In July 2006, we adopted an additional employee stock option plan providing for the issuance of options covering up to 20,000,000 ordinary shares of nominal value of Euro 0.06 each. The purpose of the plan is to provide additional incentives to key employees of the Group. The exercise price of these options is equal to the market value of the underlying ordinary shares on the date of grant, defined as either (i) the average of the closing market prices for each business day during the 30-day period ending on the date of the grant or, if higher, (ii) the closing market price of our ADRs on the business day immediately preceding the date of the grant depending on the tax jurisdiction of the beneficiary. Options granted under the plan generally become exercisable three years after the date of grant and expire nine years after such date.

See Item 7 Major Shareholders and Related Party Transactions Related Party Transactions Shareholder Plan below for information regarding another stock option plan for our top management.

As of December 31, 2007, there were 13 separate grants outstanding under the option plans described above, detailed as follows:

	Number of ordinary shares underlying options granted(1)	**Exercise Price(1)**		**Expiration Date**	**Options held by officers and directors (1)**
1999 Grant	3,679,200	Euro	4.38	January 31, 2008	14,000
2000 Grant	2,142,200	Euro	9.52	January 31, 2009	32,400
2001 Grant	2,079,300	U.S.$	15.20	January 31, 2010	23,100
2002 Grant	2,348,400	U.S.$	17.80	January 31, 2011	23,100
2003 Grant	2,397,300	Euro	10.51	January 31, 2012	71,000
2004 Grant	2,035,500	Euro	13.79	January 31, 2013	422,100
2004 Performance Grant	1,000,000	U.S.$	18.59	January 31, 2012	310,000
2004 Shareholder Grant	9,600,000	Euro	13.67	December 31, 2014	9,200,000
2005 Grant	1,512,000	Euro	16.89	January 31, 2014	144,000
2006 Grant	1,725,000	Euro	22.19	January 31, 2015	700,000
2006 Performance Grant 1	3,500,000	Euro	22.09	July 27, 2015	2,200,000
2006 Performance Grant 2	9,500,000	Euro	20.99	July 27, 2015	9,250,000
2007 Grant	1,745,000	Euro	24.05	March 6, 2016	160,000

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

Stock options held by directors and senior managers

Set forth below is certain information regarding stock options held by our directors and our senior managers (who are not directors) as a group, prepared and disclosed as required by applicable Italian law.

	Options held at the beginning of 2007			Options granted during 2007			Options exercised during 2007			Options expired during 2007	Options held at the end of 2007		
Name and Position	**Number of options**	**Average exercise price**	**Average expiration date**	**Number of options**	**Average exercise price**	**Average expiration date**	**Number of options**	**Average exercise price**	**Average market price at exercise**	**Number of options**	**Number of options**	**Average exercise price**	**Average expiration date**
Enrico Cavatorta, Chief Financial Officer and Director	93,500	20.08	2014								93,500	20.08	2014
	1,200,000	13.67	2014 (exercise subject to the achievement of certain targets)								1,200,000	13.67	2014 (exercise subject to the achievement of certain targets)
	1,100,000	20.99	2015 (exercise subject to the achievement of certain targets)								1,100,000	20.99	2015 (exercise subject to the achievement of certain targets)
Roberto Chemello, Group Operations Director	140,500	17.98	2014								140,500	17.98	2014
	2,000,000	13.67	2014 (exercise subject to the achievement of certain targets)								2,000,000	13.67	2014 (exercise subject to the achievement of certain targets)
	1,100,000	20.99	2015 (exercise subject to the achievement of certain targets)								1,100,000	20.99	2015 (exercise subject to the achievement of certain targets)
Luigi Francavilla, Group Product and Design Director and Deputy Chairman	140,500	17.98	2014								140,500	17.98	2014
	2,000,000	13.67	2014 (exercise subject to the achievement of certain targets)								2,000,000	13.67	2014 (exercise subject to the achievement of certain targets)