

Benetton Group

1998 Annual Report

- Highlights
- Annual Report
- Notes

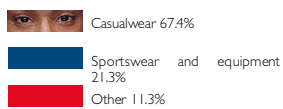
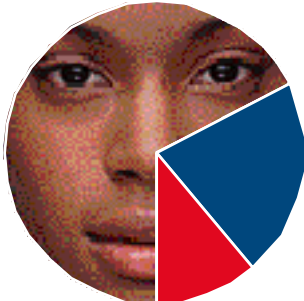
Benetton Group

1998 Annual Report Highlights

Financial highlights

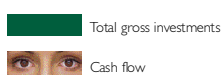
1998 sales by activity

[%]



1998 sales by geographic area

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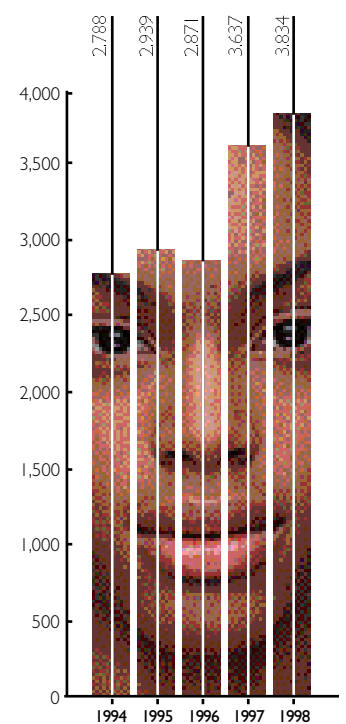
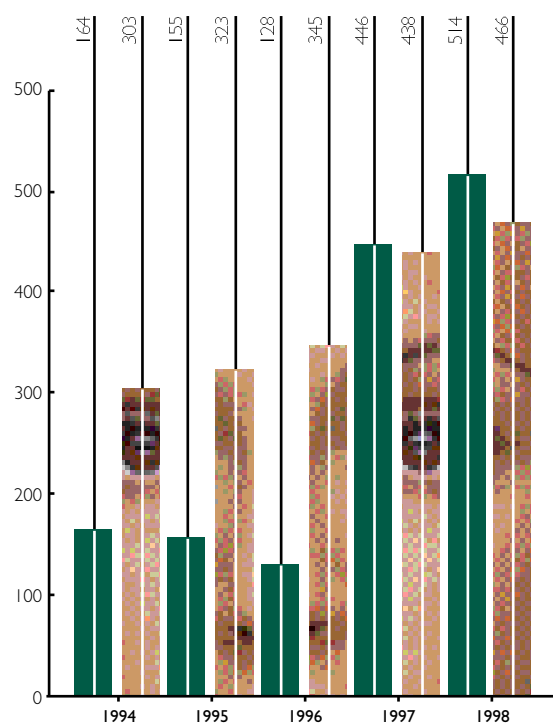
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Revenues	3,834	100.0	3,637	100.0	2,871	100.0	2,939	100.0	2,788	100.0
Cost of sales	2,261	59.0	2,106	57.9	1,716	59.8	1,721	58.6	1,639	58.8
Gross operating income	1,573	41.0	1,531	42.1	1,155	40.2	1,218	41.4	1,149	41.2
Income from operations	451	11.8	499	13.7	402	14.0	444	15.1	389	13.9
Net income	293	7.7	290	8.0	246	8.6	220	7.5	210	7.3

Key financial data [billions of Lire]	1998	1997	1996	1995	1994
Working capital	1,365	1,648	1,137	1,285	1,269
Net capital employed	2,628	2,741	1,712	1,836	1,851
Net indebtedness	378	509	[133]	140	303
Shareholders' equity	2,219	2,030	1,821	1,657	1,504
Cash flow	466	438	345	323	303
Capital expenditures in tangible and intangible fixed assets	230	120	111	137	142
Purchase of equity investments	284	326	17	18	22

Financial ratios [%]	1998	1997	1996	1995	1994
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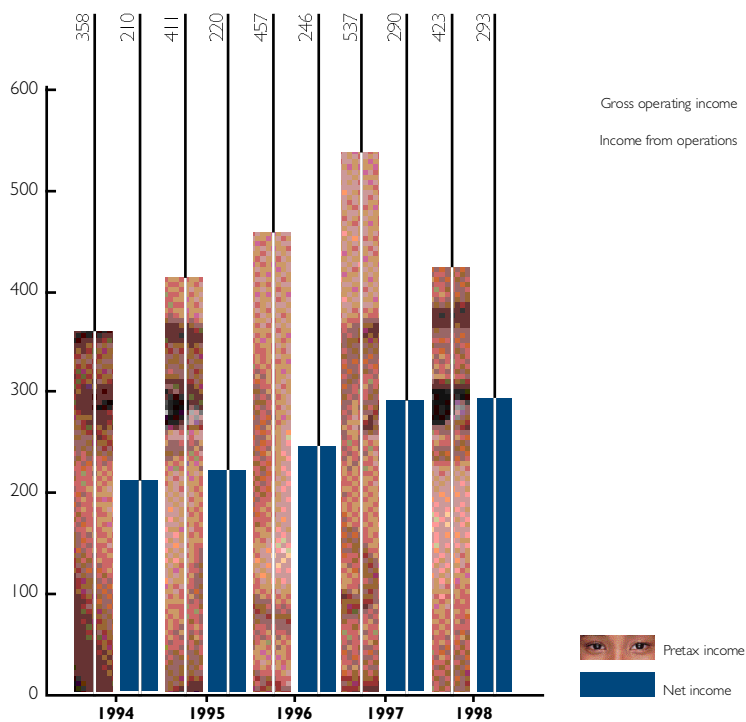
Total gross investments and cash flow

[billions of Lire]

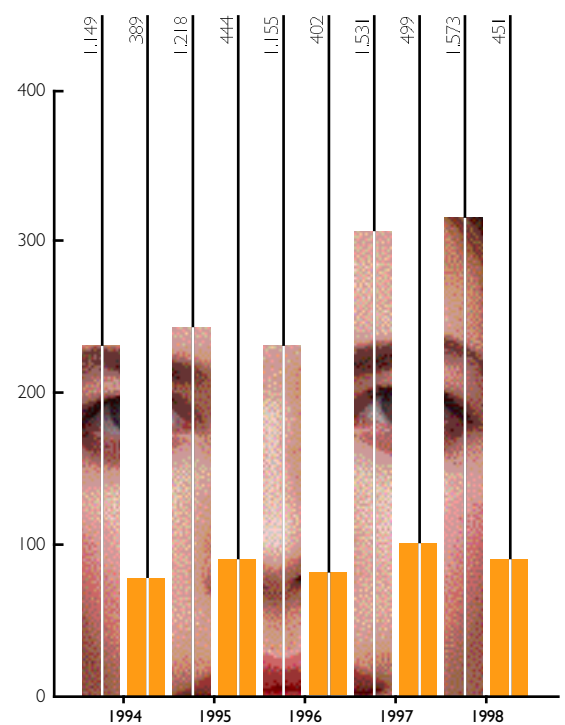


Pretax income and net income

[billions of Lire]

**Gross operating income and income from operations**

[billions of Lire]



Per share and share market data	1998	1997 [†]	1996 [†]	1995 [†]	1994 [†]
Earnings per share [Lire]	162	163	141	126	121
Shareholders' equity per share [Lire]	1,222	1,118	1,043	949	862
Dividend per share [Lire]	55.0	52.5	50.0	42.5	40.0
Payout ratio [%]	34	32	35	34	33
Share price · Dec. 31 [Lire]	3,344	2,871	1,812	1,808	1,841
Screen-based market high [Lire]	4,204	2,949	2,100	1,941	2,956
Screen-based market low [Lire]	2,284	1,840	1,588	1,403	1,720
Price of NYSE ADS - High [USD]	48.18	34.00	27.75	24.25	36.50
Price of NYSE ADS - Low [USD]	28.50	22.88	20.75	16.13	21.62
P/E ratio	20.6	17.6	12.9	14.3	15.2
Share price/ Shareholders' equity per share	2.7	2.6	1.7	1.9	2.1
Market capitalization [billions of Lire]	6,071	5,213	3,164	3,157	3,214
Average No. of shares outstanding [000s]	1,815,356	1,781,849	1,745,416	1,745,537	1,736,377

[†] Restated pro forma data, reflecting the 10-for-one share split and the increase in par value per share approved by the Shareholders' Meeting on May 27, 1998.

Letter to our Shareholders

1998 was a turning point for the Benetton Group. As the year progressed, the integration of the sports-sector brands, along with other internal developments, was complicated by the changing international economic scenario. In Southeast Asia, Japan, Russia, and Brazil, crises followed crises with the alarming regularity of war bulletins. In Europe, things were much brighter, with the launch of the monetary union.

Despite all the different challenges presented worldwide, the Benetton System proved its mettle in 1998, adapting quickly to changing economic developments around the globe and responding rapidly to changing market trends, reflecting the philosophy that the future starts with every day. At the same time, we continued to expand the breadth and depth of our business by transferring our expertise across the organization and assimilating a variety of sports-brand identities into the Benetton culture.

■ **Dividends.** Because of the emphasis we place on return to our Shareholders, we have a carefully considered dividend policy that seeks to match market yields. In June 1997, the dividend was accompanied by a bonus-share issue. A share split [10 new shares for each old share held] increased the marketability of Benetton shares and boosted their popularity among small investors.

■ **The sports sector.** Energy, dedication, and severity were the hallmarks of the two-year reorganization and integration process in our sports sector. The final results matched our commitment and fully met expectations. For example, by virtue of an established Benetton strategy [uncommon to the sports sector], the earlier collection inventories were all but cleared. Building on this strategy, we are confident that ongoing investment in research projects, many of them in collaboration with the Formula One laboratories, will lead to the development of new materials and innovative products. Today, at the sports sector's new headquarters in Villa Loredan, steeped in history, new ideas and creative enthusiasm are generating benefits throughout the Group.

■ **The markets.** Benetton confronted the crisis in the casual and traditional clothing market with boldness and decision, minimizing the impact on the Group. In Korea, we saved our market. The slide in business volume there was addressed first by running down inventories. This was followed in September by setting up a manufacturing and distribution joint venture with a local operator. Maintenance and subsequent upgrading of the sales network were encouraging signs of a return to normality. Overall, the Group increased its total revenues by around Lire 200 billion, an improvement of 5% over 1997.

■ **The sales network.** On the distribution front, our experience in 1998 reinforced our conviction that the quality of the sales outlet is taking on even more importance in today's world. We mean quality in the broadest sense - stores with a larger display area capable of accommodating a complete range of products and, thus, offering a wider choice. But it also means creating meeting places that are pleasant to visit, with appealing, complementary services. We at Benetton are finding this to be a winning strategy both in the world's major metropolitan centers and in provincial towns; in Leghorn, for example, a store revolutionized in this way tripled sales in just a few months.

■ **The Playlife stores.** During the year, we opened new Playlife sportswear stores in a number of European countries. These stores are showcases for our leisure-time marketing concept, designed to create an atmosphere that is particularly appealing to a young, male clientele, a cosmopolitan clientele that also loves the outdoors and all it has to offer. That's why the Playlife store complements its display of clothing and footwear collections with top-of-the line, brand-name sports equipment. While our sports equipment is still mainly distributed through traditional dedicated stores, in the Playlife outlets, the key role of this equipment is to set the scene.

■ **The Benetton System.** The revolution that we are bringing about in the sports sector presents both a challenge and another great opportunity for business expansion. I am optimistic about the future. Our enterprise as a whole continues to grow, while our business philosophy - thanks to its entrepreneurial imprint and Benetton teamwork - continues to evoke an enthusiastic response from customers and distributors alike, as well as from everyone who works with us inside or outside the Group. I thank them for their commitment. The Benetton System reflects this philosophy, combining flexibility and entrepreneurial flair, with a focus on future possibilities and creative interaction across all levels of the organization. This synergistic mix of business values allows us to respond rapidly and decisively, keeping at least one brisk step ahead. Just one of many examples is that our collections are now organized in such a way that we can guarantee weekly deliveries.

■ **2000 and beyond.** Over the years, I have seen our ideas - some of which were dismissed as "pipe dreams" - become a reality and the building blocks for further business expansion. Here's my "pipe dream" for the Year 2000: we will raise Group sales through internal growth alone by 50% over the next five years. And what better time to begin than during next year's Holy Year celebrations? With millions of pilgrims coming from all over the world to Italy and to Rome, we view this as an ideal occasion - both symbolically and strategically - to launch this new, exciting stage in the development of Benetton.

CHAIRMAN

Luciano Benetton

Distinctive features of the Benetton Group

The strategy pursued by the Group from the outset led to creation of the “*Benetton System*,” a business formula that continues to deliver quality products and consistent growth. The five basic principles that make up the backbone of the “*Benetton System*” are:

— **Innovation**, in the form of a constant commitment to research and development aimed at identifying the materials, technology, and designs that enable Benetton to anticipate market trends and deliver the goods that our customers want. This is a process that gives a clear and powerful identity to the style and to the label.

— **Flexibility in manufacture and logistics**, based on a highly effective system of outsourcing and continuous advances in distribution. While certain processing stages are largely performed outside the Company, it is the Benetton Group that organizes, coordinates, and oversees the creative, manufacturing, and logistic process, and accomplishes the critical task of quality control. At the same time, integration and centralization of logistics maximizes efficiencies in terms of cost, lead-times, and shipment volumes, working in concert with the manufacturing cycle and market demand.

— **General business-risk reduction**, through a prudent strategy of geographic diversification combined with constant monitoring of the distribution process. This includes the opening of megastores worldwide and enlarging existing stores around the globe.

— **A network of independent stores**, the world’s largest and most flexible in organizational terms, that has created a diffused entrepreneurship structure operating 7,000 independent stores world-wide.

— **Communication**, seen as a core element in our success with its focus on constant enhancement of the Benetton image. Over time, this has won ever-increasing social and international recognition of the brand.

The synergies created by the application of these key principles throughout the organization keep the “*Benetton System*” focused on value creation for our Shareholders. This value-driven process is based on four basic strategic approaches.

Lines of strategic growth

- **Strengthening the Group's presence in the clothing sector**, to sustain the profitable growth of Benetton Group's traditional business and replicate its business philosophy in the sportswear sector. Development of the casualwear business is based on the promotion of a young, dynamic image, with a careful eye to the price/quality mix, and the expansion and upgrading of the stores' network. In the sportswear sector, our focus is on a few high-profile brands offering fashionable and technically high-quality products with strong market appeal.

- **Consolidating the Group leadership in sports equipment**, through the proven ability to gain market share, using the leverage of innovative products and targeting sectors with growth potential. The reputation of our brands and our widely recognized technological leadership are decisive advantages in segments such as in-line skates, "carving" skis, boots, and snowboards.

- **Optimizing the distribution structure** featuring separate approaches for the two principal businesses - casual wear and sports goods. For casual wear, development consists of opening megastores in the world's main cities, enlarging existing stores, and finding ad hoc, local solutions for the smaller, specialized outlets. Growth in the sports sector will be fueled by the traditional distribution network [especially in regard to equipment] and the opening of Playlife outlets dedicated to sportswear and footwear.

- **Exploiting synergies and economies of scale** by adopting a new organizational structure that rationalizes and consolidates R&D units, maintains a consistent brand image across the product portfolio, groups together the central functions, and maximizes the effectiveness of the advertising budget. This new structure also allows better control of working capital, particularly with the optimization of the logistics system.

Benetton Group

1998 Annual Report

The Benetton Group
1998 Report of the
Directors

**UNITED COLORS
OF BENETTON.**

Benetton Group S.p.A.

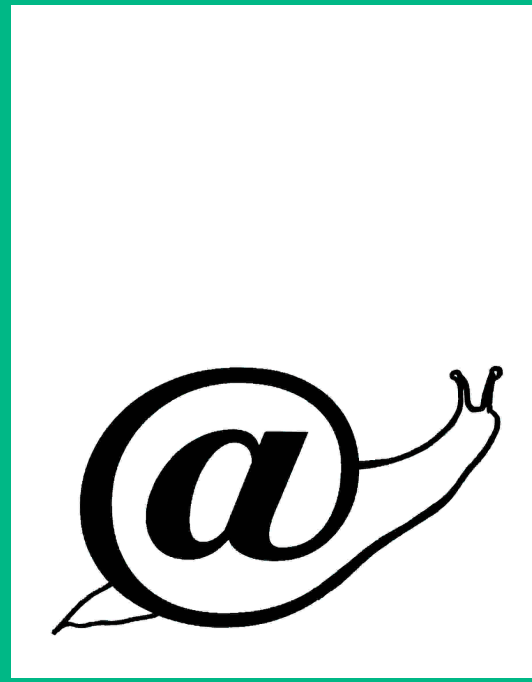
Villa Minelli

Ponzano Veneto [Treviso] - Italy

Capital stock: Lire 453,897,027,500 fully paid-in

Treviso Company Register 4424

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Directors & other officers**Board of Directors**

Luciano Benetton	Chairman
Gilberto Benetton	Deputy Chairman & Joint Managing Director
Carlo Gilardi	Joint Managing Director
Giuliana Benetton Carlo Benetton Alessandro Benetton Gianni Mion Angelo Tantazzi Ulrich Weiss	Directors
Pierluigi Bortolussi	Secretary to the Board

Board of Statutory auditors

Dino Sesani	Chairman
Filippo Duodo Fanio Fanti	Auditors
Giovanni Pietro Cunial Aldo Laghi	Alternate auditors

Independent auditors

Deloitte & Touche S.p.A.

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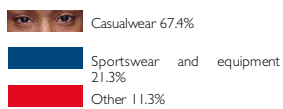
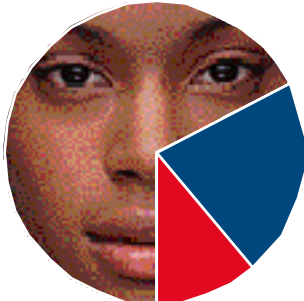
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Financial highlights

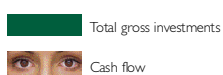
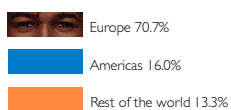
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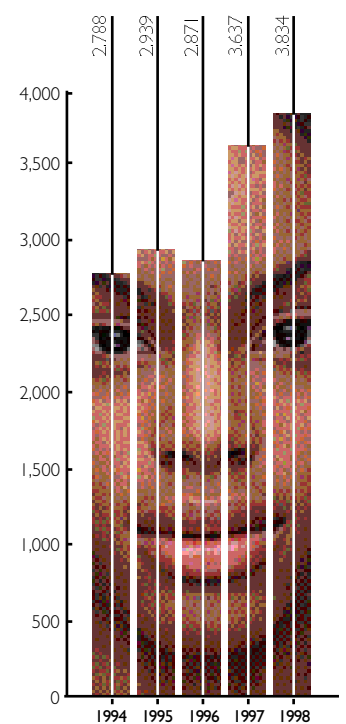
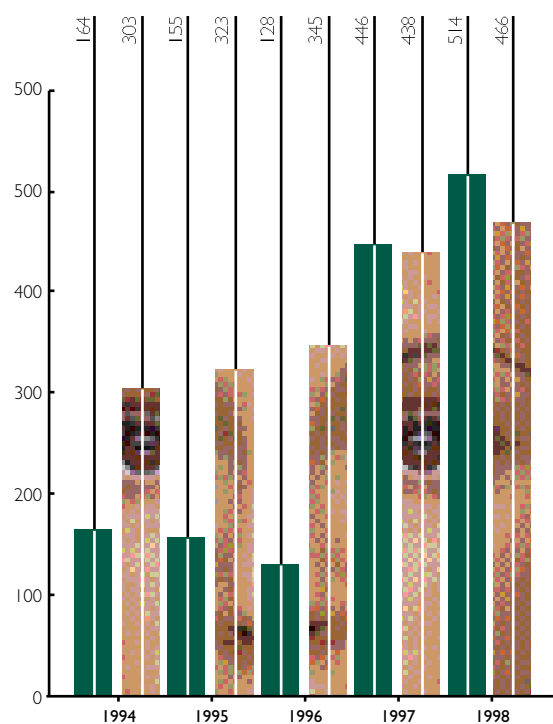
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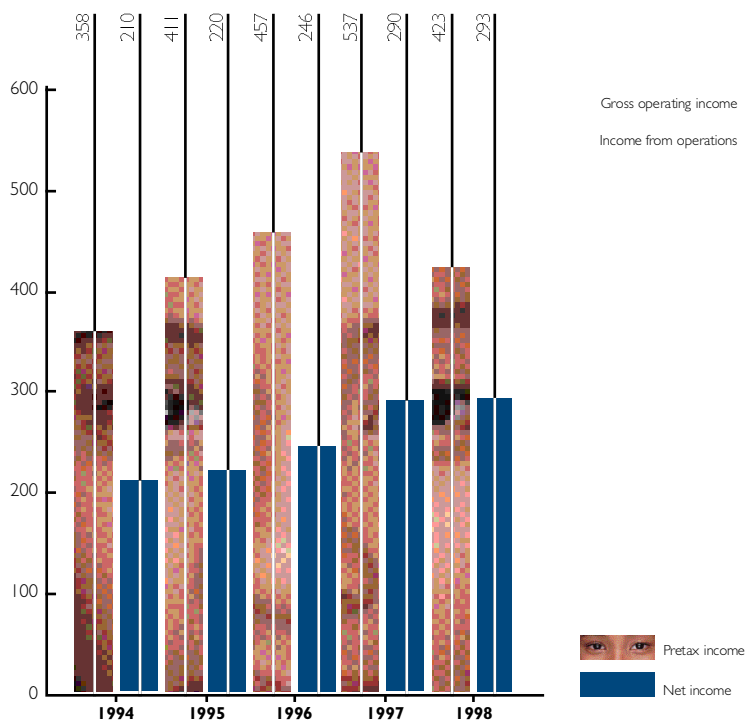
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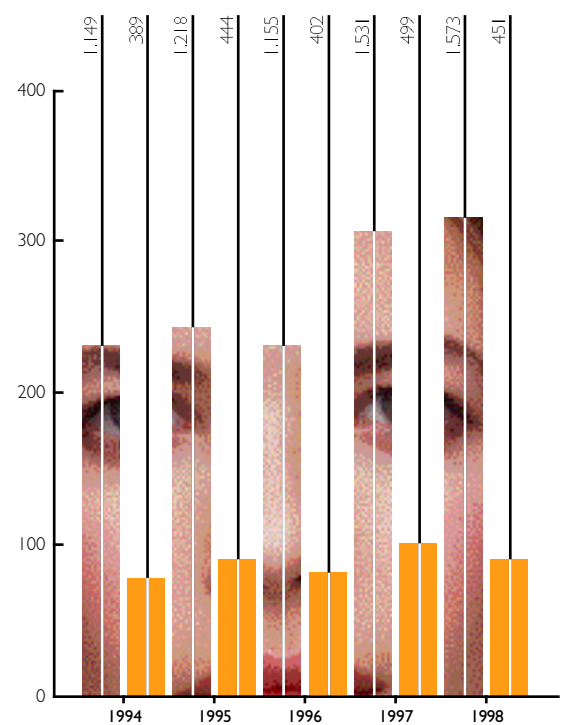


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1998 results

Group revenues totaled Lire 3,834 billion in 1998, up 5.4% over the previous year, despite holding the line on prices [in accordance with our business plan four years ago]. The ratio of income from operations to sales approached 12%, while net income of Lire 293 billion was up slightly from than in 1997. Exposure to individual market risk was modest, given the effectiveness of the Group's geographic diversification.

Two important events in 1998 enhanced the Group's global dimensions: the success of Playlife, the showcase for our new philosophy toward sport and leisure time, and the distribution agreement with Sears, one of the leading retail operators in the United States, that bolsters our presence in the US market. This agreement covers more than 1,000 Benetton point of sales outlets in Sears stores, in exchange for exclusive distribution rights for the new "Benetton USA" label, that combines the image of the Benetton brand and the American consumer's requirements for quality and value.

The distribution agreement with Sears: Benetton bolsters its presence in the US market with the new "Benetton USA" label.

Group operations are now divided into three segments of activity: *casual wear*, including footwear and accessories [sold through the network of Benetton stores]; *sportswear*, comprising clothing [distributed via the Playlife stores and elsewhere] and *equipment* [marketed mainly via the traditional channel of sporting-goods stores]; and, *ancillary operations*, which range from licensing agreements to the sale of raw materials, as well as industrial and advertising services.



Concept: Batman Zavarese · Photo: James Mollison



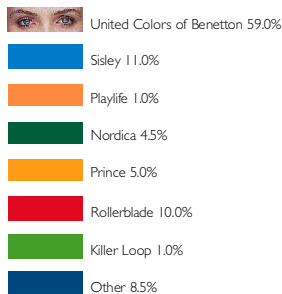
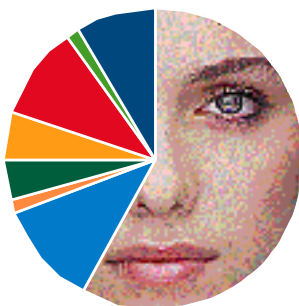
Fabrica

The brands

	Casual wear	Sportswear & sports equipment
United Colors of Benetton	■	
Sisley	■	
Playlife		■
Nordica		■
Prince		■
Rollerblade		■
Killer Loop		■

1998 net sales by brand

[%]



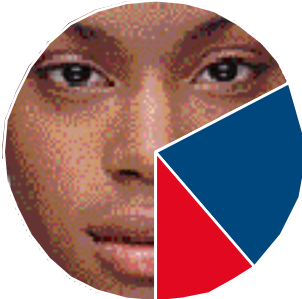
Casual wear

■ **United Colors of Benetton™.** Thanks to greater flexibility in production, the “United Colors of Benetton” collections are now offered on an intra-seasonal basis, so that the Group can respond more swiftly to changing market trends, while availability has been geared to match new store product launches.

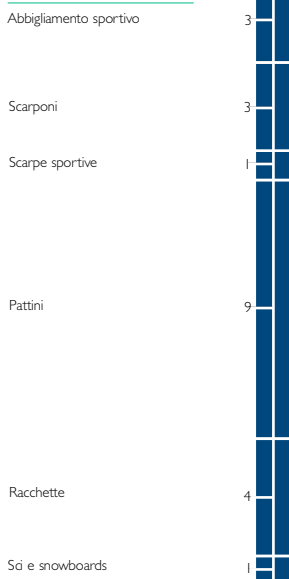
Distribution capacity was enhanced by enlarging stores in provincial towns as well as in major cities worldwide. The performance of the children’s wear in 1998 - comprising the baby, toddler, and schoolwear lines - confirmed the growth trend in this segment, triggered by the opening of increasingly large, dedicated stores and expansion of children’s wear departments within the Benetton megastores. The Undercolors store network, specializing in underwear and swimwear, also expanded.

■ **Sisley™.** This successful, highly distinctive, expanding fashion brand continued to show robust growth in 1998. Over the year, as the international sales organization continued to expand and existing outlets were enlarged, the addition of these new independent Sisley stores reinforced the label’s market profile. The boom in the opening of new Sisley stores - specializing in menswear - reflected the brand’s growing success.

1998 sales by activity
[%]



(in % sul fatturato totale)



Sports equipment and sportswear

■ **Playlife™**. An innovative, leisure-time marketing concept, the Playlife program took off during 1998, setting its sights on the substantial growth potential of the sports sector and moving in tandem with the Group's increasing international thrust. The "Playlife" name encapsulates the Benetton philosophy of leisure time, bringing together a number of different sports brands and activities that range from Formula One to motorcycle racing, skiing to in-line skating, tennis to snowboarding. Playlife also is a sportswear brand developed on the strength of Benetton's design, manufacturing, and marketing expertise, and distributed via an international chain of Playlife stores.

Playlife is headquartered near Treviso in the Villa Loredan, a fine example of 18th Century architecture, providing more than 10,000 square meters to accommodate the Group's sports-sector R&D and marketing activities.

■ **Nordica™**. Nordica's transformation into a global mountain-sports brand, representing an increasingly extensive range of sports and leisure products, began in earnest during 1998. The skiing line was fully integrated with the addition of the first collection of Nordica skis, available in a number of one-color models that can be coordinated with boots, ski poles and ski wear. The new skis represent a logical development of the Exopower ski-boot technology and are manufactured at a new site in Trevignano [Treviso]. Their first successes in the professional sports world were the Norwegian Aamodt's gold medal in the combined-competition, Vail world championship and second place in the final rankings in the 1998-1999 World Cup. The ski boot collections confirmed Nordica's number one ranking in that market, thanks to their innovative design and the fact that the dual-injection system was extended to the entire line. Other developments during the year included the first stages of creating a collection of summer out-door clothing and boots for the mountain-lover. The goal is to provide the customer with complete, year-round lines of Nordica sportswear and equipment.

■ **Prince™**. Prince retained its ranking among the world's top three tennis-racket brands, sold primarily in the United States, South America, and Asia. During 1998, tennis racket, footwear, clothing, and accessories design and manufacturing operations were integrated into the Benetton system. Additions to the product line included three new titanium Thunder Power rackets, which are extremely light but provide the power needed for today's game. The brand's technological superiority was demonstrated in the U.S. Open by Patrick Rafter [who placed number two in the world rankings in the summer of 1998] and Jana Novotna at Wimbledon.

■ **Rollerblade™**. Synonymous with in-line skating, Rollerblade retained its world lead during 1998 with on-the-mark new lines, thanks to its commitment to product innovation and technological research, in addition to the reorganization of manufacturing operations. A new brand, "RB™", launched during the year, is a younger, brasher collection of skates, shoes and clothing. Parallel to which, a line was designed targeted to the rapidly expanding sector of fitness wear for women. The year's innovations included two new products that represent new approaches to skating: the *Coyote*, the world's first all-terrain skates; and, *Transportation*, "chameleon" skates

that let the wearer transform the skate into a shoe with an new hooking system that attaches a sole to the wheel fixings. These new products were joined by the first Rollerblade-brand shoe, the *Grind Shoe*, footwear designed for jumping over or sliding along sidewalk curbs, handrails, and other urban obstacles.

■ **Killer Loop™.** An international brand offering a range of sports lines, Killer Loop moved in a new strategic direction in 1998. Building on the strength of its brand name in sportswear and equipment, it became a main exponent of the Street Life Style, a young and aggressive set of designs that are simultaneously urban and sports-related. This new line and image helped to boost sales in 1998 and was the platform for the addition of skateboards [designed during the year] and surfboards to the existing range of snowboards. In parallel, the manufacture of specialized clothing is to be joined by "streetwear" clothing and footwear collections [the first of which was successfully launched during the year]. Thus, Killer Loop is poised to become the first international brand offering an integrated line that represents a new concept in youth and dynamism, distributed through three channels: clothing, shoe, and sporting-goods stores.

Capital expenditures

The Group's capital expenditures totaled more than Lire 200 billion in 1998. Capital expenditures in the manufacturing and other operating areas amounted to Lire 94 billion, related primarily to modernizing and upgrading plants, machineries, and other equipments used in the manufacture of clothing and sports equipment. Also included were improvements to a packaging plant at the Castrette complex and the purchase of a factory in Hungary.

Expenditure on real estate totaled approximately Lire 80 billion, predominantly to complete the restructuring of Villa Loredan, the sports-sector headquarters, and to acquire a prime-location building in Tokyo to accommodate both a flagship store and the headquarters of the Japanese subsidiaries, while other investments were made to acquire new store locations.

Production

Casual wear and sportswear. Output of casual wear and sportswear reached a striking 85 million garments in 1998. Manufacture of sportswear was integrated into the *Benetton System*, optimizing product quality and paving the way for increasingly substantial economies of scale.

A program to extend manufacturing operations in Europe was launched during the year. The aim is to reduce production costs without compromising product quality. Developments included the construction of a new cutting-edge factory in Hungary and the expansion of existing operations on the Iberian Peninsula, now largely concentrated in Portugal. The new European manufacturing network operates in close collaboration with the Castrette industrial complex and the plant in Tunisia. [Castrette is one of the world's most advanced facilities of its type, boasting five divisions: wool, cotton, outerwear, clothes such as skirts and jeans, and shirts].

Tighter integration of the Group's production plants in 1998 led to further improvements in the efficiency of raw materials purchasing, with 90% of operations concentrated in Italy, benefiting both quality and cost. Materials management was also more closely integrated with the "just-in-time" manufacturing cycle, contributing to better scheduling and closer collaboration between R&D, sales, and manufacturing activities. Consequently, delays for deliveries have been shortened, trimming storage periods to the minimum.

Meanwhile, the Castrette complex - the cornerstone of Benetton's manufacturing system continued on its evolutionary path. Investments in this advanced facility included projects such as the upgrade to a state-of-the-art, automatic, garment-packing system. In 1998, the automatic boxing of both hanged and folded garments came fully on stream, raising the efficiency of shipment operations and, thus, speeding customer-order response time.

90% of raw
materials purchasing
is concentrated
in Italy.

Sports equipment. The manufacturing operations of this sector were revamped in line with the Group's business philosophy. The high-technology production centre for boots, skates, skis, accessories, and other equipment has been concentrated at Trevignano [near Treviso]. In particular, a new production plant for skis was established, importing and strengthening Kästle's skills and technology [building upon on some 80 years of sector experience]. At the new plant, Lire 10 billion was spent on installing the fully automated production lines, along with areas for skilled craft operations for top-of-the-range models, which are entirely "Made in Italy."

Another important project completed during 1998 was the production of ski boots using dual-injection and other highly advanced systems, moving Trevignano into a world leadership position in terms of sector technology and innovation.

Thanks to the Group substantial commitment to information technology and human resources in 1998, Benetton was able to successfully reengineer production, management, and planning departments, and improve the flow of information and operating processes. Production has been progressively changed to fulfilling received orders and distribution will be adapted accordingly.

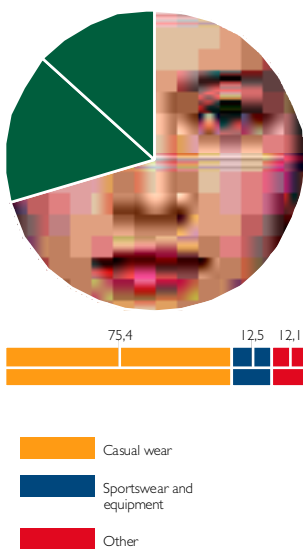
Distribution

Logistics. The Group's choice of distribution strategy was to establish an integrated logistics system, in which the warehouses are the system's junction and are part of the distribution system rather than just places for storing facilities. In line with this strategy, together with the principles that have inspired the whole Benetton organization, a new distribution system for sports-sector products is nearing completion. This will eliminate fragmentation of inventories across warehouses scattered around the world and will concentrate the finished goods in three sorting centers, one in Castrette [Italy], one in the United States, and one in the Far East. The first two are already in operation; the third is under construction. In the casual wear sector, quality and efficiency were enhanced, thanks to the streamlining of packing and shipment-preparation operations through the implementation of technologically advanced, highly automated systems. Developments in transportation methods in 1998 included the advance toward intermodal and combined systems, that accounted for more than 50% of the year's shipments. While these costs are similar to those incurred with conventional transportation methods, the new technologies are not only more flexible, above all, they are consistent with the Group's commitment to environmental protection.

Sales organization. There were three key elements in the strategy adopted to develop the worldwide sales network during 1998: sharpening the focus on the expansion of sales areas to accommodate the complete casual wear and accessories collections, while consolidating the Group's reputation and enhancing its image; acquiring sites in prime, city locations worldwide to house megastores [during 1998, a prestigious building in Tokyo destined to become a large flagship store, was secured and will be managed by a local partner]; expanding the network of Playlife stores that feature sportswear and streetwear garments and shoes, complemented by sports-equipment product lines. By the end of 1998, Playlife outlets had been opened in Italy, Germany, Austria, Russia, the US, and Santo Domingo [Dominican Republic]. Going forward, sports equipment will continue to be distributed primarily through traditional sporting-goods store channels with an emphasis on creating special displays to show all the products offered by each brand.

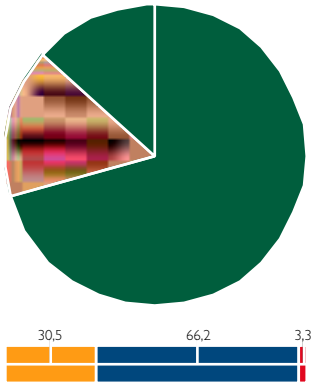
Licensing. Licensing activities concentrating on increasing the value of the Group's brands carved out new paths during 1998. In the US, Benetton signed a strategically important agreement, granting a license to Euro-America Holdings, Inc., which, in turn, gives our Group access to the distribution channels operated by Sears, one of the leading, large-scale distribution operators in North America. Sears will use the new "Benetton USA" brand, combining the established Benetton image with the favorable price/quality mix expected by the American consumer. Further agreements reached in sectors other than apparel covered an extensive range of lines, from wallpaper and paint to clothing accessories, eyewear, mineral water, and condoms. In the household sector, an agreement was signed with the leading porcelain manufacturer, Rosenthal AG, for the production, under license, of tableware and gift items. Other objectives pursued during the year included expanding license agreements for Benetton's

1998 sales by geographical area: Europe
[%]



1998 sales by geographical area: Americas

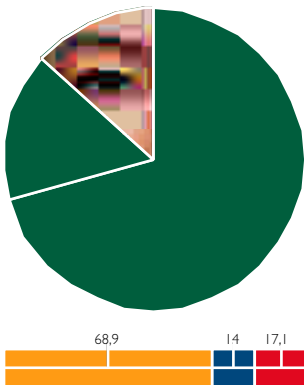
[%]



sports-sector brands. A license was granted to Rizzato [Padua], number one in its sector in Italy, for the production and marketing of Kästle bicycles, mountain-bikes, and accessories. Another agreement covers the manufacture and European marketing of sports socks bearing the Playlife, Nordica, Killer Loop, Rollerblade, Prince, and Kästle brands.

1998 sales by geographical area: Rest of the world

[%]



- Abbigliamento Casual
- Abbigliamento e attrezzo sportivo
- Altre attività



Value-creating intangibles

Research & development

■ **Casual wear and sportswear.** A staff of about 320 people is engaged in R&D in this sector, following two primary paths. The first is centered on methods of transferring to wool, cotton, and other natural fabrics the easy-care features of synthetic fibers [machine-washability, no-iron, fast drying, etc.], together with greater elasticity and comfort. Collateral research focuses on treating knitwear, pants, skirts and jackets with water and oil repellents.

The second path extends the development of a family of garments made with synthetics derived from “206,” together with the launch of a study that will explore hundreds of new synthetic materials with special features - antibacterial, anti-mold, thermal insulation, and control of electromagnetic fields.

■ **Sports equipment.** More than 100 people are employed in the Research and Innovation group, centralizing in Italy the R&D activities relating to the various sports-equipment lines. Product innovation intensified during 1998, as part of an overall project concerned with innovation and quality. This involved the search for new materials and their practical application in cutting-edge product design and technology transfer between the various brands. During the year, this activity was carefully integrated with the corresponding functions in the clothing and footwear areas.

A collaboration program was agreed upon with the Enstone [UK]-based Benetton Formula One research sector, which is increasingly a key source for technology throughout the Group. During the year, this collaboration also involved Bridgestone, the official supplier of tires to the Benetton team, in relation to the development of Rollerblade skates with vulcanized rubber wheels and new Prince sports footwear with a special sole supplied by the Japanese company.

The Research & Innovation group’s activities include a task force in the US that operates as a “privileged observer” in core technological sectors; more than 20 exclusive patents were applied for in 1998, including the Rollerblade “fitness” skate with a hinged, “split” sole that allows a more ergonomic, natural flexing of the foot.

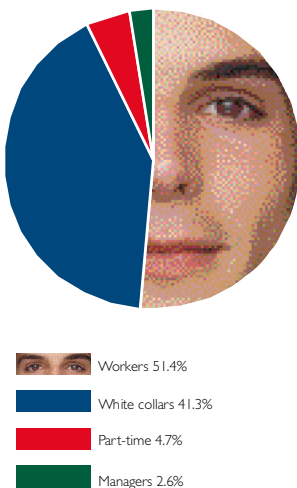
Another important Benetton innovation was the use of an “intelligent” material developed by NASA inside Nordica ski boots [a world exclusive], as well as in ski suits and ski gloves. This material gains or loses heat according to the body temperature of the wearer and enhances comfort during sports activities.

More than 400 people are employed in the research and development of new products and materials. In 1998, more than 20 exclusive patents were applied for.

Quality and environment. During 1998, the Benetton Group began preparations for ISO 9000 certification for its entire manufacturing cycle, and ISO 14000 certification covering quality and environment aspects. Meeting these international standards is challenging and attests to the Group's commitment to reconciling the demands of the manufacturing process and a competitive marketplace with social, ethical, and environmental values. Benetton was among the first in the clothing/textile sector to undertake this vital mission. The two interrelated projects called for considerable dedication in order to adapt procedures and working methods to these international standards. This involved intensifying the quality culture across all processes, including the network of external suppliers, and implementing staff-training programs. The ISO 9000 project embraces all the business processes, from raw-materials purchasing to logistics as the basis for defining and standardizing the highest quality aspects of the system. ISO 14000 extends the quality concept to all operations that might have an impact on the environment, from waste disposal treatment to emissions control and from environmentally friendly building plants to transport systems [intermodal and combined, especially rail-based]. The goal is maximum respect for nature and the health of our workforce. Both projects will be completed by mid-1999.

Human resources. The Group's organization model was put to the test and demonstrated its ability to assimilate and integrate both individual employees and entire departments. During 1998, the restructuring and integration of the sports sector at home and abroad was completed quickly and smoothly. This process affected all operations and activities and was accompanied by a rapid and effective redefinition of job specifications and functions. Internationalization, a distinguishing feature of the Group, was further developed by the recruitment of personnel from various countries and cultures, who individually and united form a corporate climate that is both cosmopolitan and dynamic. The training program included adapting to the economic and social developments accompanying the evolution of the European Union. The projects were related to the introduction of the Euro and the Group's preparation to meet the ISO 9000 and 14000 industrial and environmental standards, together with value analysis, corporate governance, and other topics. In the field of education, Benetton offered training programs to some 120 young people and also sponsored and promoted research at prestigious foreign institutions. These included the Royal College of Arts, Central St. Martins College, Nottingham Trent University, Cordwainers College in the UK, and St. Johns University in the US. Industrial relations were again highlighted by an ongoing commitment to the efficient utilization of plants, through constructive dealings with the trade union representatives and combined with flexible working schedules and redeployment. Effective solutions were found to the problems arising from the complexities of Benetton manufacturing and distribution requirements. Following this course, the Group's policy to directly addressing problems in the workplace was maintained. Benetton was the first in the Italian clothing industry to underwrite a code of conduct in 1994, to assure the implementation and compliance with the laws on employment and safety at work at all the facilities integrated into the Benetton system at home and abroad. At the end of 1998, the Group counted on a workforce of 7,235 people.

Employees by category
[%]



Social and cultural impact. The Benetton Group - which personifies the inseparability of economics and culture, along with entrepreneurial innovation and artistic creativity - undertook a series of cultural and social initiatives in 1998.

The Benetton Foundation spearheads the Group's cultural activities. In 1998, the Foundation maintained its program of studies, research, and experimentation in the field of preserving and enhancing environmental and social heritage. The spotlight was on Venetian history, the history of games, and the history of rural land management. Special projects included the establishment of the Fernanda e Riccardo Pivano Library at a permanent home in the Group's Milan headquarters. The library, which co-operates with the European Library of Information and Culture, houses 40,000 books and documents on the literature and culture of the US during the 1950s - the largest collection in Europe on the subject - and is already open to the public.

The Group's recognition of its social responsibilities is also evident in its close attention to environment and its respect for the countryside. This attention is reflected in the harmonious design of all its manufacturing plants [including the siting of parking areas underground], and in the faithful restoration of a number of historic buildings all over the world.

During 1998, Benetton invested an amount close to Lire 170 billion to create value by means of advertising communication.

Communication. With its first communication campaign of 1998, Benetton launched a message of peace. The "Enemies" catalog recounts the history of the Arabs and Israelis who have already made peace on many fronts. Two important writers, the Israeli, Abraham B. Yehoshua, and the Palestinian, Izzat Ghazzawi, signed the introduction to Toscani's pictures. Also, for the first time, the Benetton catalog appeared with another name alongside that of the United Colors: the Newsweek logo. The US magazine, together with Benetton, put a press-industry seal of approval on the peace-promoting project. Six million copies of "Enemies" were distributed to Newsweek subscribers of the American and international editions and to the world's leading daily newspapers. The campaign earned Luciano Benetton the "Peace Builder" prize awarded on November 15, 1998, in Los Angeles by the US committee of the Israeli-Palestinian Neve Shalom/Wahat Al-Salam Association.

Another simple idea drawn from the real world formed the basis of the fall-winter communication campaign: photographs of handicapped children at the Saint Valentin Ruhpolding Institute in Bavaria, by Oliviero Toscani. To underscore the message of hope and spirit, Benetton was assisted by the writer Susanna Tamaro [who signed the introduction to the "Sunflowers" catalog] and two companies: Italy's Telecom Italia Mobile [TIM] and Procter & Gamble in the UK. These firms added their names to Benetton's in an unprecedented co-marketing program. As these events show, communication has become another Group product in its own right, attracting the interest of other industries that might benefit from these programs.

The Group's investment in advertising, amounting to close to 4% of sales last year, creates value that spills over into the world of culture. Examples include the major retrospective exhibition sponsored by Benetton at the Bonnefanten Museum, Maastricht, in the summer of 1998. This event attracted 80,000 visitors over two months and was the latest in a series that has included exhibitions at the Museums of Contemporary Art in Lausanne, San Paolo, Mexico City, Helsinki and Tokyo.

The advertising budget also covers two other projects: Fabbrica, a communication research center, and Colors, a publication with an international flavor. Both reflect the Group's advertising

strategy and are now independent entities that attract external advertising [Colors even sells advertising to Benetton's competitors; Fabrica receives commissions for communication projects from prestigious organizations, including the FAO, the United Nations, and SOS Racism.]

Supplementary information

An amount close to Lire 4 billion will be spent during 1999 in order to adapt the information systems to the change of millennium.

Year 2000. Benetton Group attaches great strategic relevance to adapting its information systems to the change of millennium. By the end of 1999, all the Group's systems, plants, equipment, and other devices that use processors or microprocessors must be modified and certified to attest to their ability to handle the transition from December 31, 1999 to January 1, 2000. The testing and modification program was prepared in accordance with the relevant standards published by the British Standards Institute [BSI - Year 2000 Definition BSI DISC PD2000-1]. The plan is in an advanced stage of implementation; the scheduled date for completion of all modification and testing operations is October 31, 1999. The total cost is estimated at just under Lire 4 billion, of which about Lire 800 million will be spent during 1999.

The Group's parent company has extended the process of evaluating risks arising from possible malfunction caused by inadequate preparation for the change to the entire Benetton Group and to the external companies with which it deals, as recommended by CONSOB and SEC.

The Euro project: Lire 5 billion and a substantial commitment of staff time to be part of a great growth opportunity.

The Euro project. In 1998, Benetton's preparation plan for the introduction of the Euro, which began in 1997, was finalized. A Euro committee coordinated the preparation and pursued two primary lines of action: management training and the development of a basic operating plan. Training comprised a series of sessions that focused on the implications of the Euro's introduction in both general terms and from the Group's perspective.

The more complex issue of establishing operating guidelines was addressed by preparing ad hoc studies that were submitted to the Board. A summary of the guidelines is presented below:

- to continue with the Lira as the reference currency from January 1, 1999 to December 31, 2000, treating the Euro as a foreign currency. The Group will be in a position to issue and receive Euro invoices and pay and collect Euro amounts; price lists will appear in the currencies of the various country markets;
- to adopt the Euro as the reference currency as of January 1, 2001, treating the Lira as a foreign currency; accounting and reporting will, thus, be in Euros. Starting with the Spring/Summer 2002 collection, price lists will appear in Euros; orders, invoices and prices will be quoted in both Euros and the relevant local currency. This process will involve substantial changes to all the information systems, in order to handle decimal fractions, switch reference currency, restate historical data, and manage reconciliations and rounding. The project will cost approximately Lire 5 billion and involve a substantial commitment of staff time.

Financial management. During 1998, Benetton Gesfin S.p.A. continued operations aimed at centralizing money flows and insulating the Group's Italian companies from financial risk. In this respect, particular attention was placed on integrating Benetton Sportssystem S.p.A. Banking relationships were rationalized by concentrating current operations across a few leading banks, in order to simplify management and reduce costs.

The oncoming Euro introduction, combined with the process of convergence among interest and exchange rates of EU countries, removed most of the uncertainty attached to dealings in Euro-area currencies. This facilitated obtaining the most out of the Group's financial position, characterized by gross indebtedness based essentially on short-term interest rates and by the investment of a part of its surplus liquidity in fixed-rate government bonds.

The Lira's gradual stabilization against the major European currencies led to a significant reduction in premiums received on forward sales of the latter currencies.

Hedging was arranged for transactions in Far-Eastern currencies, following a decision to invoice in local currency, rather than in the traditional US dollar.

Capital hedging of exchange risks - which is concerned with the exposures to loss on translation into Lira of stockholders' equity in the foreign subsidiaries - also continued.

Treasury shares. On May 27, 1998, the board of Benetton Group S.p.A. was authorized by a resolution at the general Shareholders' meeting to purchase up to 30 million treasury shares by June 30, 1999, at prices between Lire 2,000 and Lire 5,000 per share. The corresponding minimum selling price was fixed at Lire 2,500 per share, while no time limit was placed on the sale of the shares.

Acting under this authority, during September and October 1998, the Company purchased 1,892,500 treasury shares at Lire 250 per share par value, representing approximately 0.1% of capital stock, at an average price of Lire 2,449 per share and involving a total amount of Lire 4,634 million. All shares were then resold at prices averaging Lire 2,892 per share, realizing gains totaling approximately Lire 840 million.

Benetton Group S.p.A. did not acquire or sell any share or stake in parent companies during 1998, either directly or through its subsidiaries, or via trust companies or any other intermediary.

In early 1999, the Company purchased 2,100,000 treasury shares [approximately 0.1% of capital stock] at an average price of Lire 2,940 per share and involving a total amount of Lire 6,174 million. During March 1999, the Company sold 275,000 of these at an average price of Lire 3,030 per share, receiving total proceeds of Lire 833 million.

Performance of Benetton share. The Benetton share price gained 17% during 1998 at the Milan Stock Exchange, compared with a rise of 38% on Mibtel and Mibtel 30, while the sector index gained a modest 3.5%. Performance of the shares on the foreign exchanges confirmed that trend. The strength of Benetton's shares, compared with its sector, reflected the markets' positive response [at home and abroad] to an ongoing business strategy aimed at creation of value. This strategy concerns reducing the Group's exposure to business and general economic risks and is reflected not only in geographic diversification but also through such proactive moves such as the integration of the sports-sector activities. Benetton maintained its steady and positive flow of information to investors during the year; reaffirming its policy to maintain clear and timely communications with institutional investors.

Benetton's share performance and related statistics for 1998 are summarized below:





Per share and share market data	1998	1997 ^[*]	1996 ^[*]	1995 ^[*]	1994 ^[*]
Earnings per share [Lire]	162	163	141	126	121
Shareholders' equity per share [Lire]	1,222	1,118	1,043	949	862
Dividend per share [Lire]	55.0	52.5	50.0	42.5	40.0
Payout ratio [%]	34	32	35	34	33
Share price · Dec. 31 [Lire]	3,344	2,871	1,812	1,808	1,841
Screen-based market high [Lire]	4,204	2,949	2,100	1,941	2,956
Screen-based market low [Lire]	2,284	1,840	1,588	1,403	1,720
Price of NYSE ADS - High [USD]	48.18	34.00	27.75	24.25	36.50
Price of NYSE ADS - Low [USD]	28.50	22.88	20.75	16.13	21.62
P/E ratio	20.6	17.6	12.9	14.3	15.2
Share price/ Shareholders' equity per share	2.7	2.6	1.7	1.9	2.1
Market capitalization [billions of Lire]	6,071	5,213	3,164	3,157	3,214
Average No. of shares outstanding [000s]	1,815,356	1,781,849	1,745,416	1,745,537	1,736,377

^[*] Restated pro forma data, reflecting the 10-for-one share split and the increase in par value per share approved by the Shareholders' Meeting on May 27, 1998.

**Shares on the market:
breakdown by geographical
area**

[%]



	Europe [excluded Italy] 43%
	Italy 40%
	Usa 14%
	Rest of the world 3%

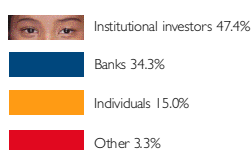


Concept: Lallemand Jean Sébastien

 **Fabrîca**

**Shares on the market:
breakdown by investor
category**

[%]



Ownership of the company. The Company is controlled by Edizione Holding S.p.A. [registered office in Treviso, Italy], a holding company that is entirely owned by the Benetton family, which holds 1,259,056,400 ordinary shares.

Shareholders by category	%
Edizione Holding S.p.A.	69.35
Institutional investors	14.45
Banks	10.5
Individuals	4.6
Unrecorded	1.1

Breakdown by size of holding ^[*]	Number of Shareholders	Number of Shares
1 - 499 shares	305	57,920
500 - 999 shares	41	25,600
1,000 - 4,999 shares	453	1,018,960
5,000 - 9,999 shares	5,346	26,891,050
10,000 shares and over	3,545	1,766,880,690
Holdings not yet notified	-	20,713,890
Total	9,690	1,815,588,110

[*] At March 1, 1999.

In July 1998, Edizione Holding S.p.A. [via its Luxembourg-based subsidiary Edizione Finance SA] issued a five-year bond worth Lire 600 billion. It is convertible by the issuer [between July 2000 and July 2003] into Benetton Group S.p.A. shares.

Relations with the parent company and its subsidiaries. The Benetton Group has commercial and financial transactions with other subsidiaries of Edizione Holding S.p.A. [the parent company] and with other parties directly or indirectly related to it. Commercial relations with such parties are conducted on a transparent basis at market conditions, and primarily relate to purchases of raw materials and services. The table below provides a breakdown of such operations:

[millions of Lire]	1998	1997
Accounts receivable	5,289	5,131
Accounts payable	5,381	2,841
Purchases of raw materials	9,520	7,582
Other costs & services	27,235	23,339
Sales of products	8,273	11,103
Income from services & other income	1,774	5,080

Corporate governance. The Consolidated Act on Finance, which was introduced during 1998 [also known as the “Draghi”law], brought significant regulatory changes to corporate law in Italy. It was designed to increase the protection of investors’ interests and those of minority Shareholders.

In March 1999, the Company amended its Articles of Association to reflect the information disclosure requirements under the revised rules, with particular reference to the flow of information from the Directors to the Board of Statutory auditors and the arrangements for appointing a Statutory auditor to represent minority Shareholders.

Observance of the principles of corporate governance has long been a priority of the Directors. The frequency of board meetings was again increased during 1998. This is to facilitate more discussion of specific issues and programs of particular relevance to the business, as well the routine analysis of company information.

Directors. The Benetton Group’s Directors at December 31, 1998 are listed below:

Name and surname	Age	Appointed	Post
Luciano Benetton	64	1978	Chairman
Gilberto Benetton	58	1978	Deputy Chairman & Joint Managing Director
Carlo Gilardi	56	1995	Joint Managing Director
Giuliana Benetton	61	1978	Director
Carlo Benetton	55	1978	Director
Alessandro Benetton	34	1998	Director
Gianni Mion	55	1990	Director
Angelo Tantazzi	60	1995	Director
Ulrich Weiss	62	1997	Director

Luciano Benetton, Gilberto Benetton and Carlo Benetton are brothers; Giuliana Benetton is their sister; Alessandro Benetton is Luciano Benetton’s son.

In May 1998, Alessandro Benetton became a Director, replacing Pierluigi Bortolussi, now Secretary to the board.

Board of Directors’ fee in 1998 amounted to Lire 8,500 million.

Shares held by Directors and Statutory auditors.

Benetton Group's Directors, Mr. Luciano, Mr. Gilberto, Mrs. Giuliana, and Mr. Carlo Benetton, each hold directly and indirectly, in equal parts, all Edizione Holding's capital stock amount [the parent company holding 69.347% of Benetton Group S.p.A.]. In 1998, Edizione Holding S.p.A. did not sell or purchase any shares in Benetton Group S.p.A.

During 1998, except for the above-mentioned capital stock, Benetton Group's Directors - Mr. Luciano, Mr. Gilberto, Mrs. Giuliana and Mr. Carlo Benetton [including their not legally separated consorts and children who are minors] - have not held shares or quotas in Benetton Group S.p.A. or in subsidiary companies, neither directly nor through subsidiaries, trust companies, or third parties.

The amount of the shares held during 1998 by the other Directors and the Statutory auditors is shown in the table, below. The information is based on the relevant notifications received.

The company currently has no stock-option plans or programs relating to its shares.

Name and surname	Number of shares held as of December 31, 1997	Company in which shares are held	Shares acquired during 1998	Shares sold during 1998	Number of shares held as of December 31, 1998	Basis of ownership
Dino Sesani	4,360	Benetton Group S.p.A.	-	-	4,360	property
Fanio Fanti	4,360	Benetton Group S.p.A.	-	-	4,360	property

Main organizational and corporate changes in the Group.

Cutting overhead, sharpening the focus on key business operations, centralizing control over several strategic components, above all the management of commercial relations, as well as optimizing inventory flows were the drivers of the radical reorganization of the sports-sector activities that began in 1997. Staff functions were centralized to achieve higher levels of efficiency in both the decision-making process and the management of common services. Sports-sector R&D activities, notably those relating to in-line skates and skis, were concentrated in Italy, under a strategy that regards innovation, product development, and design improvement as the key values to be transferred to the Benetton customer. These changes generated important synergies, especially in the shared use of materials and manufacturing processes.

This process of concentration also was applied to the sales and marketing functions formerly entrusted to Benetton Sportssystem's European subsidiaries, enabling a more direct monitoring of the market and closer relations with key customers. Coordination and management of in-line skates manufacturing process also was centralized in Italy to create synergies with ski boot production and to ensure tighter quality control. In tandem, an ongoing reorganization of the sports-sector distribution system that involved centralizing worldwide inventories and shipments began to make headway.

In March 1998, Benetton Group S.p.A. took up the share purchase offer, formally presented to Edizione Holding S.p.A. on July 22, 1997, for the remaining 43.23% of the Benetton Sportssystem S.p.A. capital stock, thereby increasing the Company's stake in Benetton Sportssystem S.p.A. to 100%.

The difficulties that emerged in the second half of 1997 in the Japanese market and in the Far East generally had an impact on Benetton Sportssystem's results. Because of this, Benetton Group S.p.A. formally requested Edizione Holding S.p.A. to revise the previously agreed purchase price of the residual investment in Benetton Sportssystem.

The negotiations, with the support of the Company's independent advisors, led to the reduction of the price indicated in the original offer to Lire 198 billion from Lire 248 billion. The total cost of acquiring Benetton Sportssystem S.p.A. - net of the October 1997 sharecapital increase of Lire 200 billion - was Lire 521.6 billion, including incidental expenses [see notes to consolidated financial statements].

Since April 1998, the preliminary merger procedures began for the incorporation of both Benetton Sportssystem S.p.A. and Benetton Fashion S.p.A. into Benetton Group S.p.A. The merger took legal effect on November 1, 1998.

On May 27, 1998, an extraordinary meeting of the Shareholders approved the share split and the subsequent reduction of the shares par value from Lire 500 to Lire 50, and a capital increase based on a transfer from additional paid-in capital that increased the par value to Lire 250 per share. The relevant Shareholders' resolutions were implemented on June 19, 1998. Accordingly, the Company's capital stock now amounts to Lire 453,897,027,500, divided into 1,815,588,110 ordinary shares with a par value of Lire 250 each.

In May 1998, Società Investimenti e Gestioni Immobiliari [S.I.G.I.] S.r.l. was incorporated as a wholly owned subsidiary, dedicated to the investment and management in the real-estate sector to support the Group's commercial developments.

Agreements were reached with external parties, as part of a program aimed at concentrating on and optimizing sports-sector brands, involving dismissal of the Asolo brand [completed in September 1998] by selling the company that had the availability of this brandname.

Corporate restructuring and reorganization continued among the US subsidiaries, with control of Prince Sports Group Inc. and Rollerblade Inc. transferred to Benetton Sportssystem USA Inc.

Kästle GmbH [now Benetton Sportssystem Austria GmbH] also was reorganized, bringing ski research and development operations to Italy and enabling the Austrian company to focus its activities on commercial trading.

Significant events since 1998 year-end. On March 9, 1999, at an extraordinary meeting of the Shareholders, amendments to the company Articles of Association were approved to match "Draghi" law's requirements [Decree no. 58 of February 24, 1998]. The changes deal with appointing a Statutory auditor to represent the minority Shareholders [Article 19], rules governing the flow of information from the Directors to the Board of Statutory auditors [Article 16], and the revised voting quorum requirements for extraordinary meetings of the Shareholders [Articles 11 and 12]. The same meeting authorized the Directors for a bond issue of up to a maximum value of Euro 200 million, in one or more tranches, within the next three years.

In terms of the Group's shareholder structure, the following changes took place in 1998:

- an agreement was reached with the third party Shareholders of Socks & Accessories Benetton [S.A.B.] S.r.l. The Benetton Group will acquire S.A.B. after the spin-off of the activities related to the sales of cosmetics and accessories outside the Benetton retail network to a newco. The newco will be sold and will be licensed to use the Benetton trademark for its products;
- having lost its strategic relevance, the interest held in Spiller S.p.A. by the subsidiary Olimpias S.p.A. was sold to the Group's joint partner in the venture;
- Texcontrol S.p.A. was acquired by buying out the minority Shareholders' interests, and will be merged with Olimpias S.p.A. during 1999.

The reorganization and restructuring of the US subsidiaries rolled over into early 1999, in order to centralize all the logistics, sales, administrative, and control functions at Bordentown [New Jersey] - the site of the headquarters of both Benetton Sportssystem USA Inc. and Prince Sports Group Inc. In particular, the process affected those operations formerly carried out by Rollerblade in Minneapolis [Minnesota].

*To reorganize the Group
streamlining it, meanwhile
reducing overheads.*

As in the case of in-line skates, design and materials research activities relating to clothing and footwear will be transferred to the parent company in Italy, fully centralizing all the Group's sports design and development activities. The company will also maintain a specialist market research team in the US, responsible for quick-response feedback on innovations, preferences, and general trends in the US outdoor leisure and sports market.

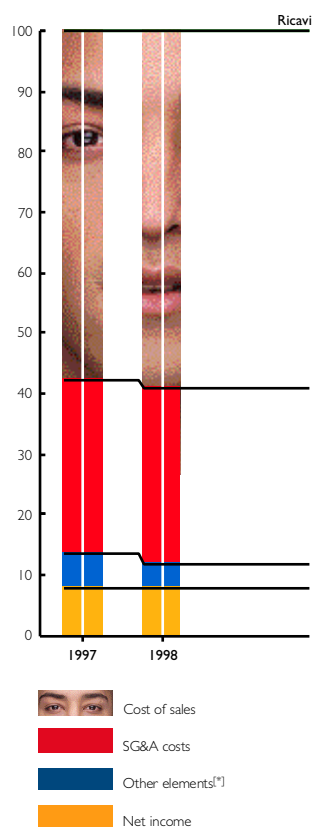
Outlook for 1999. Business and financial prospects for the Group in 1999 are positive. On the basis of current information, sales are expected to rise and profitability to improve [notably in the sports sector]; net indebtedness is forecasted to decline, while the balance sheet should continue to strengthen. A further increase in capital investment in plant and real estate is also planned.



Group results

Consolidated income statement

[%]



[*] Other income/expenses + income taxes
+ income/loss attributable to minority interests

Consolidated income statement. The comparative figures for 1997 shown below exclude the first-half results of the Benetton Sportssystem Group, which was not acquired until July 1997. According to correct accounting principles, consolidation of 1998 figures on a full year basis was not consistent.

The following summary is based on the reclassified income statement included in the annex to the financial statements.

[billions of Lire]	1997	%	1998	%
Total sales	3,637	100	3,834	100
Cost of sales	[2,106]	[57.9]	[2,261]	[59.0]
Gross operating income	1,531	42.1	1,573	41.0
SG&A costs	[1,032]	[28.4]	[1,122]	[29.2]
Income from operations	499	13.7	451	11.8
Gains on foreign exchange	87	2.4	16	0.4
Financial income [charges]	[8]	[0.2]	[35]	[0.9]
Extraordinary expenses	[42]	[1.1]	[9]	[0.2]
Income before taxes	536	14.8	423	11.1
Income taxes	[236]	[6.5]	[131]	[3.4]
Income [loss] attributable to minority interests	[10]	[0.3]	1	-
Net income	290	8.0	293	7.7

■ **Performance by activity.** Completion of the acquisition of the Benetton Sportssystem Group and its subsequent integration into the Benetton System has led to the development - given the dimension of the company taken over - of separate but interrelated strategies for the two business segments: the casual wear sector and the sportswear and sports-equipment activities. This approach reflects the differences between these activities in terms of type of product, distribution network, and manufacturing/sales rationale. One of the distinctive elements of Benetton products has been their distribution through an independent and exclusive sales network. In contrast, the channel for the newly acquired sports equipment/clothing sector is the traditional specialized store.

The previous grouping of activities into clothing and other sectors has been revamped. Casual wear now includes accessories, footwear, and other complementary products sold via the Benetton network [United Colors of Benetton, 012, Undercolors, Sisley]. The new sportswear and sports equipment sector includes footwear and accessories bearing the Playlife, Nordica, Prince, Rollerblade, Killer Loop and related brands.

The third sector is the Group's ancillary activities, which include raw material sales, industrial and advertising services, and brand-licensing activities.

The Group's financial reporting system also has been geared to the new organizational structure. The system provides the basis for internal reports that effectively support management and the decision-making process, as well as external publication of an accurate and meaningful presentation

of the Group's lines of strategic growth and its economic and financial performance.

In armonia con il nuovo assetto del Gruppo è stata decisa una coerente evoluzione della reportistica in grado di offrire, verso l'interno, efficaci strumenti gestionali e decisionali, e, verso l'esterno, una corretta e significativa rappresentazione delle aree di sviluppo strategico Benetton e del relativo andamento economico-finanziario.

■ Results by activity.

Despite, adverse economic conditions in certain regions, there was a 2.5% volume increase in casual wear in 1998. Sports-sector volume declined significantly, however, triggered by a temporary condition of short-term oversupply and less-than-buoyant demand.

[billions of Lire]	Casual wear	%	Sportswear, sports equipment	%	Other	%	Eliminations	Total	%
Total sales	2,589	100.0	834	100.0	773	100.0	[362]	3,834	100.0
Cost of sales	1,497	57.8	535	64.1	586	75.8	[357]	2,261	59.0
Gross operating income	1,092	42.2	299	35.9	187	24.2	[5]	1,573	41.0
Variable selling costs	174	6.7	54	6.5	26	3.4	[3]	251	6.5
Contribution margin	918	35.5	245	29.4	161	20.8	[2]	1,322	34.5

In a market context that provided little encouragement, gross operating income to sales remained a hefty 41%. These results were aided by the Group commitment to contain the selling and general expenses, and corresponded to a ratio close to 29%.

These results are even more significant considering that the different duration of the consolidation reference period of the Benetton Sportssystem Group between 1997 and 1998 does not fully reflect the good results generated by that process. In particular, the substantial rationalization and restructuring of the sports-equipment sector generated substantial savings in fixed and variable costs. These results would have been higher without the impact of amortization costs amounting to Lire 43 billion on the trademarks and goodwill of Benetton Sportssystem, written to cost of sales and general expenditure. Specifically, the selling expenses totaled Lire 251 billion, a ratio of 6.5% to sales.

Advertising and sponsorship costs of Lire 170 billion [4.4% of sales] were up over the previous year, due to additional initiatives and events relating to the sports sector:

Meanwhile, general and overhead expenditure [net of depreciation, amortization, and other provisions] amounted to approximately Lire 550 billion, or 14.3% of sales.

Income from operations, dragged down by still unsatisfactory earnings margins in the sports sector, showed a return on sales close to 12%.

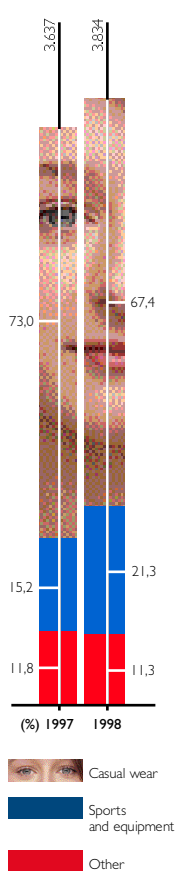
Gains on foreign exchange conversion [approximately Lire 16 billion] were lower than in 1997, reflecting greater stability in foreign exchange markets.

The slight rise in financial charges resulted from the Group's higher average net indebtedness on the one side [mainly related to the acquisition of Benetton Sportssystem], cushioned on the other side by the effects of the lower level of working capital [primarily due to improved inventory management and credit control].

The substantial reduction in taxes compared with previous year is due to the lower level of taxable income on Italian companies, the recovery of tax losses carried forward, and the tax breaks

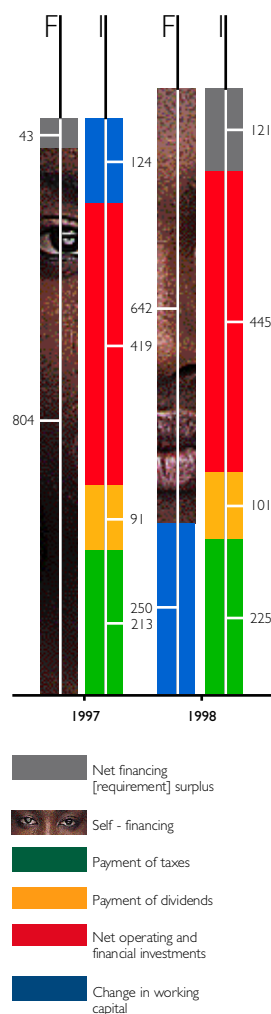
Sales by activity

[billions of Lire]



Source and application of funds

[billions of Lire]



stemming from the new IRAP local tax.

The Group's net income is in line with that of the prior year and with the forecasts made in the interim report on June 30, 1998.

Financial position. The key figures reflecting the Group's financial position at the end of 1998, compared with fiscal 1997, are shown below:

[billions of Lire]	12.31.1998	12.31.1997	Change
Working capital	1,365	1,648	[283]
Total capital employed	2,628	2,741	[113]
Net indebtness	378	509	[131]
Shareholders' equity	2,219	2,030	189
Minority interests	31	202	[171]

The reduction in working capital of more than Lire 280 billion compared with the level on December 31, 1997, is attributable to a lower level in trade receivables [down Lire 220 billion] and inventories [down Lire 122 billion], mainly in the sports-sector companies.

The slight decrease in total capital employed is the net effect of the increase in fixed assets [Lire 109 billion] and a reduction in provisions for operations and taxes [down Lire 64 billion].

Despite the substantial investment program in 1998, net indebtness at year-end was well below that at the end of 1997.

In 1998, the Group's overall financial position improved.

Summary statement of cash flow

[billions of Lire]	1997	1998
Self-financing	804	642
Change in working capital	[124]	250
Net operating and financial investments	[419]	[445]
Payments of dividend	[91]	[101]
Payments of taxes	[213]	[225]
Net financing [requirement] surplus	[43]	121

Please refer to the financial statements and the related notes for further details on the Group's results.



Genetic Engineering

Consolidated balance sheets as of December 31, 1997 and 1998

[reclassified for an international format]

	[millions of Lire]		Thousands of USD [€]
Assets	12.31.1997	12.31.1998	12.31.1998
Current Assets			
Cash and banks	526,604	1,079,637	652,743
Marketable securities	547,026	222,173	134,325
Differentials on forward transactions	19,113	8,445	5,106
Financial receivables	373,404	37,050	22,400
Accounts receivable			
Trade receivables	1,912,903	1,691,733	1,022,813
Other receivables	116,348	133,901	80,956
less - Allowance for doubtful accounts	[204,388]	[183,824]	[111,139]
	1,824,863	1,641,810	992,630
Inventories	703,332	581,621	351,645
Accrued income and prepaid expenses	68,440	87,034	52,620
Total current assets	4,062,782	3,657,770	2,211,469
Financial fixed assets			
Equity investments	52,547	48,796	29,502
Securities held as fixed assets	3,030	2,454	1,484
Guarantee deposits	14,756	15,091	9,124
Financial receivables	18,352	18,146	10,971
Other non current receivables	20,711	19,409	11,734
Total financial fixed assets	109,396	103,896	62,815
Tangible fixed assets			
Land and buildings	503,331	603,406	364,816
Plant, machinery and equipment	700,609	733,058	443,203
Office furniture, furnishings and electronic equipment	132,585	114,577	69,273
Vehicles and aircraft	55,369	61,031	36,899
Construction in progress and advances for tangible fixed assets	42,796	19,796	11,969
Finance leases	26,926	26,957	16,298
less - Accumulated depreciation	[761,162]	[787,413]	[476,066]
Total tangible fixed assets	700,454	771,412	466,392
Intangible fixed assets			
Licenses, trademarks and industrial patents	457,138	505,092	305,376
Deferred charges	136,075	125,841	76,083
Total intangible fixed assets	593,213	630,933	381,459
TOTAL ASSETS	5,465,845	5,164,011	3,122,135

[/]

	[millions of Lire]		Thousands of USD [*]
Liabilities and Shareholders' equity	12.31.1997	12.31.1998	12.31.1998
Current liabilities			
Bank loans	575,382	756,374	457,300
Bonds	200,000	35,999	21,765
Short-term loans	138,472	7,458	4,509
Current portion of long-term loans	67,158	35,920	21,717
Current portion of lease financing	3,867	4,316	2,609
Accounts payable	768,273	760,080	459,541
Other payables, accrued expenses and deferred income	173,028	152,173	92,003
Reserve for income taxes	80,995	21,922	13,254
Total current liabilities	2,007,175	1,774,242	1,072,698
Long-term liabilities			
Bonds	535,690	500,000	302,297
Long-term loans, net of current portion	463,765	395,566	239,157
Other long-term liabilities	28,066	52,775	31,908
Lease financing	11,978	10,260	6,203
Reserve for employee termination indemnities	83,711	86,274	52,161
Other reserves	102,768	95,028	57,453
Total long-term liabilities	1,225,978	1,139,903	689,179
Minority interests in consolidated subsidiaries	202,223	30,888	18,675
Shareholders' equity			
Capital stock	90,779	453,897	274,424
Additional paid-in capital	472,661	109,543	66,229
Surplus from monetary revaluation of assets	42,711	42,711	25,823
Other reserves and retained earnings	1,120,797	1,315,619	795,417
Translation differences	13,381	3,978	2,405
Net income for the year	290,140	293,230	177,285
Total Shareholders' equity	2,030,469	2,218,978	1,341,583
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,465,845	5,164,011	3,122,135

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

Consolidated statements of income for the years ended December 31, 1997 and 1998

[reclassified for an international format]

	[millions of Lire]		Thousands of USD [*]
Assets	12.31.1997	12.31.1998	12.31.1998
Revenues			
Net sales	3,443,763	3,629,383	2,194,307
Other revenues	193,022	204,534	123,660
	3,636,785	3,833,917	2,317,967
Cost of sales			
Materials and net change in inventories	1,112,710	1,205,370	728,761
Payroll and related costs	186,587	204,769	123,802
Subcontract work	669,447	703,780	425,502
Industrial depreciation	68,983	71,841	43,435
Other manufacturing costs	67,799	75,138	45,428
	2,105,526	2,260,898	1,366,928
Gross operating income	1,531,259	1,573,019	951,039
Selling, general and administrative expenses			
Payroll and related cost	217,358	259,236	156,733
Distribution and transport	59,677	75,763	45,806
Sales commissions	160,868	175,900	106,348
Advertising and promotion	145,224	169,944	102,747
Depreciation and amortization	68,385	101,935	61,629
Other expenses	380,108	339,182	205,068
	1,031,620	1,121,960	678,331
Income from operations	499,639	451,059	272,708
Other income [expenses]:			
Foreign currency gain [loss], net	86,459	16,057	9,708
Interest income	127,249	103,824	62,771
Interest expenses	[135,014]	[139,251]	[84,190]
Other income [expenses], net	[41,574]	[8,850]	[5,351]
	37,120	[28,220]	[17,062]
Income before taxes and minority interests	536,759	422,839	255,646
Income taxes	236,378	131,052	79,233
Income before minority interests	300,381	291,787	176,413
Minority interests loss/[gain]	[10,241]	1,443	872
Net income	290,140	293,230	177,285

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.



Statements of consolidated cash flow for the years ended December 31, 1997 and 1998

	[millions of Lire]		Thousands of USD [*]
Assets	12.31.1997	12.31.1998	12.31.1998
Cash flow from operating activities			
Income before minority interests	300,381	291,787	176,413
Depreciation and amortization	137,368	173,776	105,064
Amortization of deferred charges on long-term loans	1,642	1,425	862
Provision for doubtful accounts and other non-monetary charges	127,283	75,616	45,717
Provision/[utilization] of exchange fluctuations reserve, net	7,930	[6,099]	[3,687]
Provision for income taxes	236,378	131,052	79,233
Losses [gains] on disposal of assets, investments, net	5,714	8,498	5,138
Payment of termination indemnities and use of other reserves	[12,491]	[33,876]	[20,481]
Self-financing	804,205	642,179	388,259
Payment of taxes	[213,589]	[224,790]	[135,907]
[increase] decrease in accounts receivable	[229,490]	135,175	81,726
[increase] decrease in other operating receivables	34,894	[4,749]	[2,871]
Decrease in inventories	23,831	112,622	68,091
[increase] decrease in accounts payable	34,343	[962]	[582]
Increase in other operating payables and accruals	12,246	7,742	4,681
[increase] decrease in working capital	[124,176]	249,828	151,045
Net cash flow from operating activities	466,440	667,217	403,397
Cash flow from investing activities			
Purchase of new subsidiaries	[326,272]	[284,476]	[171,993]
Purchase of tangible fixed assets	[96,444]	[198,221]	[119,843]
Investment in intangible fixed assets	[23,492]	[31,587]	[19,097]
Sales of tangible fixed assets	27,843	24,043	14,536
Disposal of intangible fixed assets	3,047	38,191	23,090
Net change in investment-related receivables and payables	[2,840]	[398]	[241]
Net cash flow from investing activities	[418,158]	[452,448]	[273,548]
Cash flow from other investing activities			
Purchase of equity investments	[2,614]	[7,451]	[4,505]
Sale of investments	321	16,540	10,000
[increase] decrease in guarantee deposits and treasury shares	1,197	[1,675]	[1,013]
Net cash flow from other investing activities	[1,096]	7,414	4,482
Payment of dividends	[90,466]	[100,781]	[60,932]
Net financing [requirement] surplus	[43,280]	121,402	73,399

[↗]

	[millions of Lire]		Thousands of USD [*]
	12.31.1997	12.31.1998	12.31.1998
Cash flows from financing activities			
Change in Shareholders'equity	86,967	1,492	902
Change in short-term borrowing	[787,925]	427,837	258,668
Proceeds from issuance of long-term debt	884,861	10,342	6,253
Repayments of long-term debt	[303,223]	[310,193]	[187,541]
Change in securities held as fixed assets	20,269	49,956	30,203
Increase in other financial assets	[25,870]	[10,201]	[6,167]
Decrease in other financial assets	6,624	8,206	4,961
Assets leased to third parties	1,053	-	-
Decrease in lease financing	[342]	[1,235]	[747]
	[117,586]	176,204	106,532
Increase of liquidity	215,314	[282,345]	[170,704]
Effect of translation adjustments	[54,448]	[15,261]	[9,227]
Net cash flow provided [used] by financing activities	43,280	[121,402]	[73,399]

[*] Exchange rate:USD 1 = Lire 1,654 as of December 31,1998.

HEADQUARTERS

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Benetton Group

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Balance sheets – Assets

	[millions of Lire]		Thousands of USD [*]
	12.31.1997	12.31.1998	12.31.1998
B	Fixed assets		
I	Intangible fixed assets		
1	6,746	6,641	4,015
2	866	989	598
3	4,803	7,356	4,447
4	452,335	497,736	300,929
5	78,355	66,935	40,469
6	4,255	6,188	3,741
7	45,853	45,088	27,260
	593,213	630,933	381,459
II	Tangible fixed assets		
1	372,647	461,741	279,166
2	171,791	181,874	109,960
3	36,445	31,316	18,934
4	76,776	76,685	46,363
5	42,795	19,796	11,969
	700,454	771,412	466,392
III	Financial fixed assets		
I	equity investments in:		
a)	49,187	41,364	25,008
b)	708	676	409
d)	2,652	6,756	4,085
	52,547	48,796	29,502
2	financial receivables due from:		
d)	third parties		
·	6,569	6,399	3,869
·	33,108	33,237	20,095
	39,677	39,636	23,964
3	53,201	3,041	1,838
	145,425	91,473	55,304
	1,439,092	1,493,818	903,155

[↗]

		[millions of Lire]		Thousands of USD [*]
		12.31.1997	12.31.1998	12.31.1998
C	Current assets			
I	Inventories			
1	raw materials, other materials and consumables	212,522	202,350	122,340
2	work in progress and semimanufactured products	138,934	163,582	98,901
4	finished goods and goods for resale	350,847	215,106	130,052
5	advance payments to suppliers	1,029	583	352
	Total inventories	703,332	581,621	351,645
II	Accounts receivable			
I	trade receivables			
	· within 12 months	1,707,347	1,507,556	911,462
	· beyond 12 months	7,903	9,005	5,444
	Total trade receivables	1,715,250	1,516,561	916,906
2	subsidiary companies	8,174	7,699	4,655
3	associated companies	980	27	16
4	parent company	6	91	55
5	other receivables			
	· within 12 months	116,318	133,901	80,956
	· beyond 12 months	12,808	10,404	6,290
	Total other receivables	129,126	144,305	87,246
	Total accounts receivable	1,853,536	1,668,683	1,008,878
III	Financial assets not held as fixed assets			
6	other securities	496,855	221,586	133,970
7	other financial receivables	358,873	23,187	14,018
8	differentials on forward transactions within 12 months	19,113	8,445	5,106
	Total financial assets not held as fixed assets	874,841	253,218	153,094
IV	Liquid funds			
1	bank and post office deposits	495,847	1,023,150	618,591
2	checks	29,497	55,543	33,581
3	cash in hand	1,260	944	571
	Total liquid funds	526,604	1,079,637	652,743
	Total current assets	3,958,313	3,583,159	2,166,360
D	Accrued income and prepaid expenses	68,440	87,034	52,620
	TOTAL ASSETS	5,465,845	5,164,011	3,122,135

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

The accompanying notes are an integral part of the consolidated financial statements.

Balance sheets – Liabilities and Stockholders' equity

	[millions of Lire]		Thousands of USD [*]
	12.31.1997	12.31.1998	12.31.1998
A	Stockholders' equity		
I	90,779	453,897	274,424
II	472,661	109,543	66,229
III	42,711	42,711	25,823
IV	17,455	18,156	10,977
VII	1,116,723	1,301,441	786,845
IX	290,140	293,230	177,285
	2,030,469	2,218,978	1,341,583
	202,223	30,888	18,675
	2,232,692	2,249,866	1,360,258
B	Reserves for risks and charges		
2	8,459	8,421	5,091
3	94,309	86,607	52,362
	102,768	95,028	57,453
C	83,711	86,274	52,161
D	Accounts payable		
I			
· within 12 months	200,000	35,999	21,765
· beyond 12 months	535,690	500,000	302,297
	735,690	535,999	324,062
3			
· within 12 months	638,922	789,492	477,323
· beyond 12 months	460,553	394,094	238,267
	1,099,475	1,183,586	715,590
4			
· within 12 months	43,553	14,279	8,633
· beyond 12 months	15,190	11,732	7,093
	58,743	26,011	15,726
5	15,164	24,101	14,571
6	760,576	754,367	456,087
7			
· within 12 months	102,289	2,335	1,412
· beyond 12 months	59	-	-
	102,348	2,335	1,412

[*]

	[millions of Lire]		Thousands of USD [*]
	12.31.1997	12.31.1998	12.31.1998
8 due to subsidiary companies	4,743	1	1
9 due to associated companies	95	-	-
10 due to parent company	-	175	106
11 due to tax authorities			
· within 12 months	112,335	52,010	31,445
· beyond 12 months	14,312	46,410	28,059
Total due to tax authorities	126,647	98,420	59,504
12 due to social security and welfare institutions	21,385	18,504	11,187
13 other payables			
· within 12 months	61,759	55,695	33,673
· beyond 12 months	13,695	6,365	3,848
Total other payables	75,454	62,060	37,521
Total accounts payable	3,000,320	2,705,559	1,635,767
E Accrued expenses and deferred income			
1 accrued expenses and deferred income	45,334	26,568	16,063
2 premiums on bond issues	1,020	716	433
Total accrued expenses and deferred income	46,354	27,284	16,496
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	5,465,845	5,164,011	3,122,135

Memorandum accounts

	[millions of Lire]		Thousands of USD [*]
	12.31.1997	12.31.1998	12.31.1998
Fiduciary guarantees granted			
Guarantees	-	58	35
Purchase commitments	285,396	30,662	18,538
Fiduciary guarantees received			
Notes lodged by third parties	20	20	12
Other			
Currency to be sold forward	2,864,689	1,661,372	1,004,457
Currency to be purchased forward	1,512,208	325,594	196,852
Restricted account receivable	20,166	74,860	45,260
Notes presented for discount	2,759	2,537	1,534
TOTAL MEMORANDUM ACCOUNTS	4,685,238	2,095,103	1,266,688

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

The accompanying notes are an integral part of the consolidated financial statements.

Statements of income

		[millions of Lire]		Thousands of USD [*]
		12.31.1997	12.31.1998	12.31.1998
A	Value of production			
1	Revenues from sales and services	3,636,785	3,833,917	2,317,967
2	Change in work in progress,semi-manufactured products and finished goods	[22,650]	[90,751]	[54,867]
4	Own work capitalized	1,070	1,792	1,083
5	Other income and revenues	20,115	22,736	13,746
	Total value of production	3,635,320	3,767,694	2,277,929
B	Production costs			
6	Raw materials, other materials,consumables and goods for resale	1,100,294	1,172,889	709,123
7	External services	1,275,262	1,344,321	812,770
8	Leases and rentals	47,440	51,448	31,105
9	Payroll and related costs:			
a	wages and salaries	291,960	348,947	210,971
b	social security contributions	93,596	94,857	57,350
c	employee termination indemnities	14,896	17,100	10,339
d	pension and similar	12	-	-
e	other costs	3,481	3,101	1,875
	Total payroll and related costs	403,945	464,005	280,535
10	Amortization,depreciation and writedowns:			
a	amortization of intangible fixed assets	43,134	72,489	43,826
b	depreciation of tangible fixed assets	94,234	101,287	61,238
c	other writedowns of fixed assets	1,437	1,872	1,132
d	writedowns of current receivables and of liquid funds	95,762	40,799	24,667
	Total amortization,depreciation and writedowns	234,567	216,447	130,863
11	Change in stock of raw materials,other materials, consumables and goods for resale	986	5,220	3,156
12	Provisions to risk reserves	18,509	21,047	12,725
14	Other operating costs	64,379	43,920	26,554
	Total production costs	3,145,382	3,319,297	2,006,831
	Difference between production value and costs	489,938	448,397	271,098
C	Financial income and expense			
15	Income from equity investments	3,674	12,033	7,275
16	Other financial income:			
a	from receivables held as financial fixed assets			
·	subsidiary companies	-	31	19
·	other companies	246	1,750	1,058
	Total from receivables held as financial fixed assets	246	1,781	1,077
b	from securities held as financial fixed assets not representing equity investments	5,520	3,040	1,838
c	from securities included among current assets not representing equity investments	54,428	43,003	25,999
d	financial income other than the above			
·	subsidiary companies	392	452	273
·	other companies	368,224	273,150	165,145
	Total financial income other than the above	368,616	273,602	165,418
	Total other financial income	428,810	321,426	194,332

		[millions of Lire]		Thousands of USD [*]
		12.31.1997	12.31.1998	12.31.1998
17	Interest and other financial expenses			
	· subsidiary companies	-	287	173
	· associated companies	-	4,459	2,696
	· other companies	354,033	347,586	210,149
	Total interest and other financial expenses	354,033	352,332	213,018
	Total financial income and expenses	78,451	[18,873]	[11,411]
D	Changes in value of financial assets			
18	Revaluations:			
a	of equity investments	1,446	258	156
c	of securities included among current assets not representing equity investments	143	-	-
	Total revaluations	1,589	258	156
19	Writedowns:			
a	of equity investments	3,560	2,559	1,547
b	of financial fixed assets not representing equity investments	-	2,686	1,624
c	of securities included among current assets not representing equity investments	2,789	3,218	1,945
	Total writedowns	6,349	8,463	5,116
	Total changes in value of financial assets	[4,760]	[8,205]	[4,960]
E	Extraordinary income and expenses			
20	Income:			
	· gains on disposals	4,694	8,487	5,131
	· other	16,274	18,704	11,308
	Total income	20,968	27,191	16,439
21	Expenses:			
	· losses on disposals	8,034	3,077	1,860
	· taxes relating to prior years	1,372	4,229	2,557
	· other	38,432	18,365	11,103
	Total expenses	47,838	25,671	15,520
	Total extraordinary income and expenses	[26,870]	1,520	919
	Results before income taxes	536,759	422,839	255,646
22	Income taxes	236,378	131,052	79,233
	Income before minority interests	300,381	291,787	176,413
	[Income]/loss attributable to minority interests	[10,241]	1,443	872
26	Net income for the year	290,140	293,230	177,285

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

The accompanying notes are an integral part of the consolidated financial statements.

Statement of changes in consolidated Stockholders' equity

[millions of Lire]

	Capital stock	Additional paid-in capital	Surplus from monetary revaluations of assets	Other reserves and retained earnings	Translation differences	Net income for the year	Total
Balances as of December 31, 1996	87,277	472,661	46,202	962,107	6,947	245,642	1,820,836
Allocation of 1996 net income to reserves	-	-	-	245,642	-	[245,642]	-
Increase of capital stock via release of reserves, as resolved at the extraordinary Stockholders' meeting on April 29, 1997	3,491	-	[3,491]	-	-	-	-
Dividends distributed, as approved at the ordinary Stockholders' meeting on April 29, 1997	-	-	-	[87,277]	-	-	[87,277]
Increase of capital stock and reserves due to the merger of Calzaturificio Di Varese S.p.A. into the parent	11	-	-	325	-	-	336
Translation differences arising from foreign financial statements	-	-	-	-	6,434	-	6,434
Net income for the year	-	-	-	-	-	290,140	290,140
Balances as of December 31, 1997	90,779	472,661	42,711	1,120,797	13,381	290,140	2,030,469
Allocation of 1997 net income to reserves	-	-	-	290,140	-	[290,140]	-
Increase of capital stock via reserve release as resolved at the extraordinary Stockholders' meeting on May 27, 1998	363,118	[363,118]	-	-	-	-	-
Dividends distributed, as approved at the ordinary Stockholders' meeting on May 27, 1998	-	-	-	[95,318]	-	-	[95,318]
Translation differences arising from foreign financial statements	-	-	-	-	[9,403]	-	[9,403]
Net income for the year	-	-	-	-	-	293,230	293,230
Balance as of December 31, 1998	453,897	109,543	42,711	1,315,619	3,978	293,230	2,218,978
Balance as of December 31, 1998 thousands of USD [*]	274,424	66,229	25,823	795,417	2,405	177,285	1,341,583

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

The accompanying notes are an integral part of the consolidated financial statements.

Statement of changes in minority interests | [millions of Lire]

	Capital and reserves	Net income	Total
Balances as of December 31, 1997	191,982	10,241	202,223
Allocation of 1997 net income	10,241	[10,241]	-
Capital stock increase	1,628	-	1,628
Change in consolidation area	655	-	655
Disposal of equity investments and companies in liquidation	[165,688]	-	[165,688]
Deconsolidation of companies	[707]	-	[707]
Dividends distributed	[5,463]	-	[5,463]
Translation differences	[317]	-	[317]
Net income for the year	-	[1,443]	[1,443]
Balances as of December 31, 1998	32,331	[1,443]	30,888

Statements of cash flows

	[millions of Lire]		Thousands of USD [*)
	12.31.1997	12.31.1998	12.31.1998
Cash flows from operating activities			
Income before minority interests	300,381	291,787	176,413
Depreciation and amortization	137,368	173,776	105,064
Amortization of deferred charges on long-term loans	1,642	1,425	862
Provision for collection losses and other non-monetary charges	127,283	75,616	45,717
Provision/[utilization] of exchange fluctuations reserve	7,930	[6,099]	[3,687]
Provision for income taxes	236,378	131,052	79,233
Losses [gains] on disposal of assets, investments, net	5,714	8,498	5,138
Payment of termination indemnities and use of other reserves	[12,491]	[33,876]	[20,481]
Self-financing	804,205	642,179	388,259
Payment of taxes	[213,589]	[224,790]	[135,907]
Increase in accounts receivable	[229,490]	135,175	81,726
[Increase] decrease in other operating receivables	34,894	[4,749]	[2,871]
[Increase] decrease in inventories	23,831	112,622	68,091
[Decrease] increase in accounts payable	34,343	[962]	[582]
[Decrease] increase in other operating payables and accruals	12,246	7,742	4,681
Increase in operating capital	[124,176]	249,828	151,045
Net cash flows from operating activities	466,440	667,217	403,397
Cash flows from investing activities			
Purchase of new subsidiaries	[326,272]	[284,476]	[171,993]
Purchase of tangible fixed assets	[96,444]	[198,221]	[119,843]
Investment in intangible fixed assets	[23,492]	[31,587]	[19,097]
Sales of tangible fixed assets	27,843	24,043	14,536
Disposal of intangible fixed assets	3,047	38,191	23,090
Net change in investment-related receivables and payables	[2,840]	[398]	[241]
Net cash used in investing activities	[418,158]	[452,448]	[273,548]
Cash flows from other investing activities			
Purchase of equity investments	[2,614]	[7,451]	[4,505]
Sale of investments	321	16,540	10,000
[Increase] decrease in guarantee deposits and treasury shares	1,197	[1,675]	[1,013]
Net cash used in other investing activities	[1,096]	7,414	4,482
Payment of dividends	[90,466]	[100,781]	[60,932]
Net financing [requirement] surplus	[43,280]	121,402	73,399

[/]

	[millions of Lire]		Thousands of USD [*]
	12.31.1997	12.31.1998	12.31.1998
Cash flows from financing activities			
Change in Stockholders'equity	86,967	1,492	902
Change in short-term borrowing	[787,925]	427,837	258,668
Proceeds from issuance of long-term debt	884,861	10,342	6,253
Repayment of long-term debt	[303,223]	[310,193]	[187,541]
Change in securities held as fixed assets	20,269	49,956	30,203
Increase in other financial assets	[25,870]	[10,201]	[6,167]
Decrease in other financial assets	6,624	8,206	4,961
Assets leased to third parties	1,053	-	-
Decrease in lease financing	[342]	[1,235]	[747]
	[117,586]	176,204	106,532
Increase of liquidity	215,314	[282,345]	[170,704]
Effect of translation adjustments	[54,448]	[15,261]	[9,227]
Net cash provided [used] by financing activities	43,280	[121,402]	[73,399]

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

The accompanying notes are an integral part of the consolidated financial statements.

Balance sheets – Assets

[Thousands of Euro]*

	12.31.1997	12.31.1998
B Fixed assets		
I Intangible fixed assets		
1 start-up expenses	3,484	3,430
2 research,development and advertising expenses	447	511
3 industrial patents and intellectual property rights	2,481	3,799
4 concessions,licenses,trademarks and similar rights	233,611	257,059
5 goodwill and consolidation differences	40,467	34,569
6 assets under construction	2,198	3,196
7 other intangible fixed assets	23,681	23,286
Total intangible fixed assets	306,369	325,850
II Tangible fixed assets		
1 real estate	192,456	238,469
2 plant and machinery	88,723	93,930
3 industrial and commercial equipment	18,822	16,173
4 other assets	39,651	39,605
5 assets under construction and advances to suppliers	22,102	10,224
Total tangible fixed assets	361,754	398,401
III Financial fixed assets		
I equity investments in:		
a] subsidiary companies	25,403	21,363
b] associated companies	366	349
d] other companies	1,369	3,489
Total equity investments	27,138	25,201
2 financial receivables due from:		
d] third parties		
· within 12 months	3,393	3,305
· beyond 12 months	17,099	17,165
Total financial receivables due from third parties	20,492	20,470
3 other securities	27,476	1,571
Total financial fixed assets	75,106	47,242
Total fixed assets	743,229	771,493

[X]

	12.31.1997	12.31.1998
C Current assets		
I Inventories		
1 raw materials, other materials and consumables	109,759	104,505
2 work in progress and semimanufactured products	71,753	84,483
4 finished goods and goods for resale	181,197	111,093
5 advance payments to suppliers	532	301
Total inventories	363,241	300,382
II Accounts receivable		
I trade receivables		
· within 12 months	881,771	778,588
· beyond 12 months	4,082	4,651
Total trade receivables	885,853	783,239
2 subsidiary companies	4,221	3,976
3 associated companies	506	14
4 parent company	3	47
5 other receivables		
· within 12 months	60,073	69,154
· beyond 12 months	6,615	5,373
Total other receivables	66,688	74,527
Total accounts receivable	957,271	861,803
III Financial assets not held as fixed assets		
6 other securities	256,604	114,440
7 other financial receivables	185,343	11,975
8 differentials on forward transactions within 12 months	9,871	4,361
Total financial assets not held as fixed assets	451,818	130,776
IV Liquid funds		
1 bank and post office deposits	256,083	528,413
2 checks	15,234	28,686
3 cash in hand	651	487
Total liquid funds	271,968	557,586
Total current assets	2,044,298	1,850,547
D Accrued income and prepaid expenses	35,346	44,949
TOTAL ASSETS	2,822,873	2,666,989

[*] Exchange rate: 1 Euro = Lit. 1,936.27

Balance sheets - Liabilities and Stockholders' equity

[[Thousands of Euro]]*

	12.31.1997	12.31.1998
A Stockholders' equity		
I Capital stock	46,883	234,418
II Additional paid-in capital	244,109	56,574
III Revaluation reserves	22,058	22,058
IV Legal reserve	9,015	9,377
VII Other reserves	576,740	672,138
IX Net income for the year	149,845	151,441
Group interest in Stockholders' equity	1,048,650	1,146,006
Minority interests	104,439	15,952
Total Stockholders' equity	1,153,089	1,161,958
B Reserves for risks and charges		
2 taxation	4,369	4,349
3 other	48,706	44,729
Total reserves for risks and charges	53,075	49,078
C Reserves for employee termination indemnities	43,233	44,557
D Accounts payable		
I bonds		
· within 12 months	103,291	18,592
· beyond 12 months	276,661	258,228
Total bonds	379,952	276,820
3 due to banks		
· within 12 months	329,975	407,739
· beyond 12 months	237,856	203,532
Total due to banks	567,831	611,271
4 due to other finance providers		
· within 12 months	22,493	7,375
· beyond 12 months	7,845	6,059
Total due to other finance providers	30,338	13,434
5 advances from customers	7,832	12,447
6 trade payables	392,805	389,598
7 securities issued		
· within 12 months	52,828	1,206
· beyond 12 months	30	-
Total securities issued	52,858	1,206

[↯]

	12.31.1997	12.31.1998
8 due to subsidiary companies	2,450	1
9 due to associated companies	49	-
10 due to parent company	-	90
11 due to tax authorities		
· within 12 months	58,016	26,861
· beyond 12 months	7,392	23,969
Total due to tax authorities	65,408	50,830
12 due to social security and welfare institutions	11,044	9,557
13 other payables		
· within 12 months	31,896	28,764
· beyond 12 months	7,073	3,287
Total other payables	38,969	32,051
Total accounts payable	1,549,536	1,397,305
E Accrued expenses and deferred income		
1 accrued expenses and deferred income	23,413	13,721
2 premiums on bond issues	527	370
Total accrued expenses and deferred income	23,940	14,091
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	2,822,873	2,666,989

Memorandum accounts

[Thousands of Euro]*

	12.31.1997	12.31.1998
Fiduciary guarantees granted		
Guarantees	-	30
Purchase commitments	147,395	15,836
Fiduciary guarantees received		
Notes lodged by third parties	10	10
Other		
Currency to be sold forward	1,479,488	858,027
Currency to be purchased forward	780,990	168,155
Restricted account receivable	10,415	38,662
Notes presented for discount	1,425	1,310
TOTAL MEMORANDUM ACCOUNTS	2,419,723	1,082,030

[*] Exchange rate: 1 Euro = Lit.1,936.27

Statements of income

[Thousands of Euro]*

	1997	1998
A Value of production		
1 Revenues from sales and services	1,878,243	1,980,053
2 Change in work in progress,semi-manufactured products and finished goods	[11,698]	[46,869]
4 Own work capitalized	553	926
5 Other income and revenues	10,388	11,742
Total value of production	1,877,486	1,945,852
B Production costs		
6 Raw materials, other materials,consumables and goods for resale	568,254	605,747
7 External services	658,618	694,284
8 Leases and rentals	24,501	26,571
9 Payroll and related costs:		
a wages and salaries	150,785	180,216
b social security contributions	48,338	48,990
c employee termination indemnities	7,693	8,831
d pension and similar	6	-
e other costs	1,798	1,601
Total payroll and related costs	208,620	239,638
10 Amortization,depreciation and writedowns:		
a amortization of intangible fixed assets	22,277	37,437
b depreciation of tangible fixed assets	48,668	52,310
c other writedowns of fixed assets	742	967
d writedowns of current receivables and of liquid funds	49,457	21,071
Total amortization,depreciation and writedowns	121,144	111,785
11 Change in stock of raw materials,other materials, consumables and goods for resale	509	2,696
12 Provisions to risk reserves	9,559	10,870
14 Other operating costs	33,249	22,683
Total production costs	1,624,454	1,714,274
Difference between production value and costs	253,032	231,578
C Financial income and expense		
15 Income from equity investments	1,897	6,215
16 Other financial income:		
a from receivables held as financial fixed assets		
· subsidiary companies	-	16
· other companies	127	904
Total from receivables held as financial fixed assets	127	920
b from securities held as financial fixed assets not representing equity investments	2,851	1,570
c from securities included among current assets not representing equity investments	28,110	22,209
d financial income other than the above		
· subsidiary companies	202	233
· other companies	190,172	141,070
Total financial income other than the above	190,374	141,303
Total other financial income	221,462	166,002

Notes to the consolidated financial statements as of December 31, 1997 and 1998

The consolidated financial statements have been prepared in conformity with chapter III of Legislative Decree no. 127 of April 9, 1991, which implements the EC VII Directive.

The notes to the consolidated financial statements explain, analyze and, in some cases, supplement the data reported on the face of financial statements and include information required by article 38 and other provisions of Decree 127/1991. Additional information is also provided in order to present a true and fair view of the financial and operating position of the Group, even where this is not required by specific legislation.

Activities of the Group

Benetton Group S.p.A., the parent company, and its subsidiaries companies [collectively the "Group"] primarily manufacture and market fashion apparel in wool, cotton and woven fabrics, as well as sports equipment, sportswear and casual wear.

The manufacture of finished articles from raw materials is primarily undertaken in Italy, partly within the Group and partly using subcontractors, whereas marketing is carried out through an extensive sales network both in Italy and abroad. This network consists of sales representatives and specialty stores that are almost exclusively independently owned.

Form and content of the consolidated financial statements

The consolidated financial statements of the Group include the financial statements as of December 31, 1998 of Benetton Group S.p.A., the parent company, and all the Italian and foreign undertakings in which the parent company holds, directly or indirectly, the majority of the voting rights. They also include the accounts of some 50%-owned companies over which the Group exercises a dominant influence.

The companies included within the scope of consolidation are listed in Appendix.

Financial statements utilized for consolidation are those prepared for approval at Stockholders' meetings. Financial statements of foreign subsidiaries have been reclassified, where necessary, for assuring consistency with the format adopted by the parent company. Such financial statements have been adjusted so that they are consistent with the accounting policies referred to below.

A reconciliation between Stockholders' equity and net income as reported in the statutory financial statements of the parent company, Benetton Group S.p.A., and the consolidated Stockholders' equity and net income of the Group is presented in the note on Stockholders' equity.

Principles of consolidation

The most significant consolidation principles adopted for the preparation of the consolidated financial statements are as follows:

a] The assets and liabilities of subsidiary companies are consolidated on a line-by-line basis and the carrying value of investments held by the parent company and other consolidated subsidiaries is eliminated against the related Stockholders' equity accounts.

b] When a company is consolidated for the first time, any positive difference emerging from the elimination of its carrying value on the basis indicated in [a] above, is allocated, where applicable, to the assets of the subsidiary. Any excess arising upon consolidation is accounted for as a consolidation adjustment and is classified as "Goodwill and consolidation differences".

Negative differences are classified within the "Reserve for risks and changes arising on consolidation" if they reflect estimated future losses; otherwise, they are classified as part of the "Consolidation reserve" within Stockholders' equity.

Goodwill is amortized over its estimated useful life.

c] Intercompany receivables and payables, costs and expenses, and all significant transactions between consolidated companies, including the intragroup payment of dividends, are eliminated.

Unrealized intercompany profits and gains and losses arising from transactions between Group companies are also eliminated.

d] The minority Stockholders' interest in the net assets and results for the year of consolidated subsidiaries are classified separately as "Minority interests" in the consolidated balance sheet and as "Income attributable to minority interests" in the consolidated income statement.

e] The financial statements of foreign subsidiaries, including those operating in countries with hyperinflationary economies, are translated into Italian Lire using year-end exchange rates for balance sheet items and average exchange rates for the year for income statement items.

Differences arising from the translation into Lira of foreign currency financial statements are reflected directly in consolidated Stockholders' equity.

The value of Stockholders' equity of foreign subsidiaries is hedged against exchange risks, mainly through the forward sale of currency. Any exchange differences arising from such capital hedging operations are classified as "Translation differences" and therefore they adjust consolidated equity.

The difference between the spot and forward exchange rates relating to these capital hedges is recorded as part of "Other financial income" within the income statement.

Accounting policies and standards

These have been adopted in observance of article 2426 of the Italian Civil Code, also taking account of accounting principles prepared by the Italian Accounting Profession and, in the absence thereof, those issued by the International Accounting Standards Committee [I.A.S.C.]. A forthcoming decree by the Ministry of Justice should, based on article 117, Section 2, of the recent Finance Act [Legislative Decree no. 58/1998], indicate the “accounting principles of international recognition” to be used for consolidated annual accounts. Pending the issue of this decree, it has been decided to use the accounting policies already adopted in prior years for the sake of continuity and comparability.

Intangible fixed assets. These are recorded at purchase cost, including related charges. The value of these assets may be subject to revaluation in accordance with specific statutory regulations.

One method for determining the value of intangible fixed assets is to allocate the excess price deriving from investments acquired or other company transactions. This type of allocation is used for excess prices paid for trademarks acquired under this type of operations, on the basis of an independent appraisal.

Intangible fixed assets are written down in cases where, regardless of the amortization accumulated, there is a lasting loss in value. The value of such assets is reinstated in future accounting periods, should the reasons for such writedowns no longer apply.

Book value is systematically amortized on a straight-line basis in relation to the residual economic useful lives of such assets. The duration of amortization plans is based on the estimated economic use of these assets.

Normally amortization periods for trademarks fluctuate between ten and fifteen years, while patents are amortized over three years.

Goodwill and consolidation differences are amortized over ten years. Start-up expenses and other deferred charges are mostly amortized over five years.

Tangible fixed assets. These are recorded at purchase or construction cost, revalued where required or permitted by specific statutory regulations. Cost includes related charges and direct or indirect expenses reasonably attributable to the individual assets. Tangible fixed assets are written down in cases where, regardless of the depreciation accumulated, there is a lasting loss in value. The value of such assets is reinstated in future accounting periods should the reasons for such writedowns no longer apply. Ordinary maintenance costs are fully expensed as incurred. Improvement expenditure is allocated to the related assets and depreciated over their residual useful lives.

Depreciation is calculated systematically on a straight-line basis using rates considered to reflect the estimated useful lives of the assets. In the first year such assets enter into service these rates are halved in consideration of their shorter period of use.

The depreciation rates applied by Group companies are as follows:

Buildings	3%
Plant and machinery	8% - 17.5%
Industrial and commercial equipment	20% - 25%
Molds and dies	25%
Other tangible fixed assets:	
· furniture, furnishings and electronic machines	12% - 20%
· vehicles	20% - 25%
· Aircraft	7%

Accelerated depreciation calculated in the individual financial statements of Group companies is reversed and as a result the related accumulated depreciation is adjusted.

Assets acquired under finance leases are stated at their fair value at the start of the lease and the capital portion of the lease installments is recorded as a liability.

Such assets are depreciated over their economic useful lives on the same basis as other tangible fixed assets.

Financial fixed assets. Investments in subsidiaries not consolidated on a line-by-line basis, together with those in associated companies, are accounted for on an equity basis, eliminating the Group's share of any unrealized intercompany profits, where significant.

The difference between the cost and the net equity of investments at the time they were acquired is allocated on the basis described in paragraph [b] of the consolidation principles. Equity investments of less than 20% in other companies are stated at cost, which is written down where there is a lasting loss in value. The original value of these investments is reinstated in future accounting periods, should the reasons for such writedowns no longer apply.

Assets leased to third parties are recorded using lease accounting methodology. This involves eliminating the related fixed assets and accumulated depreciation accounts and recording the outstanding capital element of lease contracts as a financial fixed asset.

The excess of lease charges and end-of-lease payments over the cost of the related asset is recognized as interest income on an accrual basis.

Receivables included among financial fixed assets are stated at their estimated realizable value.

Other securities held as financial fixed assets are stated at cost, which is written down where there is lasting loss in value, taking into account any accrued issue premiums and discounts.

Inventories. Inventories are stated at the lower of purchase or manufacturing cost, generally determined on a weighted average cost basis, and their market or net realizable value.

Manufacturing cost includes raw materials and all direct or indirect production-related expenses.

The calculation of estimated realizable value includes any manufacturing costs to be incurred and direct selling expenses. Obsolete and slow-moving inventories are written down in relation to their possibility of employment in the production process or to their net realizable value.

Accounts receivable. These are recorded at their estimated realizable value, net of appropriate allowances for doubtful accounts determined on a prudent basis. Any long-term receivables that include an implicit interest component are discounted using a suitable market rate.

Other securities not held as fixed assets. Such securities are stated at the lower of purchase cost and market value. The original value of these investments is reinstated in future accounting periods, should the reasons for such writedowns no longer apply. Securities acquired subject to resale commitments are recorded at cost and classified among other securities not held as fixed assets. The difference between the spot and forward prices of such securities is recognized on an accrual basis over the duration of the contract.

Accruals and deferrals. These are recorded to match costs and revenues in the accounting periods to which they relate.

Reserves for risks and charges. These reserves cover known or likely losses, the timing and amount of which cannot be determined at year-end. Reserves reflect the best estimate of losses to be incurred based on the information available.

Reserve for employee termination indemnities. This reserve represents the liability of Italian companies within the Group for indemnities payable upon termination of employment, accrued in accordance with labor laws and labor agreements in force. This liability is subject to annual revaluation using the officially-established indices.

Payables. These are stated at face value. The implicit interest component which is included in long-term debts is recorded separately using a suitable market rate.

Transactions in foreign currencies and the introduction of the Euro. Transactions in foreign currencies are recorded using the exchange rates in effect at the transaction dates. Exchange gains or losses realized during the year are included in the consolidated income statement.

At balance sheet date the Italian and foreign companies in the European Union aligned monetary amounts, expressed in currencies belonging to the economic and monetary union, to the Euro. The exchange gains and losses realized were charged to the income statement and matched with individual asset and liability items that generated them.

Transactions hedging exchange risks of balance sheet items denominated in Euro-participating currencies were valued as above and the related exchange differences were charged to the income statement.

In the Italian Group companies, the net loss from adjusting balances denominated in currencies not participating in the European economic and monetary union to year-end exchange rates, is allocated to the exchange fluctuation reserve, classified among "Other reserves". Exception is made for hedged contracts on receivables or payables, whose settlement will not involve any additional exchange gains or losses.

The value of forward contracts, other than those hedging specific foreign currency assets, liabilities or contractual commitments, is restated at year-end with reference to the differential between the forward exchange rates applicable to the various types of contract at the balance sheet date and the contracted forward exchange rates. Any net losses emerging are charged to the income statement.

Revenue recognition. Revenues from product sales are recognized at the time of shipment to the customer, which also represents the moment when ownership passes.

Expense recognition. Expenses are recorded in accordance with the matching principle.

Income taxes. Current income taxes are provided on the basis of a reasonable estimate of the tax liability for the year, in accordance with applicable local regulations. The net balance between deferred tax assets and liabilities is also recorded.

Deferred tax assets refer to costs and expenses not yet deductible at year-end, to consolidation adjustments and to the benefit of accumulated tax losses. Deferred tax assets are provided when it was almost certain that they can be recovered in the future.

Deferred tax liabilities refer to transactions where taxation is deferred to future years, such as gains on the disposal of tangible and intangible fixed assets or consolidation adjustments arising from the reversal of accelerated depreciation or lease transactions recorded as finance leases.

Article 2423, paragraph 4, of the Italian Civil Code. Departures from statutory accounting criteria and policies according to the fourth paragraph of article 2423 of the Italian Civil Code have not occurred.

Cash flows. The statement of consolidated cash flows provides information by type of flow and activity. Readily marketable securities are treated as cash equivalents.

Comments on the principal asset captions

Fixed assets

■ Intangible fixed assets

[millions of Lire]	12.31.1997		12.31.1998	
	Gross	Net	Gross	Net
Start-up expenses	30,039	6,746	13,412	6,641
Research and development expenses	1,536	866	1,986	989
Industrial patents and intellectual property rights	24,330	4,803	28,571	7,356
Licenses, trademarks and similar rights	604,142	452,335	683,125	497,736
Goodwill	4,150	3,673	3,399	2,563
Consolidation differences	85,193	74,682	83,427	64,372
Total goodwill and consolidation differences	89,343	78,355	86,826	66,935
Assets under construction and advance payments	4,255	4,255	6,188	6,188
Expenses related to bond issues and loans	9,454	3,928	4,351	2,486
Costs for software purchase and development	28,004	13,392	27,299	11,336
Other	49,062	28,533	47,728	31,266
Total other intangible fixed assets	86,520	45,853	79,378	45,088
Total	840,165	593,213	899,486	630,933

Start-up expenses include capital stock increase costs of Lire 5,436 million [around Lire 4,400 million as of December 31, 1997]. The residual balance principally relates to corporate reorganization costs. Research and development expenses reflect the capitalization of costs incurred for the development of new products.

Assets under construction and advance payments principally concern costs to register trademarks and patents.

In 1983 the original Benetton trademark was revalued in accordance with Law no. 72 of March 19, 1983. The monetary revaluation was Lire 4,430 million; the residual value at the end of 1998 was Lire 886 million.

The difference emerging from the consolidation of the Sportssystem group, with respect to stockholders' equity at the acquisition date, was allocated to trademarks for Lire 277,130 million, and to consolidation differences for Lire 59,976 million, on the basis of an independent appraisal.

Net values of trademarks are the following:

[millions of Lire]	12.31.1997	12.31.1998
United Colors of Benetton	1,749	2,428
Sisley	176	252
Nordica	89,058	127,955
Rollerblade	208,766	205,817
Prince	90,057	99,163
Killer Loop	29,364	47,880
Other	24,178	5,437
Total	443,348	488,932

The caption "Other" in the above table, as of December 31, 1997, included the Asolo trademark from the spin-off of Asolo S.p.A. and the later disposal of the company. As a result the surplus value allocated to the trademark has been eliminated.

The Divarese and Zenith trademarks were also sold in 1998 as they were no longer considered useful.

The consolidation difference of Lire 64,372 million reflects the residual goodwill emerging from consolidation of the companies acquired, with Lire 49,575 million attributable to Benetton Sportssystem S.p.A. and the remainder to other companies. This consolidation difference is amortized over ten years, which is considered appropriate since it is consistent with the accounting policies currently applied in the sector where Group companies operate.

The item "Other" in the intangible fixed asset table mainly comprises leasehold improvements.

Movements in the principal intangible fixed asset captions during 1998 were as follows:

[millions of Lire]	Start-up expenses	Licenses, trademarks and similar rights	Goodwill and consolidation differences	Other intangible fixed assets	Total
Net opening balance	6,746	452,335	78,355	55,777	593,213
Change in scope of consolidation	[4]	118,788	[734]	[94]	117,956
Increases	5,625	2,804	-	23,158	31,587
Decreases	-	[31,853]	[1,569]	[1,189]	[34,611]
Amortization	[5,773]	[42,638]	[9,041]	[16,462]	[73,914]
Translation differences and other movements	47	[1,700]	[76]	[1,569]	[3,298]
Net closing balance	6,641	497,736	66,935	59,621	630,933

■ **Tangible fixed assets.** Tangible fixed assets are stated net of accumulated depreciation amounting to Lire 787,413 million.

Additions made during 1998 mainly concern the following captions:

- Plant, machinery and equipment and other goods of Benetton Group S.p.A., of manufacturing companies and foreign companies for around Lire 90,000 million. In particular, the parent company invested in creating or modifying molds and dies to manufacture sports articles, and enhanced the packaging system in the Castrette factory [around Lire 5,900 million]; a further investment was made of around Lire 5,000 million to acquire an industrial factory in Hungary.
- Real estate for around Lire 80,000 million, mostly relating to the restructuring of Villa Loredan near Treviso [around Lire 15,700 million in 1998], the purchase of a building in Tokyo to be used for commercial ventures and as office headquarters for Japanese subsidiaries [Lire 34,700 million] and lastly, investments in properties for commercial use [Lire 19,500 million].
- Replacement of an aircraft in the Benair S.p.A. fleet, together with an advance payment to replace another aircraft, an investment of around Lire 14,400 million.

The depreciation charge for the year was Lire 101,287 million.

Movements in the principal tangible fixed asset captions during 1998 were as follows:

[millions of Lire]	Real estate	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances to suppliers	Total
Net opening balance	372,647	171,791	36,445	76,776	42,795	700,454
Change in scope of consolidation	-	-	[184]	[81]	-	[265]
Additions	76,575	52,044	13,903	28,861	26,838	198,221
Disposals	[6,867]	[5,839]	[4,471]	[3,290]	[93]	[20,560]
Depreciation	[16,600]	[48,406]	[15,277]	[21,004]	-	[101,287]
Translation differences and other movements	35,986	12,284	900	[4,577]	[49,744]	[5,151]
Net closing balance	461,741	181,874	31,316	76,685	19,796	771,412

The unamortized amount of tangible fixed assets still held as of December 31, 1998, revalued under Laws no. 72 of March 19, 1983, and no. 413 of December 30, 1991, net of retirements and disposals, amounts to Lire 26,482 million. In 1996, a Spanish subsidiary revalued its tangible fixed assets under local legislation [Royal Decree 2607/96]. At year-end these assets amounted to Lire 1,003 million.

Some of the Group's tangible fixed assets are pledged as security for long-term loans from banks and other finance providers. The outstanding balance of such loans is Lire 82,312 million as of December 31, 1998.

The item "Other assets" includes the following assets acquired under finance leases:

[millions of Lire]	12.31.1997	12.31.1998
Real estate	14,809	13,658
Plant and machinery	11,757	11,744
Other assets	360	1,555
Less:accumulated depreciation	[5,210]	[5,835]
Total	21,716	21,122

Outstanding capital payments due to lessors as of December 31, 1998, classified as amounts due to leasing companies, are reported in the note "Due to other finance providers".

■ Financial fixed assets

■ **Equity investments.** As of the balance sheet date, equity investments which have not been consolidated on a line-by-line basis are as follows:

[millions of Lire]	12.31.1997		12.31.1998	
	% Group ownership	Book value	% Group ownership	Book value
Subsidiary companies:				
· T.W.R.Group Ltd.	50	43,133	50	40,914
· Other minor investments	-	6,054	-	450
Associated companies	-	708	-	676
Other companies	-	2,652	-	6,756
Total		52,547		48,796

Investments in subsidiary companies amounting to Lire 41,364 million, include Lire 40,914 million relating to T.W.R. Group Ltd., which is carried on an equity basis since it operates in a sector dissimilar to that of the rest of the Group. The inclusion of this company within the scope of consolidation would have distorted the consolidated financial statements to the point where they would not have provided a true and fair view of the financial and operating position of the Group.

In December 1996 Benetton International N.V. entered into an agreement to sell Benetton Engineering Ltd.. The finalisation of the sale is subject to the company receiving the purchase price from the buyer by the end of 2001, of which Lire 20,724 million has already been paid in accordance with the contract. Benetton Engineering Ltd., which owns 50% of T.W.R. Group Ltd., is wholly owned by Benetton International N.V. The agreed sale price, £stg. 16,000,000, will generate a gain of £stg. 858,000 with respect to the original cost incurred, plus related interest at market rates.

The balance, Lire 450 million, relates to other minor subsidiary companies, mainly foreign trading companies, that are carried at cost or at equity, since they are either not yet operating or are in liquidation at the balance sheet date.

Other investments primarily represent minority interests in a Swiss company and in Japanese retail companies.

Equity investments are analyzed in detail in an annex.

■ Financial receivables

[millions of Lire]	Maturities [in years]				12.31.1998
	12.31.1997	Within 1	1 to 5	Beyond 5	
Financial receivables:					
· due within 12 months	6,569	6,399	-	-	6,399
· due beyond 12 months	18,352	-	17,696	450	18,146
Guarantee deposits	14,756	-	2,000	13,091	15,091
Total	39,677	6,399	19,696	13,541	39,636

Financial receivables earn interest at market rates.

Guarantee deposits mainly include lease contracts with Japanese subsidiaries.

■ Other securities held as financial fixed assets

[millions of Lire]	12.31.1997	12.31.1998
Long-term Government bonds [B.T.P.] in 1998 at 10.5% p.a.	50,171	-
Other securities	3,030	3,041
Total	53,201	3,041

Other securities mostly include foreign securities, and their carrying value broadly approximates their market value.

Current assets

■ **Inventories.** Inventories for Lire 581,621 million [Lire 703,332 million as of December 31, 1997], which are recorded net of the related inventory writedown reserve, consist of the following:

[millions of Lire]	12.31.1997	12.31.1998
Raw materials, other materials and consumables	8,549	6,788
Work in progress and semi-manufactured products	2,417	1,550
Finished goods	29,195	13,762
Total	40,161	22,100

The valuation of closing inventories at weighted average cost is not appreciably different from their current value.

■ Accounts receivable

■ **Trade receivables.** As of December 31, 1998, trade receivables amount to Lire 1,516,561 million [Lire 1,715,250 million as of December 31, 1997], of which approximately Lire 948,745 million are denominated in foreign currencies. Open forward exchange contracts as of December 31, 1998 are used to hedge receivables totaling Lire 426,968 million and firm orders worth Lire 447,975 million at year-end exchange rates.

Trade receivables also include Lire 214,025 million [Lire 264,380 million as of December 31, 1997] of bank receipts and notes deposited with financial institutions.

Additionally, this account includes approximately Lire 433,170 million relating to sales for the Spring/Summer season. In accordance with normal conditions of sale, the payment terms for this amount begin from March 1999.

The allowance for doubtful accounts as of December 31, 1998 amounts to Lire 183,824 million [Lire 204,388 million as of December 31, 1997]. Lire 62,083 million of this reserves was used during the year. A prudent assessment of the specific and generic collection risks associated with receivables outstanding at year-end has resulted in an additional provision of Lire 40,799 million to take account of the aging of certain balances and the difficult economic conditions in a number of markets.

■ **Due from subsidiaries, associated companies and the parent company.** Amounts receivable of Lire 7,699 million, Lire 27 million, Lire 91 million, respectively, mainly relate to trade and financial receivables.

■ Other receivables. Other receivables include:

- VAT recoverable from tax authorities for Lire 36,136 million [Lire 45,896 million as of December 31, 1997], of which Lire 5,684 million due beyond 12 months;
- tax credits for Lire 41,530 million [Lire 38,622 million as of December 31, 1997], of which Lire 704 million due beyond 12 months. Amounts due from tax authorities include Lire 18,398 million of excess taxes paid in advance by the parent company;

— other amounts due from tax authorities, for Lire 28,602 million [Lire 16,577 million], of which Lire 683 million due beyond 12 months.

The caption includes Lire 17,232 million resulting from the net balance between deferred tax assets [connected to charges where tax deduction is deferred] and deferred tax liabilities [deriving primarily from reversal of accelerated depreciation].

The following table shows total deferred taxes, net:

[millions of Lire]	12.31.1997	12.31.1998
Tax effect of eliminating intercompany profits	12,631	8,421
Tax effect of provisions and costs that will become deductible in future accounting periods	50,203	46,109
Deferred taxes arising from the reversal of accelerated depreciation and the application of finance lease accounting	[40,934]	[48,270]
Deferred taxes on gains taxable over a number of accounting periods	[10,223]	[8,964]
Tax benefits on accumulated losses	-	22,334
Deferred taxes on the partial distribution of reserves of foreign subsidiaries to the parent company	[4,400]	[4,400]
Other	822	2,002
Total	8,099	17,232

In relation to:

[millions of Lire]	12.31.1997	12.31.1998
· Italian companies	1,718	[8,283]
· Foreign companies	6,381	25,515
	8,099	17,232

■ Financial assets not held as fixed assets

■ **Treasury shares.** In accordance with the resolution at the ordinary meeting on May 27, 1998, the parent company acquired 1,892,500 shares in September and October, at an average price of Lire 2,449 per share, for Lire 4,634 million. They were sold in November 1998, with a capital gain of around Lire 840 million.

■ Other securities

[millions of Lire]	12.31.1997	12.31.1998
Consorzio di Credito per le Opere Pubbliche bonds, maturing through 1999 and 2002, at interest rates between 4.47% and 12.63%	136,589	134,797
European Investment Bank bonds in Italian Lire, maturing through 2000 and 2002, at interest rates between 5.47% and 11.25%	37,854	40,007
IBRD bonds in Italian Lire, maturing through 2001 and 2002 at interest rates between 10.4% and 10.8%	6,845	5,499
ENEL bonds maturing in 2002 at an interest rate of 10.63%	44,679	25,992
Italian State Railways bonds maturing in 1999 and 2002, at interest rates of 5.09% and 10.65%	13,166	13,019
Treasury Certificates [C.C.T.] maturing in 2003 at an interest rate of 5.4%	-	1,935
Zero coupon Treasury Certificates maturing through 1998 and 1999 at interest rates between 4.91% and 5.97%	193,277	-
Other	64,445	337
Total	496,855	221,586

The Treasury Certificates were mostly held until their normal maturity.

Certain securities have been written down by Lire 3,218 million to reflect their market value, determined on the basis of average stockmarket prices during December 1998.

■ Other financial receivables

[millions of Lire]	12.31.1997	12.31.1998
Short-term financing	127,849	8,188
Amounts due on repurchase agreements	231,024	14,999
Total	358,873	23,187

These mainly consist of investments made by Benetton Gesfin S.p.A. for the temporary employment of liquidity via short-term financing granted to third parties.

The substantial decrease in this balance is due to the expiration of financial receivables outstanding as of December 31, 1997.

■ **Differentials on forward transactions.** During 1998, as in prior years, the proceeds of future sales were sold forward, in order to optimize exchange risk management connected to commercial activities by certain Group companies, mainly Benetton Group S.p.A. Forward contracts and other currency hedges have been put in place with maturities in 1999. The value of these commitments is reflected in the memorandum accounts. Part of these contracts, totaling Lire 191,557 million, was subsequently renegotiated, and the related positive differentials amounting to Lire 5,436 million, will be collected in 1999.

The residual balance includes Lire 928 million for adjustments to hedging transactions relating to Euro-participating currencies, while Lire 2,081 million refers to similar adjustments to loan hedges. Such differentials, being highly liquid, are classified among current assets.

■ Liquid funds

[millions of Lire]	12.31.1997	12.31.1998
Current account deposits [Lire]	86,705	79,811
Current account deposits [foreign currency]	150,476	176,503
Time deposits [Lire]	119,649	716,074
Time deposits [foreign currency]	139,017	50,762
Checks	29,497	55,543
Cash in hand	1,260	944
Total	526,604	1,079,637

Average interest rates reflect market returns for the various currencies concerned.

The balances as of December 31, 1998 reflect temporary high liquidity due to significant period-end receipts from customers and substantial Lire time deposits by Group finance companies, partly thanks to liquidity from prior disposals of securities.

Accrued income and prepaid expenses

[millions of Lire]	12.31.1997	12.31.1998
Accrued income:		
· financial income	21,748	12,810
· other income	4,527	3,604
Total accrued income	26,275	16,414
Prepaid expenses:		
· financial charges	7,112	681
· rentals and leasing charges	4,099	4,498
· advertising and sponsorships	3,166	3,453
· other expenses	27,788	61,988
Total prepaid expenses	42,165	70,620
Total	68,440	87,034

Accrued financial income mainly relates to interest deriving from temporary investments. Other accrued income mainly concerns television rights relating to Benetton Formula Ltd.

In 1997 and 1998, the Group's merger differences were released from further taxation via payment of a substitute tax at 27%, as allowed by Decree no. 358 of October 8, 1997. This substitute tax totals around Lire 49,300 million and is classified under "Current income taxes" with a matching balance in the caption "Due to tax authorities". According to the principle accrual some Lire 39,900 million of this tax has been recorded as a prepayment in order to match the cost of freeing up merger differences from tax with the benefits deriving from the future savings generated by tax-deductible amortization charges. Given the various amortization periods of the assets involved and taking into account the prudence principle, the amortization period was fixed in 10 years.

Prepayments of other expenses include around Lire 18,700 million [around Lire 12,000 million in 1997], relating to design and implementation costs incurred by Benetton Formula Ltd., for the setting up of the car participating in the 1999 world championship.

Comments on the principal liability and equity captions

Stockholders' equity

■ **Capital stock.** The Stockholders' meeting held on May 27, 1998 authorized the reduction of the par value per share from Lire 500 to Lire 50 with a consequent 10:1 stock split and the subsequent increase in the par value per share from Lire 50 to Lire 250 by allocating Lire 363,117,622,000 from additional paid-in capital to capital stock.

The capital stock of Benetton Group S.p.A., is represented by 1,815,588,110 issued and fully-paid ordinary shares, par value Lire 250 each. The 1980 spin-off reserve and part of the monetary revaluation reserves were capitalized by Benetton Group S.p.A. in prior years by the issue of stock dividends. Capital stock, issued and fully-paid, amounts to Lire 453,897,027,500.

■ **Additional paid-in capital.** The change reflects the release of part of the reserve to cover the increase in the par value per share.

■ **Revaluation reserve.** The caption exclusively reflects the residual amounts of revaluation reserves established in accordance with the provisions of Law no. 72 of March 19, 1983, and Law no. 413 of December 30, 1991, and the monetary revaluation of tangible fixed assets by a Spanish subsidiary [Royal Decree no. 2607/96].

■ **Legal reserve.** The increase in the legal reserve derives from the allocation of a portion of net income for the year ended December 31, 1997, in conformity with the law and the articles of association.

■ **Other reserves.** As of December 31, 1998, this caption amounts to Lire 1,301,441 million [Lire 1,116,723 million as of December 31, 1997], and includes:

- Lire 335,782 million relating to other reserves of the parent company [Lire 213,968 million as of December 31, 1997];
- Lire 3,978 million relating to the cumulative translation adjustment generated by translating the foreign-currency financial statements of companies consolidated on a line-by-line basis;
- Lire 961,681 million representing the additional equity of consolidated companies with respect to their carrying value, together with other consolidation entries.

The first of the tables which follow reconciles the Stockholders' equity and net income of Benetton Group S.p.A. with the corresponding consolidated amounts; the second lists the equity in consolidated subsidiaries attributable to minority Stockholders.

Reconciliation of the Stockholders' equity and net income of Benetton Group S.p.A. with the corresponding consolidated amounts.

[millions of Lire]	12.31.1997		12.31.1998	
	Stockholders' equity	Net income	Stockholders' equity	Net income
Per Benetton Group S.p.A. financial statements	993,797	163,759	1,054,066	101,514
Net income and Stockholders' equity of consolidated subsidiaries, net of their carrying value	739,356	119,701	966,404	112,073
Elimination of writedown of investments	-	9,113	-	112,101
Elimination of dividends received by consolidated subsidiaries	-	-	-	[30,000]
Elimination of merger differences and related amortization in Benetton Group S.p.A.	-	-	[171,001]	44,316
Allocation to fixed assets of the difference between the purchase price and the equity of new subsidiaries at the time they were acquired and related depreciation	252,928	[22,200]	315,247	[57,620]
Reversal of accelerated depreciation considering the useful lives of fixed assets and of intercompany gains on disposal of tangible fixed assets, net of the related tax effect	20,467	4,977	27,629	7,162
Application of finance lease accounting, taking into account the related tax effect	10,929	1,073	7,617	[3,312]
Recognition of deferred tax assets, net of deferred taxes on any future distribution of reserves from subsidiaries to the parent company	34,344	[4,441]	32,194	[2,389]
Elimination of intercompany profits included in the inventory of consolidated subsidiaries, net of the related tax effect	[24,981]	15,505	[18,582]	6,399
Adjustment to reflect the equity value of associated companies	5,010	1,146	4,497	[290]
Net effect of other consolidation entries	[1,381]	1,507	907	3,276
Per Group's consolidated financial statements	2,030,469	290,140	2,218,978	293,230

■ **Minority interests.** As of December 31, 1998 and 1997, minority interests in consolidated subsidiaries were as follows:

[%]	12.31.1997	12.31.1998
Italian subsidiaries:		
· Socks & Accessories Benetton [S.A.B.] group	50	50
· Olimpias group	13.5	15
· Texcontrol group	16.231	16.231
· Benetton Sportssystem group	43.233	-
Foreign subsidiaries:		
· K.K.Via Veneto	50	-
· Benetton China Japan K.K.	9	-
· Benetton Shoes Japan K.K.	50	50
· Bene Moda K.K.	50	-
· Benetton Egypt S.A.E.	50	50
· DCM Benetton India Ltd.	50	50
· Benetton Korea Inc.	-	50

Reserves for risks and charges

■ **Taxation reserve.** As of December 31, 1998, the reserve for fiscal risks amounts to Lire 8,421 million [Lire 8,459 as of December 31, 1997]. It prudently covers contingent liabilities which may arise from the final settlement of outstanding disputes with the revenue authorities.

Given that the tax tribunals have consistently found in favor of other taxpayers in similar circumstances and taking into account expert opinions on the matter; it is considered that no significant liabilities will emerge from the settlement of outstanding fiscal disputes.

As of December 31, 1998, the net balance between deferred assets and liabilities is recorded in "Other receivables".

■ Other reserves

[millions of Lire]	12.31.1997	12.31.1998
Reserve for contingencies	72,872	72,073
Agents'leaving indemnity reserve	13,091	13,325
Exchange fluctuation reserve	8,346	1,209
Total	94,309	86,607

The reserve for contingencies covers risks which may arise from current legal disputes.

With regard to the dispute with Eco Swiss China Time Ltd. and Bulova Corp., ongoing legal procedures are seeking to overturn or cancel the arbitration award of June 23, 1995, condemning Benetton International N.V. to pay compensation of US\$ 23.7 million to Eco Swiss China Time Ltd., and US\$ 2.8 million to Bulova Corp., together with costs and the related interest.

Benetton International N.V., having previously applied to the courts for a stay of execution, obtained a temporary stay in regard to Eco Swiss China Time Ltd., pending the decision of the relevant tribunals on the questions indicated above.

On March 21, 1997, the High Court in The Hague accepted the appeal by Benetton International N.V. and referred the case to the European Court of Justice in Luxembourg, on the grounds that the matter fell within the jurisdiction of Community law. This decision has had a positive outcome for the Benetton International N.V., since it also resulted in the adjournment of proceedings before the High Court in The Hague of Eco Swiss China Time Ltd.'s petition to lift the stay of execution on the payment of the arbitration award. The hearing before the European Court in Luxembourg was held on July 7, 1998 and the court's decision is expected within the next few months. Once this is available, the High Court in The Hague will hand down its judgment on the matters in question.

All this is encouraging for Benetton International N.V. in the defense of its case and interests. Any risks which could emerge from the final outcome of proceedings are adequately covered by the existing provision of Lire 48,600 million.

However, Eco Swiss China Time Ltd., initiated new proceedings, as a matter of urgency, [before the ordinary courts in the Netherlands] for obtaining an advance payment from the arbitration award of June 23, 1995, pending the outcome of the procedures seeking to overturn or cancel the award, but action taken by the ordinary courts is in Benetton International N.V.'s favor and substantially rejects the other party's demands.

In the meantime, separate arbitration proceedings instigated by Benetton International N.V. are currently taking place between the parties before the Netherlands Arbitration Institute in The Hague.

Benetton International N.V. aims to demonstrate in this second arbitration case that the company correctly fulfilled its obligations and sought, in good faith to negotiate the extension of the 1986 license contract and that it is due compensation for the considerable damage suffered as a consequence of breach of contract by the other party.

Benetton International N.V. has submitted its own Statement of Claim, and Eco Swiss China Time Ltd. and Bulova Corporation, for their part, have presented a counterclaim demanding compensation for alleged damages which they attribute to supposed breach of contract by Benetton International N.V. Both parties have presented further documentation.

The Board of arbitration passed judgment on certain preliminary matters [regarding applicable law and the consequences of article 85 of the Treaty of the European Union] with the Partial Final Award of June 27, 1997. Benetton International N.V. proposed before the ordinary courts in the Netherlands that the Partial Final Award on preliminary matters be cancelled and, as part of these procedures, was able to obtain a stay of execution on the partial award, although the dispute between the parties as to the efficacy of the decision is still pending. A decision by the Court of Appeal [in acceptance of requests made by the parties] has reversed the stay of execution on the partial award, while the related judgment is still pending. The Board of Arbitration has therefore restarted arbitration proceedings with Benetton International N.V. presenting its case on March 15, 1999. In the next few months there will be further hearings and documentation produced by the parties.

Additional provisions to risks reserves refer to ongoing restructuring costs, liabilities for other minor disputes, and possible costs to hedge guarantees and returns.

The agents' leaving indemnity reserve is prudently maintained to reflect contingencies associated with the interruption of agency contracts in certain circumstances covered by Italian law. The provision of an additional Lire 1,280 million during 1998 follows utilizations during the year.

The exchange fluctuation reserve mainly reflects the net effect of adjusting forward contracts hedging financial transactions, as well as the unhedged foreign currency receivables and payables of Italian companies in the Group, using year-end exchange rates.

Reserve for employee termination indemnities. Movements in the reserve during the year were as follows:

[millions of Lire]	
Balance as of January 1, 1998	83,711
Provision for the year	17,100
Indemnities paid during the year	[14,526]
Other movements	[11]
Balance as of December 31, 1998	86,274

Accounts payable. The composition of, and significant changes, in this heading account group during the year are discussed below.

■ **Bonds.** These consist of the following.

- Bond issued on July 16, 1997 by Benetton Group S.p.A. for Lire 500,000 million, repayable in 2002. The bond bears interest at floating rates which, at year-end, was 4.651%. It is listed on the Luxembourg Bourse.
- Bonds issued by Benetton International N.V. in 1994, totaling LuxF 750 million [Lire 35,999 million at December 31, 1998 exchange rates], at a unit price of LuxF 102.25 and repayable on August 4, 1999. Following an operation linked to an interest-rate swap, the bond bears interest at floating rates which, at year-end, was 4.875%. The bond is guaranteed by Benetton Group S.p.A. and is listed on the Luxembourg Bourse.

EuroLire bond issued in 1993 by the Dutch subsidiary Benetton International N.V., for the equivalent of Lire 200,000 million, bearing annual interest of 4.5%, was fully repaid in July 1998. The bonds carried 2,520,000 warrants, each giving the holder the right to subscribe for one Benetton Group S.p.A. ordinary share. The net cost of servicing the warrants, totaling around Lire 38,300 million, is recognized on an accrual basis reflecting the interest matured.

■ **Due to banks**

[millions of Lire]	12.31.1997	12.31.1998
Current account overdrafts	73,549	41,600
Import/export advances	138,578	108,997
Advances on receivables and other short-term loans	363,255	605,777
Long-term loans:		
· due within 12 months	63,540	33,118
· due beyond 12 months	460,553	394,094
Total	1,099,475	1,183,586

Amounts due to banks include Lire 82,312 million secured by mortgages on tangible fixed assets. The caption includes Lire 6,857 million due beyond five years.

Group companies had the following lines of credit available at the balance sheet date: Lire 268 billion for current account overdrafts, and Lire 6,293 billion for advances on import/export transactions, the negotiation of trade notes and other short-term loans.

Long-term loans from banks outstanding as of December 1998 and 1997 are as follows.

[millions of Lire]	12.31.1997	12.31.1998
Multicurrency loan coordinated by Banca di Roma S.p.A. and Deutsche Bank S.p.A., disbursed on February 6, 1997 for a total of US\$ 220 million, at floating interest rates – 3.591% at the balance sheet date. US\$ 200 million of this loan is repayable in full on December 10, 2001	365,500	323,100
Loan from Efibanca [Ente Finanziario Interbancario S.p.A.] and the European Investment Bank, disbursed in two tranches: Lire 20,000 million, at an annual interest rate of 8.375% and Lire 30,000 million, at floating rates - 3.555% at the balance sheet date, repayable in half-yearly installments in arrears through 2003, secured by mortgages on real estate	41,830	33,650
Loans from Efibanca [Ente Finanziario Interbancario S.p.A.] at an annual interest rate of 3.88%, repayable through 2005, secured by mortgages on real estate	5,500	4,813
Loans from Fondo Rotazione Iniziative Economiche at annual interest rates of between 6% and 8%, repayable in half-yearly installments through 2004 secured by mortgages on real estate	7,966	5,948
Loans from Istituto Mobiliare Italiano, at an annual interest rate of 5.2%, repayable from 1999 through 2004, secured by mortgages on real estate	26,000	26,000
Loans from Istituto Bancario San Paolo di Torino S.p.A., at floating interest rates – 4.565% at December 31, 1998 – repayable quarterly through 2002, secured by mortgages on real estate	3,950	3,209
Loan in yen from Bayerische Vereinsbank, at an annual interest rate of 1%, repayable on October 4, 1999	13,576	14,375
Disbursement by Mediocredito Centrale S.p.A. granted under Law 394 of July 2, 1991 - at a subsidised half-yearly interest rate of 4.118%, repayable on July 22, 2003	400	3,458
Loan granted by Medio Venezie on December 18, 1998, at an annual interest rate of 5%, repayable on January 1, 2007 secured by mortgages on real estate	-	6,000
Loan granted by Efibanca [Ente Finanziario Interbancario S.p.A.] at an interest rate of 7.1%, repayable on May 14, 1998	40,000	-
Loan from Midland Bank, at an interest rate of 6.67% repayable on April 21, 1998	10,000	-
Other Lire loans, of which Lire 995 million secured by mortgages on real estate	2,819	1,846
Other foreign currency loans obtained by foreign consolidated companies, Lire 1,697 million, secured by mortgages on real estate	6,552	4,813
Total long-term loans	524,093	427,212
Less – current portion	[63,540]	[33,118]
Long-term loans, net of current portion	460,553	394,094

The non-current portion of these loans as of December 31, 1998 falls due as follows [in millions of Lire]:

[year]	12.31.1998
2000	19,344
2001	342,321
2002	14,121
2003	11,452
2004 and beyond	6,856
Total	394,094

■ Due to other finance providers

[millions of Lire]	12.31.1997	12.31.1998
Other short-term loans	36,368	7,161
Long-term loans:		
· due within 12 months	3,318	2,802
· due beyond 12 months	3,212	1,472
Due to leasing companies:		
· due within 12 months	3,867	4,316
· due beyond 12 months	11,978	10,260
Total	58,743	26,011

Long-term loans obtained from other finance providers outstanding as of December 31, 1998 are as follows:

[millions of Lire]	12.31.1997	12.31.1998
Loans from suppliers of machinery, repayable in installments over 24 months	5,781	2,531
Other Lire loans	681	1,743
Other foreign currency loans obtained by foreign consolidated companies	68	-
Total long-term loans	6,530	4,274
Less – Current portion	[3,318]	[2,802]
Long-term loans, net of current portion	3,212	1,472

The non-current portion of these loans as of December 31, 1998 falls due as follows [in millions of Lire]:

[year]	12.31.1998
2000	291
2001	250
2002	301
2003	54
2004 and beyond	576
Total	1,472

The non-current portion of amounts due to leasing companies as of December 31, 1998 falls due as follows [in millions of Lire]:

[year]	12.31.1998
2000	2,700
2001	2,109
2002	1,822
2003	1,540
2004 and beyond	2,089
Total	10,260

■ **Notes payable.** These amount to Lire 2,335 million [Lire 102,348 million as of December 31, 1997].

The last tranche of Lire 100,000 million in promissory notes issued by Benetton Group S.p.A. was repaid in October 1998.

Assisted loans obtained under the Sabatini Law [Law no. 1329 of November 28, 1965] for the purchase of tangible fixed assets amounted to Lire 300 million and were redeemed in 1998.

■ **Due to subsidiaries and parent company.** Amounts due to subsidiary companies for Lire 1 million are trade payables, while those to the parent company for Lire 175 million are financial payables.

■ **Due to tax authorities**

[millions of Lire]	12.31.1997	12.31.1998
Income taxes payable:		
· Italian companies	62,023	4,089
· Foreign companies	18,972	17,833
Total income taxes payable	80,995	21,922
VAT payable	12,385	9,798
Other amounts due to tax authorities	33,267	66,700
Total	126,647	98,420

Income taxes payable are stated net of taxes paid in advance and all tax credits and withholdings.

“Other amounts due to tax authorities” mainly comprise the substitute tax and amounts withheld at source.

■ **Due to social security and welfare institutions.** This balance totals Lire 18,504 million [Lire 21,385 million as of December 31, 1997] and reflects both the Group and employee contributions payable to these institutions at year-end.

■ **Other payables.** Other payables, totaling Lire 62,060 million, include Lire 33,220 million due to employees [Lire 32,587 million as of December 31, 1997] and other non-trading payables of Lire 20,330 million [Lire 30,014 million as of December 31, 1997]. The caption also includes Lire 8,510 million due to employees of two American companies in connection with an incentive program linked to the increase in value of those companies shares. "Other payables" due beyond five years included in this caption amount to Lire 230 million.

■ **Share incentives plan for employees.** In 1996 Rollerblade Inc. introduced three share incentive plans for its employees. The Board of Directors decided and approved the level of incentives with each employee through separate written agreements, assigning Restricted Stock Awards [RSA], Nonqualified Stock Options [NQSO] and Incentive Stock Options [ISO]. The Company has eliminated these options both as a result of leavers who held them and by purchasing the remainder for around US\$ 660,000.

Accrued expenses and deferred income

[millions of Lire]	12.31.1997	12.31.1998
Accrued expenses:		
· financial charges	16,969	11,018
· other charges	2,326	2,615
Total accrued expenses	19,295	13,633
Deferred income:		
· financial income	2,328	144
· sponsorships	23,155	12,164
· other income	556	627
Total deferred income	26,039	12,935
Premiums on bond issues	1,020	716
Total	46,354	27,284

Memorandum accounts

These mainly include currency to be sold or purchased forward. This heading account group records the Lire value at the balance sheet date of commitments deriving from hedging contracts opened during the year.

For the most part, the caption reflects transactions opened to hedge receivables, firm orders and future sales. Those covering future sales were subsequently renegotiated by entering opposite transactions. Other transactions were entered into to hedge the exchange risk on capital invested in Group companies.

As of December 31, 1998, outstanding contracts involving the purchase or sale of interest rate swaps have a notional value of Lire 11,150 million.

“Purchase commitments” mainly relate to commitments taken on by the companies:

- Società Investimenti e Gestioni Immobiliari [S.I.G.I.] S.r.l., Lire 19,000 million to purchase two buildings at Pescara and Monza respectively;
- Benair S.p.A., Lire 7,059 million to purchase a Cessna aircraft, model Excel.

Restricted receivables relate to transactions involving advances against receivables.

Comments on the principal income statement captions

The income statement is not comparable with the prior year because in 1997 Benetton Sportssystem group was consolidated only in the second semester of the year. In fact, Benetton Group S.p.A. had acquired a 56.7% interest in this company in July 1997.

Value of production

■ Revenues from sales and services

[millions of Lire]	1997	1998
Sales of core products	3,389,299	3,563,273
Other sales	54,464	66,110
Royalty income	21,602	25,578
Other revenues	171,420	178,956
Total	3,636,785	3,833,917

Sales of core products are stated net of unconditional discounts.

Miscellaneous revenues mainly reflect manufacturing, advertising and promotion services provided to third parties.

■ Information by geographic area and business category

[millions of Lire]	Europe	%	The Americas	%	Other geographic areas	%	Total
Casual clothing	2,043,579	75.4	187,237	30.5	351,453	68.9	2,582,269
Sports clothing and equipment	339,743	12.5	405,933	66.2	71,317	14.0	816,993
Other sectors	327,013	12.1	20,394	3.3	87,248	17.1	434,655
Total revenues 1998	2,710,335	100.0	613,564	100.0	510,018	100.0	3,833,917
Total revenues 1997	2,581,714	-	429,756	-	625,315	-	3,636,785

Revenues in other countries have decreased due to persistent economic problems in Asiatic countries.

■ Sales of core products, by product category

[millions of Lire]	1997	1998
Clothing	2,360,659	2,315,442
Fabrics and yarns	253,249	212,694
Accessories	156,668	116,947
Footwear	79,631	64,621
On-line skates	185,496	354,933
Ski boots	92,029	132,864
Sports footwear	26,780	44,051
Racquets	97,314	147,403
Sports clothing	63,112	102,981
Skis and snowboards	37,924	30,071
Other	36,437	41,266
Total	3,389,299	3,563,273

■ Net sales of core products, by brand

[millions of Lire]	1997	1998
United Colors of Benetton	2,226,260	2,103,417
Sisley	363,515	390,530
Nordica	128,787	160,127
Rollerblade	141,510	362,439
Prince	102,600	180,265
Killer Loop	28,739	38,497
Playlife	-	23,811
Other sales	397,888	304,187
Total	3,389,299	3,563,273

Production costs**■ Purchasing costs**

[millions of Lire]	1997	1998
Raw materials and finished goods	1,012,116	1,103,832
Other materials	35,154	17,757
Sundry purchases – advertising and promotion	13,058	13,274
Other purchases	41,251	39,887
[Discounts and rebates]	[1,285]	[1,861]
Total	1,100,294	1,172,889

If the 1998 and 1997 figures were compared on a consistent basis, there would not be significant differences in the incidence on revenues of purchases of raw materials and other manufacturing materials.

■ External services

[millions of Lire]	1997	1998
Subcontracted work	709,141	686,260
Transport and distribution	59,677	75,763
Commission expense	159,726	175,039
Advertising and promotion	134,387	159,215
Other services	212,331	231,993
Emoluments to Directors and Statutory Auditors	-	16,051
Total	1,275,262	1,344,321

There are negligible differences in subcontracted work if compared with the 1997 figures on a consistent comparative basis.

Other services mainly include power costs for Lire 31,871 million, maintenance costs for Lire 23,348 million, consultancy and other fees for Lire 113,988 million, insurance premiums for Lire 9,804 million, and personnel travel expenses for Lire 34,476 million.

In 1997, emoluments earned by the Directors and Statutory Auditors were included among other operating costs.

The following is the gross remuneration paid by the Benetton Group to Directors and members of the Board of Statutory Auditors of the parent company.

[millions of Lire]		Description of office	
Name and surname	Position covered	Duration of office [months]	Gross remuneration
Luciano Benetton	Chairman	12	2,250
Gilberto Benetton	Vice Chairman and Managing Director	12	2,250
Carlo Gilardi	Managing Director	12	1,640
Giuliana Benetton	Director	12	2,250
Carlo Benetton	Director	12	2,250
Gianni Mion	Director	12	50 ^[*]
Angelo Tantazzi	Director	12	150
Alessandro Benetton	Director	7	50
Ulrich Weiss	Director	12	170
Dino Sesani	Chairman of the Board of Statutory Auditors	12	135
Filippo Duodo	Auditor	12	217
Fanio Fanti	Auditor	12	90

[*] Amounts paid directly to Edizione Holding Sp.A., of which Gianni Mion is the managing director.

■ **Leases and rentals.** Leases and rentals for Lire 51,448 million, mainly relate to rents paid for Lire 35,766 million.

■ **Payroll and related costs.** These costs are already analyzed in the income statement. Personnel number is shown by category below:

	1997	1998	Average for the year
Managerial personnel	212	171	192
White-collar personnel	3,115	2,941	3,028
Factory personnel	3,761	3,774	3,767
Part-time personnel	333	349	341
Total	7,421	7,235	7,328

The decrease in the number of employees is principally due to the reorganization of companies in the sports sector and to the synergies created after absorbing Benetton Sportssystem S.p.A. into Benetton Group S.p.A.

Amortization, depreciation and writedowns**■ Amortization of intangible fixed assets**

[millions of Lire]	1997	1998
Amortization of start-up expenses	5,863	5,773
Amortization of research and development expenses	349	366
Amortization of industrial patents and intellectual property rights	1,235	2,273
Amortization of licenses, trademarks and similar rights	18,894	42,638
Amortization of goodwill	460	361
Amortization of consolidation differences	5,705	8,680
Amortization of costs for the purchase and development of software	4,524	5,536
Amortization of other charges	6,104	6,862
Total	43,134	72,489

The caption includes around Lire 43,000 million of amortization charged on the surplus value resulting from the acquisition of Benetton Sportssystem S.p.A. This surplus, represented by the difference between the price paid and the related stockholders' equity, as well as the existing differences connected to prior purchases by the Benetton Sportssystem group, were allocated to trademarks and consolidation differences.

■ Depreciation of tangible fixed assets

[millions of Lire]	1997	1998
Depreciation of real estate	14,102	16,600
Depreciation of plant and machinery	49,572	48,406
Depreciation of equipment	12,046	15,277
Depreciation of other assets	16,610	18,771
Depreciation of assets acquired under finance leases	1,904	2,233
Total	94,234	101,287

■ **Writedowns.** The item "Other writedowns of fixed assets" for Lire 1,872 million, mainly relates to the lasting loss in value of the molds used by a number of companies in the sports sector.

"Writedowns of current receivables and of liquid funds" for Lire 40,799 million, reflects a prudent provision for doubtful accounts. This is discussed in more detail in the previous note on current receivables.

■ **Provisions to risks reserves.** This caption for Lire 21,047 million, includes provisions for future risks for Lire 19,767 million. For further details, refer to "Reserves for risks and charges" in the comments on liabilities.

■ **Other operating costs**

[millions of Lire]	1997	1998
Directors and Statutory Auditors fees	15,707	-
Indirect taxation	20,525	8,467
Losses on disposal of fixed assets	2,555	2,587
Losses on receivables	4,999	2,905
Other general expenses	20,593	29,961
Total	64,379	43,920

Fees earned during 1998 by the Directors and Statutory auditors are included in "External services". Other general expenses for Lire 14,200 million, include charges incurred by Benetton Sportssystem subsidiaries, for returns and discounts relating to sales made in the prior year.

Financial income and expenses

■ **Income from equity investments.** This item for Lire 12,033 million [Lire 3,674 million in 1997], includes Lire 10,698 million of Tax credit on dividends distributed by consolidated subsidiaries.

■ **Other financial income.** The caption includes the following sub-accounts:

[millions of Lire]	1997	1998
From receivables held as financial fixed assets:		
· assets leased to third parties	34	-
· other receivables held as financial fixed assets	212	1,750
· interest income from subsidiary companies	-	31
Total	246	1,781
From securities held as financial fixed assets not representing equity investments	5,520	3,040
From securities included among current assets not representing equity investments	54,428	43,003
Financial income other than the above:		
· interest income from subsidiary companies	392	452
· interest income from trade and other receivables	12,135	12,722
· interest income from banks	24,215	22,796
· miscellaneous financial income	33,171	21,706
· exchange gains and income from currency management	298,703	215,926
Total	368,616	273,602
Total	428,810	321,426

The caption "Other financial income" includes:

- positive differentials on interest rate swaps and forward rate agreements for approximately Lire 3,000 million [approximately Lire 2,000 in 1997];
- premiums collected on options for the year and other income for approximately Lire 2,300 million [approximately Lire 3,900 million in 1997] linked to the Lire 200,000 million bond issued by Benetton International N.V. and repaid in full in July 1998;
- income from cross-currency and currency swaps and forward rate agreements for approximately Lire 14,000 million [approximately Lire 22,000 million in 1997].

■ **Interest and other financial expenses.** This caption comprises:

[millions of Lire]	1997	1998
Interest expenses on bonds	27,919	35,239
Interest expenses on bank current accounts	5,030	12,356
Interest expenses on import/export advances	3,872	5,320
Interest expenses on advances against receivables	6,527	3,772
Interest expenses on short-term loans	20,981	11,114
Interest expenses on long-term loans	31,550	26,744
Interest expenses on loans from other finance providers	6,682	7,675
Interest expenses to subsidiary companies	-	287
Interest expenses to the parent company	-	4,459
Miscellaneous financial expenses	39,228	45,497
Exchange losses and charges from currency management	212,244	199,869
Total	354,033	352,332

Miscellaneous financial expense mainly includes:

- total charges for Lire 6,300 million [approximately Lire 10,800 million in 1997] linked to the Lire 200,000 bond issued by Benetton International N.V. and fully repaid in July 1998;
- charges on currency and cross-currency swaps and forward rate agreements for approximately Lire 10,200 million [approximately Lire 8,200 million in 1997];
- discounts allowed on the early settlement of trade receivables for approximately Lire 16,000 million [approximately Lire 9,500 million in 1997];
- bank charges and commissions for approximately Lire 4,900 million [approximately Lire 5,300 million in 1997].

Extraordinary income and expenses

■ **Income**

[millions of Lire]	1997	1998
Gains on disposal of fixed assets	4,694	8,487
Other income:		
· Out-of-period income	9,113	11,679
· Other extraordinary income	7,161	7,025
Total	20,968	27,191

Out-of-period income mainly reflects the reversal of commission provided in prior years but not paid to agents since the related receivables are no longer collectible. This items also includes tax adjustments provided in prior years and other out-of-period income.

■ Expenses

[millions of Lire]	1997	1998
Losses on disposal of fixed assets	8,034	3,077
Taxes relating to prior years	1,372	4,229
Other expenses:		
· Donations	5,603	3,990
· Out-of-period expenses	4,461	3,811
· Other extraordinary expenses	28,368	10,564
Total	47,838	25,671

Other extraordinary expenses include compensation payments made to customers against accident and theft claims and charges in relation to settlements of various types.

The same caption includes restructuring costs deriving from reorganization programs currently taking place in a number of Benetton Sportssystem group companies.

Income taxes. The tax liability for the year amounts to Lire 131,052 million, of which Lire 122,840 million relates to Italian companies.

The significant reduction in taxes compared to the prior year is due to lower rates applicable to the earnings of certain foreign subsidiaries, the recovery of tax loss carry forwards, and the introduction of the new regional tax on productive activities [IRAP].

Appendixes

These appendixes present information not contained in the notes to the consolidated financial statements; they form an integral part of such notes and comprise:

- Companies and Groups included within the scope of consolidation as of December 31, 1998;
- Consolidated balance sheets expressed in EURO as of December 31, 1998 and 1997 [reclassified in accordance with financial criteria];
- Consolidated statements of income expressed in EURO for the years ended December 31, 1998 and 1997 [reclassified to identify cost of sales].
- Consolidated balance sheets expressed in US dollars as of December 31, 1998 and 1997 [reclassified in accordance with financial criteria];
- Consolidated statements of income expressed in US dollars for the years ended December 31, 1998 and 1997 [reclassified to identify cost of sales].

Companies and Groups included within the scope of consolidation as of December 31, 1998

Name of the company	Location	Currency	Capital stock	Group interest [%]
Companies and Groups consolidated on a line-by-line basis:				
Parent company				
Benetton Group S.p.A.	Ponzano Veneto [TV]	Itl	453,897,027,500	
Italian subsidiaries				
Benfin S.p.A.	Ponzano Veneto [TV]	Itl	90,000,000,000	100.000
. Gruppo Olimpias	Grumolo delle Abbadesse [VI]	Itl	10,000,000,000	85.000
. Gruppo Texcontrol	Ponzano Veneto [TV]	Itl	17,000,000,000	83.769
Bencom S.p.A.	Ponzano Veneto [TV]	Itl	3,294,000,000	100.000
. Benair S.p.A.	Ponzano Veneto [TV]	Itl	3,000,000,000	100.000
. Gruppo Socks & Accessories Benetton [S.A.B.]	Sesto Fiorentino [FI]	Itl	1,000,000,000	50.000
S.I.G.I.S.r.l.	Ponzano Veneto [TV]	Itl	70,000,000,000	100.000
. Buenos Aires 2000 S.r.l.	Ponzano Veneto [TV]	Itl	1,000,000,000	100.000
Fabrica S.p.A.	Ponzano Veneto [TV]	Itl	8,000,000,000	100.000
. Colors Magazine S.r.l.	Ponzano Veneto [TV]	Itl	3,000,000,000	100.000
Benlog S.p.A.	Ponzano Veneto [TV]	Itl	27,400,000,000	100.000
Benetton Gesfin S.p.A.	Ponzano Veneto [TV]	Itl	80,000,000,000	100.000
Foreign subsidiaries				
Di Varese International N.V.	Amsterdam	Itl	426,961,726	100.000
. Di Varese [Far East] Ltd.	Hong Kong	Hkd	500,000	100.000
Benetton U.S.A.Corp.	Delaware	Usd	34,654,000	100.000
. Benetton Retail Corp.	Delaware	Usd	1,301,000	100.000
Benetton Holdings N.V.	Amsterdam	Itl	39,927,283,346	100.000
. Benetton Group Japan K.K.	Tokyo	Jpy	400,000,000	100.000
. Benetton Shoes Japan K.K.	Tokyo	Jpy	60,000,000	50.000
. Benetton Argentina S.A.	Buenos Aires	Arp	1,778,166	100.000
. Egyptian European Clothing Manufacturers S.A.E.	Alexandria	Egp	6,000,000	50.000
. DCM Benetton India Ltd.	New Delhi	Inr	80,000,000	50.000
. Benetton [Far East] Ltd.	Hong Kong	Hkd	51,000,000	100.000
. United Colors of Benetton do Brasil Ltda.	Sao José dos Pinhais	Brc	19,707,528	100.000
. Colors Brasil Roupas Ltda.	Rio de Janeiro	Brc	1,000	100.000
. Novaben Comercio de Roupas Ltda.	Rio de Janeiro	Brc	50,000	100.000
. Ben Store Roupas Ltda.	San Paolo	Brc	50,000	100.000
Benetton Sportssystem N.V.	Amsterdam	Itl	116,771,378,241	100.000
. Benetton Sportssystem Austria GmbH	Hohenems	Ats	45,000,000	100.000
. Benetton Sportssystem U.S.A.Inc.	New York	Usd	3,500,000	100.000
. Rollerblade Inc.	Minneapolis	Usd	5,000	99.870
. Prince Sports Group Inc.	Bordentown	Usd	141,000	100.000
. Benetton Sportssystem Canada Inc.	Montreal	Cad	6,195,000	100.000

[3]

Name of the company	Location	Currency	Capital stock	Group interest [%]
Benetton Sportssystem [Schweiz] AG	Stans	Chf	500,000	100.000
Benetton Sportssystem GmbH	München	Dem	5,500,000	100.000
Benetton Sportssystem France S.à rl.	Seyssins	Frfr	18,000,000	100.000
Benetton Sportssystem Iberica S.A.	Barcelona	Esp	160,000,000	100.000
Benetton Sportssystem Japan K.K.	Tokyo	Jpy	490,000,000	100.000
. Benetton Korea Inc.	Seoul	Krw	2,500,000,000	50.000
Benetton International N.V.	Amsterdam	Itl	168,301,065,252	100.000
. Benetton Finance N.V.	Curaçao	Usd	26,000	100.000
. Benetton Finance S.A.	Luxembourg	Itl	351,508,000,000	100.000
. Lairb Property Ltd.	Dublin	Itl	500,246,900	100.000
. Benetton France Trading S.à rl.	Troyes	Frfr	240,000,000	100.000
. Benetton France S.A.	Troyes	Frfr	40,000,000	100.000
. Benetton Realty France S.A.	Troyes	Frfr	272,000,000	100.000
. Benetton España S.L.	Castellbisbal	Esp	100,000,000	100.000
. Benetton S.A.	Castellbisbal	Esp	200,000,000	100.000
. Benetton Lda.	Maia	Esc	20,000,000	100.000
. Benetton [UK] Ltd.	London	Gbp	3,225,000	100.000
. Benetton Formula Ltd.	London	Gbp	3,900,000	100.000
. Benetton Retail [1988] Ltd.	London	Gbp	18,780,000	100.000
. Benetton Società di Servizi S.A.	Lugano	Chf	100,000	100.000
. United Colors Communication S.A.	Lugano	Chf	1,000,000	100.000
. Benetton Services S.A.	Lugano	Chf	1,400,000	100.000
. Benetton Engineering Ltd.	Enstone	Gbp	12,342,000	100.000
. Benetton Tunisia S.à rl.	Sahline	Itl	500,000,000	100.000
. Benetton Ungheria Kft.	Nagykallo	Itl	172,696,658	100.000
Investments carried at equity:				
. Benetton Mexico S.A. de C.V.	Mexico City	N\$	27,740,000	100.000
. Beijing Benetton Fashion Co. Ltd.	Beijing	Y	3,797,620	50.000
. T.W.R. Group Ltd.	Kidlington	Gbp	20,000,000	50.000
. Benetton Central Europe Ltd.	Warsaw	Zloty	4,224,000	100.000
. Benest Ltd.	Moscow	Ruble	400,000	100.000
Investments in subsidiaries and associated companies carried at cost:				
. Zara Italia S.r.l.	Milan	Itl	1,000,000,000	50.000
. Asolo Italia S.p.A.	Nervesa della Battaglia [TV]	Itl	15,000,000,000	10.000

Consolidated balance sheets as of December 31, 1997 and 1998 reclassified according to financial criteria

[Thousands of Euro]*

Assets	12.31.1997	12.31.1998
Current Assets		
Cash	271,968	557,586
Marketable securities	282,515	114,743
Differentials on forward transactions	9,871	4,361
Financial receivables	192,847	19,135
Accounts receivable		
Trade receivables	987,932	873,707
Other receivables	60,089	69,154
Less - Allowance for doubtful accounts	[105,558]	[94,937]
	942,463	847,924
Inventories	363,241	300,382
Prepayments and accrued income	35,346	44,949
Total current assets	2,098,251	1,889,080
Investments and other non-current assets		
Investments	27,138	25,201
Securities held as fixed assets	1,565	1,268
Guarantee deposits	7,621	7,794
Financial receivables	9,478	9,371
Other non current receivables	10,697	10,024
	56,499	53,658
Fixed assets		
Land and buildings	259,949	311,633
Plant, machinery and equipment	361,834	378,593
Office furniture, furnishings and electronic equipment	68,474	59,174
Vehicles and aircraft	28,596	31,520
Construction in progress and advances for fixed assets	22,102	10,224
Finance leases	13,906	13,922
Less - Accumulated depreciation	[393,107]	[406,665]
	361,754	398,401
Intangible assets		
Licenses and trademarks	236,092	260,858
Deferred charges	70,277	64,992
	306,369	325,850
TOTAL ASSETS	2,822,873	2,666,989

[↗]

Liabilities and stockholders' equity	12.31.1997	12.31.1998
Current liabilities		
Bank loans	297,160	390,635
Bonds	103,291	18,592
Short-term loans	71,515	3,852
Current portion of long-term loans	34,684	18,551
Current portion of lease financing	1,997	2,229
Accounts payable	396,780	392,549
Other payables and accruals	89,362	78,591
Reserve for income taxes	41,830	11,322
Total current liabilities	1,036,619	916,321
Long-term liabilities		
Bonds	276,661	258,228
Other long-term liabilities	239,515	204,292
Lease financing	14,495	27,256
Reserve for termination indemnities	6,186	5,299
Reserve for deferred income taxes	43,233	44,557
Other reserves	53,075	49,078
	633,165	588,710
Minority interests in consolidated subsidiaries	104,439	15,952
Stockholders' equity		
Capital stock	46,883	234,418
Additional paid-in capital	244,109	56,574
Surplus from monetary revaluation of assets	22,058	22,058
Other reserves and retained earnings	578,844	679,461
Translation differences	6,911	2,054
Net income for the year	149,845	151,441
	1,048,650	1,146,006
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	2,822,873	2,666,989

[*] Exchange rate: 1 Euro = Lit.1.936,27

Consolidated statements of income for years ended December 31, 1998 and 1997
reclassified to cost of sales

[Thousands of Euro]*

	1997	1998
Revenues	1,878,243	1,980,053
Cost of sales		
Material and net change in inventories	574,667	622,522
Payroll and related cost	96,364	105,754
Subcontract work	345,741	363,472
Industrial depreciation	35,627	37,102
Other manufacturing costs	35,015	38,806
	1,087,414	1,167,656
Gross margin	790,829	812,397
Selling, general and administrative expenses		
Payroll and related cost	112,256	133,884
Distribution and transport	30,821	39,128
Sales commission	83,081	90,845
Advertising and promotion	75,002	87,769
Depreciation and amortization	35,318	52,645
Other expenses	196,309	175,173
	532,787	579,444
Income from operation	258,042	232,953
Other [income] expenses:		
Foreign currency [gain] loss, net	[44,652]	[8,293]
Interest income	[65,719]	[53,621]
Interest expense	69,729	71,917
Other [income] expense, net	21,471	4,571
	[19,171]	14,574
Income before taxes and minority interests	277,213	218,379
Income taxes	122,079	67,683
Income before minority interests	155,134	150,696
Minority interests loss/[gain]	[5,289]	745
Net income	149,845	151,441

[*] Exchange rate: 1 Euro = Lit. 1.936,27

Consolidated statements of income for years ended December 31, 1997 and 1998
reclassified to cost of sales

[Thousands of USD]

	1997	1998
Revenues	2,198,782	2,317,967
Cost of sales		
Material and net change in inventories	672,739	728,761
Payroll and related cost	112,810	123,802
Subcontract work	404,744	425,502
Industrial depreciation	41,707	43,435
Other manufacturing costs	40,991	45,428
	1,272,991	1,366,928
Gross margin	925,791	951,039
Selling, general and administrative expenses		
Payroll and related cost	131,414	156,733
Distribution and transport	36,080	45,806
Sales commission	97,260	106,348
Advertising and promotion	87,802	102,747
Depreciation and amortization	41,345	61,629
Other expenses	229,811	205,068
	623,712	678,331
Income from operation	302,079	272,708
Other [income] expenses:		
Foreign currency [gain] loss, net	[52,273]	[9,708]
Interest income	[76,934]	[62,771]
Interest expense	81,629	84,190
Other [income] expense, net	25,135	5,351
	[22,443]	17,062
Income before taxes and minority interests	324,522	255,646
Income taxes	142,913	79,233
Income before minority interests	181,609	176,413
Minority interests loss/[gain]	[6,192]	872
Net income	175,417	177,285

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

Consolidated balance sheets as of December 31, 1997 and 1998
reclassified according to financial criteria

[Thousands of USD]*

Assets	12.31.1997	12.31.1998
Current Assets		
Cash	318,382	652,743
Marketable securities	330,729	134,325
Differentials on forward transactions	11,556	5,106
Financial receivables	225,758	22,400
Accounts receivable		
Trade receivables	1,156,532	1,022,813
Other receivables	70,343	80,956
Less - Allowance for doubtful accounts	[123,572]	[111,139]
	1,103,303	992,630
Inventories	425,231	351,645
Prepayments and accrued income	41,379	52,620
Total current assets	2,456,338	2,211,469
Investments and other non-current assets		
Investments	31,770	29,502
Securities held as fixed assets	1,832	1,484
Guarantee deposits	8,921	9,124
Financial receivables	11,095	10,971
Other non current receivables	12,522	11,734
	66,140	62,815
Fixed assets		
Land and buildings	304,312	364,816
Plant, machinery and equipment	423,585	443,203
Office furniture, furnishings and electronic equipment	80,160	69,273
Vehicles and aircraft	33,476	36,899
Construction in progress and advances for fixed assets	25,874	11,969
Finance leases	16,279	16,298
Less - Accumulated depreciation	[460,195]	[476,066]
	423,491	466,392
Intangible assets		
Licenses and trademarks	276,383	305,376
Deferred charges	82,270	76,083
	358,653	381,459
TOTAL ASSETS	3,304,622	3,122,135

[↗]

Liabilities and Stockholders' equity	12.31.1997	12.31.1998
Current liabilities		
Bank loans	347,873	457,300
Bonds	120,919	21,765
Short-term loans	83,720	4,509
Current portion of long-term loans	40,603	21,717
Current portion of lease financing	2,338	2,609
Accounts payable	464,494	459,541
Other payables and accruals	104,612	92,003
Reserve for income taxes	48,969	13,254
Total current liabilities	1,213,528	1,072,698
Long-term liabilities		
Bonds	323,875	302,297
Long-term loans, net of current portion	280,390	239,157
Other long-term liabilities	16,969	31,908
Lease financing	7,242	6,203
Reserve for termination indemnities	50,611	52,161
Other reserves	62,133	57,453
	689,179	741,220
Minority interests in consolidated subsidiaries	122,263	18,675
Stockholders' equity		
Capital stock	54,885	274,424
Additional paid-in capital	285,768	66,229
Surplus from monetary revaluation of assets	25,823	25,823
Other reserves and retained earnings	677,628	795,417
Translation differences	8,090	2,405
Net income for the year	175,417	177,285
	1,227,611	1,341,583
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	3,304,622	3,122,135

[*] Exchange rate: USD 1 = Lire 1,654 as of December 31, 1998.

Report of the Board of Statutory Auditors on the Consolidated financial statements as of December 31, 1998

To the Stockholders of Benetton Group S.p.A., the Parent Company

As part of our duties pursuant to article 41 of Decree 127/91, we have examined the consolidated financial statements of the Benetton Group as of December 31, 1998, which report net income of Lire 293,230 million, total assets of Lire 5,164,011 million, total liabilities of Lire 2,914,145 million, stockholders' equity of Lire 2,249,866 million, and memorandum accounts totaling Lire 2,095,103 million, together with the report on Group operations.

Based on the information and documentation received from the Directors and Management, we confirm the following:

a] Examination of the consolidated financial statements.

1. Our examination was performed in accordance with the law that regulates consolidated financial statements, the standards of conduct recommended by the Italian Accounting Profession, generally-accepted accounting principles and recommendations deriving from CONSOB regulations. The financial statements were audited by Deloitte & Touche S.p.A., who have not communicated to us any censurable matters concerning the Parent Company or any of its subsidiaries.

2. The financial statements of the subsidiary and associated companies included within the scope of consolidation were examined, as required by the law, by their respective Boards of Statutory Auditors and Independent Auditors. We have not been informed by the independent auditors or any other party of irregularities of any kind in relation to such financial statements.

3. In our opinion, the above-mentioned consolidated financial statements reflect the accounting records of the Parent Company and the information received from subsidiary companies, and have been prepared in conformity with the consolidation principles and criteria for establishing the scope of consolidation laid down in Decree 127/91. The instructions contained in articles 32 and 38 of the Decree mentioned have also been respected. Accordingly, taken as a whole, the consolidated financial statements fairly present the financial position of the Benetton Group as of December 31, 1998, and its results for the year then ended.

b] Examination of the report on operations

1. We have examined the report of the Directors on the results of operations that accompanies the consolidated financial statements, in order to verify compliance with article 40 of Decree 127/91 and determine its consistency with such statements pursuant to article 41 of the same Decree. The recommendations of CONSOB, as applied to transactions with related companies, have also been respected.

2. On the basis of the work we performed, the Board of Statutory Auditors believes that the report on Group operations is properly presented and is consistent with the consolidated financial statements.

THE BOARD OF STATUTORY AUDITORS

Dott. Dino Sesani

Dott. Fanio Fanti

Dott. Filippo Duodo

Ponzano Veneto, Italy, April 12, 1999

Auditors' report in accordance with article 4, Presidential Decree No. 136 of March 31, 1975

To the Shareholders of Benetton Group S.p.A.

We have audited the consolidated financial statements of Benetton Group S.p.A. and subsidiaries [the Benetton Group] for the year ended December 31, 1998. In addition, we have verified the consistency of the Directors' Report with the consolidated financial statements.

Our examination was conducted in accordance with the Auditing Standards recommended by Consob and by performing such tests as we considered necessary for the purposes of the engagement. For the opinion on the consolidated financial statements of the prior year, presented for comparison in accordance with legal requirements, reference should be made to the auditors' report issued by us on April 30, 1998.

In our opinion, the consolidated financial statements, taken as a whole, have been clearly prepared and present fairly the financial position and results of operations of Benetton Group S.p.A. and subsidiaries in conformity with the principles which regulate the preparation of consolidated financial statements. We therefore issue our opinion on the consolidated financial statements of Benetton Group S.p.A. and subsidiaries for the year ended December 31, 1998.

This report has been translated into the English language solely for the convenience of international readers. The format follows the criteria laid down by Consob.

DELOITTE & TOUCHE S.p.A.

Andrea Ruggeri

PARTNER

Fausto Zanon

PARTNER

Treviso, April 9, 1999

C O R P O R A T E I N F O R M A T I O N

HEADQUARTERS

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LEGAL DATA

Capital Stock: Lire 453,897,027,500 fully paid-in
Treviso Company register: 4424
Treviso Register of Commerce: 84146
Tax ID: 00193320264

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