



Benetton Group Annual Report 2005

Directors' report - Consolidated financial statements

**UNITED COLORS
OF BENETTON.**

Benetton Group S.p.A.

Villa Minelli

Ponzano Veneto (Treviso) - Italy

Share capital: euro 236,026,454.30 fully paid

Tax ID/Treviso Company register: 00193320264



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são paulo
23°31'S 46°37'W



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35°40'N 51°26'E



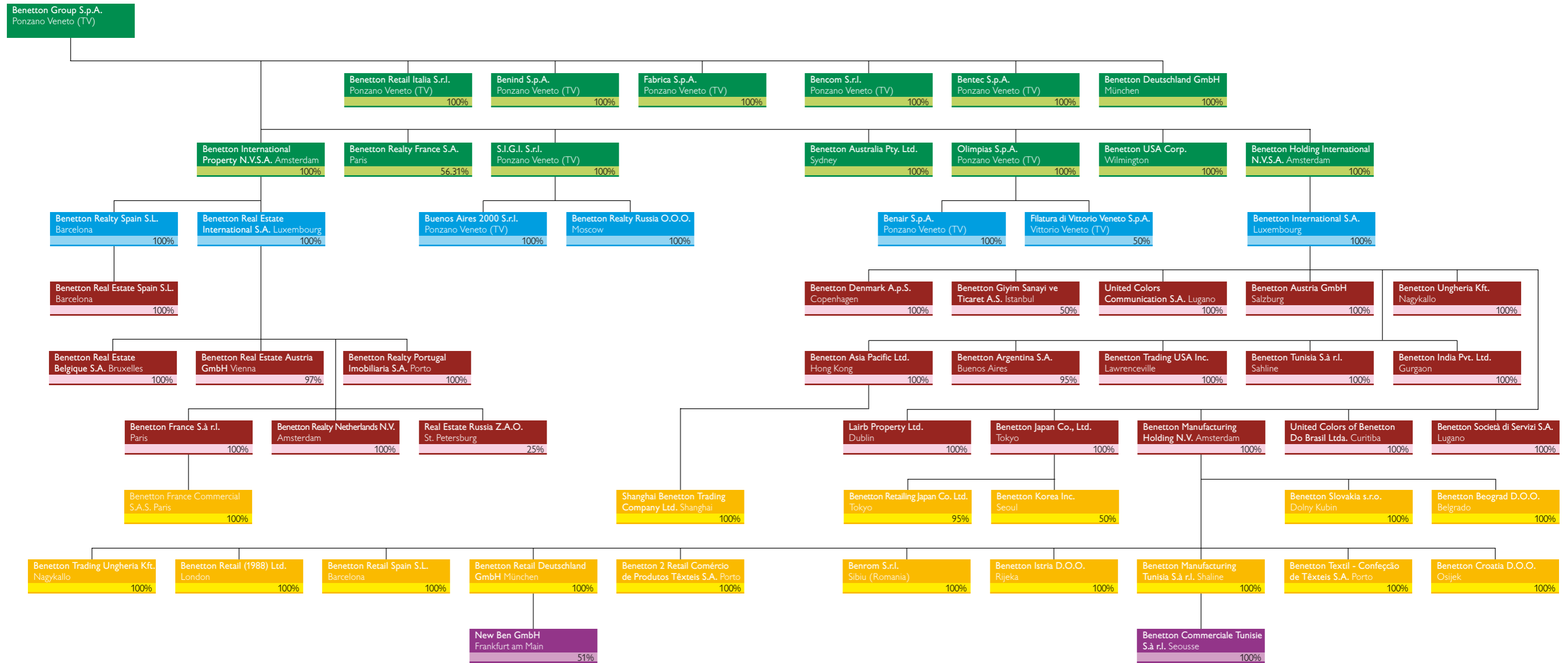
<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1965</p> <p>Creation of Benetton Group.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1968</p> <p>First Benetton store outside Italy (Paris).</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1974 1977</p> <p>Sisley enters the Group brand portfolio.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1978 1985</p> <p>Group exports 60% of production.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1980</p> <p>Opening of the first New York store, in Madison Avenue.</p>
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<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1982</p> <p>Opening of the first store in Tokyo. Collaboration with Oliviero Toscani begins.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1983</p> <p>The Group enters Formula One as sponsor of the Tyrrel team. In 1986, following the acquisition of Toleman, Benetton Formula Limited racing team is created. It wins two world drivers and one constructors championships. In 2000 Renault acquires the Benetton team.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1985</p> <p>Benetton advertising wins the "Grand Prix de la Publicité" in France. It is the first in a series of acknowledgments that, together with critiques and censorship, fosters debate in many countries around the world.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1986 1989</p> <p>The Group is listed on Milan, Frankfurt and New York Stock Exchanges.</p>
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<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1989</p> <p>Entry into East Europe and former Soviet Union markets.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1991</p> <p>First presences of the brand in China and India.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">1994</p> <p>Fabrica, Benetton Group communication research center, is created.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">2003</p> <p>The family takes a step back in order to give more responsibility to managers.</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; font-size: 2em;">2005</p> <p>Benetton is present in 120 countries with 5,000 stores. Alessandro Benetton is appointed Deputy Chairman of the Group.</p>
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■ The Benetton Group

Main consolidated companies as of December 31, 2005





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Directors and other officers

Board of Directors

Luciano Benetton ⁽¹⁾	Chairman
Carlo Benetton	Deputy Chairman
Alessandro Benetton	Deputy Chairman
Silvano Cassano ⁽²⁾	Chief Executive Officer
Giuliana Benetton Gilberto Benetton Reginald Bartholomew Luigi Arturo Bianchi Giorgio Brunetti Gianni Mion Ulrich Weiss	Directors
Pierluigi Bortolussi	Secretary to the Board

Board of Statutory Auditors

Angelo Casò	Chairman
Filippo Duodo Antonio Cortellazzo	Auditors
Marco Leotta Piermauro Carabellese	Alternate Auditors

Independent Auditors

PricewaterhouseCoopers S.p.A.

Powers granted

⁽¹⁾ Company representation and powers to carry out any action that is consistent with the Company's business purpose, except for those expressly reserved by law to the Board of Directors and to the shareholders' Meeting, with limitation on some categories of action.

⁽²⁾ Power to carry out any action relating to the ordinary administration of the Company as well as certain acts of extraordinary administration subject to limits on amounts.



Letter to shareholders from the Chairman and Founder of the Benetton Group, Luciano Benetton

To the shareholders,

Anniversaries normally lead us to look at the past, at how far we have come. I prefer to turn this on its head and to project these last 40 years into the future, almost as if this were our first day of business. Throughout our journey, there have certainly been many successes for us to be proud of - and we will be celebrating these this fall at the Centre Pompidou in Paris - but it is equally true that "our" future begins each and every day, and it is our duty to keep pace with the passing of time with optimism and vigor.

For us, for example, the results achieved in 2005 should be seen, above all, as the basis upon which to grow even further in 2006. These results demonstrate that our Group is equipped to meet the challenges of the years to come, because we can count on a stable shareholder base and a highly skilled management team. Equally important is the ability of each of us to work as a team and play an active role, working towards a common goal shared throughout the organization's value chain: this is the glue that gives strength to our entrepreneurial culture.

Our network of sales partners, in particular, continues to strengthen and become more sophisticated day by day. It is together that we invest in the updating of shops, in the services we provide, in the value of our brands, and in the style and quality of our collections. All this is driven by a philosophy of being in direct contact with the market and as close as possible to the final consumer.

The ability to weave a global "network of skills", selecting the best industrial and commercial resources available upon which to further develop Benetton know-how, has enabled us to make bold forays into markets that only western shortsightedness could see as being "emerging". A case in point is India, where our 15 years of presence has provided us with a significant competitive advantage, or China. Both these countries are acting as invaluable springboards for the development of other Asian markets.

Tomorrow, as today, we will continue to focus on development. This means investing in technology, innovation, and organization, in order to be as competitive, fast, and dynamic as we can. This approach will enable us to be highly reactive, both in coming up with ideas - and putting them into action with the projects, products and solutions that anticipate coming trends.

Because, in reality, our future begins now - at 40!

Luciano Benetton
Chairman, Benetton Group S.p.A.

Key financial data - highlights

Application of IFRS

The Group's financial statements for 2005 and comparative periods have been drawn up in accordance with the International Financial Reporting Standards (IFRS) applicable at the date of preparation and on the basis of Appendix 3D to the Issuers' Regulations no. 11971 of May 14, 1999, and subsequent amendments and additions. Regarding financial year 2004, the year of first-time adoption of the IFRS, the section "Transition to IFRS" has been prepared (and is included below), which details the procedures followed for the transition, as well as the impact of the adoption of IFRS on the consolidated balance sheet, income statement, and statement of cash flows.

Key operating data

(millions of euro)	2005	%	2004	%	Change	%
Revenues	1,765	100.0	1,704	100.0	61	3.6
Gross operating income	770	43.6	775	45.5	(5)	(0.6)
Contribution margin	643	36.4	654	38.4	(11)	(1.6)
Ordinary operating result (*)	205	11.6	225	13.2	(20)	(8.7)
Operating profit	157	8.9	158	9.3	(1)	(0.4)
Net income for the year attributable to the Parent Company and minority interests	114	6.5	108	6.4	6	5.3
Net income for the year attributable to the Parent Company	112	6.3	109	6.4	3	2.8

(*) Ordinary operating result is indicated for the purposes of evaluating the performance of the company's core business and to aid financial analysts in using their models to analyze the company's results. This information is not required by either IFRS or US GAAP.

Key financial data

(millions of euro)	12.31.2005	12.31.2004
Working capital	688	711
Assets held for sale	8	8
Net capital employed	1,626	1,654
Net financial position	351	441
Total shareholders' equity	1,275	1,213
Free cash flow (normalized)	167 ^(A)	182 ^(B)
Net total investments/(disposals) (excluding purchase and sale of securities)	118	95

(A) Not including 118 million euro for the sale of financial assets.

(B) Not including the payment of substitute taxes of 124.5 million euro, the sale of the sports equipment segment, in the amount of 49 million euro, and the purchase of financial assets, in the amount of 90 million euro.

Financial ratios

(in %)	12.31.2005	12.31.2004
ROE (Net income / Equity)	8.87	9.02
ROI (Operating profit / Net capital employed)	9.67	9.54
EBITDA ((Operating profit + depreciation and amortization + other non-monetary costs) / Revenues)	16.20	18.30
ROS (Operating profit / Revenues)	8.90	9.26
Net income / Revenues	6.34	6.38

Share and market data

	12.31.2005	12.31.2004
Basic earnings per share (euro)	0.62	0.60
Shareholders' equity per share (euro)	6.95	6.64
Price at period end (euro)	9.62	9.74
Screen-based market: high (euro)	10.15	10.18
Screen-based market: low (euro)	7.01	8.33
Market capitalization (thousands of euro)	1,746,596	1,768,383
Average no. of shares outstanding	181,558,811	181,558,811
Number of shares outstanding	181,558,811	181,558,811

Number of personnel

	12.31.2005	12.31.2004
Total employees	7,978	7,424



xishuang
27°38'N 100°47'E

■ Directors' report



albuquerque
35°06'N 106°36'W

Financial year 2005 worked out at two different speeds, which reflects the unique nature of the Benetton business model and the potential of a system in which an entrepreneurial spirit can be harnessed to face complex market challenges.

Consolidated revenues, which have grown 3.6%, were driven by the strong performance of the Fall/Winter season, thanks to reorders that were substantially higher than originally expected. Also contributing to this performance was the particularly good product mix and the significant development of business in Mediterranean countries, including Turkey, as well as in eastern Europe and Korea.

+3.6%
consolidated
revenues

The heightened competitiveness and greater flexibility of our product offerings have enabled us to provide consumers throughout the world with quality and style, designed by an unparalleled team able to integrate design, marketing, and manufacturing skills more quickly than our competitors.

Good cost control and the increase in sales volumes have made it possible to offset the pressure on margins coming from focused sales initiatives, centered around the sales network and the final consumer.

Discipline in employing invested capital has enabled us to contain working capital while increasing revenues, as well as to generate additional resources that are available to be used to accelerate the company's internal growth.

In 2006, 40 years after the start of operations and 20 years after the first public listing in Italy, the challenges that lie ahead for Benetton continue to be a vital source of motivation to constantly rethink and renovate all areas of the company's business. In this way profitable growth can be sustained while long-term value for our shareholders, sales partners, and all our other stakeholders is created.

40
years
of history

20
years of SE
listing

Silvano Cassano
Chief Executive Officer (CEO)

The product: style and planning

Throughout 2005, the Product Development Unit, which was established in 2004, continued consolidating its role of connecting the product, operations, and sales units. This unit has the twofold objective of providing an ever better service to Benetton's traditional customers, the company's global network of partners, and of generating more direct contact with the market and the final consumer.

"We are working to provide the necessary creativity in the design of our collections, taking into account the demands of rationalization and organization, so as to combine product innovation and planning in a quick and effective response to the needs of the marketplace." **Walter Giuriato, head of the Product Development Unit**

An improved rationalization of the collections, in particular, led to an average reduction in the number of articles presented in 2005, thereby lowering dispersion, inefficiency, and costs, while at the same time strengthening the identity and consistency of the various brands.

In conjunction with this, and in order to complement the product offering and take advantage of as many opportunities for growth as possible, Benetton collections now include "nice price" articles, which are basic yet original and are inspired by the practical needs of day-to-day living. Product planning is also intended to constantly reduce the time it takes to restock the points of sale, in order to quickly reach the goal of offering with the base, flash, integrations and new fashion collections at least a new proposal every four weeks.

The continuative articles, which represent the very genetic makeup of each brand, are available throughout the year and at increasingly rapid resupply times: as low as seven days in Italy and 15 throughout the rest of the world.

In 2005, a merchandising plan was also created for each brand, which analyzes the sales performance of the various articles from the previous year and provides additional guidelines for planning and developing future collections.

"Benetton's collections are constantly evolving, yet never lose their own identity. With innovative raw materials, colors that are in touch with the times, and new, youthful shapes, we help stimulate the market by designing articles that always evoke the history and tradition of our brands. From 2005, hanging garments made a decisive entry into the collections alongside our casualwear, while knitwear was the focus of a special color project. The search for new materials has also led us to produce articles made of bamboo viscose for Fall/Winter 2006, which provides a soft, natural feel and advanced ecological and anti-bacterial characteristics. Benetton's constant dedication to the quest for new materials and new designs has led us, for example, to strengthen our relationship with Politecnico di Milano, particularly on a project, co-funded by the Italian Ministry of Education and Research, to study and eliminate the peeling effect of wool and other fabrics. Another study, which we are developing with Istituto di Nanotecnologie in Venice, involves the application of Nanotechnology in fabrics, which will lead to further innovation in our collections." **Vincenzo Scognamiglio, UCB Chief Product Officer**

Production organization: speed and service

Benetton's production system was redesigned in 2005, evolving from an organization based on divisions (e.g. wool and cotton) to a structure based on Service Units, such as planning and quality control.

The new system is more efficient, flexible, and integrated, and makes it possible to optimize quality, service, and product delivery times, while being able to sustain desired growth in production over the coming years. In 2005, clothing production increased by as much as 3 million articles over the previous year.

This system relies on a "network of skills", which, leverages the best industrial capabilities available internationally, into which Benetton know-how is introduced, in each case using the most appropriate production techniques. In a landscape of increasing competition, such a system ensures rapid response times, product quality, and customer satisfaction. Benetton's control and research units, which govern the entire system, operate in eastern Europe, in the Mediterranean - led by Tunisia and Turkey - and in transitional Asian markets, such as China and India.

In terms of logistics, in 2004, the new Hong Kong hub became fully operational and, together with the European hub, allows for more rapid response times and better customer service in China, Japan, and the Far East in general, as well as in the U.S. Other such units throughout the world are being studied and will consolidate the transition from a centralized system to a new model based on satellite logistics.

"In 2005, Benetton celebrated the fifteenth anniversary of its presence in India, which represents a significant competitive advantage in a market rich in history and tradition, but which is, at the same time, strategic to the development of business in Asia. The production of cotton clothing, shirts, accessories, and footwear by our production network, which includes the facilities in Gurgaon (Haryana) just outside of Delhi, has enabled us to continue the strong growth of Benetton India (wholly owned by Benetton Group since December 2004), which boosted sales by 70 percent in 2005. The more than 50 shops currently in business in the country are expected to double over the next three years." **Gagan Singh, managing director of Benetton India**

The markets: knowledge and development

The areas of greatest growth in 2005 were eastern Europe, the Mediterranean - Spain, Greece, and Turkey - and Korea. In Turkey, a joint venture has also been established with the Boyner Group in order to develop production and sales in the country and certain surrounding areas.

Retail distribution, which, as of this year, is being centrally coordinated in Italy, numbered almost than 300 shops in the leading international fashion capitals and posted encouraging economic results.

The evolution of the interior design elements of shops continued in 2005 with the new Sisley concept, known as Pentagram, which is a better fit for the glam image and for brand positioning. The previous year also saw the debut of the Twins concept for UCB, which expresses the themes of the various collections very effectively.

Commercial policies were also launched in 2005 aimed both at broadening the product offering to include "nice price" articles while favoring an increase in customer traffic in the points of sale and at the same time at supporting an increase in margins for our partners so that they can invest to keep the sales network fresh and up to date. The results achieved will enable us to continue confidently along this path in 2006.

In the area of co-branding, Benetton and Mattel have begun a global partnership through December 31, 2006, for the creation of a girlsweat line called "Barbie loves Benetton", which has been well received throughout the world.

With regard to licensing, of particular note is the agreement with Zorlu Holding, one of the largest Turkish groups, for Sisley Casa products, as well as the exclusive agreement

with the French firm Selective Beauty for the development and global distribution of United Colors of Benetton perfumes, colognes, and fragrances.

"The new Benetton Giyim Sanayi, a joint venture between Benetton and Boyner Group, manages all commercial activities of the brands United Colors of Benetton, Sisley, Playlife, and Killer Loop. According to the development plan, sales should increase by 50 percent over the next five years, thereby significantly strengthening our presence in Turkey. Benetton has grown here like no other international brand. With entrance into the European Union, our domestic market is certain to grow, as will our business in the Eurasia zone, which shows strong potential for sales development. Today in Turkey, there are already more than 100 shops in 50 cities displaying the Benetton logo."

Zeynep Selgur, general manager of Benetton Giyim Sanayi

"Barbie and Benetton have joined forces to create one of 2005's most exciting developments in the world of fashion, delighting and surprising customers throughout the world by combining Benetton's brilliant abilities in the clothing industry and its strength in distribution with the world's most famous fashion doll. Being successful in business today means having the courage to run risks and to support innovative, creative ideas. That's the difference between a good brand and an exceptional one. The Benetton-Barbie relationship shows that innovative thinking, imaginative leadership, and the courage to run with an idea can lead to exciting results. Mattel is enthusiastic about this partnership and is looking forward to future innovations with Benetton. 'Barbie loves Benetton' is a splendid partnership and a sign for these two world-famous brands that will stand the test of time."

Richard Dickson, senior vice president of worldwide marketing, media and entertainment for Mattel

Human resources: teamwork and corporate culture

In 2005, the department contributed to the evolution of the Group's corporate culture by redesigning the organizational structure around three fundamental principles: teamwork, knowledge, and quality.

Directly managed distribution, in particular, is currently being coordinated by a centralized Retail Unit, which also serves to connect the various units throughout the world.

By preparing forecasts of market dynamics, the new Production Planning office makes it possible to anticipate and reduce production times in order to respond to the needs of the marketplace in a timely manner.

The Commercial department, in turn, has been redesigned around the two main sales channels: wholesale distribution and the retail chain.

In terms of training, of particular note is a visual merchandising program (concepts, brand communication, and window and in-shop displays) for our partners, which involved more than 250 shops in 2005.

For young people looking for a career in sales, there was also the *Wanna Sell?* project, including hands-on sales experience in the field. The program has a duration of roughly one year and highlight characteristics such as strong sales ability, product sensitivity, pragmatism, and speed at becoming one with the system. After an initial period of six to eight months in the shop, the most promising participants continue on with a trial period with a Benetton agent/area manager.

Information Technology: analysis and reliability

During 2005, numerous initiatives were launched as part of Project Phoenix, which supports the core business with the renovation and full integration of IT systems. Completed projects included the new information system for the retail channel, which is based on the Oracle platform and manages the main processes (financial planning and management of both corporate activities and stores activities) globally through a single centralized system.

The project *Benettontv* calls for the implementation of a new portal for Benetton partners (agents, clients, shops, and buyers), which provides controlled access with all the necessary security assurances. The system will make it possible to provide information to the entire Benetton commercial network in real time, updating everyone on initiatives (new collections, reassortments, display methods, distance learning for employees, and so on) and receiving orders via web. In particular, the Continuitive Articles project has already begun according to which orders for these products will be entered directly, and thanks to integration with the information systems of the production and logistics units, the system will provide immediate confirmation and guaranteed delivery times (first in, first out).

Upon completion of the Planning project for the organization of production and having implemented the first phase of the "Sell-out" project to keep track of market trends in real time, the diffusion of the centralized system of Administration and Control, based on the SAP platform has gradually advanced.

Among the other projects in 2005, the followings are of particular note: support for the Benetton orders process, from receipt of the orders to their fulfillment using the SAP Apparel and Footwear (SAP AFS) platform; the adoption of Java technology in order to complete and launch the packaging system; the design of a new high-speed metropolitan area network (MAN) to connect the corporate offices of Benetton Group, based in the Treviso area.

"The Phoenix-SAP project sees IBM's Business Consulting Services division working side by side with Benetton. It is a project of strategic importance for the company, one which seeks to update the information system that supports the company's main processes, beginning with sales and logistics. IBM feels deeply involved and is working as a close-knit team with Benetton, sharing commitments, objectives, and results." **Andrea Pontremoli, CEO of IBM Italia**

Communication: innovation and vision

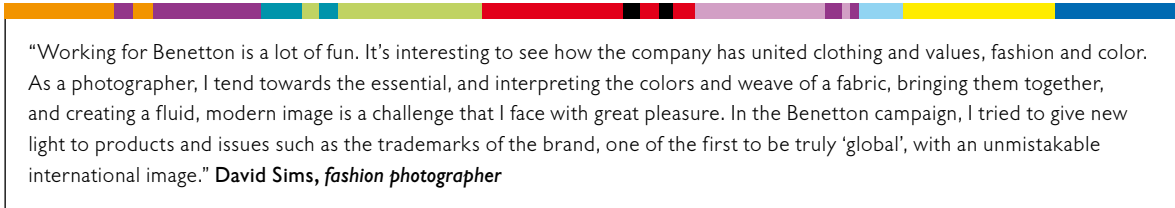
In 2005, we launched the communication project to celebrate Benetton Group's 40th anniversary, which will culminate in a grand event in Paris in October 2006 at the prestigious Centre Pompidou, featuring both fashion and art and which will be designed by Fabrica.

During the year, Benetton's communication research center continued its multicultural and international activities with projects and events ranging from the global campaign to promote tourism in the Veneto region to Flipbook, the media art project encompassing nearly 200,000 animations and 15 million visitors (winning the Grand Prize at the Japan

Media Art Festival), from promotion and graphic design for art exhibits to a documentary on the city of Shanghai for Swiss German television.

The United Colors of Benetton campaign, photographed for Fabrica by David Sims, reaffirmed the brand's values of color and youth with a decidedly modern flair. Sisley asserted its reputation as a sexy, trendy brand in its Fall/Winter 2005 campaign, which was set in the streets of Naples and photographed by Terry Richardson. The success of the clothing collections in 2005 was also supported by communication, with a significant increase worldwide, up 16%, of coverage in fashion newspapers and periodicals.

In the world of new media, both the blog, *benettontalk*, designed to open up dialogue with online youth, and the new web site dedicated to the world's media debuted during the year.



"Working for Benetton is a lot of fun. It's interesting to see how the company has united clothing and values, fashion and color. As a photographer, I tend towards the essential, and interpreting the colors and weave of a fabric, bringing them together, and creating a fluid, modern image is a challenge that I face with great pleasure. In the Benetton campaign, I tried to give new light to products and issues such as the trademarks of the brand, one of the first to be truly 'global', with an unmistakable international image." **David Sims, fashion photographer**

Administration, tax and corporate: skill and precision

In 2005, the Group completed the transition to International Financial Reporting Standards (IFRS), which have become the accounting standards for the Benetton Group consolidated financial statements. The 2005 half-year report, which we presented last September, was the first to be prepared in accordance with IFRS and included the "transition" document with the reconciliations of the 2004 financial statements between Italian GAAP and IFRS and which detailed the main impacts on those financials.

We have therefore continued efforts to train and update administrative personnel, both corporate and at subsidiaries' level, as well as to perfect the accounting information system. Training also involved the staff of the fiscal and corporate areas, which have been affected by many important regulatory changes.

Beginning in 2006, the financial statements for the parent group, Benetton Group S.p.A., will be prepared in accordance with IFRS. Also in 2006, the organization will be engaged in meeting the requirements of Italian law nos. 62/2005, on market abuse, and 262/2005, on investment and savings.

Finally, for Benetton Group, as SEC registrant, 2006 will be the first year of application of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. This law requires publicly listed companies in the U.S. to have and document a detailed system of documentation and controls regarding corporate processes and financial statement information.

Investor relations: proactivity and discipline

During the year, the Investor Relations unit sought to strengthen direct communication with institutional investors throughout the world, with the organization of an ongoing series of presentations, conference calls, and meetings with the management.

Communication with the retail investors has also been further strengthened with the enhancement of the web site at www.benettongroup.com/investors, where new sections have been added (Social and Glossary) and content has been expanded. A new means of communicating with analysts has also been introduced, with a "virtual room" that facilitates group discussion on issues of common interest. Particular emphasis has also been placed on communicating clearly and fully the impact of the adoption of IAS/IFRS.

Finally, at the end of the year, a shareholders identification study was conducted in order to provide a breakdown by geographic area and to define the structure of institutional investors. The study showed that European investors hold roughly 55% of the organization's free float, with some 40% being held by American investors and the remaining 5% by Japanese investors.

Corporate Governance

Again in 2005, Benetton Group paid particular attention on corporate governance, continuing to evolve the organizational structure in accordance with Italian and international best practices and the standards required by the Italian Corporate Governance Code for listed companies (Codice di Autodisciplina delle Società Quotate). The system of corporate governance, as outlined below, is inspired by the principles of fairness and transparency in management and information and includes an ongoing process of verifying its efficiency and efficacy.

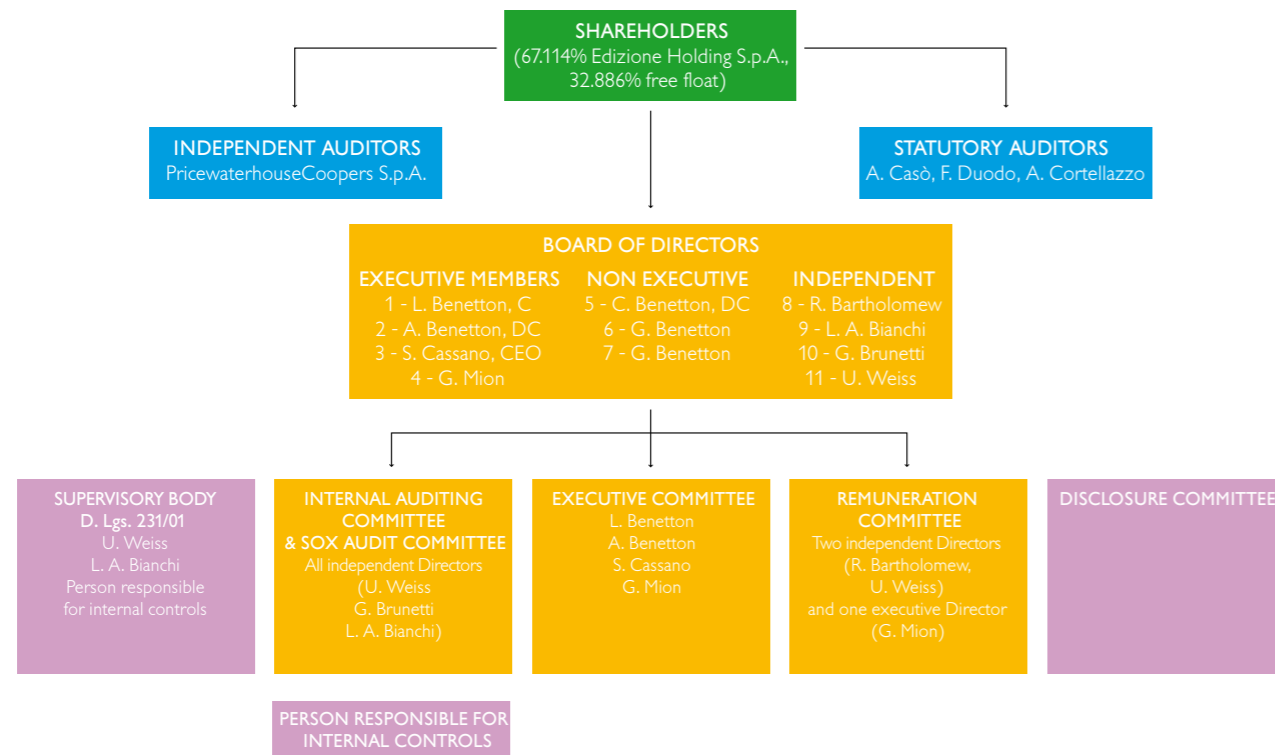
The Company has adopted the traditional system of corporate governance by which the company is led by a Board of Directors, while the body that oversees observance of the law, the Company's bylaws and the principles of proper administration is the Board of Statutory Auditors, while an independent auditing firm provides for the auditing of the accounts. Within this system of governance, the Internal Audit Committee plays a key role, as described in greater detail below.

Controlling interest. As described in greater detail below in the related section of the 2005 Directors' Report and based on the latest available data, the shareholder Edizione Holding S.p.A. holds a controlling interest in the company with a 67.144% stake.

Board of Directors. Directors. Executive Committee. Related Party Transactions.

Board of Directors. During 2005, the Board of Directors held nine meetings in which it analyzed and approved the guidelines for Group operations, organizational recommendations and general guidelines regarding human resources management, proposals to reorganize the corporate structure, operating performance, extraordinary operations and the quarterly and half-year results. During these meetings, the executive directors also provided the Board of Directors and Board of Statutory Auditors with information regarding any significant or unusual operations or related party transactions. The Board of Directors has paid particular attention on analyzing the periodic

Benetton Group Governance - 2005



reports of the Internal Audit Committee regarding its activities and an evaluation of the appropriateness of the internal control system, and providing updates on the accomplishments adopted by the Committee in accordance with the Sarbanes-Oxley Act (the U.S. law that Benetton is required to observe as a result of being listed on the New York Stock Exchange). At the Board meetings, the necessary documentation and information were provided, with reasonable advance notice, such that the Board could knowingly deliberate on the various issues submitted before it.

The current system of powers granted by the Board of Directors on May 16, 2005, as described below, and the disclosure procedures adopted ensure that the Board is informed of all of the most significant transactions for the Company and for the Group. Indeed, even though vested with the related powers, executive directors are required to submit such transactions to the Board of Directors for approval before their execution. Particular attention has been paid on transactions with related parties, as described in greater detail below in the section "Related Party Transactions".

Directors. The current Board of Directors, appointed by the shareholders' meeting on May 16, 2005, is composed of 11 members, who are to remain in office until the meeting of shareholders to approve the financial statements for the year ended December 31, 2005.

A complete overview of the directors' curricula are available on the Company's web site in the Corporate Governance section.

The Chairman, Luciano Benetton, is vested with the powers of company representation and the power to carry out all actions related to the Company's activities, with limitations for certain categories of actions and the following transactions in particular:

- the purchase and sale of shares or corporate bonds for amounts exceeding 25 million euro;
- the purchase and sale of business units and the purchase and sale of property for amounts exceeding 25 million euro;
- the approval of loans to parties other than subsidiaries for amounts exceeding 5 million euro.

The Chief Executive Officer, Silvano Cassano, is vested with the power to carry out actions related to ordinary administration and certain actions of extraordinary administration, with limitations for the following actions in particular:

- the purchase and sale of shares in companies for amounts exceeding 5 million euro;
- the purchase and sale of securities and bonds for amounts exceeding 10 million euro;
- the purchase and sale of business units and the purchase and sale of property for amounts exceeding 10 million euro;
- the approval of loans to parties other than subsidiaries for amounts exceeding 5 million euro;
- the guarantee of loans of companies that are not wholly controlled, either directly or indirectly, by Benetton Group S.p.A.

None of the other directors have executive powers.

The Board of Directors has appointed two Deputy Chairmen (Carlo Benetton and Alessandro Benetton), who are vested severally with the powers of Company representation in the absence of the Chairman.

There are seven non-executive directors (Carlo Benetton, Gilberto Benetton, Giuliana Benetton, Reginald Bartholomew, Luigi Arturo Bianchi, Giorgio Brunetti and Ulrich Weiss), of whom four (Reginald Bartholomew, Giorgio Brunetti, Luigi Arturo Bianchi and Ulrich Weiss) are "independent" from the owners and corporate management, in accordance with the concept of independence as defined by the Corporate Governance Code for listed companies in effect for financial year 2005. All directors participate diligently in the board's activities.

On an annual basis, the Board of Directors, based also on the information provided by the directors themselves, evaluates the requirements of independence of all members in accordance with the aforementioned Corporate Governance Code. No limits to the reappointment of directors have been defined.

The table below shows the offices that the directors hold in other companies listed on regulated markets, either domestic or foreign, or in banks, insurance companies, or other financial organizations, as well as in other companies of significant size that are not a part of the Group:

Director	Office	Company
Luciano Benetton	Board member	21,Investimenti S.p.A., Edizione Holding S.p.A.
Carlo Benetton	Deputy Chairman	Edizione Holding S.p.A.
Gilberto Benetton	Chairman	Autogrill S.p.A., Edizione Holding S.p.A., Ragione S.A.p.A. di G. Benetton & C.
	Deputy Chairman	Telecom Italia S.p.A., Olimpia S.p.A.
	Board member	Aldeasa S.A., Mediobanca S.p.A., Lloyd Adriatico S.p.A., Autostrade S.p.A., Pirelli & C. S.p.A., Schemaventotto S.p.A., Infrastrutture e Sviluppo S.p.A.
	Board member	Edizione Holding S.p.A.
Giuliana Benetton	Board member	Edizione Holding S.p.A.
Alessandro Benetton	Chairman and CEO	21,Investimenti S.p.A.
	Chairman	21 Partners S.G.R. S.p.A., 21,Investimenti Partners S.p.A., 21 Network S.p.A.
	Deputy Chairman	Nordest Merchant S.p.A.
	Sole Director	Saibot S.r.l. società unipersonale
	Board member	Edizione Holding S.p.A., Autogrill S.p.A., Sirti S.p.A., Permasteelisa S.p.A., Industrie Zignago Santa Margherita S.p.A.
	Member of the Supervisory Board	21 Centrale Partners S.A.
Reginald Bartholomew	Chairman	Merrill Lynch Italy
	Deputy Chairman	Merrill Lynch Holdings Ltd
	Board member	Pirelli & C. Real Estate S.p.A.
Giorgio Brunetti	Board member	Autogrill S.p.A., Carraro S.p.A., Messaggerie Italiane S.p.A.
	Auditor	Autorità per l'energia e il gas
Luigi Arturo Bianchi	Board member	Anima S.G.R. S.p.A., Assicurazioni Generali S.p.A., MBE Holding S.p.A.
Gianni Mion	Deputy Chairman	TIM Italia S.p.A.
	CEO	Edizione Holding S.p.A.
	Board member	Aldeasa S.A., 21,Investimenti S.p.A., Autogrill S.p.A., Autogrill Group Inc., Autostrade S.p.A., Cartiere Burgo S.p.A., Olimpia S.p.A., Telecom Italia S.p.A., Fondazione Cassa di Risparmio di Venezia, Luxottica Group S.p.A., Infrastrutture e Sviluppo S.p.A., Schemaventotto S.p.A., Igli S.p.A.
Ulrich Weiss	Board member	Ducati Motors S.p.A., Bego Medical AG (Bremen)

The Group has recently adopted a new Policy, which was also approved by the Boards of Directors of the subsidiaries, regarding the exercise of power granted to Benetton Group S.p.A.'s proxy holders and to directors and proxy holders of its subsidiaries. This Policy provides prior authorization by the Board of Directors of each company, or by its shareholders' meeting, for the execution of the following transactions, in the event that such transactions are not conducted within the scope of ordinary intragroup relations: the issuance of guarantees, concessions or requests for financing, the purchase or sale of property, the purchase or sale of shares in companies (with certain exceptions). In principle, the Policy assures to the Group the directors and proxy holders of all foreign or domestic subsidiaries are vested with uniform decision-making powers regardless of the provisions of local laws and regulations.

Executive Committee. The Executive Committee members include the Chairman, Luciano Benetton, the CEO, Silvano Cassano, and Board members Alessandro Benetton and Gianni Mion.

The meetings of the Executive Committee are also attended, without voting rights, by the Board of Statutory Auditors and the chairman of the Internal Audit Committee.

The Executive Committee's responsibilities include defining strategic, industrial, and financial plans for the Group, as proposed by the CEO - preliminarily to the analysis by the Board of Directors - as well as preparing the annual budgets and interim forecasts.

The Executive Committee also examines and approves particularly significant investment and divestment plans, the approval of financing, and the provision of guarantees, and analyzes the most significant issues related to Company performance, to enable the Board of Directors to carry out its duties effectively.

In 2005, the Executive Committee met three times.

Related party transactions. The Rules of Conduct regarding transactions with related parties and other significant transactions, which were approved in 2004 and formally adopted by all subsidiaries during 2005, reiterated the central role played by the Board of Directors in the system of corporate governance and have ensured that the transactions regulated therein were always executed appropriately, according to criteria of substantial and procedural fairness.

Related party transactions, that are atypical or concluded at non-standard conditions and for which the Board of Directors is not directly responsible, are, notwithstanding, submitted to the Board for prior approval. Greater details on the related party transactions executed during the financial year in question are provided in the section "Relations with the parent company, its subsidiaries, and other related parties" of the Directors' Report for the consolidated accounts.

Also submitted to the Board of Directors for prior approval are those transactions of a significant impact on the financial standing or performance of the Company and the Group and which, for their amount, type of counterparty, object, methods or timeframes, could adversely affect the value of the Company. For both categories of transactions, the Board of Directors has passed resolutions based on adequate information provided with suitable advance notice.

The Rules of Conduct mentioned above do not expressly require that Board members with an interest in the transaction abstain from voting on such issue. In this way, it is left to the decision of the Board whether or not it is appropriate for such members to abstain from

deliberations when this could compromise the maintenance of the quorum required. On March 30, 2006, the Company's Board of Directors adopted the new Procedure for Related party transactions and for Significant transactions in order to adopt the latest indications on the subject contained in the Corporate Governance Code of Listed Companies and to follow other domestic and international best practices in identifying the parties, the transactions and the corporate procedures necessary to facilitate the appropriate flow of information.

This new procedure provides for a more extensive definition (based on the indications contained in IAS 24) of related parties of Benetton Group S.p.A. and more rigorous authorization and disclosure procedures for transactions with such parties, including the requirement, in certain cases, of the prior opinion of the Internal Audit Committee regarding the transaction.

The new procedure also requires that the Board member who, either directly or through a third party, has an interest in a company transaction, even if such interest is potential or indirect, abstains from the Board's deliberations on the issue or, in the event the member's presence should be necessary for the purposes of maintaining the quorum required, from the actual vote. This Procedure is to be adopted in 2006 by all the Group's companies. The entire text of this Procedure can be found on the Company's web site in the Corporate Governance section.

The Board of Statutory Auditors. The Board of Statutory Auditors is made up of the following members:

- Angelo Casò - Chairman;
- Filippo Duodo - Auditor;
- Antonio Cortellazzo - Auditor;
- Marco Leotta - Alternate Auditor;
- Piermauro Carabellese - Alternate Auditor.

A complete overview of the qualifications of the members of the Board of Statutory Auditors is available on the Company's web site in the Corporate Governance section. All members of the Board were appointed on May 16, 2005. Their terms expire with the meeting of shareholders to approve the financial statements for 2007.

The members of the Board were appointed in accordance with the criteria established by Article 148 of the Italian Consolidated Law on Finance (TUF for Testo Unico della Finanza) in effect at the time, as reflected in Article 19 of the Company's Articles of Association, and based on the lists of candidates presented to the company 10 days prior to the meeting of shareholders along with sufficient documentation of their professional and personal qualifications.

There is no auditor representing minority interests, as no related list of candidates was submitted.

During 2005, the Board of Statutory Auditors met 12 times.

Direction and coordination function pursuant to Article 2497 et seq. of the Italian Civil Code. In January 2004, all Italian subsidiaries owned, directly or indirectly, by Benetton Group S.p.A. recognized the role of direction and coordination played by the Parent Company Benetton Group S.p.A. pursuant to Article 2497 et seq. of the Italian Civil Code. All obligations required by law have been fulfilled in that regard.

Remuneration Committee and Nomination Committee. In implementation of the Corporate Governance Code for listed companies and with the responsibilities indicated therein, the Board of Directors confirmed the appointment of Reginald Bartholomew, Ulrich Weiss, and Gianni Mion (chairman) to the Remuneration Committee for financial year 2005. As such, this Committee is comprised primarily of non-executive directors and includes one non-independent director, given the current composition of the Company's shareholders structure.

As expressly defined by the related rules and procedures, the Remuneration Committee makes recommendations to be submitted to the Board of Directors, with those directly concerned removing themselves from the related deliberations of the Board. In 2005, the Remuneration Committee met twice.

Again for 2005, the remuneration for the executive directors and those with particular responsibilities were assigned by the Board of Directors, based on the recommendations of the Remuneration Committee, as indicated in the explanatory notes to the Consolidated Financial Statements of Benetton Group, subject to definition of the total remuneration by the shareholders' meeting as required by the Articles of Association. In 2004, with the help of external experts in preparing the variable components of remuneration, the Remuneration Committee also recommended the adoption of a stock option plan in order to motivate and promote the loyalty of the Company's top management. The Company then adopted the proposed plan and assigned five managers a total of 3,233,577 options convertible into the same number of Company shares to be purchased at a price of 8.984 euro each, subject to the achievement of certain corporate objectives and targets.

Additional information is provided in the section "Stock options" in the Directors' report accompanying the Statutory and Consolidated Financial Statements of Benetton Group S.p.A. The content of this stock option plan can be found on the Company's web site in the Corporate Governance section.

The Board of Directors has not yet deemed it to be necessary to establish a Nomination Committee for the appointment of directors, given the current composition of the Company's shareholder structure.

The appointment of directors is done based on a single list filed with the Company prior to the meeting of shareholders along with sufficient documentation of the personal and professional qualifications of the candidates indicated.

The Internal Audit Committee. Internal Control. The Internal Audit Committee is composed of three independent, non-executive directors. On May 16, 2005, the Board members Ulrich Weiss and Luigi Arturo Bianchi were confirmed to the committee, and Giorgio Brunetti was appointed.

In 2005, given that Benetton shares are listed on the New York Stock Exchange, and in compliance with the provisions of recent U.S. legislation concerning foreign private issuers, the Company vested the Internal Audit Committee with all powers necessary to fulfill the requirements of such legislation. This decision, which was formally approved by the Company's Board of Directors, was formally communicated to and approved by the U.S. Securities Exchange Commission (SEC). This was made possible by the existence within the Company of an Internal Audit Committee - composed solely of independent directors, one of whom (Giorgio Brunetti) is a financial expert as defined by the aforementioned legislation - which was already appropriately structured and effective, thanks in part to

the existence within the Company of the "Internal Control" function, which assists the Committee.

As a result, it was necessary to modify the rules of the Internal Audit Committee in order to vest it with all responsibilities, duties and powers required in the U.S. for such a committee, compatibly with Italian laws and regulations.

As such, the Internal Audit Committee's responsibilities include:

- evaluating the process of determining the financial statement account balances, with the help of the head of the Internal Control function;
- evaluating the appropriateness of the accounting principles adopted, together with the Company's CFO and the independent auditing firm;
- receiving, as point of contact for the auditing firm, information and communications regarding the consolidated accounts and Form 20-F concerning critical issues involving the standard or alternative accounting treatment of certain items; receiving from and transmitting to management information and communications regarding such issues;
- evaluating the proposals of independent auditing firms, with the help of the Company's CFO and the head of the Internal Control function, for the purposes of hiring such a firm, and making related recommendations that the Board of Directors is to then present to the shareholders' meeting;
- evaluating the results of the independent auditor's report;
- adopting procedures for (a) receiving and handling complaints received by the Company regarding issues of accounting, internal accounting controls, or auditing in general, and (b) receiving, filing, and handling reports or disputes filed by employees regarding accounting issues or auditing in general, while ensuring the anonymity of the employee concerned. To that end, specific "Procedure for reporting complaints to the internal audit committee", has been adopted;
- evaluating all auditing and other services provided by the independent auditing firm and expressing an opinion as to their appropriateness and consistency as a necessary requirement prior to hiring such firm;
- verifying the independence of the auditing firm.

During 2005, the Committee, chaired by Ulrich Weiss, met eight times, with the participation of the entire Board of Statutory Auditors, in compliance with the adopted rules and procedures.

The functioning and appropriateness of the system of internal control were verified by the Board of Directors, in part with the help of the related corporate function coordinated by the head of Internal Control, who reports directly to the chairman of the Internal Audit Committee. The systems of organization and reporting were seen to be adequate to ensuring the monitoring of the system of administration and accounting, including for subsidiaries.

Efforts also continued on the mapping of processes, risks and existing controls concerning the main operating processes of the companies of the Group, while also conducting an analysis of the consistency of the related internal control procedures. Because Benetton shares are also listed in the U.S., this process was also conducted in compliance with the provisions of the Sarbanes-Oxley Act. The independent directors, the Board of Statutory Auditors and the independent auditing firm were adequately informed on the process, as well.

In 2005, the Supervisory and Monitoring Body (Organismo di Vigilanza e Controllo, pursuant to Article 6(1)(b) of Italian legislative decree no. 231/2001), which is composed

of Ulrich Weiss (chairman), Luigi Arturo Bianchi and Roberto Taiariol, carried out its responsibilities of control of the observance and functioning of the Organizational and Operational Model adopted by the Company. This Model is comprised of the following:

- Code of ethics;
- Operating procedures and reporting systems;
- Internal supervisory and monitoring body;
- Disciplinary system.

The rules of the Internal Audit Committee and its procedures for reports, complaints, and disputes can be found on the Company's web site in the Corporate Governance section.

Handling of confidential information. The management of confidential information is overseen by the CEO, with the counsel of the Chairman, both of whom are to take steps to ensure that adequate verifications are conducted regarding the qualification of confidential information in accordance with applicable laws and regulations.

The press releases regarding the approval of the annual and interim financial statements, as well as any extraordinary transactions that may be subject to approval of the Board of Directors are, themselves, to be approved by the Board. The communications and relations with the press and institutional and private shareholders are the responsibility of the Media & Communications and Investor Relations offices, respectively.

In 2002, by way of implementing the rules of the markets organized and managed by Borsa Italiana S.p.A., the Company adopted the related Code of Conduct on Internal Dealing, which governs the disclosure obligations regarding transactions executed by so-called "significant parties" ("persone rilevanti"), as defined by said code, in financial instruments issued by Benetton Group S.p.A. The obligations of disclosure for significant parties as defined by this Code of Conduct called for more restrictive timeframes and involved broader categories of parties and types of securities than those of the rules defined by Borsa Italiana S.p.A.

On March 30, 2006, the Company adopted the new Internal Dealing Regulations, which, in compliance with the provisions of Article 114 of the Italian Consolidated Law on Finance and Article 152-sexies et seq. of the Regulation implementing the provisions on issuers of CONSOB, both of which have recently been amended, establishes new terms, conditions and procedures for the disclosure of transactions by these significant parties in Benetton securities. The entire text of the Internal Dealing Regulations can be found on the Company's web site in the Corporate Governance section.

Compliance to the evolution of corporate governance legislation. The Corporate Affairs Department, in coordination with the various corporate departments involved, ensures observance of the legislation in force regarding corporate governance, which includes all related laws and legislation in the U.S. and Germany, given that Benetton shares are listed in New York and Frankfurt, as well as in Italy.

To that end, the Department promotes the evolution of the corporate governance structure and tools to adapt them to new legislation, while also seeing to the adoption of appropriate rules of corporate governance that are in line with domestic and international best practice.

In 2006, the Company will adopt the provisions of the new Corporate Governance Code issued on March 2006.

Relations with institutional investors and other shareholders. The Investor Relations Department is responsible for ensuring the proper management of relations with financial analysts, institutional investors and private shareholders, both foreign and domestic, which includes coordinating activities with the financial community.

In accordance with the principles of fairness, clarity and equal access to information, the Department provides ample documentation and information regarding the Company, with a particular emphasis on price-sensitive information, on the web site at www.benettongroup.com/investors.

In the Corporate Governance section of the web site, the following documents are also available (as also mentioned above): Articles of Association; Internal dealing regulations; Organizational and operational model; Procedure for Related party transactions and for significant transactions; Procedure for reporting complaints to the Internal Audit Committee; Stock option plan; press releases and periodic financial information.

This document is also available on in the Corporate Governance section of the web site www.benettongroup.com/investors.

Supplementary information

Benetton shares and shareholders

Treasury shares. During the period in question, Benetton Group S.p.A. neither bought nor sold any treasury shares, or shares in parent companies, either directly or indirectly or through subsidiaries, trustees or other intermediaries.

Shares held by directors and statutory auditors. The directors Luciano, Gilberto, Giuliana, and Carlo Benetton hold, directly and indirectly, equal shares in the entirety of the share capital of Edizione Holding S.p.A., which, in turn, holds a controlling interest of 67.144% in the share capital of Benetton Group S.p.A.

Other than the above, in 2005, these directors, their spouses (not legally separated) and minor children held no shares in Benetton Group S.p.A. or its subsidiaries, either directly or through subsidiaries, trust companies, or other intermediaries, with the exception of the shares indicated in the table below for Gilberto and Alessandro Benetton.

In 2005, as demonstrated by specific declarations received, no other shares in the company are held by directors or statutory auditors, except as indicated below:

Name & surname	No. of shares held as of 12.31.2004	Company held	No. of shares purchased	No. of shares sold	No. of shares held as of 12.31.2005	Type of ownership
Gilberto Benetton	45,000	Benetton Group S.p.A.	-	-	45,000	Owned
Alessandro Benetton	4,000	Benetton Group S.p.A.	-	-	4,000	Owned
Ulrich Weiss	3,500	Benetton Group S.p.A.	-	-	3,500	Owned

Stock option plan. On September 9, 2004, following authorization by the extraordinary shareholders' meeting held on the same date, the Board of Directors voted to increase share capital, for cash, from 236,026,454.30 euro to 240,230,104.40 euro to service the share incentive plan, by issuing 3,233,577 options to purchase the same number of company shares at a price of 8.984 euro. If the approved increase is not fully subscribed within the various deadlines established for this purpose, share capital will be increased by an amount equivalent to the subscriptions actually received as of the given deadline. These stock options are intended to be a means of medium and long-term motivation and retention of employees and directors, selected from among the top executives of the company and its subsidiaries and who hold offices which are considered to be of the greatest strategic importance. The options assignment cycle, which involves five of the Group's executives, includes a four-year vesting period from the date of assignment plus a further five-year period until the actual exercise date of the options themselves. However, under certain conditions, it is also possible to exercise up to 50% of the options assigned after just two years from the assignment date. The portion of options assigned that actually become exercisable will depend on the degree to which certain objectives are reached during the vesting period. These targets use economic value added (EVA) as the performance indicator for the period 2004-2007. Further details on the rules of this stock options plan can be found under "Codes" in the Corporate Governance/Investor Relations section of the company's website (www.benettongroup.com/investors).

2004 stock options plan

(euro)	Options outstanding as of 01.01.2005	New options granted in the period	Options exercised in the period	Options expired and not exercised or lost in the period	Options cancelled in the period due to termination of employment	Options outstanding as of 12.31.2005	of which exercisable as of 12.31.2005
No. of options	3,233,577	-	-	-	-	3,233,577	-
Allocation ratio	1.781	-	-	-	-	1.781	-
Weighted average exercise price	8.98	-	-	-	-	8.98	-
Market price	9.74	-	-	-	-	9.62	-

Controlling interest. Edizione Holding S.p.A., registered office in Treviso (Italy), is a holding company wholly owned by the Benetton family. The company holds a controlling interest in Benetton Group S.p.A. with 121,905,639 ordinary shares, for a 67.144% stake.

Shareholder	%
Edizione Holding S.p.A.	67.144
Institutional investors and banks	9.718
Other investors	23.138

Shareholder structure ⁽¹⁾	No. of shareholders	No. of shares
From 1 to 4,999 shares	21,807	10,314,682
From 5,000 to 9,999 shares	256	1,638,047
10,000 shares and above	294	148,888,512
Non-classified shares	-	20,717,570
Total	22,357	181,558,811

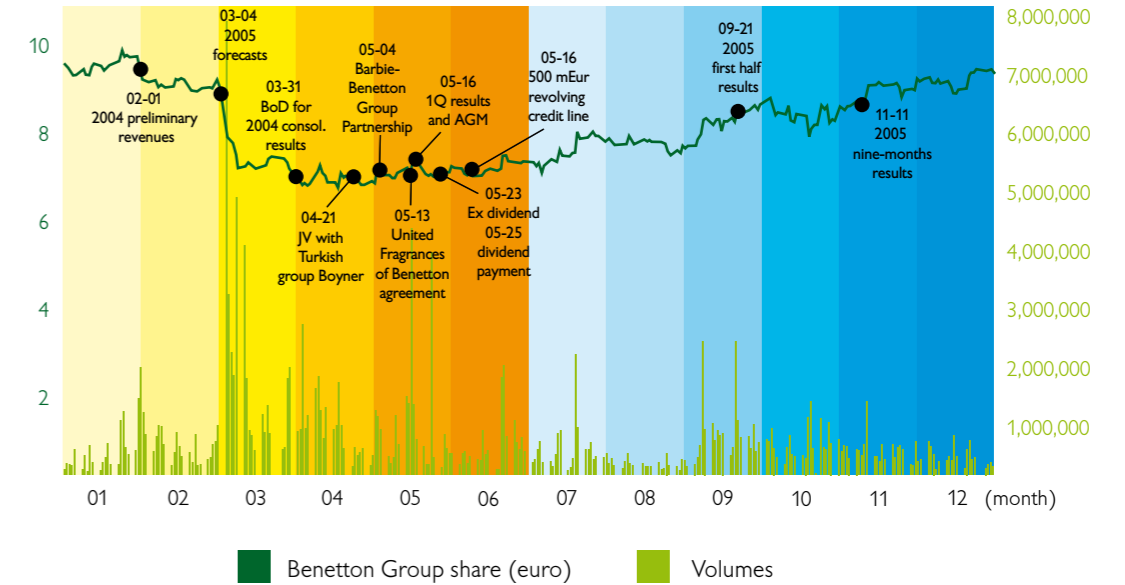
(1) Based on Spafid data as of January 30, 2006.

Performance of Benetton shares

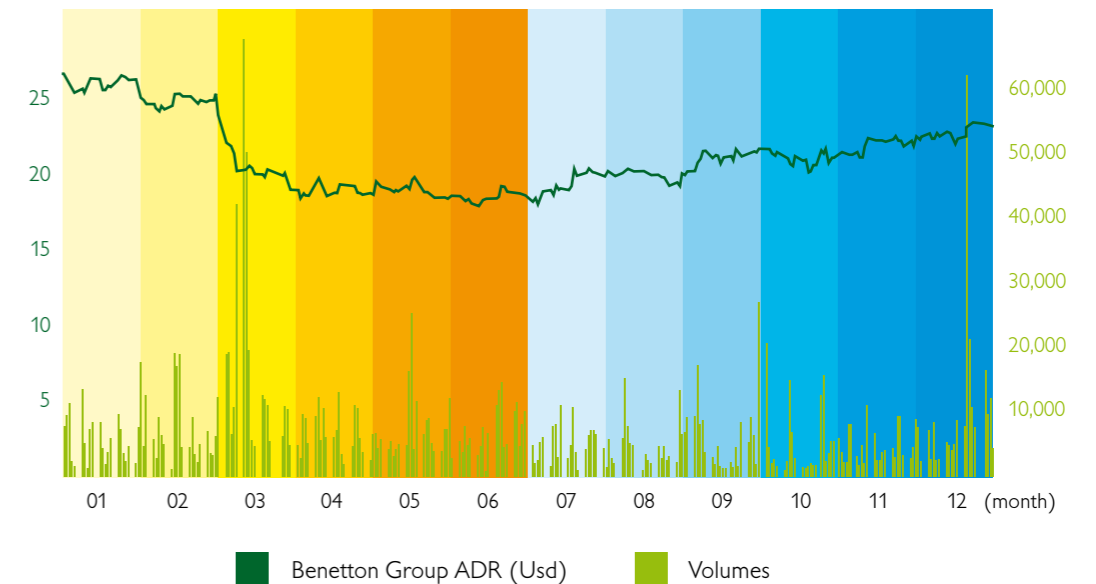
Benetton shares ended 2005 essentially in line with 2004 at a price of 9.62 euro, as compared with the 9.74 euro as of December 31, 2004. Average daily trading volumes during the year came to roughly 660,000 shares.

Benetton American Depositary Receipts (ADRs) in circulation on the NYSE increased during the year by roughly 450,000, bringing the total number of securities to 2,172,289 (equivalent to 4,344,578 ordinary shares or 7.1% of the free float). Benetton ADRs ended trading on December 30, 2005, at Usd 22.90 (versus Usd 26.76 as of December 31, 2004).

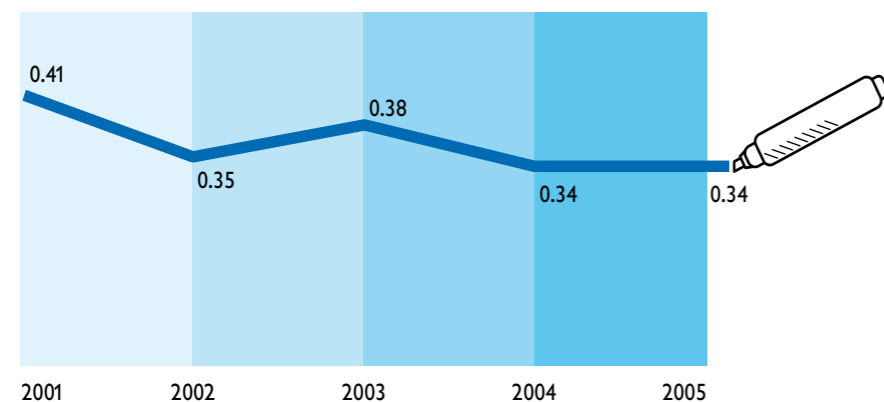
Benetton Group share performance in 2005



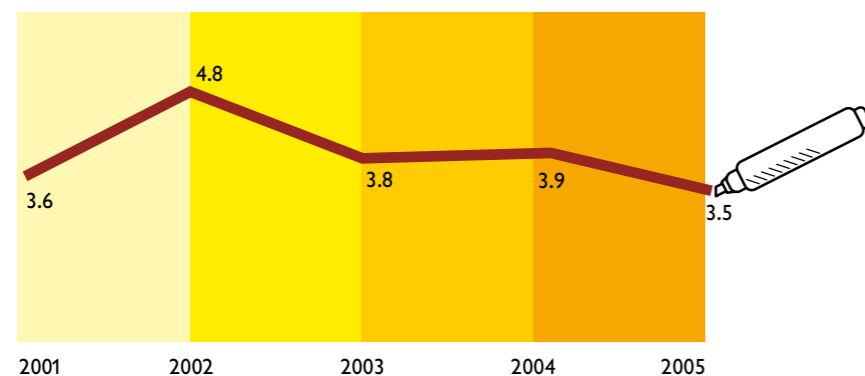
Benetton Group ADR performance in 2005



2001-2005 dividend per share performance (in euro)



2001-2005 dividend yield performance (in %)



	2005	2004	2003 ⁽¹⁾	2002 ⁽¹⁾	2001 ⁽¹⁾
Earnings per share (euro)	0.62	0.60	0.59	(0.05)	0.82
Shareholders' equity per share (euro)	7.02	6.64	6.47	6.29	6.86
Dividend per share (euro)	0.34	0.34	0.38	0.35	0.41
Pay-out ratio (%)	55	57	64	n.a.	50
Dividend yield	3.5	3.9	3.8	4.8	3.6
Price on Dec. 31 (euro)	9.62	9.74	9.11	8.50	12.72
Screen-based price: high (euro)	10.15	10.18	11.30	15.90	22.44
Screen-based price: low (euro)	7.01	8.33	5.90	8.50	9.75
Price per share/Earnings per share	15.5	16.2	15.4	n.a.	15.5
Price per share/Shareholders' equity per share	1.4	1.5	1.4	1.4	1.9
Market capitalization (millions of euro)	1,747	1,768	1,654	1,543	2,309
Average no. of shares outstanding	181,558,811	181,558,811	181,558,811	181,341,018	180,720,969
No. of shares comprising share capital	181,558,811	181,558,811	181,558,811	181,558,811	181,558,811

⁽¹⁾ Data before transition to IFRS.

Relations with the parent company, its subsidiaries and other related parties

The Benetton Group has limited trade dealings with Edizione Holding S.p.A. (the Parent Company), with subsidiary companies of the same and with other parties which, directly or indirectly, are linked by common interests with the majority shareholder. Trading relations with such parties are conducted on an arm's-length basis and using the utmost transparency.

These transactions relate mostly to purchases of tax credits and services.

In addition, Italian Group companies have made a group tax election under Article 117 et seq. of the Tax Consolidation Act DPR 917/86, based on a proposal by the consolidating parent company Edizione Holding S.p.A., which decided to opt for this type of tax treatment on December 30, 2004. The election lasts for three years starting from the 2004 fiscal year. The relationships arising from participation in the group tax election are governed by specific rules, approved and signed by all participating companies.

The related details are shown below:

(thousands of euro)	12.31.2005	12.31.2004
Receivables	40,959	32,864
- of which related to fiscal consolidation with Edizione Holding S.p.A.	39,567	32,283
Payables	39,110	19,825
- of which related to fiscal consolidation with Edizione Holding S.p.A.	37,466	18,664
Purchase of raw materials	1,773	2,982
Purchase of assets	2,800	-
Other costs and services	14,832	13,229
Product sales	-	17
Rendering of services and other income	641	937

The Group has also undertaken some transactions with companies directly or indirectly controlled by, (or in any case) or under the influence of, managers serving within the Group. The Parent Company's management believes that such transactions were completed at going market rates. The total value of such transactions was not, in any case, significant in relation to the total value of the Group's production. No director, manager, or shareholder is a debtor of the Group.

The protection of personal data

The company has fulfilled the obligations defined by prevailing legislation regarding the handling of sensitive and legal information using information systems.

In particular, as far as the information systems of the Benetton Group are concerned, the company has complied with the minimum security measures established, adopting the security policy paper which was required by previous legislation and is now required by the technical annex to Italian legislative decree no. 196 of June 30, 2003 (the consolidated personal data protection act).

All Group companies have complied with the data security model adopted by the Parent Group.

Directors

Parent Company directors as of December 31, 2005 were as follows:

Name and surname	Date of birth	Appointed	Office
Luciano Benetton	05.13.1935	1978	Chairman
Carlo Benetton	12.26.1943	1978	Deputy Chairman
Alessandro Benetton	03.02.1964	1998	Deputy Chairman
Silvano Cassano	12.18.1956	2003	Chief Executive Officer
Giuliana Benetton	07.08.1937	1978	Director
Gilberto Benetton	06.19.1941	1978	Director
Gianni Mion	09.06.1943	1990	Director
Giorgio Brunetti	01.14.1937	2005	Director
Ulrich Weiss	06.03.1936	1997	Director
Reginald Bartholomew	02.17.1936	1999	Director
Luigi Arturo Bianchi	06.03.1958	2000	Director

Luciano Benetton, Gilberto Benetton, Carlo Benetton and Giuliana Benetton are siblings; Alessandro Benetton is the son of Luciano Benetton.

For 2005, the total fees granted by the shareholders to the Board of Directors of Benetton Group S.p.A. amounted to 4,369 thousand euro.

Principal organizational and corporate changes

Effective as of January 1, 2005, for the purpose of continued simplification of the Group's corporate structure, Benetton Holding International N.V. S.A. subscribed to an increase in the capital of Benetton International S.A. through a contribution in kind of assets and liabilities, including investments.

In May, Benetton International S.A. purchased 50% of a Turkish company from third parties, with the company then being named Benetton Giyim Sanayi ve Ticaret A.S. This company performs the manufacturing and distribution activities previously performed under license by the Turkish partner.

At the end of June, given that previous operational requirements no longer exist, Benetton Finance S.A. was absorbed by Benetton International S.A.

In October, a commercial company was set up under the name of Benetton Denmark A.p.S. The company is located in Denmark and is a wholly-owned subsidiary of Benetton International S.A.

The subsidiary Benetton Manufacturing Holding N.V. has established the following companies:

- in April, Benetton Istria D.O.O., located in Rijeka, Croatia. This company is to begin operations in 2006 as a decentralized production unit;
- in October, the company Benrom S.r.l., located in Romania and also responsible for production-related activities;
- Benetton Beograd D.O.O., located in Serbia and Montenegro.

In December, Benetton Manufacturing Holding N.V. also received the shares in Benetton Retail (1988) Ltd., Benetton Retail Spain S.L., Benetton Retail Deutschland GmbH, Benetton Trading Ungheria Kft., and Benetton 2 Retail Comércio de Produtos Têxteis S.A. from Benetton International S.A.

In the first half of the year, the process of setting up Shanghai Benetton Trading Company

Ltd., a retail company located in Shanghai, was completed. In October, the remaining 15% stake in the company was acquired, thereby becoming a wholly-owned subsidiary.

In the area of trade development, at the end of October in Tunisia, a trading company was established under the name Benetton Commerciale Tunisie S.à r.l., a wholly-owned subsidiary of Benetton Manufacturing Tunisia S.à r.l.

Also in October, the subsidiary Olimpias S.p.A. decided to terminate its operations at the production site in Cassano Magnago (Varese). The reason behind this decision was to bring production capacity into line with the Group's projected lower needs.

With reference to the transfer of tax credits by Edizione Holding S.p.A. to other companies under its control, Edizione Holding S.p.A. granted the Benetton Group's Italian companies their share of these tax credits. Payment was made in November for a total of roughly 17 million euro.

On December 1, the merger of Colors Magazine S.r.l., the publisher of "Colors" magazine, into its parent Fabrica S.p.A. took effect. This transaction is a part of the ongoing process of streamlining the Benetton Group's organizational and operational structure. It will also lead to a more direct and effective integrated management of publishing activities, which will continue to be performed by the surviving company.

In December, Bencom S.r.l. established its own stable operations in Sweden in order to manage directly a number of stores.

In December, Benetton Real Estate International S.A. established the Dutch firm Benetton Realty Netherlands N.V. and sold its stake in Benetton Realty Russia O.O.O. to S.I.G.I. S.r.l., which then increased share capital in the Russian firm through the transfer in kind of a number of properties in Russia.

During the year, the British companies Denware Ltd. and Opal Link Ltd. and the Tunisian company Benetton Trading S.à r.l. were also liquidated.

Significant events following the close of the financial year

As part of the strategy to expand trade in eastern Europe, Benetton Real Estate International S.A. formalized the acquisition of the entirety of the share capital in the company Real Estate Russia Z.A.O. for the purposes of completing a real estate transaction in St. Petersburg (Russia).

Outlook for 2006

The trend in orders for 2006 is showing the positive response of the partners in the various markets to the new products and the new commercial initiatives being undertaken. In line with the trends reported in the second half of 2005, we are also expecting further improvement in the performance of the directly managed stores.

The significant increase in volumes and a product mix that is focused on growth in accessories and high-value segments of the various collections, such as jackets and various articles of menswear, should lead to an increase in consolidated revenues for 2006 at least in line with the growth posted in 2005.

In 2006, the outlook is also for significant growth in markets in the Mediterranean, eastern Europe, Korea, China, and India.

Furthermore, the Company will continue to focus on the search for specific competencies and international industrial poles in which to develop our know-how, so as to guarantee the quality of our products and the satisfaction of the consumer. The ongoing quest for efficiency within our manufacturing and commercial systems is expected to result in an operating profit margin on the order of 9.5-10% of consolidated sales and net income of around 6.5%.

Consolidated Group results

Consolidated income statement

Highlights from the Group's income statements for year 2005 are presented below; they are based on a reclassification according to the function of expenses (the percentage changes are calculated with reference to the precise figures). The reconciliation with the income statement by nature of cost is included in the explanatory notes to the consolidated financial statements in the section "Supplementary information".

(millions of euro)	2005	%	2004	%	Change	%
Revenues	1,765	100.0	1,704	100.0	61	3.6
Materials and subcontracted work	846	47.9	779	45.7	67	8.6
Payroll and related costs	85	4.8	87	5.1	(2)	(2.5)
Industrial depreciation and amortization	21	1.2	21	1.2	-	0.4
Other manufacturing costs	43	2.5	42	2.5	1	1.5
Gross operating income	770	43.6	775	45.5	(5)	(0.6)
Distribution and transport	56	3.2	48	2.8	8	18.0
Sales commissions	71	4.0	73	4.3	(2)	(4.0)
Contribution margin	643	36.4	654	38.4	(11)	(1.6)
Payroll and related costs	135	7.7	126	7.4	9	7.5
Advertising and promotion	61	3.5	54	3.1	7	13.5
Depreciation and amortization	64	3.6	74	4.4	(10)	(13.5)
Other income and expenses	178	10.0	175	10.3	3	1.6
Ordinary operating result (*)	205	11.6	225	13.2	(20)	(8.7)
Non-recurring expenses/(income)	48	2.7	67	3.9	(19)	(28.3)
Operating profit	157	8.9	158	9.3	(1)	(0.4)
Share of income of associated companies	-	-	-	-	-	-
Financial income/(expenses)	(23)	(1.3)	(22)	(1.3)	(1)	5.3
Foreign currency hedging gains/(losses) and exchange differences	-	-	-	-	-	-
Income before taxes	134	7.6	136	8.0	(2)	(1.2)
Income taxes	20	1.1	28	1.6	(8)	(26.7)
Net income/(loss) for the year	114	6.5	108	6.4	6	5.3
attributable to:						
- shareholders of the Parent Company	112	6.3	109	6.4	3	2.8
- minority shareholders	2	0.2	(1)	-	3	n.s.

(*) Ordinary operating result is indicated for the purposes of evaluating the performance of the company's core business and to aid financial analysts in using their models to analyze the company's results. This information is not required by either IFRS or US GAAP.

Revenues amounted to 1,765 million euro, compared with the 1,704 million of 2004, for an increase of 3.6%. Apparel sales to third parties amounted to 1,629 million euro, an annual increase of 3.9% from the 1,568 million of 2004, with a growth in revenues for the fourth quarter of 7.4%. Revenue performance was mainly influenced by the policy of developing the commercial network and the improvement of product mix, along with initiatives for expanding the directly operated network. This growth was also the result of the strong performance of reorders for the 2005 Fall/Winter collections, as well as the positive market response to the 2006 Spring/Summer collections and the contribution of countries in the Mediterranean, including Turkey, as well as in eastern Europe and Korea. In the apparel segment, the new Turkish partnership also played an important role, generating 30 million euro in revenues from May to December. Sales were also influenced by roughly 10 million euro for positive exchange rates trends, equal to 0.6% of revenues. The textile segment, which suffered from a difficult market context, recorded 100 million euro in revenues from third parties, compared with 106 million euro in 2004, for a decline of 6.4%.

Revenues in the segment "Other and unallocated", which includes only the revenues relating to sports equipment, were 36 million euro, compared with 30 million euro in 2004, for an increase of 22%.

Cost of sales increased by 66 million euro in absolute terms and represented 56.4% of revenues, compared with 54.5% in 2004.

Gross operating income came to 770 million euro, representing 43.6% of revenues, compared with 45.5% in 2004, influenced by the above-mentioned commercial development policies and offset in part by more efficient production. Margins were also somewhat influenced by the lower use of production capacity in the textile segment. Selling costs amounted to 127 million euro, compared with the 121 million of the previous year, representing 7.2% of revenues, compared with the 7.1% of 2004. Distribution and transport costs increased as a result of the increase in volumes, and in particular in relation to the sales growth in Korea. This increase was partially offset by the decrease in commission costs, which benefited from the transfer to the Group of agencies in Italy and Germany in 2004. The contribution margin came to 643 million euro, representing 36.4% of revenues. This compares with 654 million euro in 2004, which represented 38.4% of revenues.

General and operating expenses amounted to 438 million euro, compared with 429 million euro in 2004.

Payroll and related costs, in the amount of 135 million euro, increased by 7.5%, with the ratio to sales going from 7.4% to 7.7% due to the expansion of the network of directly operated stores and a higher proportionate cost for staff incentives.

Advertising and promotion costs were 7 million euro higher, with a percentage on revenues of 3.5%, compared with the 3.1% of the previous year. This increase was due primarily to services provided to third parties.

Depreciation and amortization for 2005 came to 64 million euro, down from the 74 million euro of the previous year, with the percentage on revenues going from 4.4% to 3.6%. This decrease is the result of two factors: the adjustment in 2004 to the carrying value of certain assets related to the commercial network and the change in the estimated useful life of the commercial buildings.

Other income and expenses, in the amount of 178 million euro, rose by 3 million euro over the previous year, for an increase of 1.6% and representing 10% of revenues, from

10.3% of the previous year. This item includes overhead costs, provisions, net operating costs, and other income and expenses.

Overhead costs, in the amount of 82 million, increased by 4 million euro over 2004, with the percentage on revenues remaining unchanged at 4.6%. Provisions amounted to 25 million euro, compared with 45 million euro in 2004, 17 million euro of which for doubtful accounts, compared with the 39 million in 2004, bringing the related balance-sheet provision to 11.2% of trade receivables from the 12.9% as of December 31, 2004, as a result of the improved quality of receivables outstanding as of the balance sheet date. Net operating and other costs went from the 52 million euro of the previous year to 71 million euro, with the percentage on revenues going from 3.1% to 4%. This increase is due primarily to the rental costs of the commercial network.

Net non-recurring costs for 2005 included costs for restructuring and adjustments to the current value of certain assets related to the commercial network in the amount of 25 million euro, write-downs of assets not related to the core business in the amount of 9 million euro, charges connected to the reorganization of the textile sector in the amount of 4 million euro, and other charges of 10 million euro. The decrease of 19 million euro from the previous year is due to the lower charges related to the restructuring of the commercial network.

Earnings before interest and taxes came to 157 million euro, compared with 158 million in 2004, going from a margin on revenues of 9.3% to 8.9%.

Net financial expenses and exchange differences amounted to 1.3% of revenues, in line with the prior year. This result reflects the combined effect of a decrease in average net indebtedness for the period, the slight increase in interest rates on the debt of certain foreign subsidiaries, and an increase in the time value component of currency hedging. The tax charge amounted to 20 million euro, compared with the 28 million euro of the previous year, representing a tax rate of 15.1%, down from the 20.3% of the previous year. This reduction in tax burden is due primarily to the measurement, based on forecasts of future earnings, of the fiscal benefits connected with the corporate reorganization in 2003.

Net income for the year attributable to the Group came to 112 million euro, compared with 109 million euro in 2004, representing 6.3% of revenues, compared with 6.4% in 2004.

Business segments

The Group's activities are divided into three segments in order to provide the basis for effective management and decision-making, and to supply representative and significant information about company performance to financial investors.

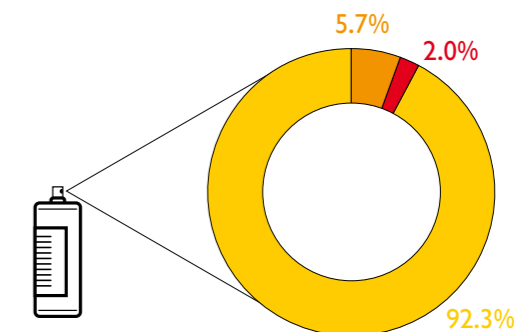
The business segments are as follows:

- apparel, represented by casualwear, carrying the United Colors of Benetton, Undercolors and Sisley brands, and sportswear, with the Playlife and Killer Loop brands. The information and results relating to the real estate companies are also included in this segment;
- textile, consisting of production and sales activities of raw materials (fabrics, yarns and labels), semi-finished products and industrial services;
- other and unallocated, includes activities relating to sports equipment produced for third parties by a Group manufacturing company.

2005 revenues from third parties by activity

millions of euro

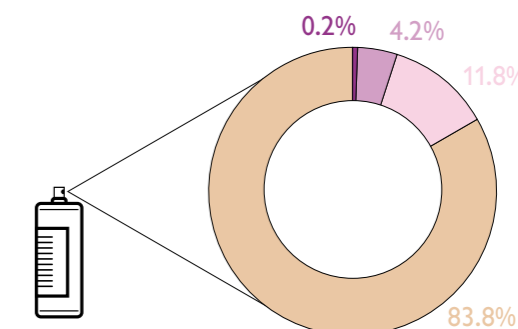
Apparel	1,629
Textile	100
Other and unallocated	36



2005 revenues from third parties by geographic area

millions of euro

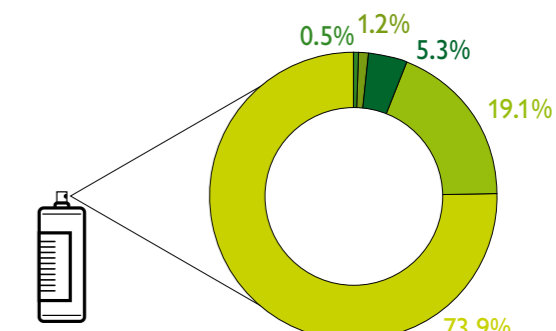
Europe	1,481
Asia	207
The Americas	73
Rest of the world	4



2005 sales by brand

millions of euro

United Colors of Benetton	1,232
Sisley	318
Playlife	20
Killer Loop	9
Other sales	89



For comparative purposes, segment results for years 2005 and 2004 are shown below.

Segment results - 2005

(millions of euro)	Apparel	Textile	Other and unallocated	Eliminations	Consolidated
Revenues from third parties	1,629	100	36	-	1,765
Inter-segment revenues	2	170	-	(172)	-
Total revenues	1,631	270	36	(172)	1,765
Cost of sales	887	243	34	(169)	995
Gross operating income	744	27	2	(3)	770
Selling costs	119	10	-	(2)	127
Contribution margin	625	17	2	(1)	643
General and operating expenses	421	15	2	-	438
Ordinary operating result	204	2	-	(1)	205
Non-recurring expenses/(income)	44	4	-	-	48
Operating profit	160	(2)	-	(1)	157
Depreciation and amortization	66	18	1	-	85
Non-monetary costs (impairment and stock options)	41	2	-	-	43
EBITDA	267	18	1	(1)	285

Segment results - 2004

(millions of euro)	Apparel	Textile	Other and unallocated	Eliminations	Consolidated
Revenues from third parties	1,568	106	30	-	1,704
Inter-segment revenues	-	194	-	(194)	-
Total revenues	1,568	300	30	(194)	1,704
Cost of sales	827	264	28	(190)	929
Gross operating income	741	36	2	(4)	775
Selling costs	113	10	-	(2)	121
Contribution margin	628	26	2	(2)	654
General and operating expenses	410	17	4	(2)	429
Ordinary operating result	218	9	(2)	-	225
Non-recurring expenses/(income)	68	1	(2)	-	67
Operating profit	150	8	-	-	158
Depreciation and amortization	76	18	1	-	95
Non-monetary costs (impairment and stock options)	59	-	-	-	59
EBITDA	285	26	1	-	312

Apparel segment results

(millions of euro)	2005	%	2004	%	Change	%
Revenues from third parties	1,629		1,568		61	3.9
Inter-segment revenues	2		-		2	n.s.
Total revenues	1,631	100.0	1,568	100.0	63	4.1
Cost of sales	887	54.4	827	52.8	60	7.3
Gross operating income	744	45.6	741	47.2	3	0.5
Selling costs	119	7.3	113	7.1	6	6.1
Contribution margin	625	38.3	628	40.1	(3)	(0.6)
General and operating expenses	421	25.8	410	26.3	11	2.4
Ordinary operating result	204	12.5	218	13.8	(14)	(6.2)
Non-recurring expenses/(income)	44	2.7	68	4.3	(24)	(35.6)
Operating profit	160	9.8	150	9.5	10	7.2
EBITDA	267	16.4	285	18.2	(18)	(6.2)

Total segment revenues from third parties were 1,629 million euro, an increase of 3.9% on the figure of 1,568 million euro recorded in 2004. Revenue performance was mainly influenced by the policy of developing the commercial network and improvement of product mix, along with initiatives for expanding the network of directly operated stores. As mentioned above, this growth was also the result of the strong performance of reorders for the 2005 Fall/Winter collections, as well as the positive market response to the 2006 Spring/Summer collections and the contribution of countries in the Mediterranean, including Turkey, as well as in eastern Europe and Korea.

Cost of sales increased by 60 million euro to 887 million (up 7.3%), representing 54.4% of revenues, compared with the 52.8% of the previous year. The effect of product enhancements was partially offset by more efficient production. Gross operating income came to 744 million euro, representing 45.6% of revenues, compared with 47.2% in 2004. Selling costs amounted to 119 million euro, compared with the 113 million euro of the previous year. Sales commissions declined due to the Group's acquisition of agencies in Italy and Germany, which were previously operated by third parties, while distribution costs increased by 9 million euro due to the growth of sales in Korea. This increase had no significant impact on the contribution margin, which settled at 625 million euro, compared with the 628 million of 2004 and a percentage on sales that went from 40.1% to 38.3%. General and operating expenses amounted to 421 million euro in 2005, compared with the 410 million euro of the previous year, improving also as a percentage on sales, going from 26.3% to 25.8%. This item includes payroll and related costs, which increased from 118 million to 127 million euro, particularly due to the development of the network of directly operated stores and a higher proportionate cost for staff incentives. Advertising and promotion costs were slightly higher, up from 54 million to 60 million euro, with the percentage on revenues going from 3.4% to 3.7%. This increase is related primarily to services provided to third parties. Depreciation and amortization amounted to 63 million euro, compared with 73 million euro in 2004, representing 3.8% of revenues, down from the 4.6% of the previous year. This decrease is the result of the adjustment in the carrying value of certain assets related to the commercial network and the change in the estimated useful life of the commercial buildings. Overhead costs came to 78 million euro, compared with the 74 million euro of the previous year, representing 4.8% of revenues, compared

with 4.7% in 2004. Net operating and other costs went from the 53 million euro of the previous year to 72 million euro, with the percentage on revenues going from 3.4% to 4.4%. Provisions decreased by 18 million euro, primarily in relation to allowances for doubtful accounts.

For more information on the non-recurring charges, see the related comments above regarding the consolidated income statement.

Earnings before interest and taxes (operating profit) amounted to 160 million euro, compared with the 150 million of the previous year, for a margin on revenues of 9.8% (9.5% in 2004).

The average number of employees in the period was 5,856.

Textile segment results

(millions of euro)	2005	%	2004	%	Change	%
Revenues from third parties	100		106		(6)	(6.4)
Inter-segment revenues	170		194		(24)	(12.3)
Total revenues	270	100.0	300	100.0	(30)	(10.2)
Cost of sales	243	90.0	264	87.9	(21)	(8.1)
Gross operating income	27	10.0	36	12.1	(9)	(25.8)
Selling costs	10	3.5	10	3.5	-	(12.2)
Contribution margin	17	6.5	26	8.6	(9)	(31.4)
General and operating expenses	15	5.6	17	5.5	(2)	(6.0)
Ordinary operating result	2	0.9	9	3.1	(7)	(75.4)
Non-recurring expenses/(income)	4	1.6	1	0.4	3	n.s.
Operating profit	(2)	(0.7)	8	2.7	(10)	n.s.
EBITDA	18	6.6	26	8.6	(8)	(31.2)

Textile segment revenues from third parties were down by 6.4% from 106 million to 100 million euro. This was the result of a general decline in the market for fabrics and yarns. Cost of sales, although down in absolute terms, rose to 90% of revenues, compared with the 87.9% of 2004. Gross operating income of 27 million euro represented a margin of 10% of total revenues, compared with the 12.1% of 2004, having been influenced by the lower utilization of production capacity.

Selling costs were essentially in line with 2004, representing 3.5% of revenues, while the contribution margin was 17 million euro, going from 8.6% to 6.5% of revenues.

General and operating expenses came to 15 million euro, compared with 17 million euro in 2004, with the percentage on revenues going from 5.5% to 5.6%. This item includes 7 million euro in payroll and related costs, which were essentially in line with 2004, as are advertising and promotion costs in the amount of roughly 0.7 million euro. Depreciation and amortization came to 0.5% of revenues. Other operating costs increased by 1 million euro to 6 million, with the percentage on revenues going from 2.3% to 2.2% in 2005.

The operating profit loss of 2 million euro compares with the operating profit gain in 2004 of 8 million euro.

The average number of employees in the period was 1,618.

Other and unallocated segment results

(millions of euro)	2005	%	2004	%	Change	%
Revenues from third parties	36		30		6	22.0
Inter-segment revenues	-		-		-	-
Total revenues	36	100.0	30	100.0	6	22.0
Cost of sales	34	93.8	28	92.0	6	24.5
Gross operating income	2	6.2	2	8.0	-	-
Selling costs	-	0.7	-	1.1	-	-
Contribution margin	2	5.5	2	6.9	-	-
General and operating expenses	2	4.8	4	13.1	(2)	(55.0)
Ordinary operating result	-	0.7	(2)	(6.2)	2	n.s.
Non-recurring expenses/(income)	-	-	(2)	(7.3)	2	n.s.
Operating profit	-	0.7	-	1.1	-	(21.4)
EBITDA	1	3.1	1	4.2	-	(8.1)

The segment includes the sales of sports equipment, particularly as produced for third parties by one of the Group's manufacturing companies. Revenues increased by 6 million euro, or 22%, year on year. The percentage on revenues of cost of sales went from 92% to 93.8%.

General and operating expenses fell by 2 million euro.

The operating result at the operating profit level is essentially breaking-even.

The average number of employees in the period was 227.

Balance sheet and financial position highlights

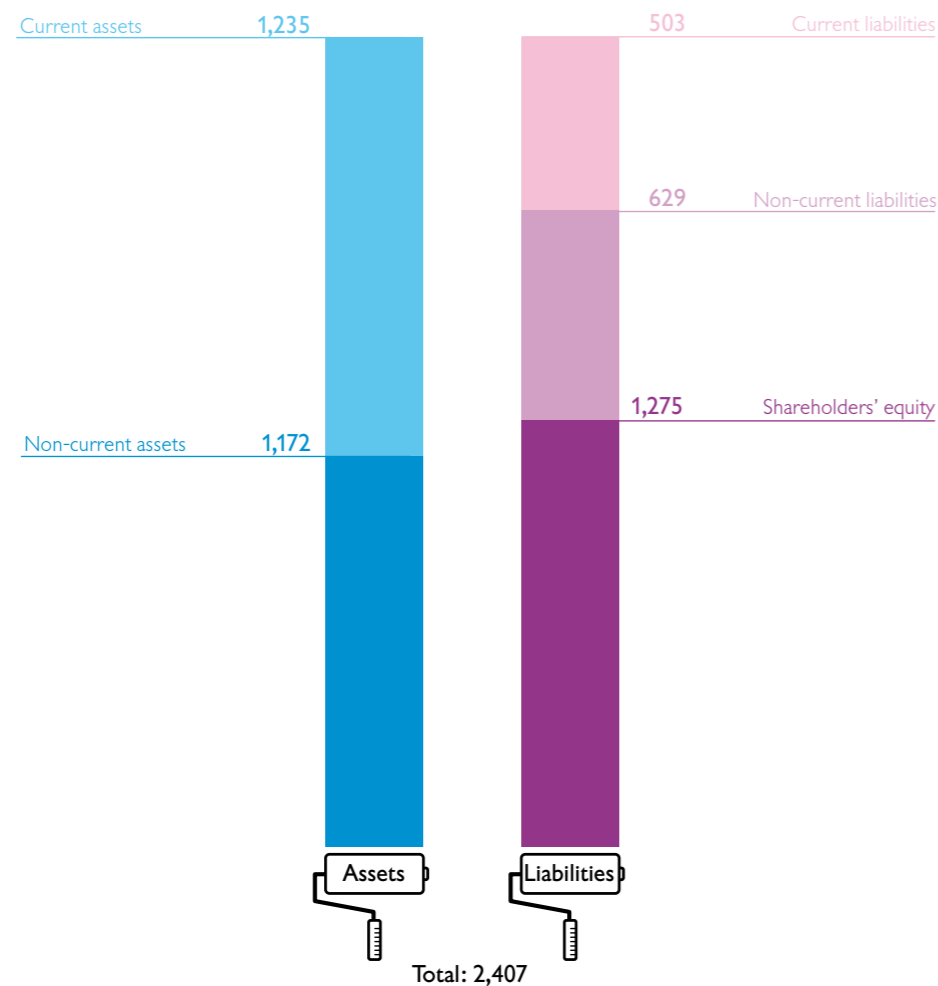
The most significant elements of the balance sheet and financial position, compared with December 31, 2004 are as follows:

(millions of euro)	12.31.2005	12.31.2004	Change
Working capital ^(A)	688	711	(23)
Assets held for sale	8	8	-
Property, plant and equipment and intangible assets ^(B)	895	910	(15)
Non-current financial assets ^(C)	25	22	3
Other assets/(liabilities) ^(D)	10	3	7
Capital employed	1,626	1,654	(28)
Net financial position ^(E)	351	441	(90)
Total shareholders' equity	1,275	1,213	62

(A) Working capital includes trade receivables net of allowances for doubtful accounts, inventories, trade payables, and other non-financial receivables and payables (i.e. VAT receivable and payable, other receivables and payables, Parent Company receivables and payables, taxes payable, deferred tax assets, accruals and prepayments, social security and employee payables, receivables and payables for the purchase of non-current assets, etc.). (B) Property, plant and equipment and intangibles include all categories of assets net of depreciation, amortization, and write-downs. (C) Non-current financial assets include unconsolidated investments and security deposits paid and received. (D) Other assets/(liabilities) include provisions for risks, provisions for goodwill indemnities, other provisions, provisions for the risk of future taxes, provision for current and deferred taxes related to the 2003 corporate reorganization. (E) Net financial position includes cash and cash equivalents and all short and medium-term financial assets and liabilities, as detailed in the table included below.

Despite the 3.6% increase in revenues, working capital fell by 23 million euro, due primarily to an increase in trade and other payables and a decrease in other receivables, which was offset by an increase in inventories. Assets held for sale for 2004 and 2005 refer to two facilities in the textile segment.

2005 balance sheet structure (millions of euro)



In addition to that which was already mentioned above, the change in capital employed is due to the joint effect of the following factors:

- increase in property, plant and equipment and intangibles due to investments of 124 million euro;
- depreciation and amortization of 85 million, write-downs of 50 million, and disposals of 14 million euro;
- decrease in operating provisions of 5 million euro;
- increase in deferred tax assets of 7 million euro, essentially related to the corporate reorganization at the end of 2003, and the decline in taxes payable of 5 million euro;
- increase of 3 million euro in non-current financial assets.

The net financial position was 351 million euro, decreasing by 90 million euro compared with December 31, 2004, and is as follows:

(millions of euro)	12.31.2005	12.31.2004	Change
Financial assets			
Non-current financial assets:			
- medium-term financial receivables	7	29	(22)
Current financial assets:			
- Italian government securities, monetary funds and bonds	-	118	(118)
- bank deposits	79	141	(62)
- other short-term financial receivables	13	22	(9)
Total current financial assets	92	281	(189)
Cash and ordinary current accounts	117	119	(2)
Total financial assets	216	429	(213)
Financial liabilities			
Non-current financial liabilities:			
- bond	-	-	-
- syndicated loan	(500)	(500)	-
- other medium-term loans	(3)	(4)	1
- lease financing	(10)	(18)	8
Total non-current financial liabilities	(513)	(522)	9
Current financial liabilities:			
- bond	-	(300)	300
- financial payables	(48)	(41)	(7)
- current portion of medium-term loans	(1)	(1)	-
- current portion of lease financing	(5)	(6)	1
Total current financial liabilities	(54)	(348)	294
Total financial liabilities	(567)	(870)	303
Net financial position	(351)	(441)	90
Non-current net financial position	(506)	(493)	(13)
Current net financial position	155	52	103
Net financial position	(351)	(441)	90

On June 10, 2005, in order to support the seasonal financial needs of the Group business and to meet future commitments, Benetton Group S.p.A. signed a revolving credit line of 500 million euro with a pool of ten banks, maturing in June 2010. This line may be drawn down in the form of one, three or six-month loans and the cost will be one/three/six-month Euribor plus a spread of between 27.5 and 60 basis points, depending on the ratio net debt on EBITDA.

This operation calls for compliance with three financial ratios (financial covenants) calculated every six months on the basis of the consolidated financial statements, namely:

- minimum ratio of 4 between EBITDA and net financial expenses;
- maximum ratio of 1 between net debt and equity;
- maximum ratio of 3.5 between net debt and EBITDA.

As of December 31, 2005, this credit line was not being used.

2005 net financial position (millions of euro)



The syndicated loan of 500 million euro, maturing in July 2007, calls for compliance with two financial ratios that have to be calculated every six months based on the consolidated financial statements, namely:

- minimum ratio of 2.5 between EBITD (earnings before interest, tax and depreciation of property, plant and equipment) and net financial expenses;
- maximum ratio of 1 between net debt and equity.

Both the revolving credit line and the syndicated loan include covenants for Benetton Group S.p.A. and, in certain cases, for other Group companies, which are typical of international practice, such as:

- a. negative pledge clauses, which extend to the transactions above, to the same degree, any present or future collateral on assets in relation to loans, bonds, and other debt securities;
- b. pari passu clauses, based on which obligations that are senior to those of the two transactions mentioned above cannot be assumed;
- c. periodic reporting obligations;
- d. cross-default clauses, which entail the immediate payment of the transactions described above upon certain defaults related to other financial instruments issued by the Group;
- e. limits to significant sales of assets;
- f. other clauses generally accepted in transactions of this type.

However, these covenants are subject to various exceptions and limitations.

The bond of 300 million euro was repaid at maturity on July 26, 2005, primarily by using available liquidity, which resulted in part from the sale of the securities.

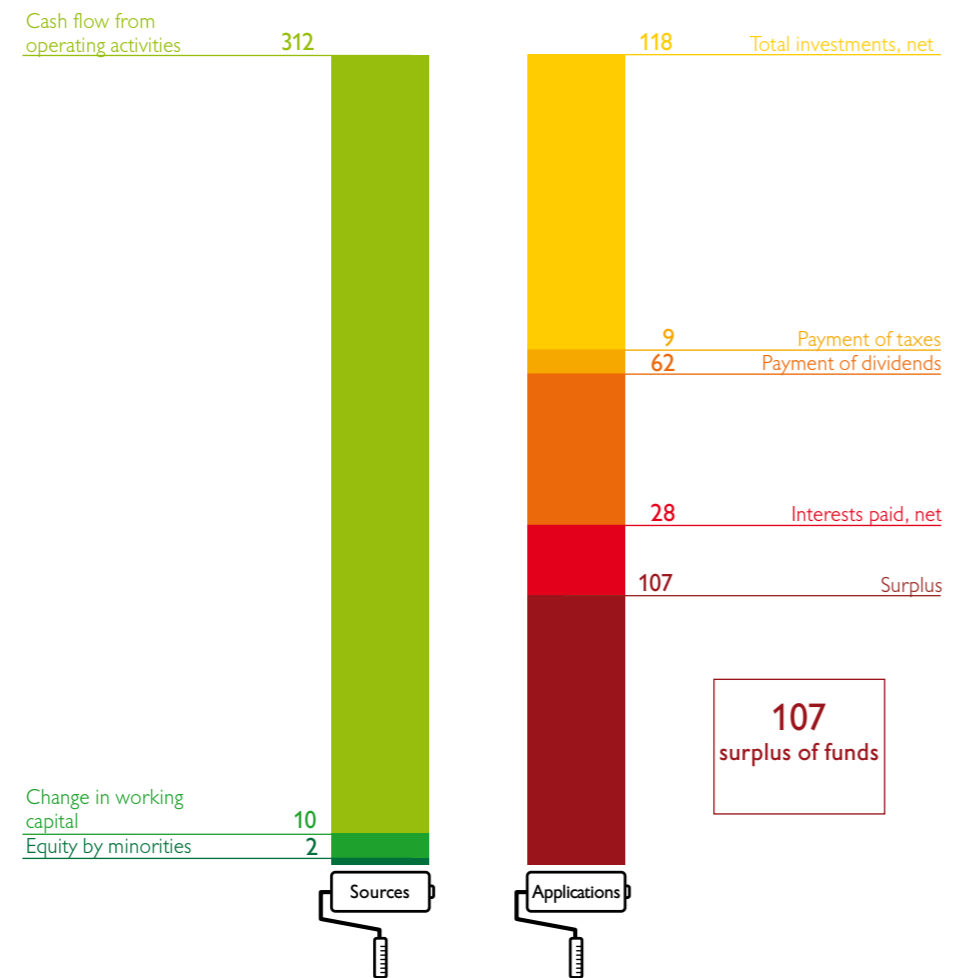
Cash flows during year 2005 are summarized below with comparative figures for last year:

(millions of euro)	2005	2004
Cash flow generated by operating activities	285	141 ^(B)
Cash flow provided/(used) by investing activities	(1) ^(A)	(125) ^(C)
Free cash flow	284	16
Cash flow provided/(used) by financing activities:		
- dividends paid	(62)	(69)
- net change in sources of finance	(288)	(11)
- net change in cash and cash equivalents	66	64
Cash flow provided/(used) by financing activities	(284)	(16)

(A) Includes 118 million euro for the sale of financial assets. (B) Includes payment of substitute taxes of 124.5 million euro. (C) Includes 49 million euro relating to the sale of the sports equipment segment and the purchase of financial assets, in the amount of 90 million euro.

Further information of an economic and financial nature is provided in the explanatory notes of the consolidated financial statements.

2005 sources and applications of funds (millions of euro)



■ Consolidated financial statements



Consolidated income statement

(thousands of euro)	2005	2004	Notes
Revenues	1,765,073	1,704,124	1
Other operating income and revenues	76,601	91,230	2
Change in inventories of finished products and work in progress	41,339	22,811	3
Purchases of raw materials and consumables	560,374	452,573	4
Payroll and related costs	221,043	214,002	5
Depreciation and amortization:			
- of property, plant and equipment	62,242	67,995	6
- of intangible assets	23,125	27,332	7
	85,367	95,327	
Other operating costs:			
- external services	631,228	638,351	8
- leases and rentals	104,478	86,420	9
- impairment of property, plant and equipment and intangible assets	50,340	49,116	10
- write-downs of doubtful accounts	17,387	39,240	11
- provisions for risks	19,780	37,128	12
- other operating costs	35,842	48,174	13
	859,055	898,429	
Operating profit	157,174	157,834	
Share of income/(loss) of associated companies	(60)	161	14
Net financial expenses and exchange differences	22,722	21,988	15
Income before taxes	134,392	136,007	
Income taxes	20,288	27,663	16
Net income/(loss) for the year attributable to the Parent Company and minority interests	114,104	108,344	
Net income/(loss) attributable to:			
- shareholders of the Parent Company	111,873	108,795	
- minority shareholders	2,231	(451)	
Basic earnings per share (euro)	0.62	0.60	
Diluted earnings per share (euro)	0.62	0.60	

Consolidated balance sheet - Assets

(thousands of euro)	12.31.2005	12.31.2004	Notes
Non-current assets			
Property, plant and equipment			17
Land and buildings	565,205	579,986	
Plant, machinery and equipment	68,535	79,658	
Office furniture, furnishings and electronic equipment	42,273	38,913	
Vehicles and aircraft	10,470	10,583	
Assets under construction and advances	10,957	3,724	
Assets acquired through finance leases	7,728	11,743	
Leasehold improvements	37,835	48,158	
	743,003	772,765	
Intangible assets			18
Goodwill and other intangible assets of indefinite useful life	8,510	5,346	
Intangible assets of finite useful life	143,239	131,273	
	151,749	136,619	
Other non-current assets			
Investments	5,130	5,117	19
Investment securities	-	223	
Guarantee deposits	21,879	16,715	20
Medium/long-term financial receivables	7,459	28,274	21
Other medium/long-term receivables	46,120	44,435	22
Deferred tax assets	196,998	201,268	23
	277,586	296,032	
Total non-current assets	1,172,338	1,205,416	
Current assets			
Inventories	287,246	255,436	24
Trade receivables	655,386	657,584	25
Tax receivables	25,173	39,451	26
Other receivables, prepaid expenses and accrued income	49,730	35,640	27
Financial receivables	12,970	21,528	28
Available for sale financial assets	-	118,172	29
Cash and cash equivalents	196,327	260,196	30
	1,226,832	1,388,007	
Assets held for sale	7,826	7,840	31
TOTAL ASSETS	2,406,996	2,601,263	

Consolidated balance sheet - Shareholders' equity and liabilities

(thousands of euro)	12.31.2005	12.31.2004	Notes
Shareholders' equity			
Shareholders' equity attributable to the Parent Company			
Share capital	236,026	236,026	32
Additional paid-in capital	56,574	56,574	33
Fair value and hedging reserve	123	1,114	34
Other reserves and retained earnings	857,314	803,500	35
Net income for the year	111,873	108,795	
	1,261,910	1,206,009	
Minority interests	13,050	6,881	36
Total shareholders' equity	1,274,960	1,212,890	
Liabilities			
Non-current liabilities			
Medium/long-term loans	503,163	503,494	37
Other medium/long-term liabilities	24,152	38,659	38
Lease financing	10,096	17,748	39
Retirements benefit obligations	49,767	47,307	40
Other provisions and medium/long-term liabilities	41,603	50,990	41
	628,781	658,198	
Current liabilities			
Trade payables	314,953	283,991	42
Other payables, accrued expenses and deferred income	112,662	84,114	43
Current income tax liabilities	9,275	14,112	44
Other current provisions and liabilities	11,830	-	45
Current portion of lease financing	5,390	6,007	46
Current portion of medium/long-term loans	654	1,102	47
Current portion of bonds	-	299,878	48
Financial payables	19,587	21,047	49
Bank loans and overdrafts	28,904	19,924	50
	503,255	730,175	
Total liabilities	1,132,036	1,388,373	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,406,996	2,601,263	

The explanatory notes (pages 5 through 56) are to be considered an integral part of this report.

Shareholders' equity - Statement of changes

(thousands of euro)	Share capital	Additional paid-in capital	Fair value and hedging reserve	Other reserves & retained earnings	Translation differences	Net income	Minority interests	Total
Balances as of January 1, 2004	236,026	56,574	1,525	761,181	-	107,874	12,993	1,176,173
Carryforward of								
2003 net income	-	-	-	107,874	-	(107,874)	-	-
Dividend distributed as approved by Ordinary Shareholders' Meeting of May 12, 2004	-	-	-	(68,992)	-	-	-	(68,992)
Dividends distributed	-	-	-	-	-	-	(422)	(422)
Changes in the period (IAS 39)	-	-	(411)	-	-	-	-	(411)
Stock options	-	-	-	722	-	-	-	722
Acquisition of shares	-	-	-	-	-	-	(7,314)	(7,314)
Increase in share capital	-	-	-	-	-	-	1,960	1,960
Other changes	-	-	-	-	-	-	(153)	(153)
Currency translation differences	-	-	-	-	2,715	-	311	3,026
Net income for the year	-	-	-	-	-	108,795	(494)	108,301
Balances as of December 31, 2004	236,026	56,574	1,114	800,785	2,715	108,795	6,881	1,212,890
Carryforward of								
2004 net income	-	-	-	108,795	-	(108,795)	-	-
Dividend distributed as approved by Ordinary Shareholders' Meeting of May 16, 2005	-	-	-	(61,730)	-	-	-	(61,730)
Dividends distributed	-	-	-	-	-	-	(631)	(631)
Changes in the period (IAS 39)	-	-	(991)	-	-	-	-	(991)
Stock options	-	-	-	2,202	-	-	-	2,202
Increase in share capital	-	-	-	-	-	-	2,002	2,002
Minority interest arising on business combinations	-	-	-	-	-	-	1,002	1,002
Currency translation differences	-	-	-	-	4,547	-	1,389	5,936
Net income for the year	-	-	-	-	-	111,873	2,407	114,280
Balances as of December 31, 2005	236,026	56,574	123	850,052	7,262	111,873	13,050	1,274,960

Consolidated cash flow statement

(thousands of euro)	2005	2004
Operating activities		
Net income for the year attributable to the Parent Company and minority interests	114,104	108,343
Income taxes expense	20,288	27,663
Income before taxes	134,392	136,006
Adjustments for:		
- depreciation and amortization	85,367	95,327
- (gains)/losses on disposal of assets	48,336	36,325
- net provisions charged to income statement	32,146	80,635
- use of provisions	(10,809)	(28,931)
- exchange differences	(409)	81
- shares of (income)/losses of associated companies	60	(33)
- net financial (income)/expenses	23,131	21,829
Cash flow from operating activities before changes in working capital	312,214	341,239
Cash flow from changes in working capital	10,373	(12,556)
Payment of taxes	(9,403)	(160,141) ^(A)
Interest paid	(53,104)	(51,597)
Interest received	24,842	23,826
Exchange differences	408	114
Cash flow generated by operating activities	285,330	140,885
Investing activities		
Operating investments	(115,621)	(122,950)
Operating divestments	15,265	61,440 ^(D)
Purchase of investments	(14,390)	(14,107)
Sale of investment	(74)	15,167 ^(D)
Operations in non-current financial assets	114,374 ^(B)	(64,945) ^(C)
Cash flow provided/(used) by investing activities	(446)	(125,395)^{(C)(D)}
Financing activities		
Change in shareholders' equity	2,182	1,960
Payment of bond	(300,000)	-
Net change in other sources of finance	9,780	(12,164)
Payment of dividends	(62,361)	(69,414)
Cash flow provided/(used) by financing activities	(350,399)	(79,618)
Net decrease in cash and cash equivalents	(65,515)	(64,128)
Cash and cash equivalents at the beginning of the year	260,196	324,825
Cash in companies purchased	-	-
Translation differences and other movements	1,646	(501)
Cash and cash equivalents at the end of the year	196,327	260,196

(A) Includes payment of substitute taxes of 124.5 million euro. (B) Includes 118 million euro for the sale of financial assets. (C) Includes the acquisition of subsidiary in the amount of 90 million euro. (D) Includes residual amounts relating to the sale of the sports equipment segment, of 8, 15, and 26 million euro, respectively, for a total of 49 million euro.



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