**2011 first half results approved by Board of Directors**

# BENETTON GROUP, INCREASED REVENUES IN THE FIRST HALF YEAR

- **Revenues: €906 million (+1.7%, net of foreign exchange impact +2.0%).**
- **Stable revenues in traditional markets, significant increases in high growth markets (+10% currency neutral).**
- **Operating Profit: €58 million (6.4% of revenues).**
- **Net income: €30 million (3.3% of revenues).**
- **Net financial position €543 million.**
- **Programme for the purchase of treasury shares.**

UNITED COLORS OF BENETTON.

Ponzano, July 28, 2011, at 02.45 p.m. CET – The Benetton Group Board of Directors examined and approved the consolidated results for the first half of 2011.

## Consolidated income statement

Group **net revenues** for the first half of 2011, impacted by a very difficult economic situation in Mediterranean countries of greatest importance to the Group, reached €906 million (+1.7% over the comparative half year, corresponding to €15 million).
All geographical areas contributed to the positive result: the modest growth in Europe (+1.2% currency neutral) was in fact accompanied by growth in Asia (+4.7%) and in the Americas (+4.5%). Countries showing the highest growth in the half year compared with the same period of 2010 were: Russia (+39%) now the Group's fourth largest market in Europe, South Korea (+11%) and Turkey (+6%) in Asia, and Mexico (+18%) in the Americas. On the whole, results in Italy (+1%) and Spain (+4%) were also satisfying, while Greece suffered (-21%) due to the internal economic recession.

Orders for the Spring/Summer collection closed slightly down, while order collection for the coming Fall/Winter has started well, indicating a reassuring reversal of the trend. Direct sales for the second quarter of 2011, with a slightly improved result in comparable stores, also indicate a reversal of the trend compared with the first part of the year.

Group brands achieved good results in the half year, with growth for UCB and for UCB Children/Sisley Young, while the Sisley brand, with a greater geographical presence in the Mediterranean area, suffered a reduction.

**Gross operating profit** of €403 million (44.4% of net revenues) was down (-€22 million) compared with €425 million (47.7%) in the comparative half year, due to the strong increases in raw material costs (cotton and wool), severely impacting product cost for the Fall/Winter season in particular.

The **contribution margin** was €332 million (36.6% of revenues), compared with €356 million (39.9%) in the corresponding period of 2010, down by €24 million, due also to the impact of an increase of €2 million in other variable costs (commissions and royalties).

In the half year just ended, through continued control of General and Administrative expenses as well as direct sales channel costs, an important reduction of €9 million was achieved against the equivalent half year, endorsing the results of actions taken over a long period. There were also further reductions, as expected, in non-recurring expenses.

As a result, **operating profit (EBIT)** was €58 million, down compared with €63 million in the corresponding period of 2010, with a percentage to revenues of 6.4%, compared with the previous 7.1%.

Within **financial management**, there was a reduction in average indebtedness, which limited the increase in financial expenses resulting from the increase in interest costs. Overall, borrowing costs increased by €2 million, while the effect of foreign currency hedging operations was €6 million negative in the first half of 2011, compared with a profit of over €9 million generated in the same period of 2010.

Finally, **net income** was €30 million (3.3% of revenues), compared with €40 million (4.5%) in the corresponding period of 2010.

## Balance Sheet

Compared with December 31, 2010, there was an increase in capital employed totalling €27 million, due mainly to the increase in working capital (€62 million) resulting from an increase in inventories, only partially offset by higher trade payables and reduced trade receivables, and a reduction in fixed assets.
Compared with June 30, 2010, there was a similar increase of €61 million in working capital, due to an increase in trade receivables associated with both the large sales increase in high growth countries (Russia), and the new business model adopted in India, as well the slowdown in cash collections in the Mediterranean area. The increase in inventories, driven in part by higher material costs and in part by a changed purchasing time-table, was offset by a corresponding increase in trade payables.

**Financial indebtedness** at June 30, 2011 was €543 million, up €57 million compared with December 31, 2010 and up €35 million compared with June 30, 2010.

## Summary of consolidated cash flows

Cash flow generated by operating activities totalled €40 million, compared with €150 million in the comparative period.

In the 1st half of 2011, the Group made **net investments** of €51 million. These included €27 million of commercial and real estate investments and €5 million for manufacturing activities.

## Outlook for the year

2011 has, to date, been in line with expectations: orders for the Spring/Summer collection showed a more moderate slowdown compared with recent collections, and Fall/Winter 2011 confirmed indications of a return to growth. Also in the second part of the year, the contribution of the more recently developed countries will be fundamental to maintain Group revenues, due to continued weakness of demand in the Mediterranean area.

The strong increase in material costs, especially of cotton and wool, has caused significant erosion of commercial margins and is set to continue in coming months. The Group will continue to concentrate on containing general expenses and, even with non-recurring expenses at a lower level than last year, operating margins are expected to be below 2010 levels.

Actions already taken, others planned and Group financial strength enable the continuation of an investment policy to strengthen our world-wide commercial presence.

## Programme for the purchase of treasury shares

The Board of Directors, in accordance with, and in execution of, the authorisation granted by the Shareholders' Meeting of April 28, 2011, has approved the programme for the purchase of treasury shares. As already announced to the Market, the programme, which may be only partially completed, concerns a maximum number of ordinary shares which, added to shares already held by the Company, will not exceed the limit of 10% of share capital (the Company currently holds 10,345,910 treasury shares, equivalent to approximately 5.7% of share capital).
The minimum purchase price is envisaged as being not less than 30% under, and the maximum price not more than 20% over the reference price recorded by the share in the stock exchange session preceding each individual transaction.
Authorization was granted to enable the Company to acquire a "share portfolio" consisting of treasury shares, which may also be used to serve any share incentive schemes. This authorization also gives the Company the power to act for the purposes and in the ways permitted by current legislative provisions, also taking advantage of any strategic investment opportunities, always with the objective of adding value for shareholders.

Purchases will be made in the ways provided by articles 132 of Legislative Decree 58/1998 and 144bis of CONSOB Regulation no. 11971 of 14 May 1999 and, in any case, in any other way allowed by law and regulations on the subject, including those of the E.U. The average daily volume of Company share purchases will not exceed 25% of the average daily volume of shares traded, calculated on the basis of the average daily volume of shares traded in the 20 dealing days preceding the date of purchase.

If and when purchases are made, the Company will, within the second trading day of the Stock Exchange week, advise the stock market and the competent authorities of details of the transactions carried out in the previous Stock Exchange week, in accordance with current legislative provisions.

## Internal Dealing: update of blackout period

The Board of Directors has, among other things, updated the blackout period, during which the “relevant persons” must refrain from making any transactions in Benetton securities, establishing them as being the tenth day prior to approval by the Board of Directors of the financial results for the period.

# Benetton Group consolidated results

## Consolidated statement of income

| (millions of Euro) | 1st half 2011 | % | 1st half 2010 | % | Change | % | Full year 2010 | % |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | **906** | **100.0** | **891** | **100.0** | **15** | **1.7** | **2,053** | **100.0** |
| Materials and subcontracted work | 439 | 48.4 | 400 | 44.9 | 39 | 9.8 | 977 | 47.6 |
| Payroll and related costs | 40 | 4.5 | 41 | 4.6 | (1) | (1.1) | 80 | 3.9 |
| Industrial depreciation and amortization | 7 | 0.8 | 8 | 0.8 | (1) | (4.2) | 14 | 0.7 |
| Other manufacturing costs | 17 | 1.9 | 17 | 2.0 | - | (2.4) | 34 | 1.6 |
| **Cost of sales** | **503** | **55.6** | **466** | **52.3** | **37** | **8.1** | **1,105** | **53.8** |
| **Gross operating profit** | **403** | **44.4** | **425** | **47.7** | **(22)** | **(5.3)** | **948** | **46.2** |
| Distribution and transport | 33 | 3.6 | 33 | 3.7 | - | 0.1 | 73 | 3.6 |
| Sales commissions | 38 | 4.2 | 36 | 4.1 | 2 | 3.9 | 86 | 4.2 |
| **Contribution margin** | **332** | **36.6** | **356** | **39.9** | **(24)** | **(6.8)** | **789** | **38.4** |
| Payroll and related costs | 90 | 9.9 | 87 | 9.7 | 3 | 3.4 | 175 | 8.5 |
| Advertising and promotion | 26 | 2.9 | 30 | 3.3 | (4) | (10.5) | 55 | 2.7 |
| Depreciation and amortization | 45 | 4.9 | 43 | 4.8 | 2 | 3.6 | 89 | 4.3 |
| Other expenses and income | 113 | 12.5 | 133 | 15.0 | (20) | (15.6) | 294 | 14.3 |
| *- of which non-recurring expenses/(income)* | *2* | *0.3* | *12* | *1.4* | *(10)* | *(80.4)* | *32* | *1.6* |
| **General and operating expenses** | **274** | **30.2** | **293** | **32.8** | **(19)** | **(6.6)** | **613** | **29.8** |
| *- of which non-recurring expenses/(income)* | *2* | *0.3* | *12* | *1.4* | *(10)* | *(80.4)* | *32* | *1.6* |
| **Operating profit (*)** | **58** | **6.4** | **63** | **7.1** | **(5)** | **(7.6)** | **176** | **8.6** |
| Share of income/(losses) of associated companies | 1 | 0.1 | - | - | 1 | n.s. | (1) | (0.1) |
| Financial (expenses)/income | (9) | (1.1) | (7) | (0.8) | (2) | 25.0 | (19) | (0.9) |
| Net foreign currency hedging (losses)/gains and exchange differences | (6) | (0.6) | 9 | 1.0 | (15) | n.s. | 12 | 0.6 |
| **Income before taxes** | **44** | **4.8** | **65** | **7.3** | **(21)** | **(32.5)** | **168** | **8.2** |
| Income taxes | 15 | 1.6 | 30 | 3.3 | (15) | (50.2) | 65 | 3.2 |
| *- of which non-recurring income taxes* | - | - | - | - | - | - | *4* | *0.2* |
| Net income for the period | 29 | 3.2 | 35 | 4.0 | (6) | (17.7) | 103 | 5.0 |
| attributable to: | | | | | | | | |
| **- shareholders of the Parent Company** | **30** | **3.3** | **40** | **4.5** | **(10)** | **(25.5)** | **102** | **5.0** |
| - minority shareholders | (1) | (0.1) | (5) | (0.5) | 4 | (85.8) | 1 | n.s. |

(*) Trading profit was 60 million, representing 6.7% of revenues (75 million in first half 2010 representing 8.5% of revenues, 208 million in 2010 representing 10.1% of revenues).

## Balance sheet and financial position highlights

| (millions of Euro) | 06.30.2011 | 12.31.2010 | Change | 06.30.2010 | Change |
|---|---|---|---|---|---|
| Working capital | 684 | 622 | 62 | 623 | 61 |
| - trade receivables | 783 | 804 | (21) | 709 | 74 |
| - inventories | 423 | 293 | 130 | 375 | 48 |
| - trade payables | (497) | (442) | (55) | (455) | (42) |
| - other receivables/(payables) [(A)] | (25) | (33) | 8 | (6) | (19) |
| Assets held for sale | 1 | 10 | (9) | 10 | (9) |
| Property, plant and equipment and intangible assets [(B)] | 1,294 | 1,314 | (20) | 1,311 | (17) |
| Non-current financial assets [(C)] | 22 | 25 | (3) | 25 | (3) |
| Other assets/(liabilities) [(D)] | 10 | 13 | (3) | 20 | (10) |
| **Net capital employed** | **2,011** | **1,984** | **27** | **1,989** | **22** |
| Net debt [(E)] | 543 | 486 | 57 | 508 | 35 |
| **Total shareholders' equity** | **1,468** | **1,498** | **(30)** | **1,481** | **(13)** |

[(A)] Other receivables/(payables) include VAT receivables and payables, sundry receivables and payables, non-trade receivables and payables from/to Group companies, accruals and deferrals, payables to social security institutions and employees, receivables and payables for fixed asset purchases etc.

[(B)] Property, plant and equipment and intangible assets include all categories of assets net of the related accumulated depreciation, amortization, and impairment losses.

[(C)] Non-current financial assets include unconsolidated investments and guarantee deposits paid and received.

[(D)] Other assets/(liabilities) include retirement benefit obligations, provisions for legal and tax risks, the provision for sales agent indemnities, other provisions, current tax receivables and liabilities, receivables and payables due from/to holding companies in relation to the group tax election, deferred tax assets also in relation to the company reorganization carried out in 2003, deferred tax liabilities and payables for put options.

[(E)] Net debt includes cash and cash equivalents and all short and medium/long-term financial assets and liabilities.

## Financial position

| (millions of Euro) | 06.30.2011 | 12.31.2010 | Change | 06.30.2010 |
|---|---|---|---|---|
| Cash and banks | 159 | 195 | (36) | 169 |
| ***A*** **Liquid assets** | **159** | **195** | **(36)** | **169** |
| ***B*** **Current financial receivables** | **27** | **29** | **(2)** | **50** |
| Financial payables, bank loans and lease financing | (82) | (64) | (18) | (81) |
| ***C*** **Current financial payables** | **(82)** | **(64)** | **(18)** | **(81)** |
| ***D = A+B+C*** **Current financial indebtedness** | **104** | **160** | **(56)** | **138** |
| ***E*** **Non-current financial receivables** | **3** | **4** | **(1)** | **5** |
| Medium/long-term loans | (650) | (650) | - | (650) |
| Lease financing | - | - | - | (1) |
| ***F*** **Non-current financial payables** | **(650)** | **(650)** | **-** | **(651)** |
| ***G = E+F*** **Non-current financial indebtedness** | **(647)** | **(646)** | **(1)** | **(646)** |
| ***H = D+G*** **Net debt** | **(543)** | **(486)** | **(57)** | **(508)** |

**Cash flow statement**

| (millions of Euro) | 1st half 2011 | 1st half 2010 |
|---|---|---|
| Cash flow from operating activities before changes in working capital | 111 | 130 |
| Cash flow provided/(used) by changes in working capital | (49) | 31 |
| Interest (paid)/received and exchange differences | (15) | - |
| Payment of taxes | (7) | (11) |
| **Cash flow provided by operating activities** | **40** | **150** |
| Net operating investments/Capex | (53) | (47) |
| Non-current financial assets | 2 | (7) |
| **Cash flow used by investing activities** | **(51)** | **(54)** |
| **Free cash flow** | **(11)** | **96** |
| Cash flow provided/(used) by financing activities of which: | | |
| - payment of dividends | (46) | (41) |
| - net change in other sources of finance | 17 | (24) |
| **Cash flow used by financing activities** | **(29)** | **(65)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(40)** | **31** |

**Alternative performance indicators**

In addition to the standard financial indicators required by IFRS, this press release also contains a number of alternative performance indicators for the purposes of allowing a better appreciation of the Group's financial and economic results. These indicators must not, however, be treated as replacing the standard ones required by IFRS.

The following table shows how EBITDA and ordinary EBITDA are made up.

| Key operating data (millions of Euro) | 1st half 2011 | 1st half 2010 | Change | Full year 2010 |
|---|---|---|---|---|
| A Operating profit | 58 | 63 | (5) | 176 |
| *B - of which non-recurring expenses/(income)* | *2* | *12* | *(10)* | *32* |
| C Depreciation and amortization | 52 | 51 | 1 | 103 |
| D Other non-monetary costs (net impairment/(reversals)) | - | 4 | (4) | 24 |
| *E - of which non-recurring* | *-* | *4* | *(4)* | *24* |
| F = A+C+D EBITDA | 110 | 118 | (8) | 303 |
| G = F+B-E Ordinary EBITDA | 112 | 126 | (14) | 311 |

**Declaration by the manager responsible for preparing the company's financial reports**

The manager responsible for preparing the company's financial reports, Alberto Nathansohn, declares, pursuant to paragraph 2 of Article 154-*bis* of the Consolidated Law on Finance, that the accounting information contained in this press release corresponds to the document results, books and accounting records.

***Disclaimer***

*This document includes forward-looking statements, specifically in the section entitled “Outlook for the year”, relating to future events and operating, economic and financial results of the Benetton Group. By their nature, such forecasts contain an element of risk and uncertainty, because they depend on the occurrence of future events and developments. The actual results may differ significantly from those announced for a number of reasons.*


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