Benetton Group slight decline in Europe and double digit growth in emerging markets

- **Net Revenues: €1,481 million (-1.1%, net of the -0.5% exchange impact), double digit growth in emerging markets (+11% currency neutral).**
- **Operating profit: €115 million (7.8% of revenues), with results significantly impacted by the increase in raw material costs.**
- **Net income: €60 million (4.1% of revenues).**
- **Net financial position: €749 million.**

Ponzano, November 14, 2011, at 01.20 p.m. CET – - The Benetton Group Board of Directors, meeting today, examined and approved the consolidated results for the first nine months of 2011.

Consolidated income statement

Group **net revenues** for the first nine months of 2011 reached €1,481 million, almost unchanged at currency neutral, compared with the same period of 2010 (-0.5%). This result was the outcome of extensive efforts to accelerate growth in those markets where there are promising opportunities for the Group, mainly the emerging markets, and to defend its market share in established markets, where the economic crisis and uncertain prospects had a significant influence on consumer expenditure, impacting development of the whole sector and of the Group. In particular, the apparel division recorded revenues of €1,388 million, with a currency neutral reduction of 1.4% (€30 million) compared with the first nine months of 2010. The textile division, on the other hand, achieved an increase in revenues of 16.3 % (€93 million, compared with €80 million in the comparable period), also due to the impact of increases in raw material costs.

At geographic level, emerging markets and markets with high growth potential increased overall by 11% currency neutral, with a proportion of revenues which rose to 26% (from 24% for the first nine months of 2010), and all principal markets here were positive. We mention in particular the excellent results achieved in Mexico (+26% currency neutral), in India (+12%) and in Russia (+28%). In established markets on the other hand, there was a 4% currency neutral reduction in revenues, with a positive performance in Germany and the UK, which offset a significant contraction in sales in Greece and, although to a much lesser extent, also in Mediterranean area countries (Portugal, Spain, France and Italy). Outside Europe, USA (-9% currency neutral) and Japan (-23%) were negative, also after rationalisation of the stores network in these markets.

Gross operating profit, of €645 million (43.5% of net revenues) was down (-€51 million) compared with €696 million (46.5%) in the comparable nine months, due to the already-reported high increases in raw material costs, cotton and wool in particular, which negatively impacted on the 2011 Fall/Winter collection despatched to stores between the end of the second quarter and the third quarter. On the other hand, the change in the euro exchange rate against the US dollar, the main reference currency for purchases, had a positive effect.

The **contribution margin** was €530 million (35.8% of revenues), against €583 million (38.9%) in the corresponding period of 2010, down by €53 million.

Due to systematic attention to management of costs, following programmes initiated in previous years and pursued with determination also in the current financial year, general expenses in the first nine months of 2011 were further reduced by around 3% against the comparable nine months. Non-recurring expenses were also down, due, in particular, to the conclusion of the already-reported programmes for reorganisation of the Group textile division.
As a result, **operating profit (EBIT)** was €115 million, down compared with €141 million in the corresponding period of 2010, with a percentage to revenues of 7.8%, compared with the previous 9.4%.

Financial management produced some improvements, above all due to the reduction in average indebtedness and in spite of the increase in interest rates. Overall, financial expenses moved from €15 million in the first nine months of 2010 to €14 million in 2011. However, the usual exchange rate hedging operations contributed negatively to the result (-€11 million compared with an income of €13 million in 2010).

The effective tax rate was 34% in the 2011 nine months, down as expected compared with the same period of 2010 (41%).

Finally, **net income** was €60 million (4.1% of revenues), compared with €85 million (5.7%) for the first nine months of 2010.

Balance sheet

Compared with September 30, 2010, working capital increased by €103 million, due to the combined effects of an increase in inventories of €57 million, partly linked to the already mentioned growth in raw material costs, and the increase in trade receivables of €71 million, in turn resulting from the incidence of sales in the wholesale channel, in particular linked to development in Russia and India, as well as to a slow-down in collection ratios, more marked in the Mediterranean area. This was offset by an increase in trade and sundry payables of €25 million.

Net financial indebtedness at September 30, 2011, traditionally a peak time for Group exposure to the banking system, was €749 million, higher than the €645 million at September 30, 2010, due to the impact of the increase in working capital already mentioned, as well as to purchase of treasury shares and investments in the period.

Summary of consolidated cash flows

Cash flow generated by operating activities before changes in working capital totalled €198 million, against €244 million in the comparable period.

In the first nine months of 2011, the Group continued its policy of renewal of the commercial network, with **net investments** of €82 million (€101 million in the comparative period). These included €53 million of commercial and real estate investments and €14 million for manufacturing activities.

During the first nine months of 2011, dividends were paid of €46 million (€41 million in the comparative period) and, between July 28 and September 30, 3,855,672 treasury shares were purchased for an outlay of around €17.9 million (without commissions). As of September 30, 2011, the Company held 14,201,582 treasury shares, equivalent to 7.8% of share capital for a total outlay of €89.6 million (without commissions).

Outlook for the year

The economic outlook in the Group's main reference markets continues to be very critical, whereas the development of new markets continues in an encouraging way. Overall, the collection of orders for the 2011 Fall/Winter collection has shown a significant change in trend and will close, in line with Group expectations, with a higher value than for the corresponding collection for 2010. The pressure on raw material costs has eased in the last few months, although these remain well above the historic average and will therefore continue to impact on margins in coming quarters.

Franco Furnò, CEO with responsibility for Commercial, Product and Human Resources areas declared: "Our Group is continuing to follow a strategy based on three principal elements: the strengthening of brands, in particular the United Colors of Benetton brand, continual product enhancement and improvement, and renewal of the store network. In this context, in the last few months in particular, the following have been introduced: a strengthening of skills in the communication, marketing and merchandising areas; a significant increase of visibility in digital media and the imminent return of Benetton to corporate communication committed to social themes of global relevance, which has always been a company tradition.
On the business operations front, on the other hand, recent successes achieved by the special collections project, and by dedicated collections in Asiatic countries, are particularly auspicious for continued growth in those markets. At the same time, we will resolutely pursue support programmes for strengthening the commercial network."

Biagio Chiarolanza, CEO with responsibility for Operations, foreign Business Units and Finance, declared: “In the light of an increasingly difficult economic scenario, the results achieved testify to Group efforts to achieve medium-term improvement objectives. The fourth quarter has also opened in an environment of growing uncertainty in established markets, which are the countries of greatest importance in our portfolio. Margins remain under pressure, and robust control of costs is a priority in order to defend profitability, in line with what has been done in recent years. Operating profit for 2011 will be in line with forecasts, lower than in the last financial year. In particular, all our efforts are directed towards optimisation of cash management to support the numerous investment projects, while limiting growth of the financial position.

Benetton Group consolidated results

(unaudited)

Consolidated statement of income

(millions of Euro)	Nine months 2011	%	Nine months 2010	%	Change	%	Full year 2010	%
Revenues	**1,481**	**100.0**	**1,498**	**100.0**	**(17)**	**(1.1)**	**2,053**	**100.0**
Materials and subcontracted work	742	50.1	706	47.1	36	5.1	977	47.6
Payroll and related costs	58	4.0	60	4.0	(2)	(1.8)	80	3.9
Industrial depreciation and amortization	11	0.7	11	0.7	-	(1.6)	14	0.7
Other manufacturing costs	25	1.7	25	1.7	-	(1.4)	34	1.6
Cost of sales	**836**	**56.5**	**802**	**53.5**	**34**	**4.3**	**1,105**	**53.8**
Gross operating profit	**645**	**43.5**	**696**	**46.5**	**(51)**	**(7.3)**	**948**	**46.2**
Distribution and transport	51	3.4	50	3.4	1	1.6	73	3.6
Sales commissions	64	4.3	63	4.2	1	1.0	86	4.2
Contribution margin	**530**	**35.8**	**583**	**38.9**	**(53)**	**(9.0)**	**789**	**38.4**
Payroll and related costs	132	8.9	129	8.6	3	2.9	175	8.5
Advertising and promotion	42	2.8	44	2.9	(2)	(4.3)	55	2.7
Depreciation and amortization	65	4.4	65	4.4	-	(0.2)	89	4.3
Other expenses and income	176	11.9	204	13.6	(28)	(13.9)	294	14.3
- of which non-recurring expenses/(income)	*4*	*0.3*	*18*	*1.2*	*(14)*	*(77.4)*	*32*	*1.6*
General and operating expenses	**415**	**28.0**	**442**	**29.5**	**(27)**	**(6.0)**	**613**	**29.8**
- of which non-recurring expenses/(income)	*4*	*0.3*	*18*	*1.2*	*(14)*	*(77.4)*	*32*	*1.6*
Operating profit (*)	**115**	**7.8**	**141**	**9.4**	**(26)**	**(18.4)**	**176**	**8.6**
Share of income/(losses) of associated companies	1	0.1	-	-	1	n.s.	(1)	(0.1)
Financial (expenses)/income	(14)	(1.0)	(15)	(1.0)	1	(0.9)	(19)	(0.9)
Net foreign currency hedging (losses)/gains and exchange differences	(11)	(0.8)	13	0.9	(24)	n.s.	12	0.6
Income before taxes	**91**	**6.1**	**139**	**9.3**	**(48)**	**(35.2)**	**168**	**8.2**
Income taxes	31	2.1	57	3.8	(26)	(46.1)	65	3.2
- of which non-recurring income taxes	-	-	-	-	-	-	*4*	*0.2*
Net income for the period	60	4.0	82	5.5	(22)	(27.5)	103	5.0
attributable to:								
- shareholders of the Parent Company	**60**	**4.1**	**85**	**5.7**	**(25)**	**(29.8)**	**102**	**5.0**
- minority shareholders	-	(0.1)	(3)	(0.2)	3	(86.3)	1	n.s.

(*) Trading profit was 119 million, representing 8.1% of revenues (159 million in first nine months 2010, representing 10.6% of revenues and 208 million in 2010 representing 10.1% of revenues).

(millions of Euro)	3rd quarter 2011	%	3rd quarter 2010	%	Change	%
Revenues	**575**	**100.0**	**606**	**100.0**	**(31)**	**(5.2)**
Materials and subcontracted work	303	52.7	306	50.4	(3)	(0.9)
Payroll and related costs	18	3.1	18	3.0	-	(3.4)
Industrial depreciation and amortization	4	0.7	3	0.6	1	3.8
Other manufacturing costs	8	1.4	8	1.4	-	0.8
Cost of sales	**333**	**57.9**	**335**	**55.4**	**(2)**	**(1.0)**
Gross operating profit	**242**	**42.1**	**271**	**44.6**	**(29)**	**(10.4)**
Distribution and transport	18	3.1	18	2.9	-	4.4
Sales commissions	26	4.5	26	4.3	-	(3.1)
Contribution margin	**198**	**34.5**	**227**	**37.4**	**(29)**	**(12.4)**
Payroll and related costs	42	7.4	42	6.9	-	2.0
Advertising and promotion	15	2.6	14	2.3	1	9.1
Depreciation and amortization	21	3.6	22	3.7	(1)	(7.7)
Other expenses and income	63	11.0	71	11.6	(8)	(10.6)
- of which non-recurring expenses/(income)	*2*	*0.3*	*6*	*1.0*	*(4)*	*(71.4)*
General and operating expenses	**141**	**24.6**	**149**	**24.5**	**(8)**	**(4.8)**
- of which non-recurring expenses/(income)	*2*	*0.3*	*6*	*1.0*	*(4)*	*(71.4)*
Operating profit (*)	**57**	**9.9**	**78**	**12.9**	**(21)**	**(27.1)**
Financial (expenses)/income	(5)	(0.9)	(7)	(1.2)	2	(29.2)
Net foreign currency hedging (losses)/gains and exchange differences	(5)	(0.9)	4	0.6	(9)	n.s.
Income before taxes	**47**	**8.1**	**75**	**12.3**	**(28)**	**(37.5)**
Income taxes	16	2.8	28	4.5	(12)	(41.8)
Net income for the period	31	5.3	47	7.8	(16)	(34.9)
attributable to:						
- shareholders of the Parent Company	**31**	**5.3**	**46**	**7.6**	**(15)**	**(33.6)**
- minority shareholders	-	-	1	0.2	(1)	(84.7)

(*) Trading profit was 59 million, representing 10.2% of revenues (84 million in third quarter 2010, representing 13.9% of revenues).

Balance sheet and financial position highlights

(millions of Euro)	09.30.2011	12.31.2010	Change	09.30.2010	Change
Working capital	889	622	267	786	103
- trade receivables	950	804	146	879	71
- inventories	348	293	55	291	57
- trade payables	(391)	(442)	51	(371)	(20)
- other receivables/(payables) (A)	(18)	(33)	15	(13)	(5)
Assets held for sale	1	10	(9)	13	(12)
Property, plant and equipment and intangible assets (B)	1,306	1,314	(8)	1,317	(11)
Non-current financial assets (C)	21	25	(4)	24	(3)
Other assets/(liabilities) (D)	15	13	2	-	15
Net capital employed	**2,232**	**1,984**	**248**	**2,140**	**92**
Net debt (E)	749	486	263	645	104
Total shareholders' equity	**1,483**	**1,498**	**(15)**	**1,495**	**(12)**

(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)	09.30.2011	12.31.2010	Change	09.30.2010
Cash and banks	70	195	(125)	103
A **Liquid assets**	**70**	**195**	**(125)**	**103**
B **Current financial receivables**	**40**	**29**	**11**	**40**
Current portion of medium/long-term loans	(400)	-	(400)	-
Financial payables, bank loans and lease financing	(163)	(64)	(99)	(141)
C Current financial payables	**(563)**	**(64)**	**(499)**	**(141)**
D = A+B+C **Current financial indebtedness**	**(453)**	**160**	**(613)**	**2**
E **Non-current financial receivables**	**3**	**4**	**(1)**	**4**
Medium/long-term loans	(299)	(650)	351	(650)
Lease financing	-	-	-	(1)
F **Non-current financial payables**	**(299)**	**(650)**	**351**	**(651)**
G = ***E+F*** **Non-current financial indebtedness**	**(296)**	**(646)**	**350**	**(647)**
H = D+G **Net debt**	**(749)**	**(486)**	**(263)**	**(645)**

Cash flow statement

(millions of Euro)	Nine months 2011	Nine months 2010
Cash flow from operating activities before changes in working capital	198	244
Cash flow used by changes in working capital	(275)	(146)
Interest (paid)/received and exchange differences	(26)	(2)
Payment of taxes	(28)	(18)
Cash flow provided/(used) by operating activities	**(131)**	**78**
Net operating investments/Capex	(86)	(94)
Non-current financial assets	4	(7)
Cash flow used by investing activities	**(82)**	**(101)**
Free cash flow	**(213)**	**(23)**
Cash flow provided/(used) by financing activities of which::		
- payment of dividends	(46)	(41)
- purchase of treasury shares	(18)	-
- net change in other sources of finance	155	31
Cash flow provided/(used) by financing activities	**91**	**(10)**
Net decrease in cash and cash equivalents	**(122)**	**(33)**

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)	Nine months 2011	Nine months 2010	Change	Full year 2010
A Operating profit	115	141	(26)	176
B - of which non-recurring expenses/(income)	*4*	*18*	*(14)*	*32*
C Depreciation and amortization	76	76	-	103
D Other non-monetary costs (net impairment/(reversals))	2	7	(5)	24
E - of which non-recurring	*2*	*7*	*(5)*	*24*
F = A+C+D EBITDA	193	224	(31)	303
G = F+B-E Ordinary EBITDA	195	235	(40)	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, in accordance with paragraph 2 of article 154-b 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, relative to future events and income and financial operating 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.

For further information and contacts:

Media
+39 0422519036
www.benettongroup.com/press
www.benettonpress.mobi

Investor Relations
+39 0422517773
www.benettongroup.com/investors
www.benettonir.mobi