

The Benetton Group

Annual Report 1995

Benetton Group S.p.A.
Villa Minelli
Ponzano (Treviso), Italy
Capital Stock: Lire 87,276,862,500 fully-paid
Treviso Company Register 4424

Board of Directors

Chairman

Luciano Benetton

Vice Chairman and Managing Director

Gilberto Benetton

Managing Director

Carlo Gilardi

Directors

Giuliana Benetton

Carlo Benetton

Gianni Mion

Angelo Tantazzi

Pierluigi Bortolussi

Piero L. Frattin

Secretary to the Board

Piero L. Frattin

Board of Statutory Auditors

Chairman

Dino Sesani

Auditors

Filippo Duodo

Fanio Fanti

Alternate Auditors

Giovanni Pietro Cunial

Aldo Laghi

Independent Auditors

Deloitte & Touche S.n.c.

Dear Shareholders,

1995 was a successful year for the Benetton Group, setting new records for sales and net profits. But, quite apart from these excellent results, our Group has shown that it has deserved its success, proceeding with commitment, and hard work, in the company's organisation renewal program.

With regard to productive innovation, we have now completed the technological complex at Castrette, a project that has required considerable investment. In just three years, we have built an integrated industrial center among the most advanced in the world, consolidating our production capacity in Italy and placing ourselves in an increasingly competitive position world-wide. Thanks to this commitment, we have been able to contain prices levels for the third year running and thus achieve an outstanding price-quality ratio. A constant commitment to innovation and flexibility has enabled us to rationalize our activities and infrastructure as a whole, reducing also inventory and stocks held by shops to a minimum.

At the same time, we have been focusing on our sales organisation, realising that even the most functional systems need continual development if they are to keep up with changes in the market. The renewal process has also meant finding new partners - both agents and members of the sales network - more in tune with our guiding principles of business sense, creativity and dynamism.

This program, which in the last two years has seen the replacement of many small sales outlets by new, bigger, multi-product stores, has been the subject of positive feedback from markets the world over. Our reorganisation of the German sales network is under way and has already begun to bear fruit, confirming Germany as our second biggest European market, after Italy and before France and Britain.

This philosophy of renewal is shared, in a spirit of responsibility and awareness, by Benetton people and partners. All have shown enterprise and an openness to change as, day by day, they contribute hard work, intuition and new ideas. Their intellectual and human qualities, combined with the capacity to work towards a common goal, have guaranteed also in 1995 a continuous drive to innovate and have kept us in touch with the changes in society as a whole.

This united, open and international culture also goes a long way to explain Benetton Formula One team's double victory in the World Constructors' and Drivers' Championships, as well as our ability to transform every advertising campaign into a subject of social and cultural debate in many different countries.

Today we are optimistic, because we still believe that good ideas produce results. For this reason, in communications, where we are trying out experimental projects like Fabrica (our laboratory-school), and in all other sectors of activity, we nourish the realistic ambition of searching for ever-new inspiration and a language capable of combining commitment to the present with anticipation of the future.

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

Research & development

As in earlier years, R&D efforts centered on programs aimed at expanding the product range in order to ensure increasing product acceptance in the various markets and thus maintain the success in terms of image and quality which has always characterized the growth in awareness of Benetton's labels.

Objectives include an increasingly close match to the demands of the marketplace by reflecting the constant evolution of tastes and fashion, while preserving the distinctive features of the Benetton style.

This strategy, and the programs which implement it, affect the entire product range from the design stage through every phase of production, including the study and selection of raw materials.

Sales organization and markets

The program of constant improvement in the efficiency of the sales organization continued during 1995, addressing as in earlier years both the sales representative network and the chain of stores worldwide. The key aims are to improve service to the customer, partly by facilitating the process of product selection, while expanding the business in the developing world and other markets outside Europe. The year saw the opening of further megastores, now located in all the main European capitals, offering a wide range of products for all the family, while a study covering the introduction of single-product stores (e.g. specializing in knitwear) was initiated.

Distribution

An automated sorting facility entered service at the Castrette warehouse in the early part of 1995, meeting its targets in terms of functionality. Benefits included a further speeding up of goods handling, loading and shipment.

Other developments included improving the integration with operating units via links between the packaging departments at new plant and the automated distribution center.

Hands-on management of distribution operations at the various companies was taken a stage further by adding shirts to the range of products covered by the centralized distribution system, a move facilitated by a marked reduction in the volume of boxes following optimization of the packaging system.

The use of transport by sea was stepped up, as part of a policy to minimize the environmental and social costs of distribution, and to improve safety in transit. Volumes shipped by rail were maintained, while alternate, mixed-transportation methods were reviewed.

Capital investment

The Group's manufacturing base was again the focus for substantial capital investment in innovation and modernization.

A new factory making shirts and other cotton garments entered service within the Group's Castrette (Treviso) industrial complex.

This project involved a total outlay of Lire 45 billion on the construction of a facility covering an area of 40,000 square meters. Other developments at the complex included the installation of all site services, and a tunnel connecting the new plant's packing departments to the centralized distribution center.

The year saw further upgrading of the automated sorting facility for finished-product packaging, an operation of increasing strategic importance. The objectives are to raise efficiency and centralize management of the activity; the benefits include a reduction in the number of packages shipped, generating cost savings and enhancing the service to the customer. The new system automatically, and with total accuracy, determines the optimal composition of shipments. In parallel, the final stage of the Robostore 2000 Project was completed, enabling the automatic matching of outward loads to vehicles and taking into account not only geographic destination, but also the individual customers concerned.

The Group continued its investment focused on increased efficiency via the more intensive use of information technology; the number of workstations rose to almost one per Group employee.

New installations reflected the need for increased communication between different parts of the organization. An example was the investment of around Lire 1 billion in cabling systems at Castrette and the Product offices, aimed at the increased integration of information between collection design and manufacture.

The resilience of the various information systems was also enhanced, by introducing a level of redundancy which will ensure continued operation in the event of component failure. This investment reflected the high level of interdependence within the Group's management information systems and the consequent risk of disruption in the event of breakdown.

The bulk of software investment arose in the manufacturing area. Major projects addressed the packing center control system, fabric inventory, management and the design of a new database of technical information on products.

Finance management

Throughout the year, attention again focused on optimal liquidity management and on insulating the Group from exchange and interest rate exposures.

The level of coordination and financial support for subsidiaries has been further developed, including the deployment of available liquidity to minimize interest costs and, wherever possible, streamline operations at the various Group companies.

The equity in foreign subsidiaries was hedged against exchange risks, as in the previous years, to protect the value of the Group's investments abroad.

Personnel and organization

The Benetton Group employed 6,018 people at the end of 1995, including 4,378 in Italy, following a net reduction of 282 during the year.

The principal changes leading to the decline were the run-down of the cosmetics group, reorganization of the Maglificio Fontane Group and the divestment of Benetton Bosphorous Casual Wear A.S.

Licensing

Licensing activity was developed further in 1995. New agreements reached in the year covered a variety of products carefully chosen for consistency with both the Group's distinctive international style and other criteria reflecting innovation, image and positioning in the context of the world market, as well as for their optimal price/quality performance.

A collaboration launched in Korea with a local company (Tae Chang) covers the manufacture and marketing in that country of a line of Benetton-label underwear.

A range of Benetton colored beepers is distributed under an agreement with Motorola, the electronics giant; the phased introduction of these pagers in Europe has started in those countries where a "no rent, no subscription" service is already available (including the UK, Germany and Portugal).

A licensing agreement with the French company AmpaFrance (famous mainly for its Béb  Confort brand) came into effect in the spring of 1995. The agreement covers a wide range of baby products, now being distributed in Italy, France, Benelux and Switzerland; the territory is to be extended to Germany and Spain. Benetton's school and office stationery ranges are produced under two agreements: with La Carterie (part of the Panini Group, Bologna), concluded in 1995, and with Art Box in Korea.

Other substantial licensing agreements relate to cosmetics (involving the creation of the Beaut  Benetton range manufactured and distributed in Korea by Oscar, a Pacific Group company), and towels and bedlinen produced in collaboration with the sector-leader Jaspal Group (Bangkok), marketed in the principal South East Asian countries.

Signori Azionisti,

il 1995 è stato per il Gruppo Benetton un anno di successo, con risultati che, come nel caso del fatturato e dell'utile netto, hanno raggiunto livelli record. Ma, al di là di questi risultati positivi, il nostro Gruppo ha soprattutto saputo dimostrare di meritarsi il successo, proseguendo con impegno, e con il lavoro di tutti, nel programma di rinnovamento del sistema aziendale.

Sul versante dell'innovazione produttiva abbiamo completato la realizzazione del polo tecnologico di Castrette, che ha comportato significativi investimenti. In soli tre anni è stato realizzato un centro industriale integrato tra i più avanzati nel mondo, che consolida la nostra capacità produttiva in Italia e ci consente di essere sempre più competitivi nei mercati di tutto il mondo. Grazie a questo impegno siamo riusciti, per il terzo anno consecutivo, a contenere il livello dei prezzi, raggiungendo un ottimale rapporto tra costo e qualità dei prodotti. L'attenzione costante all'innovazione e alla flessibilità ci ha permesso di razionalizzare l'insieme delle attività e delle infrastrutture, riducendo al minimo le scorte anche presso i punti vendita.

In parallelo abbiamo rivolto la nostra attenzione all'organizzazione commerciale, consapevoli che anche i sistemi più funzionali necessitano di una continua messa a punto, per rimanere costantemente allineati alle evoluzioni del mercato. Il processo di rinnovamento ha comportato anche la scelta di nuovi partner, sia tra gli agenti sia nella rete vendita, più aderenti ai nostri valori guida di imprenditorialità, creatività e dinamismo.

Questo programma, che in due anni ha visto la sostituzione di numerosi piccoli punti vendita con nuovi negozi più grandi e multiprodotto, ci ha consentito di raccogliere positivi consensi presso i mercati di tutto il mondo. In Germania, in particolare, l'avviata riorganizzazione della rete commerciale ha già iniziato a dare buoni risultati di vendita, confermando il Paese come il nostro mercato europeo più importante, dopo l'Italia e prima di Francia e Gran Bretagna.

Questa filosofia del rinnovamento è condivisa con responsabilità e consapevolezza dalle persone Benetton e dai nostri partner, che operano con spirito imprenditoriale e disponibilità al cambiamento, apportando, giorno dopo giorno, il loro contributo di lavoro, intuizione e idee nuove. Sono le loro qualità intellettuali e umane, unite alla capacità di lavorare insieme per un comune obiettivo, che ci hanno garantito, anche nel 1995, una tensione costante all'innovazione e un contatto continuo con l'evoluzione della società nel suo complesso.

Si spiega così, come figlia di una cultura aziendale omogenea, aperta e internazionale, anche la duplice vittoria del team Benetton di Formula Uno nel Campionato Mondiale Costruttori e in quello Piloti. E la nostra capacità di trasformare ogni campagna pubblicitaria in un fenomeno al centro del dibattito sociale e culturale in tanti diversi Paesi del mondo.

Oggi siamo ottimisti perché ancora convinti che le buone idee producano fatti. Per questo, in comunicazione, dove puntiamo anche sui progetti sperimentali di Fabrica (la nostra scuola-laboratorio), come in tutti gli altri settori di attività, alimentiamo la realistica ambizione di ricercare ispirazioni e linguaggi sempre nuovi, capaci di coniugare l'impegno nel presente con l'anticipazione del futuro.

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

La ricerca e lo sviluppo

L'attività di ricerca si è concentrata, come nei precedenti esercizi, nei programmi di evoluzione nella creazione di nuove gamme di prodotti, tali da assicurare sempre più positive reazioni nei vari mercati, garantendo quel successo d'immagine e di qualità che caratterizzano da sempre l'espansione dei marchi Benetton.

In tale contesto si è cercato di assicurare alla clientela un'offerta sempre più adeguata alla domanda, tenendo conto anche della costante evoluzione dei gusti e del costume, pur mantenendo le peculiarità e le caratterizzazioni che contraddistinguono lo stile Benetton.

Questi indirizzi e programmi sono stati perseguiti in tutte le tipologie e linee di prodotto, in un lavoro che ha interessato, non solo il momento creativo, ma anche tutte le fasi della produzione, includendo in tale contesto anche la ricerca e la selezione delle materie prime.

L'organizzazione commerciale e i mercati

Il programma di costante miglioramento dell'efficienza dell'organizzazione commerciale, che riguarda sia la rete di agenti sia la catena mondiale di negozi, è continuato nel 1995, con gli obiettivi paralleli di migliorare la qualità dei servizi ai clienti, facilitando anche la scelta dei prodotti, e di accelerare l'espansione nei mercati extraeuropei e nei Paesi in via di sviluppo. Accanto alle aperture di nuovi megastore polivalenti, che offrono un'ampia disponibilità di prodotti per donna, uomo e bambino, ormai presenti nelle principali capitali europee, è stato avviato nel 1995 il progetto di studio per la realizzazione di catene di punti vendita monoprodotto, dedicati, ad esempio, alla sola maglieria.

La distribuzione

Nei primi mesi del 1995, è entrato in funzione, presso il magazzino di Castrette, il nuovo impianto di smistamento automatico che, con il raggiungimento degli obiettivi attesi, ha evidenziato la sua validità operativa. Si sono infatti ulteriormente ridotti i tempi di movimentazione, carico e consegna delle merci.

Nel corso dell'anno si è inoltre concretizzata una più completa integrazione con le unità operative attraverso l'attivazione del collegamento tra i reparti di imballaggio dei nuovi stabilimenti ed il centro di distribuzione automatizzato.

La gestione diretta delle attività di distribuzione delle società del Gruppo ha visto un ulteriore sviluppo con l'integrazione nel processo di distribuzione del prodotto nella linea camicie, resa possibile anche dalla notevole riduzione di volumi conseguente all'ottimizzazione del sistema di imballo.

La continua attenzione alle problematiche ambientali, sociali e di sicurezza dei trasporti ha portato ad un ulteriore incremento della "modalità mare", mentre il consolidamento dell'impiego della ferrovia è stato affiancato da studi per l'attivazione di nuovi collegamenti intermodali.

Gli investimenti

Sono proseguiti i programmi di innovazione ed aggiornamento del sistema produttivo, che hanno comportato, anche nel 1995, consistenti investimenti.

Nel mese di luglio è entrato in funzione, nel complesso industriale di Castrette, nei pressi di Treviso, un nuovo stabilimento destinato alla produzione di camicie e capi in cotone.

I lavori hanno comportato un investimento di 45 miliardi di lire e la realizzazione di 40 mila metri quadrati di superficie coperta. Sono state inoltre realizzate le strutture di servizio per tutta l'area. I lavori comprendono anche una galleria di collegamento tra i reparti di imballaggio del nuovo stabilimento ed il centro di distribuzione automatizzato.

Perseguendo gli obiettivi di aumentare l'efficienza della fase di imballo e di gestire unitariamente tale fase del processo produttivo ritenuta sempre più strategica ottenendo intuibili benefici, in termini di costi e di qualità del servizio nel sistema distributivo, tramite la riduzione dei colli da spedire, si è ulteriormente potenziato l'impianto di smistamento automatico per l'imballo dei prodotti finiti. Tale sistema è in grado di predisporre in modo completamente automatico la composizione ottimale dei colli eliminando ogni margine di errore. In parallelo è stato completato anche il progetto Robostore 2000, grazie al quale la divisione dei carichi sui mezzi di trasporto in partenza avviene automaticamente, non solo per aree geografiche, ma anche per singoli clienti.

Sono continuati gli investimenti volti a recuperare efficienza nelle attività aziendali, raggiungendo un grado di informatizzazione nel Gruppo di quasi una stazione di lavoro per impiegato.

Gli investimenti in apparecchiature sono stati concentrati sulle esigenze di comunicazione fra diverse funzioni aziendali; si è ad esempio investito circa 1 miliardo di lire nel cablaggio strutturato del nuovo stabilimento di Castrette e nell'area uffici del Prodotto, al fine di potenziare l'integrazione informativa tra la fase creativa ed il processo produttivo della collezione.

Data la forte integrazione dei sistemi informatici nella gestione d'azienda e le possibili criticità derivanti da potenziali guasti, sono stati effettuati investimenti per aumentare l'affidabilità di sistemi e reti creando le ridondanze necessarie per assicurare il corretto funzionamento anche in caso di guasto di un componente.

L'area di maggior investimento applicativo è stata quella industriale, in particolare per quanto riguarda il sistema di governo del centro di imballo, la gestione dei magazzini tessuti ed il progetto del nuovo "data base" dei dati tecnici produttivi.

La gestione finanziaria

Durante l'esercizio è continuata con particolare attenzione l'attività rivolta all'ottimizzazione della gestione della tesoreria ed alla protezione dei flussi in divisa dai rischi di cambio.

E' inoltre attivamente proseguito il coordinamento ed il supporto finanziario alle società controllate, anche utilizzando, a tale scopo, la liquidità disponibile, con l'obiettivo di snellire, ove possibile, la gestione operativa delle società del Gruppo e di pervenire, in tal modo, al contenimento degli oneri finanziari.

Il patrimonio netto delle controllate estere è stato oggetto, anche per l'esercizio 1995, di coperture valutarie al fine di immunizzare gli investimenti effettuati dalle stesse dalla fluttuazione dei rischi di cambio.

Il personale e l'organizzazione

La popolazione del Gruppo Benetton, a fine 1995, era di 6.018 persone, di cui 4.378 in Italia, con una diminuzione netta di 282 unità rispetto al dicembre 1994.

La diminuzione del personale è dovuta principalmente alla cessazione dell'attività operativa del Gruppo Cosmetici, alla riorganizzazione del Gruppo Maglificio Fontane, nonché all'effetto della cessione di Benetton Bosphorus Casual Wear A.S..

Le licenze

Il settore delle licenze si è ulteriormente sviluppato con la sottoscrizione di nuovi accordi per la realizzazione di prodotti accuratamente selezionati in base alle loro caratteristiche di innovazione, immagine e posizionamento sul mercato mondiale, rapporto ottimale fra qualità e prezzo e, soprattutto, coerenza con lo stile dinamico e internazionale del Gruppo.

In Corea è stata avviata una collaborazione con la società Tae Chang per la produzione e la commercializzazione nel mercato locale di una linea di abbigliamento intimo firmato Benetton.

Una linea colorata di cercapersone, distribuiti con il marchio Benetton, è il frutto dell'accordo con il leader dell'elettronica Motorola. I ricevitori personali sono gradualmente introdotti in Europa, a partire dai Paesi dove è già disponibile il servizio "zero canone, zero abbonamento", come la Gran Bretagna, la Germania e il Portogallo.

Dalla primavera 1995, è operativo un accordo di licenza con la società francese AmpaFrance (famosa soprattutto per il marchio Bébé Confort) che riguarda articoli di piccola e grande puericultura, la cui distribuzione, avviata in Italia, Francia, Benelux, Svizzera, sarà estesa a Germania e Spagna.

Nel settore dei prodotti di cartoleria per scuola e ufficio, la Benetton è presente attraverso due accordi: uno in Italia, firmato nel 1995 con la società La Carterie del Gruppo Panini di Bologna, l'altro in Corea con la società Art Box.

Altri importanti contratti di licenza riguardano i cosmetici (con la creazione della linea Beauté Benetton prodotta e distribuita in Corea dalla società Oscar del Gruppo Pacific) e la biancheria da bagno e da casa, realizzata in collaborazione con il Gruppo Jaspal di Bangkok, leader nel settore, e commercializzata nei principali paesi del Sud-Est Asiatico.

Consolidated financial statements
as of December 31, 1995

Financial Highlights

Operating results

	(Billions of Lire)			
<i>(Amounts in accordance with Italian GAAP)</i>	1995	%	1994	%
<i>Total Sales</i>	2,939.1	100.0	2,787.7	100.0
<i>Cost of Sales</i>	1,721.3	58.6	1,639.1	58.8
<i>Gross Margin</i>	1,217.8	41.4	1,148.6	41.2
<i>Income from Operations</i>	443.8	15.1	388.7	13.9
<i>Net Income</i>	220.3	7.5	210.2	7.5

<i>Financial position and data per share</i>	(Billions of Lire, except per share amount)	
<i>(Amounts in accordance with Italian GAAP)</i>	1995	1994
<i>Working Capital</i>	1,551.1	1,466.5
<i>Fixed Assets, net</i>	618.0	593.6
<i>Total Assets</i>	3,837.1	3,537.2
<i>Net Borrowing</i>	139.7	303.2
<i>Stockholders' Equity</i>	1,657.0	1,504.2

(Approximate amounts in accordance with US/Canadian GAAP)

<i>Stockholders' Equity - US GAAP</i>	1,624.1	1,453.7
<i>Stockholders' Equity - Canadian GAAP</i>	1,604.6	1,442.2
<i>Net Income - US GAAP</i>	238.5	236.2
<i>Net Income - Canadian GAAP</i>	230.5	230.5
<i>Earnings per Share (I) - US GAAP</i>	1,366.0	1,360.0
<i>Earnings per Share (I) - Canadian GAAP</i>	1,320.0	1,328.0
<i>Cash Dividend per Share (I)</i>	400.0	385.0

(I) Since each ADS represents two Ordinary Shares, per ADS financial data may be computed by multiplying per share data by two.

The Benetton Group

Consolidated revenues approached Lire 3,000 billion (2,940 billion) in 1995, rising by 5.4% compared with 1994 (2,788 billion). Key influences were increasing focus on the price/quality relationship and tight control over production costs. Net income exceeded Lire 220 billion, higher than in 1994 (210 billion) by 5%.

Gross margin improved further, amounting to Lire 1,218 billion, its ratio to total revenues amounting to 41.4%. Income from operations was Lire 444 billion, compared with 389 billion in the previous year, the ratio to revenues rising from 13.9% to 15.1%.

Despite the higher cost of borrowing, net interest expense was unchanged in relation to revenues (1.6%). Net borrowing at the end of 1995 was less than half the total a year earlier (Lire 140 billion against 303 billion). Consolidated stockholders' equity stood at Lire 1,657 billion, having risen during the year by around 153 billion.

1995's highly favorable performance reflects the early benefits of the program, initiated three years ago, to relaunch the Group's business through price cutting, investment in the manufacturing base and the distribution network, and measures to raise the already high levels of efficiency and quality. These latter steps ranged from developing a more flexible and market-oriented catalog of collections, to cutting back on inventories (including those within the sales network).

The momentum will be sustained over the next few years, thereby enabling the Group to consolidate its presence in world markets through constant progress in terms of internationalization and competitiveness.

High points in 1995 activity levels were found in Europe (revenues 7.6% higher overall) and the Far East. Growth of '012' sales continued, consolidating this label's position of strength in the childrenswear sector with a rise of over 15%.

The share price declined in early 1995, touching the year's low of around Lire 14,000 in March. It recovered to earlier levels thereafter (about Lire 19,000), despite a falling stockmarket.

Programs aimed at updating and upgrading the Group's manufacturing base continued during 1995. The associated investment - over Lire 200 billion during the last three years - is tangible proof of the determination to consolidate Benetton's European manufacturing presence, particularly in Italy. The cotton garments/shirts manufacturing facility at Castrette was completed at the end of July, just 8 months after the start of work. This represented the final stage of a program which has created one of the most advanced manufacturing complexes of its kind anywhere in the world, with a surface area of over 190,000 square meters. The entire complex, which also includes an outerwear factory, a woolens plant and an automated distribution center, operates under an integrated system which combines the use of leading-edge automation technology with a high level of operating flexibility.

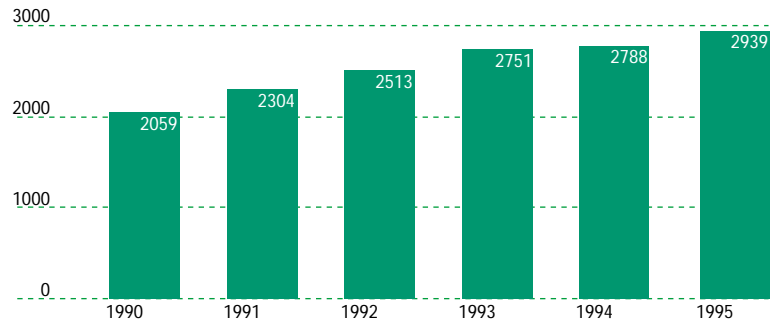
Relevant developments during 1995 included the start-up of automated garment handling via a sophisticated packaging system which provides automatic, error-free optimization of package content. In parallel, the final stage of the Robostore 2000 Project was completed, enabling the automatic matching of outward loads to vehicles and taking into account not only geographic destination, but also the individual customers concerned. The garment sorting center's warehousing capacity was also enlarged, as part of a program to extend the range of products handled, by optimizing loading operations, reducing human intervention and raising throughput capacity.

Continued expansion in international markets involved steady consolidation of the Group's presence in China and India, together with accelerating growth of operations in Thailand, Indonesia and elsewhere in South-East Asia. Expansion was also boosted by licensing activities and product diversification. An example in the latter connection is the Group's collaborative venture with the electronics giant Motorola, which has produced a Benetton-brand colored beeper. The phased introduction of these pagers in Europe has started in those countries where a "no-rent, no subscription" service was already available (the UK, Germany and Portugal).

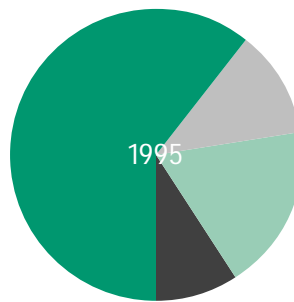
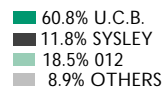
The year also saw the reorganization of the cosmetics sector, based on a series of agreements for manufacture and distribution under license. The first of these has been finalized with Oscar, a Korean company belonging to the Pacific Corporation Group, the sector leader with revenues of US \$700 million; this move led to the creation of 'Beauté Benetton', a new line to be marketed throughout the Far East from the second semester of 1996.

The reputation and image of the Benetton Group are sustained and enhanced through its presence in the sporting world, and the activities and international successes of its various teams. In 1995, Benetton followed up its 1994 Formula One drivers' championship by taking the trophy again and also winning the manufacturers' championship. Sisley Volley won the volleyball European Champions' Cup for the first time, while the basketball team took the European Cup and, for the third year running, the Italian Cup.

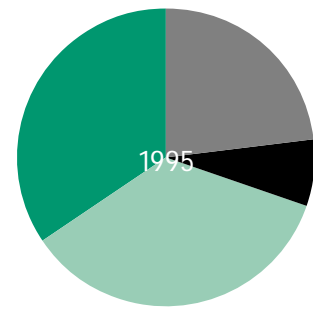
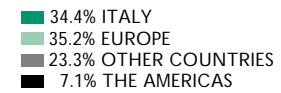
TOTAL SALES (in billions of lire)



SALES by trade mark



SALES by geographic area

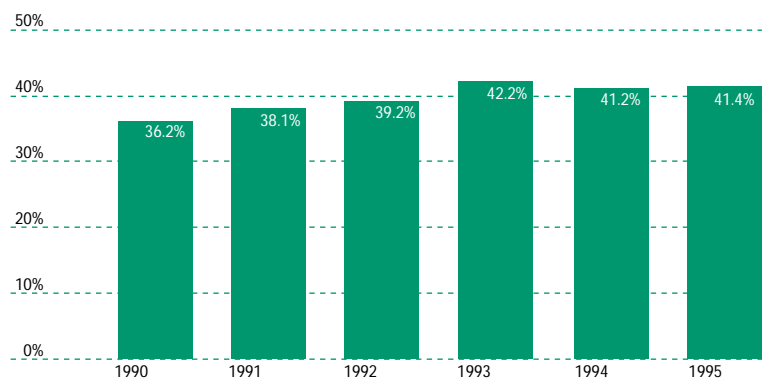


COST OF SALES

1994 1995

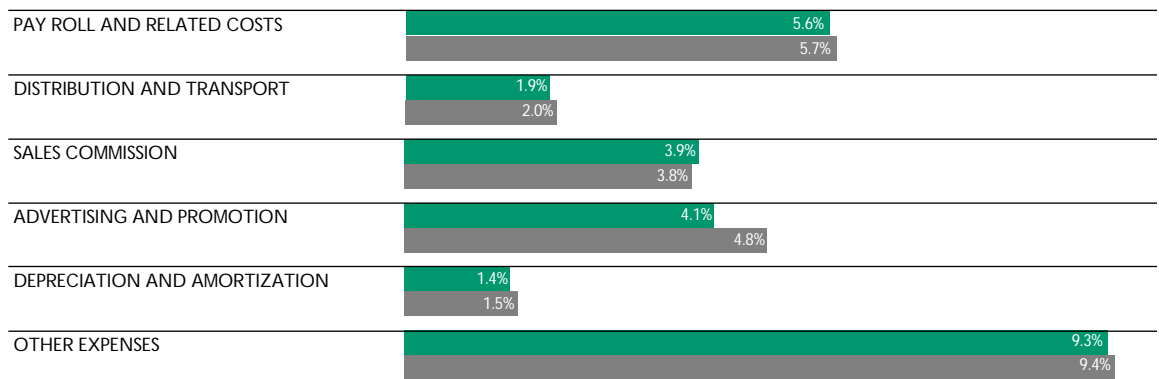
MATERIALS	29.7%	28.9%
SUBCONTRACTORS	18.7%	20.2%
PAY ROLL AND RELATED COSTS	5.8%	5.8%
INDUSTRIAL DEPRECIATIONS	2.0%	2.0%
OTHER INDUSTRIAL COSTS	2.3%	2.0%

GROSS MARGIN (% on net sales)

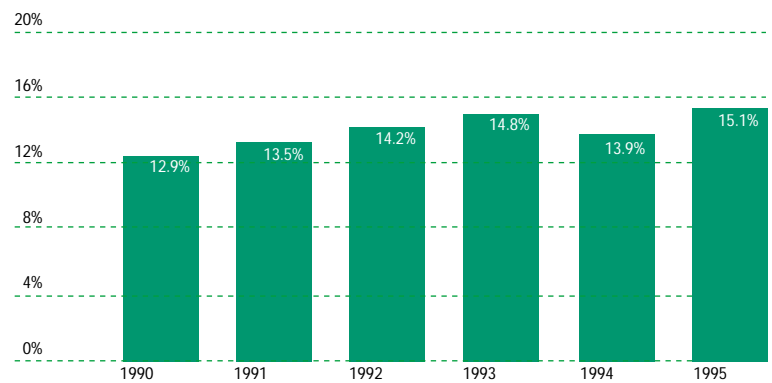


SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

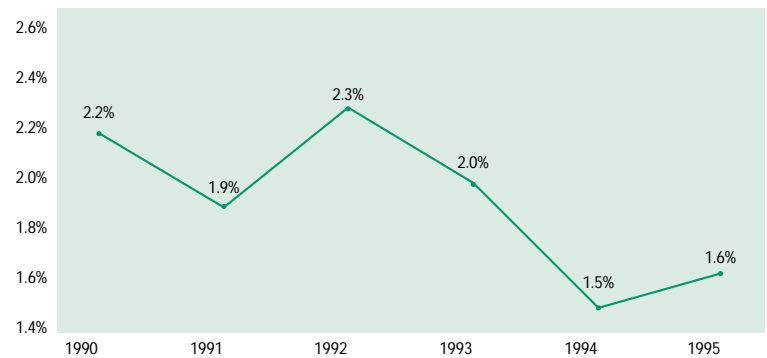
■ 1994 ■ 1995



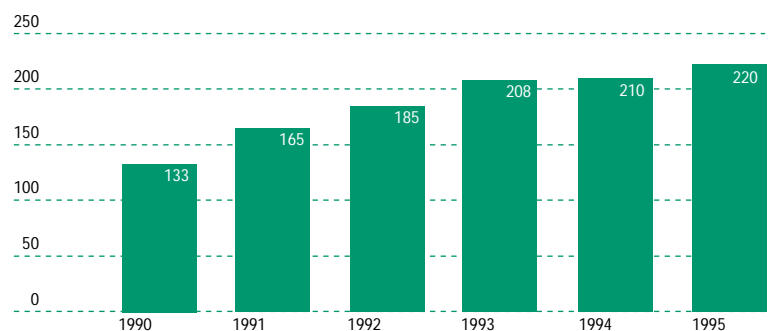
INCOME FROM OPERATIONS (% on net sales)



NET INTEREST EXPENSES/SALES



NET INCOME (in billions of lire)



Management's discussion and analysis of financial condition and results of operations

Results of Operations

The following table sets forth certain items in billions of Lire and their respective percentages of total revenue for the years indicated. Comparisons in this table and in the following sections are based upon financial statement amounts derived under Italian GAAP and upon the international format financial information presented in the Selected Financial Data and in appendix 3 of the Consolidated Financial Statements.

	Year Ended December 31,					
	1993		1994		1995	
<i>Total revenue</i>	2,751	100%	2,788	100%	2,939	100%
<i>Gross margin</i>	1,160	42.2%	1,149	41.2%	1,218	41.4%
<i>Selling, general and administrative expenses</i>	752	27.4%	760	27.3%	774	26.3%
<i>Income from operations</i>	408	14.8%	389	13.9%	444	15.1%
<i>Net income</i>	208	7.6%	210	7.5%	220	7.5%

Benetton's results are seasonal, with revenues from Fall/Winter season sales higher than those from Spring/Summer season sales. During the 1993 to 1995 period, approximately 50% of Benetton's orders related to Fall/Winter collections, 45% to Spring/Summer collections and 5% to "flash" collections.

1995 compared to 1994

In 1995 the net revenue of the Group approached Lire 3,000 billion rising by 5.4% compared with 1994 (2,788 billion). The Group's commercial policies and sales strategies have been crucial in achieving the substantial increase in sales. Key influences were increased focus on the price quality relationship and tight control over production costs.

Analysis of sales revealed that the Group consolidated its position in the domestic market, exceeding 1,011 billion (883 billion in 1994). Foreign sales accounted for about 66% of the total; revenues were basically stable in Europe. Continued expansion in international markets involved steady consolidation of the Group's presence in China and India, together with accelerating growth of operations in Thailand, Indonesia and elsewhere in South-East Asia.

Among the various brands, 012 achieved the strongest growth, with sales up 15%.

Other revenues in 1995 were Lire 171.5 billion against Lire 146.9 billion in 1994. The increase of 16.8% mainly derived from sponsorship agreements related to the Formula 1 Championship and manufacturing sales and services provided to third parties.

The contained rise in cost of sales in absolute terms reflects a further reduction in production costs, via the optimization of investment and production processes; its ratio to revenues improved by 0.24 points percent.

Management believes the successful reduction in cost of sales as a percentage of total revenue, down from 58.8% in 1994 to 58.6% in 1995, is partly a direct consequence of action taken to rationalize production by containing costs and optimizing the use of available resources.

In addition, the gross margin benefited from the devaluation of the Lira.

The increased level of integration with subsidiaries that produce raw materials has been a fundamental factor in this rationalization program. The Group's negotiating power in the market for subcontracted services has also further increased, and this has permitted the reduction by around 13 billion in subcontract work costs.

Gross margin was Lire 1,218 billion, increased by 6% from Lire 1,149 previously, representing 41.4% of total revenues for 1995 and 41.2% in 1994.

Selling, general and administrative expenses were approximately Lire 14 billion higher than in 1994, however decreased by 1% as a percentage of revenue. The increase, in absolute terms, was mainly due to the following reasons:

- Selling expenses (basically distribution costs and commissions) rose by around Lire 9 billion, but were virtually unchanged with respect to revenues.
The use of transport by sea was stepped up, as part of a policy to minimize the environmental and social costs of distribution, and to improve safety in transit. Volumes shipped by rail were maintained, while alternate, mixed-transportation methods were reviewed.
Relevant developments during 1995 included the start-up of automated garment handling via a sophisticated packaging system which provides automatic, error-free optimization of package content. In parallel, the final stage of the Robostore 2000 Project was completed, enabling the automatic matching of outward loads to vehicles and the taking into account not only geographic destination, but also the needs of the individual customers. The garment sorting center's warehousing capacity was also enlarged, as part of a program to extend the number of products handled, by optimizing loading operations, reducing human intervention and raising throughput capacity;
- The ratio of advertising and sponsorship expenditure to revenues declined from 4.7% in 1994 to 4.1%: the absolute reduction of around Lire 13 billion mainly affected the cosmetics sector;
- In addition to normal wage inflation, the rise in payroll and related cost of about Lire 5.3 billion reflects the increased management compensation as well as modest pay reviews arising out of contractual and legal obligations;
- The rise in depreciation of about Lire 0.6 billion is due to new capital investments, in particular the cotton garment/shirt Castrette factory, which began operations at the end of July;
- Other expenses rose by Lire 16.8 billion: the rise principally reflects an increase in consulting and legal fees (+ Lire 3.2 billion), cost of renting computers and of external data processing (+ Lire 1.3 billion), cost of renting property, plant and equipment (+ Lire 0.5 billion), duties and taxes other than income taxes, principally capital taxes (+ Lire 2.5 billion), and costs related to the Formula 1 racing team (+ Lire 10.8 billion); this latter increase was offset by higher sponsorship receipts;
- The provision for bad debts and other reserves was Lire 68.2 billion (Lire 72.6 billion in 1994).
The Company believes these reserves are adequate to provide for potential risks and represent a conservative assessment of collection risks.

Income from operations rose by Lire 55 billion, from 389 billion in 1994 to 444 billion. Its ratio to revenues improved from 13.9% to 15.1%.

The Group has attempted to limit the adverse impact of the continued volatility in financial markets through a focused hedging program against foreign exchange and interest rate exposures in order to protect margins.

The net gain on foreign exchange of Lire 46 billion represents an improvement on the corresponding 1994 result by around Lire 49 billion. It arose from the translation of foreign currency payables and receivables using the closing rates of exchange, together with the results of exchange-rate hedging transactions and collection differences. The determining factor was a pro-active approach to exchange-rate risk management in the context of the Company's trading operations.

In addition, the equity in foreign subsidiaries was hedged against exchange risks (Capital Hedging) in order to protect the value of the Group's investments abroad.

Net interest expense rose by around Lire 6 billion, the effect of the year's higher interest rates being only partly offset by lower net borrowings. Despite the higher cost of borrowing, net interest expense was unchanged in relation to revenues (1.6%). Net borrowing at the end of 1995 was less than half the total a year earlier (Lire 140 billion against 303 billion).

Other (income) expense net includes approximately Lire 28,500 million provided to the reserve for risks and charges and amounts already paid in connection with the dispute with Eco Swiss China Time Ltd. and Bulova Corp.

The balance mainly relates to compensation payments made to third parties against accident and theft claims.

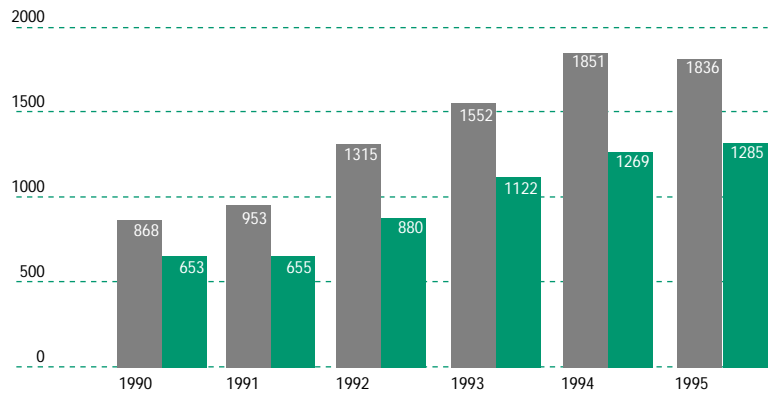
In 1995 the Group's effective tax rate increased from 42.1% to 45.9% as a consequence of the higher income before taxes earned by Italian companies of the Group, while certain foreign companies reported lower results. The tax charge of 45.9% is less than the Italian tax rate of 53.2%, primarily due to the effect of the lower rates applicable to the earnings of certain foreign subsidiaries, the use of tax loss carry-forwards

and the receipt of tax-exempt income.

At Lire 220 billion, consolidated net income was clearly indicative of the stable trend in Group results.

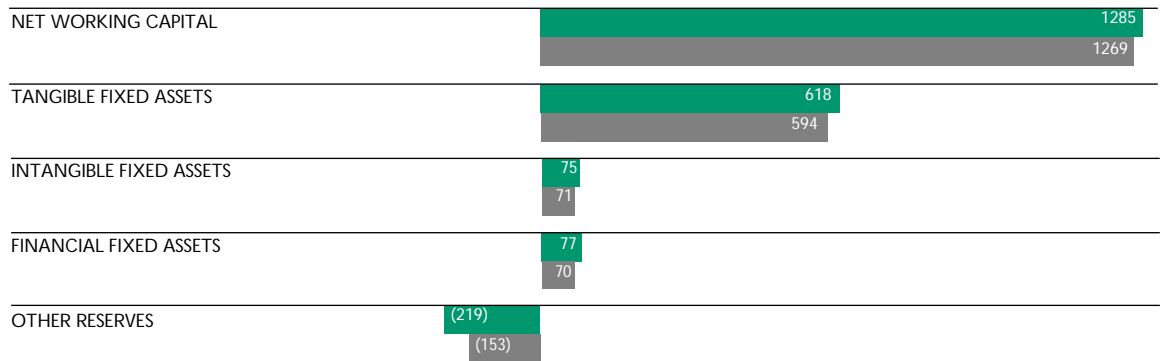
NET CAPITAL EMPLOYED

NET WORKING CAPITAL (in billions of lire)



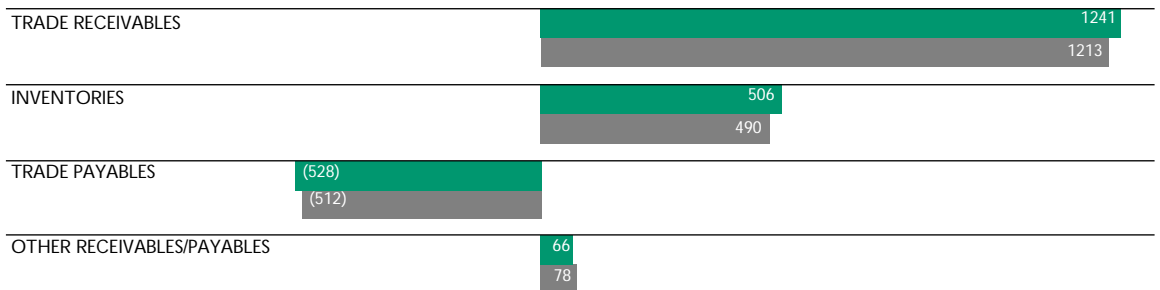
NET CAPITAL EMPLOYED

1994 1995 (in billions of lire)

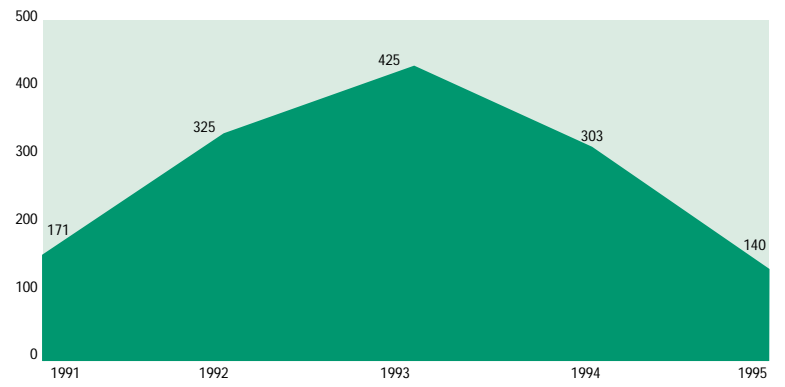


NET WORKING CAPITAL

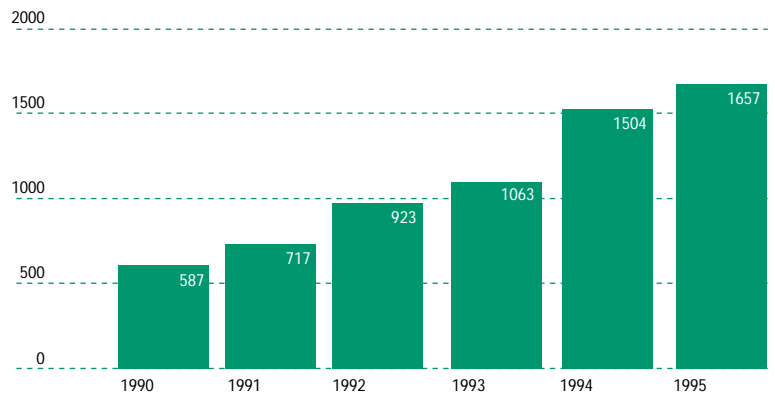
1994 1995 (in billions of lire)



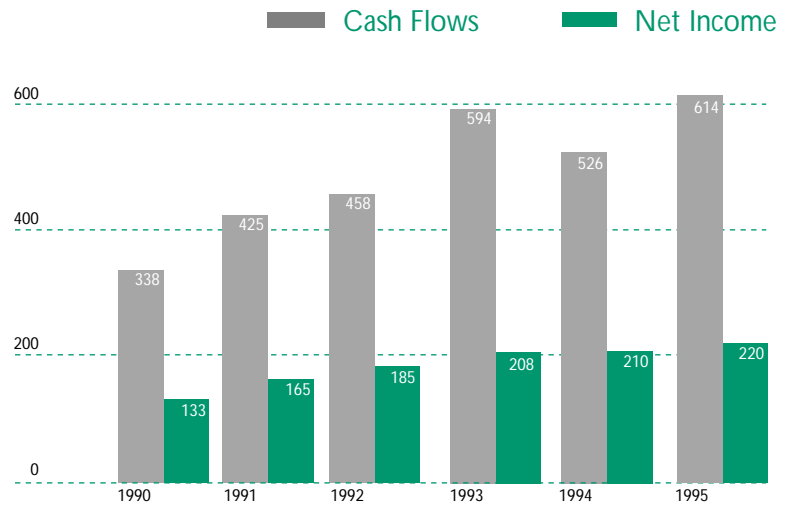
NET INDEBTEDNESS (in billions of lire)



STOCKOLDERS' EQUITY (in billions of lire)



CASH FLOWS (in billions of lire)



Consolidated Financial Statements
as of December 31, 1994 and 1995

Consolidated balance sheet as of December 31, 1994 and 1995

Assets

		(in millions of Lire)		(Thousands of US \$) (1)
		12/31/94	12/31/95	12/31/95
B	FIXED ASSETS			
I	Intangible fixed assets			
1	start-up and expansion expenses	22,952	17,349	10,950
2	research, development and advertising expenses	774	867	547
3	industrial patents and intellectual property rights	88	1,021	645
4	concessions, licenses, trademarks and similar rights	9,951	11,289	7,125
5	goodwill and consolidation differences	10,615	18,164	11,464
6	assets in course of formation and advance payments	2,066	3,340	2,108
7	other intangible fixed assets	24,682	22,626	14,281
	Total intangible fixed assets	71,128	74,656	47,120
II	Tangible fixed assets			
1	real estate	312,634	354,687	223,862
2	plant and machinery	182,888	192,883	121,739
3	industrial and commercial equipment	4,604	3,919	2,474
4	other assets	69,645	60,342	38,085
5	assets under construction and advances to suppliers	23,827	6,186	3,904
	Total tangible fixed assets	593,598	618,017	390,064
III	Financial fixed assets			
1	equity investments in:			
	(a) subsidiary companies	32,993	39,991	25,240
	(b) associated companies	4,202	4,253	2,684
	(d) other companies	3,005	2,907	1,835
	Total equity investments	40,200	47,151	29,759
2	financial receivables due from:			
	(a) subsidiaries			
	- within 12 months	5,067	336	212
	- beyond 12 months	-	749	473
	Total financial receivables due from subsidiaries	5,067	1,085	685
	(d) third parties			
	- within 12 months	13,187	10,192	6,433
	- beyond 12 months	37,359	34,162	21,561
	Total financial receivables due from third parties	50,546	44,354	27,994
	Total financial receivables	55,613	45,439	28,679
3	other securities	132,943	130,778	82,541
	Total financial fixed assets	228,756	223,368	140,979
	TOTAL FIXED ASSETS	893,482	916,041	578,163

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

		(in millions of Lire)		(Thousands of US \$) (1)
		12/31/94	12/31/95	12/31/95
C	CURRENT ASSETS			
I	Inventories			
1	raw materials, other materials and consumables	140,055	178,542	112,687
2	work in progress and semimanufactured products	142,062	139,110	87,800
4	finished goods and goods for resale	207,285	186,558	117,747
5	advance payments to suppliers	568	2,153	1,359
	<i>Total inventories</i>	<i>489,970</i>	<i>506,363</i>	<i>319,593</i>
II	Accounts receivable			
1	trade receivables			
	- within 12 months	1,209,799	1,237,358	780,963
	- beyond 12 months	1,373	731	462
	<i>Total trade receivables</i>	<i>1,211,172</i>	<i>1,238,089</i>	<i>781,425</i>
2	subsidiary companies	5,174	7,585	4,787
3	associated companies	-	54	34
5	other receivables			
	- within 12 months	185,195	157,735	99,555
	- beyond 12 months	-	1,347	850
	<i>Total other receivables</i>	<i>185,195</i>	<i>159,082</i>	<i>100,405</i>
	<i>Total accounts receivable</i>	<i>1,401,541</i>	<i>1,404,810</i>	<i>886,651</i>
III	Financial assets not held as fixed assets			
6	other securities	228,496	290,081	183,086
7	other financial receivables	10,000	127,244	80,310
8	differentials on forward transactions:			
	- within 12 months	48,752	74,647	47,114
	- beyond 12 months	2,185	6,244	3,941
	<i>Total differentials on forward transactions</i>	<i>50,937</i>	<i>80,891</i>	<i>51,055</i>
	<i>Total financial assets not held as fixed assets</i>	<i>289,433</i>	<i>498,216</i>	<i>314,451</i>
IV	Liquid funds			
1	bank and post office deposits	387,054	430,067	271,438
2	checks	17,027	28,011	17,679
3	banknotes and coins	698	541	342
	<i>Total liquid funds</i>	<i>404,779</i>	<i>458,619</i>	<i>289,459</i>
	TOTAL CURRENT ASSETS	2,585,723	2,868,008	1,810,154
D	ACCRUED INCOME AND PREPAID EXPENSES	57,960	53,030	33,470
	TOTAL ASSETS	3,537,165	3,837,079	2,421,787

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

Consolidated balance sheet as of December 31, 1994 and 1995

Liabilities and stockholders' equity

		(in millions of Lire)		(Thousands of US \$) (1)
		12/31/94	12/31/95	12/31/95
A	STOCKHOLDERS' EQUITY			
I	Capital stock	87,277	87,277	55,085
II	Additional paid-in capital	472,661	472,661	298,322
III	Revaluation reserves	45,116	45,028	28,420
IV	Legal reserve	16,355	17,455	11,017
VII	Other reserves	672,527	814,282	513,937
IX	Net income for the year	210,220	220,255	139,015
	Group interest in stockholders' equity	1,504,156	1,656,958	1,045,796
	Minority interests	43,904	38,863	24,528
	TOTAL STOCKHOLDERS' EQUITY	1,548,060	1,695,821	1,070,324
B	RESERVES FOR RISKS AND CHARGES			
2	taxation	7,942	7,650	4,828
3	other	60,652	82,151	51,850
	TOTAL RESERVES FOR RISKS AND CHARGES	68,594	89,801	56,678
C	RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES	56,684	58,736	37,071
D	ACCOUNTS PAYABLE			
1	bonds repayable beyond 12 months	275,377	279,527	176,425
2	convertible bonds repayable beyond 12 months	300	300	189
3	due to banks:			
	- within 12 months	482,501	730,024	460,757
	- beyond 12 months	354,984	204,069	128,799
	Total due to banks	837,485	934,093	589,556
4	due to other providers of finance:			
	- within 12 months	30,642	10,910	6,886
	- beyond 12 months	12,045	16,519	10,426
	Total due to other providers of finance	42,687	27,429	17,312
5	advances from customers	966	2,771	1,749
6	trade payables:			
	- within 12 months	500,414	517,298	326,495
	- beyond 12 months	127	-	-
	Total trade payables	500,541	517,298	326,495
7	securities issued:			
	- within 12 months	15,509	10,019	6,323
	- beyond 12 months	5,205	1,811	1,143
	Total securities issued	20,714	11,830	7,466
8	due to subsidiary companies	-	2,227	1,406
9	due to associated companies	147	385	243
11	due to the tax authorities	54,624	98,574	62,215
12	due to social security and welfare institutions	15,757	16,441	10,377
13	other payables:			
	- within 12 months	40,263	31,713	20,016
	- beyond 12 months	1,402	2,123	1,340
	Total other payables	41,665	33,836	21,356
	TOTAL ACCOUNTS PAYABLE	1,790,263	1,924,711	1,214,789

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

		(in millions of Lire)		(Thousands of US \$) (1)
		12/31/94	12/31/95	12/31/95
E	ACCRUED EXPENSES AND DEFERRED INCOME			
1	accrued expenses and deferred income	72,792	67,423	42,554
2	premiums on bond issues	772	587	371
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME		73,564	68,010	42,925
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		3,537,165	3,837,079	2,421,787
DISCLOSURE OF: COMMITMENTS, CONTINGENCIES AND MEMORANDUM ACCOUNTS				
Guarantees given				
	Guarantees	13,443	12,979	8,192
	Endorsements	909	970	612
	Other	797	148	93
Secured guarantees given				
	To secure recorded payables - mortgages	57,685	69,991	44,175
Guarantees received				
	Notes lodged by third parties	20	20	13
Other:				
	Securities to be sold forward	-	9,645	6,087
	Currency to be sold forward	5,018,501	5,674,873	3,581,717
	Currency to be purchased forward	3,094,025	3,204,780	2,022,709
	Restricted receivables	38,063	8,133	5,133
	Notes presented for discount	1,987	4,412	2,785
	Guarantees given by third parties	24,426	19,198	12,117
TOTAL COMMITMENTS, CONTINGENCIES AND MEMORANDUM ACCOUNTS		8,249,856	9,005,149	5,683,633

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

Consolidated statements of income for the years ended December 31, 1994 and 1995

		(in millions of Lire)		(Thousands of US \$) (1)
		1994	1995	1995
A	VALUE OF PRODUCTION			
1	Revenues from sales and services	2,787,672	2,939,134	1,855,046
2	Changes in work in progress, semi-manufactured products and finished goods	29,060	(9,814)	(6,194)
4	Capitalization of internal work	4,359	2,292	1,447
5	Other income and revenues	21,861	25,427	16,048
	TOTAL VALUE OF PRODUCTION	2,842,952	2,957,039	1,866,347
B	PRODUCTION COSTS			
6	Raw material, other materials, consumables and goods for resale	910,224	924,736	583,651
7	Services received	984,621	1,017,756	642,361
8	Leases and rentals	43,585	44,729	28,231
9	Payroll and related costs:			
a	wages and salaries	229,682	241,934	152,698
b	social security contributions	74,921	76,182	48,083
c	employee termination indemnities	13,595	17,114	10,802
e	other costs	2,663	2,036	1,284
	<i>Total payroll and related costs</i>	<i>320,861</i>	<i>337,266</i>	<i>212,867</i>
10	Amortization, depreciation and writedowns:			
a	amortization of intangible fixed assets	19,986	19,248	12,148
b	depreciation of tangible fixed assets	75,626	81,741	51,592
d	writedown of current receivables and of liquid funds	66,888	60,839	38,399
	<i>Total amortization, depreciation and writedowns</i>	<i>162,500</i>	<i>161,828</i>	<i>102,139</i>
11	Changes in raw materials, other materials, consumables and goods for resale	(19,700)	(28,221)	(17,812)
12	Provisions to risk reserves	5,682	7,357	4,643
14	Other operating costs	50,258	51,350	32,410
	TOTAL PRODUCTION COSTS	2,458,031	2,516,801	1,588,490
	DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION	384,921	440,238	277,857

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

		(in millions of Lire)		(Thousands of US \$) (1)
		1994	1995	1995
C	FINANCIAL INCOME AND EXPENSE			
15	Income from equity investments	21,066	11,891	7,505
16	Other financial income:			
a	from receivables held as financial fixed assets:			
	- subsidiary companies	35	94	59
	- other companies	7,654	506	319
		7,689	600	378
b	from securities held as financial fixed assets not representing equity investments	12,216	17,141	10,819
c	from securities included among current assets not representing equity investments	50,409	27,663	17,460
d	Financial income other than the above:			
	- subsidiary companies	-	586	370
	- associated companies	438,534	544,741	343,815
		438,534	545,327	344,185
	Total other financial income	508,848	590,731	372,842
17	Interest and other financial expense	553,174	593,008	374,279
	TOTAL FINANCIAL INCOME AND EXPENSE	(23,260)	9,614	6,068
D	ADJUSTMENTS TO FINANCIAL ASSETS			
18	Revaluations:			
a	- of equity investments	1,793	445	281
c	- of securities included among current assets not representing equity investments	2,678	-	-
	Total revaluations	4,471	445	281
19	Writedowns:			
a	- of equity investments	995	5,807	3,665
c	- of securities included among current assets not representing equity investments	3,875	3,118	1,968
	Total writedowns	4,870	8,925	5,633
	TOTAL ADJUSTMENTS TO FINANCIAL ASSETS	(399)	(8,480)	(5,352)
E	EXTRAORDINARY INCOME AND EXPENSE			
20	Income:			
	- gains on disposals	2,494	2,652	1,674
	- other	25,423	14,210	8,969
	Total income	27,917	16,862	10,643
21	Expense:			
	- losses on disposals	6,297	3,673	2,318
	- taxes relating to prior years	-	508	321
	- other	25,139	42,958	27,113
	Total expense	31,436	47,139	29,752
	TOTAL EXTRAORDINARY INCOME AND EXPENSE	(3,519)	(30,277)	(19,109)
	RESULTS BEFORE INCOME TAXES	357,743	411,095	259,464
22	Current income taxes	150,554	188,659	119,073
	Income before minority interests	207,189	222,436	140,391
	(Income)/losses attributable to minority interests	3,031	(2,181)	(1,376)
23	NET INCOME FOR THE YEAR	210,220	220,255	139,015

**Statement of changes in consolidated stockholders' equity
for the years ended December 31, 1993, 1994, and 1995**

(in millions of Lire)

	Capital Stock	Addition paid-in capital	Surplus from monetary revaluation of assets	Other reserves and retained earnings	Net income for the year	Total
BALANCES AS OF DECEMBER 31, 1992	81,777	186,661	46,222	423,392	184,709	922,761
Allocation of 1992 net income to reserves	-	-	-	184,709	(184,709)	-
Dividends distributed, as approved at the stockholders' meeting of April 29, 1993	-	-	-	(57,244)	-	(57,244)
Differences arising from the translation of foreign currency financial statements	-	-	-	(10,277)	-	(10,277)
Net income for the year	-	-	-	-	208,038	208,038
BALANCES AS OF DECEMBER 31, 1993	81,777	186,661	46,222	540,580	208,038	1,063,278
Allocation of 1993 net income to reserves	-	-	-	208,038	(208,038)	-
Capital increase	5,500	286,000	-	-	-	291,500
Dividends distributed, as approved at the stockholders' meeting held on May 25, 1994	-	-	-	(67,203)	-	(67,203)
Effect of deconsolidating subsidiary companies	-	-	(1,106)	1,106	-	-
Differences arising from the translation of foreign currency financial statements	-	-	-	6,361	-	6,361
Net income for the year	-	-	-	-	210,220	210,220
BALANCES AS OF DECEMBER 31, 1994	87,277	472,661	45,116	688,882	210,220	1,504,156
Allocation of 1994 net income to reserves	-	-	-	210,220	(210,220)	-
Dividends distributed, as approved at the stockholders' meeting held on April 27, 1995	-	-	-	(69,821)	-	(69,821)
Transfer to extraordinary reserve of a part of surplus following the monetary revaluation of assets	-	-	(88)	88	-	-
Differences arising from the translation of foreign currency financial statements	-	-	-	2,368	-	2,368
Net income for the year	-	-	-	-	220,255	220,255
BALANCES AS OF DECEMBER 31, 1995	87,277	472,661	45,028	831,737	220,255	1,656,958
Balances as of December 31, 1995 (thousands of US \$) (1)	55,085	298,322	28,420	524,954	139,015	1,045,796

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995.

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

**Statements of consolidated cash flows for the years ended
December 31, 1993, 1994 and 1995**

(in millions of Lire) (Thousands
of US \$) (1)

	1993	1994	1995	1995
<i>Cash flows from operating activities</i>				
Income before minority interests	211,642	207,189	222,436	140,391
Depreciation and amortization	89,451	95,612	100,989	63,740
Amortization of deferred charges on long-term loans	1,434	1,832	2,033	1,283
Amortization of enjoyment rights	26,260	-	-	-
Provision for collection losses and other non-cash charges	90,381	82,537	84,615	53,405
Provision/(utilization) of exchange fluctuations reserve	36,734	(7,400)	(4,139)	(2,612)
Extraordinary provision for contingencies	-	-	25,398	16,030
Provision for income taxes	138,217	150,554	188,659	119,073
Losses (gains) on disposal of assets, investments, net	12,083	4,579	13,877	8,759
Payment of termination indemnities and use of other reserves	(11,796)	(9,271)	(19,547)	(12,337)
Self-financing	594,406	525,632	614,321	387,732
Payment of taxes	(110,146)	(250,458)	(149,553)	(94,391)
Increase in accounts receivable	(252,168)	(100,768)	(106,688)	(67,337)
(Increase) decrease in other operating receivables	21,811	(69,621)	28,301	17,862
Increase in inventories	(19,764)	(47,988)	(17,202)	(10,857)
(Decrease) increase in accounts payable	(17,569)	(18,338)	13,670	8,628
(Decrease) increase in other operating payables and accruals	10,530	37,101	(14,006)	(8,840)
Increase in operating capital	(257,160)	(199,614)	(95,925)	(60,544)
Net cash flows from operating activities	227,100	75,560	368,843	232,797
<i>Cash flows from investing activities</i>				
Purchase of new consolidated subsidiaries	(2,600)	(21,701)	(17,994)	(11,357)
Purchase of tangible fixed assets	(113,734)	(108,952)	(120,605)	(76,120)
Investment in intangible fixed assets	(27,347)	(32,580)	(16,068)	(10,141)
Sales of tangible fixed assets	13,364	24,344	26,381	16,650
Disposal of intangible fixed assets	1,099	1,754	650	410
Net change in investment-related receivables and payables	(2,681)	(2,512)	660	416
Net cash used in investing activities	(131,899)	(139,647)	(126,976)	(80,142)
<i>Cash flows from other investing activities</i>				
Purchase of investments	(54)	(358)	(8,318)	(5,250)
Purchase of investments to be consolidated	(42,427)	(29,613)	(11,269)	(7,112)
Sales of investments	73	24,463	7,793	4,918
Increase in other financial assets	(151)	(6,614)	(1,464)	(924)
Net cash used in other investing activities	(42,559)	(12,122)	(13,258)	(8,368)
Payment of dividends	(67,776)	(80,200)	(75,719)	(47,790)
Net financing (requirement) surplus	(15,134)	(156,409)	152,890	96,497

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

	(in millions of Lire)			(Thousands of US \$) (1)
	1993	1994	1995	1995
Cash flows from financing activities				
Change in stockholders' equity	1,524	300,767	4,900	3,093
Change in short-term borrowing	113,419	(158,270)	99,378	62,723
Proceeds from issuance of long-term debt	441,411	56,422	52,703	33,264
Repayment of bonds	(206,132)	-	-	-
Repayment of long-term debt	(80,646)	(147,932)	(75,937)	(47,928)
Change in securities held as fixed assets	-	(133,784)	(1,069)	(675)
Increase in other financial assets	(8,811)	(2,588)	(11,361)	(7,171)
Decrease in other financial assets	1,128	2,871	17,854	11,269
Assets leased to third parties	13,826	77,006	156	98
Decrease in lease financing	(6,026)	(6,340)	1,883	1,188
Net cash provided (used) by financing activities	269,693	(11,848)	88,507	55,861
Effect of translation adjustments	(84,224)	(1,510)	(15,217)	(9,604)
Net increase (decrease) in cash and cash equivalents (2)	170,335	(169,767)	226,180	142,754
Cash and cash equivalents of newly acquired and disposed of subsidiaries, net				
Effect of translation adjustment on cash and cash equivalents	1,874	(5,442)	(5,768)	(3,640)
Cash and cash equivalents at the beginning of the year	74,560	5,419	12,257	7,736
Cash and cash equivalents at the end of the year	566,296	813,065	643,275	406,005
Supplemental disclosures of cash flow information:				
Cash paid during the year for interest expense	195,675	234,492	156,156	98,558

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

(2) Cash and cash equivalents include liquid funds, other securities and other financial receivables considered financial assets not held as fixed assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1994 AND 1995

The consolidated financial statements have been prepared in conformity with Chapter III of Decree 127/1991 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 the 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.

As a result of the changes in financial reporting adopted in 1994 in response to Decree 127/1991, the format of the consolidated financial statements has changed from that employed by the Group in prior years. The consolidated financial statements as of and for the year ended December 31, 1993 have been restated to reflect the current year presentation. In order to assist the reader of the financial statements in understanding the Group's financial performance during the three year period ended December 31, 1995, the Group has presented in appendix 3 the consolidated statements of income for each of the three years in the period ended December 31, 1995 and consolidated balance sheets as of December 31, 1994 and 1995 in a format consistent with its financial statements issued in prior years and with international standards.

Unless otherwise specified, amounts indicated in these notes are expressed in millions of Italian Lire.

1. Activities of the Group

Benetton Group S.p.A. the Parent Company, and its subsidiary companies (collectively the "Group") primarily manufacture and market fashion apparel in wool, cotton and woven fabrics.

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.

2. Form and content of the consolidated financial statements

The consolidated financial statements and related notes have been translated into English from the original version in Italian. They have been prepared in accordance with the accounting principles established by the Italian Accounting Profession, which may differ in certain respects from the principles generally accepted in other countries.

The consolidated financial statements of the Group include the financial statements as of December 31, 1995 of Benetton Group S.p.A. and all the Italian and foreign companies 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 an appendix.

The financial statements utilized for the consolidation are those prepared for approval at the stockholders' meetings. The financial statements of foreign subsidiaries have been reclassified, where necessary, for consistency with the format adopted by the parent company.

The consolidated financial statements have been adjusted to comply with the accounting policies laid down by Decree 127/1991, those recommended by the Italian Accounting Profession and, in the absence thereof, by those established by the International Accounting Standards Committee (I.A.S.C.), consistently applied throughout the Group. In addition, the financial statements of minor subsidiaries located in highly inflationary countries are adjusted to reflect changes in the purchasing power of the local currencies.

The significant differences between the Group's policies and accounting principles generally accepted in the United States and Canada, along with the related adjustments to consolidated net income and equity, are described in Note 31.

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 consolidated stockholders' equity.

3. Principles of consolidation

The most significant consolidation principles adopted in 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 caption "Reserve for risks and charges 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 intra-Group 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' interests in the net assets and results for the year of consolidated subsidiaries is classified separately as "Minority interests" in the consolidated balance sheet and as "Income/(losses) attributable to minority interests" in the consolidated statement of income.
- (e) The financial statements of foreign subsidiaries, including those operating in countries with hyper-inflationary economies, are translated into Italian Lire using year-end exchange rates for balance sheet items and average exchange rates for the year for statement of income items. Differences arising from the translation into Lire of foreign currency financial statements are reflected directly in consolidated stockholders' equity.

The value of the 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 adjust consolidated equity.

Since 1994 the difference between the spot and forward exchange rates relating to these capital hedges is recorded as part of "Financial income" within the statement of income. Such accounting treatment is consistent with the Group's policy of increasing the level of Lire borrowing with respect to other currencies, which has reduced exchange rate risks. As a result of applying this policy, the 1995 statement of income was credited with financial income of approximately Lire 24,100 million (approximately Lire 16,900 million in 1994) and net income was higher by the same amount.

Premiums credited to stockholders' equity in 1993 amounted to Lire 9,200 million.

4. Accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied by the Parent Company, as summarized below:

Intangible fixed assets - These are recorded at purchase cost, including related charges.

Trademarks are stated at registration or purchase cost, as revalued as of December 31, 1983, in accordance with the provisions of Law 72 of March 19, 1983. The related revaluation surplus was credited to a specific stockholders' equity reserve. The amount is stated net of accumulated amortization, which is generally provided over twenty years.

Intangible fixed assets are written down in cases where, regardless of the amortization accumulated, there is a permanent loss in value.

Costs deferred in connection with expansion projects and other deferred charges are amortized on a straight-line basis over the period they are expected to benefit, which is generally five years. Patents are amortized over three years.

Goodwill and consolidation differences are amortized over ten years.

Tangible fixed assets - These are recorded at purchase or construction cost, as adjusted in certain circumstances through the application of specific monetary revaluation laws. Cost includes related charges and direct or indirect expenses reasonably attributable to the individual assets. Tangible fixed assets transferred within the Group as of December 31, 1980, were recorded at appraised values.

The principal Italian Group companies restated the majority of their assets as of December 31, 1983 in a monetary revaluation in accordance with the provisions of Law 72 of March 19, 1983. These companies were also obliged by Law 413 of December 30, 1991 to revalue their real estate holdings.

Depreciation is computed on a straight-line basis using rates considered to reflect the estimated useful lives of tangible fixed assets. Half the annual depreciation rates are charged in the year the assets enter service.

Tangible fixed assets are written down in cases where, regardless of the depreciation accumulated, there is a permanent loss in value.

The principal depreciation rates applied by consolidated companies are as follows:

<i>Buildings</i>	3%
<i>Plant and machinery</i>	8% - 17,5%
<i>Industrial and commercial equipment</i>	25%
<i>Other tangible fixed assets:</i>	
- <i>Furniture, furnishings and electronic machines</i>	12% - 20%
- <i>Vehicles</i>	20% - 25%
- <i>Aircraft</i>	5%

Ordinary maintenance costs are expensed as incurred. Costs that significantly improve or extend the lives of the assets are capitalized and depreciated over the remaining life of the asset.

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, as adjusted, where significant, to eliminate the Group's share of unrealized intercompany profits. 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, as written down where there is a permanent loss in value.

Assets leased to third parties are recorded using lease accounting methodology. This involves eliminating the related fixed asset and accumulated depreciation accounts and recording the outstanding capital element of lease contracts as an asset. The excess of lease charges over the cost of the related asset is recognized as interest income on an accruals 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, as written down where there is a permanent loss in value, taking into account any accrued issue premiums and discounts.

Inventories - Inventories are stated at the lowest of purchase or manufacturing cost, generally determined on a weighted average cost basis, or 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 to their useful or net realizable value.

Accounts receivable and payable - Accounts receivable and payable are stated at face value. Receivables are recorded at their estimated realizable value, net of appropriate allowances for doubtful accounts determined on a prudent basis.

Other securities not held as fixed assets - Such securities are stated at the lower of purchase cost or market value at the balance sheet date.

Securities acquired subject to resale commitments represent the temporary investment of funds and are classified among other financial receivables and recorded at cost, which includes accrued interest. The difference between the spot and forward prices of such securities is accounted for as interest income and recognized as income on an accruals basis.

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. Provisions reflect the best estimate of losses to be incurred based on the information available.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 officially-established indices.

Transactions in foreign currencies - 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 statement of income. Foreign currency receivables and payables are restated using year-end exchange rates; hedged receivables are not restated if no further exchange gains or losses would arise on collection. In addition, income (premiums) relating to hedge contracts are reflected in the statement of income over the lives of the contracts.

The net loss from adjusting the foreign currency balances of Italian companies using year-end rates of exchange is credited to the exchange fluctuation reserve, which is classified among reserves for risks and charges-other.

The value of forward contracts not hedging specific assets, liabilities or contractual commitments denominated in foreign currency is remeasured at year-end with reference to the difference between the forward exchange rates applicable to the contract at the balance sheet date and the contracted forward rates. Any net losses identified are charged to the consolidated statement of income.

Fair value of financial instruments - Financial instruments consist primarily of investments in cash, marketable securities, accounts receivable, accounts payable and debt obligations. Except for fixed rate debt obligations, the fair value of the Company's financial instruments approximated the carrying value due to the short term and/or variable rate nature of these instruments.

With regard to fixed rate debt obligations, the fair value was estimated by discounting cash flows using interest rates currently available. The carrying amounts and estimated fair value of fixed rate debt obligations at December 31, 1995 were Lire 645,917 million and Lire 598,309 million, respectively.

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

Expense recognition - Expenses are recorded in accordance with the matching principle. Advertising costs are charged to income in the year in which they are incurred.

Income taxes - Current income taxes are provided by each consolidated company on the basis of a reasonable estimate of their tax liability for the year, in accordance with applicable local regulations.

The consolidated financial statements also include provision for deferred taxes principally arising from the reversal of excess depreciation, from lease accounting adjustments and from gains on the disposal of tangible fixed assets. Deferred taxes are provided net of tax assets deriving from tax payments that will be recoverable when timing differences reverse and from consolidation adjustments. Deferred taxes are also provided on certain equity reserves in consideration of possible future dividend distributions within the Group, given the liquidity available. Provision is not made for possible income taxes on monetary revaluation reserves which are permanently reinvested.

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

Financial statements and information expressed in US dollars - The financial statements are presented in Italian Lire and, for 1995, are also presented in US dollars solely for the convenience of the reader, at the year end exchange rate of US \$ 1 = Lire 1,584.4, which was the noon buying rate of the US Federal Reserve Bank as of December 31, 1995, the last business day of the year.

No representation is made that Lire amounts have been, could have been, or could be converted into US dollars at that or any other rate.

OTHER INFORMATION

5. Purchase of subsidiary companies and disposal of associated companies

In order to rationalize the Group's structure, a number of affiliated Italian manufacturers that supply raw materials and services to Group companies were acquired during 1992 and the investment in Prince Holdings Inc. was sold. These transactions either directly or indirectly involved Edizione Holding S.p.A. (the parent company of Benetton Group S.p.A.).

The total purchase cost of these companies was Lire 92,618 million.

The difference between such cost and the Group's share of the related equity, approximately Lire 78,900 million, was allocated in full to the fixed assets acquired, with reference to their current use value at the time of purchase. Purchase cost was established by reference to independent appraisals carried out using the unadjusted equity method. The non-Group revenues reported for 1995 by these four companies totaled Lire 154,545 million (Lire 111,374 and Lire 59,900 million respectively in 1994 and 1993). The contribution of these companies to consolidated net income is not significant, although they have contributed substantially to the containment of cost of sales.

At the same time as the above acquisitions, the 38.24% interest in Prince Holdings Inc. was sold to a subsidiary of Edizione Holding S.p.A. with a capital gain on disposal in 1992 of about Lire 17,000 million.

The remaining interest in Galli Filati S.p.A., Prato, was also acquired in 1992 from a minority third party. This company, previously 50%-owned, manufactures and distributes carded yarns for the production of knitwear. Output is principally directed towards Group companies. The purchase cost of this additional investment was Lire 12,350 million, which was not significantly different from the value of the net assets acquired.

During 1993 Benetton France Trading S.a.r.l. bought, from a subsidiary of Edizione Holding S.p.A., the entire interest in Edizione Realty France S.A.. The acquired company owns commercial real estate property in Paris, Nice, St. Tropez and Aix-en-Provence.

The purchase cost of the investment was approximately Lire 38,800 million. The difference between such cost and the related equity was allocated in full to the fixed assets acquired, with reference to the current use value at that time established by reference to independent appraisals.

In early 1990 Benetton acquired from third parties 50% of Linz Co Ltd., (now called Benetton Group Japan K.K.) a Japanese company, licensed to use the United Colors of Benetton brand for clothing sold in the Japanese market. In 1994 the Group increased from 50% to 90% and, in early 1996, from 90% to 100% its investment in Benetton Group Japan K.K..

During 1994, Benetton International N.V. acquired for £.11,000,000 (approximately Lire 28,000 million) full control over Benetton Engineering Ltd. from a subsidiary of Edizione Holding S.p.A.. The acquired company owns a 50% stake in TWR Group Ltd., which has been treated as a subsidiary since the Benetton Group controls the majority of voting rights at ordinary meetings. TWR principally designs and develops prototype racing cars.

Among Group companies in Italy, the interest in Azimut S.p.A., a company involved in the shirt and blouse activities, was increased from 50% to 75%. The same reorganization involved the disposal to third parties of the Group's interests (50% in both cases) in Altana Uno S.p.A. and Columbia S.p.A., non-operating companies whose shirt-sector activities had previously been transferred to Azimut S.p.A..

Texcontrol S.p.A. added to its manufacturing capacity by acquiring 100% of F.T. Srl, based in Follina (Treviso), a company specializing in the dyeing of wool fabrics. Two newly-formed wholly-owned subsidiaries also commenced operations under business rental agreements: Finitex S.p.A. specializes in the dyeing and printing of woven fabrics, and Tessuti di Pordenone S.p.A. which is active in weaving.

Galli Filati S.p.A., which manufactures and distributes carded woolen yarns, expanded by acquiring a new plant in Caserta that specializes in the processing of this type of yarn.

In 1995, in pursuit of increasing efficiency among the manufacturing subsidiaries of the Group, Manifatture Stefani S.p.A. acquired from Texcontrol S.p.A. 100% of Finitex S.p.A., a company specializing in the dyeing and printing of woven fabrics, and 100% of Tessuti di Pordenone S.p.A. which is active in weaving.

Maglificio Fontane S.p.A., now 75% owned by Benetton, acquired a 81% controlling interest in Maglifici Re.Mo. S.p.A. and took over this company's activities in the processing of woolen knitwear. Maglifici Re.Mo. S.p.A. has since ceased operating.

Also in 1995, Benetton increased its 75% holding in Azimut S.p.A. to 100%, via the purchase from third parties of the remaining shares, and started direct production and distribution of shirts and blouses. Azimut S.p.A., now a shell company, will be merged into the Parent Company.

Galli Filati S.p.A., an Italian subsidiary that manufactures and distributes carded woolen yarns, completed the acquisition of 100% of the capital stock of Filma S.p.A., based in Valdagno (Vicenza), thereby adding the manufacture and processing of worsted woolen yarns to its range of activities.

In the context of the program to strengthen and diversify the wool sector production cycle, Galli Filati S.p.A. also purchased a 50%-interest in the capital stock of Spiller S.p.A., based in Schio (Vicenza), which is active in raw materials and in wool and mixed-fiber fabrics.

The Group's international development plans have also targeted new geographic areas, particularly Tunisia, where Benetton Tunisia S.a.r.l., a wholly-owned subsidiary, has begun the production of an initially limited range of products, and Oporto (Portugal), where Benetton Lda., another wholly-owned subsidiary, has been formed for manufacturing and distribution purposes.

An additional 50% of the capital stock of United Colors of Benetton do Brasil S.A. was acquired in December 1995 with a view to strengthen management control of the Group's production and marketing structure in Brazil.

Benetton International N.V. has sold its holdings in Benetton Bosphorus Casual Wear A.S. (50%-interest) and in Benetton Sweden A.B..

The Group also sold its interests in Benetton Chu-Shikoku Co. Ltd., Kyushu Benetton Co. Ltd., Tohoku Benetton Co. Ltd. and Benetton Chubu Co. Ltd., all marketing companies, as part of the corporate restructuring taking place in Japan.

COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

(in millions of Lire)

FIXED ASSETS

6. Intangible fixed assets

This caption consists of the following:

	12-31-1994		12-31-1995	
	Gross	Net	Gross	Net
<i>Start-up and expansion expenses</i>	33,539	22,952	30,752	17,349
<i>Research and development expenses</i>	1,092	774	1,413	867
<i>Industrial patents and intellectual property rights</i>	495	88	1,505	1,021
<i>Licenses, trademarks and similar rights</i>	19,510	9,951	22,149	11,289
<i>Goodwill</i>	714	447	1,016	622
<i>Consolidation differences resulting in goodwill</i>	11,297	10,168	20,274	17,542
<i>Total goodwill and consolidation differences</i>	12,011	10,615	21,290	18,164
<i>Assets in course of formation and advance payments</i>	2,066	2,066	3,340	3,340
<i>Expenses related to bond issues and loans</i>	12,029	8,694	11,671	6,903
<i>Costs for the purchase and development of software</i>	21,033	8,322	12,623	5,593
<i>Other</i>	19,715	7,666	23,926	10,130
<i>Total other intangible fixed assets</i>	52,777	24,682	48,220	22,626
Total	121,490	71,128	128,669	74,656

Start-up and expansion expenses relate to capital stock increase costs of approximately Lire 10,000 million (Lire 13,900 million as of December 31, 1994). The residual balance principally relates to the formation costs of new companies and the start-up expenses for the "Fabbrica" project, Benetton's school-workshop. Research and development expenses reflect the capitalization of costs incurred for the development of new products.

As indicated in the accounting policies, the Parent Company revalued the original cost of a trademark during 1983, as allowed by Law 72 of March 19, 1983. The monetary revaluation, Lire 4,430 million, was allocated to the Group's principal brandname.

Consolidation differences amounting to Lire 17,542 million reflect the residual goodwill arising on the consolidation of the investments in Benetton Group Japan K.K., Benetton Engineering Ltd., Benetton Retail (1988) Ltd., United Colors of Benetton do Brasil S.A. and the Galli Filati Group, which acquired Filma S.p.A. and Spiller S.p.A. during 1995. Consolidation differences are amortized over ten years, which is considered appropriate since it is consistent with the international accounting policies currently applied in the sector in which Group companies operate.

7. Tangible fixed assets

Tangible fixed assets amounting to Lire 618,017 million are stated net of accumulated depreciation totaling Lire 477,238 million. The change with respect to the prior year is primarily due to additions totaling Lire 128,826 million, principally comprising land, buildings, plant and machinery, net of disposals, Lire 26,329 million, and the depreciation charge for the year, Lire 81,741 million.

The unamortized revaluations of fixed assets still held as of December 31, 1995, recorded in accordance with Laws 72 of March 19, 1983, and 413 of December 30, 1991, amount to Lire 2,341 million and Lire 24,692 million, respectively.

Certain of the Group's tangible fixed assets are pledged as security for long-term loans from banks and other providers of finance. The outstanding balance of such loans is Lire 64,562 million as of December 31, 1995. Other tangible fixed assets are subject to reservation of title clauses that secure residual loans totaling Lire 5,429 million.

Other assets include the following acquired under finance leases:

	12-31-1994	12-31-1995
<i>Real estate</i>	3,804	9,950
<i>Plant and machinery</i>	38,211	11,372
<i>Other assets</i>	814	407
<i>Less: accumulated depreciation</i>	(22,693)	(3,219)
Total	20,136	18,510

Outstanding capital payments due to lessors as of December 31, 1995, classified as lease financing, are reported in the note on "Due to other providers of finance".

Operating leases are not significant.

Assets under construction mainly relate to the advancement of work on internal roadways for the factory built for Benetton Group S.p.A. in the Castrette industrial zone outside Treviso.

8. Financial fixed assets

Equity investments

As of the balance sheet date, equity investments not consolidated on a line-by-line basis are as follows:

	12-31-1994		12-31-1995	
	% Group ownership	Book value	% Group ownership	Book value
<i>Subsidiary companies:</i>				
- <i>T.W.R. Group Ltd.</i>	50%	32,058	50%	36,399
- <i>Other minor investments</i>	-	935	-	3,592
<i>Associated companies:</i>				
- <i>Texmantova S.p.A.</i>	21.73%	4,202	21.73%	4,253
<i>Other companies</i>	-	3,005	-	2,907
Total		40,200		47,151

Investments in subsidiary companies, amounting to Lire 39,991 million, include Lire 36,399 million relating to T.W.R. 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 the 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. The balance, Lire 3,592 million, relates to other minor subsidiary companies, mainly foreign trading companies, that are carried at cost since they are either not yet operating or are in liquidation at the balance sheet date.

Texmantova S.p.A. produces and markets clothing fabrics. The increase in the value of the investment reflects the increase in its equity value as of December 31, 1995.

Other investments primarily represent minority interests in Japanese retail companies.

Equity investments are analyzed in detail in an attachment.

Financial receivables

Receivables from subsidiary companies, amounting to Lire 1,085 million, relate to interest-earning loans granted to companies not consolidated on a line-by-line basis.

Financial receivables consist of the following:

	12-31-1994	Within 1	Maturities (in years) 1 to 5	Beyond 5	Balance 12-31-1995
<i>Financial receivables:</i>					
- due within 12 months	12,688	10,019	-	-	10,019
- due beyond 12 months	6,207	-	3,325	30	3,355
<i>Assets leased to third parties:</i>					
- due within 12 months	156	173	-	-	173
- due beyond 12 months	1,227	-	1,054	-	1,054
Guarantee deposits	30,268	-	-	29,753	29,753
Total	50,546	10,192	4,379	29,783	44,354

Financial receivables earn interest at market rates.

Assets leased to third parties

This caption relates to an industrial building leased to United Optical S.p.A..

As is customary, the lessees bear maintenance, insurance and other operating costs relating to leased assets.

The capital in the above leases is determined as follows:

	12-31-1994	12-31-1995
<i>Remaining lease payments, net of residual purchase option</i>	650	408
<i>Value of residual purchase option</i>	1,000	1,000
<i>Less: unearned interest income</i>	(267)	(181)
Total	1,383	1,227

Capital repayments relating to the above leased assets fall due as follows:

1996	173
1997	1,054
	1,227

The remaining lease payments to be received, net of the residual purchase option, are as follows:

1996	306
1997	102
	408

Guarantee deposits

Guarantee deposits, Lire 29,753 million, include Lire 26,453 million in connection with the lease of real estate used by Japanese subsidiaries.

Other securities held as financial fixed assets

This caption comprises:

	12-31-1994		12-31-1995	
	Book value	Face value	Book value	Face value
<i>Long- term Government bonds (BTP) maturing in 1996 at 11.5% - 12% p.a.</i>	82,182	80,000	80,012	80,000
<i>Treasury Certificates cum Option (CTO) maturing in 1996 and 1997 at 12.5% p.a.</i>	49,959	50,000	50,000	50,000
<i>Other securities</i>	802	800	766	765
Total	132,943	130,800	130,778	130,765

These securities represent the investment of temporary excess funds by Benetton International N.V. and are stated at purchase cost. The purchase premium of Lire 2,318 million is recorded as an accrued expense.

Other securities mainly comprise bonds issued by public agencies and others.

Since these securities will be held until maturity, they are classified among financial fixed assets. Their carrying value, taking into account the related hedging transactions (asset swaps), approximates their market value.

CURRENT ASSETS

9. Inventories

Inventories, Lire 506,363 million (Lire 489,970 million as of December 31, 1994), are recorded net of the related inventory writedown reserve and consist of the following:

	12-31-1994	12-31-1995
<i>Raw materials, other materials and consumables</i>	5,120	4,501
<i>Work in progress and semimanufactured products</i>	1,900	1,300
<i>Finished goods</i>	6,948	9,652
Total	13,968	15,453

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

10. Accounts receivable

Trade receivables

As of December 31, 1995, foreign currency trade receivables amount to approximately Lire 821,900 million (approximately Lire 915,700 million as of December 31, 1994), of which Lire 498,920 million relate to Italian companies.

Open forward exchange contracts as of December 31, 1995 are used to hedge receivables totaling Lire 445,141 million and firm orders worth Lire 416,795 million at year-end exchange rates.

Trade receivables also include Lire 148,280 million (approximately Lire 162,300 million as of December 31, 1994) of bank receipts and notes deposited with financial institutions for collection.

Additionally, this account includes approximately Lire 345,000 million relating to sales for the spring/summer season. In accordance with normal conditions of sale, the payment terms for the above amount commence from March 15.

The allowance for doubtful accounts as of December 31, 1995 amounts to Lire 169,935 million (Lire 173,276 million as of December 31, 1994).

A prudent assessment of the specific and generic collection risks associated with outstanding receivables has resulted in suitable additional provisions to take account of the aging of certain balances and the difficult economic conditions in a number of markets, particularly in the non-clothing sectors.

Lire 64,180 million were released from the allowance for doubtful accounts to cover losses during the year, while provisions for 1995 amounted to Lire 60,839 million compared with Lire 66,888 million in 1994.

Amounts receivable from subsidiary and associated companies, Lire 7,585 million and Lire 54 million, respectively, mainly relate to trade and financial receivables due from companies not consolidated on a line-by-line basis.

Other receivables

As of December 31, 1995, other receivables include: VAT recoverable from the tax authorities Lire 48,222 million (Lire 65,045 million as of December 31, 1994); tax credits, Lire 68,377 (Lire 66,844 million as of December 31, 1994); and other amounts due from the tax authorities amounting to Lire 24,128 million (Lire 15,965 million as of December 31, 1994).

Other amounts due from the tax authorities include Lire 14,990 million of taxes paid in advance on net timing differences between taxable income and that reported for consolidation purposes, as well as on consolidation adjustments.

This balance is reported in the consolidated financial statements, since its recoverability is reasonably certain.

The caption includes approximately Lire 40 billion, reflecting the net balance of taxes paid in advance, as indicated in the notes to the parent company's statutory financial statements in the comments on "Taxation reserve".

Such amounts due from the tax authorities derive from the following net tax effect on the above differences:

	12-31-1994	12-31-1995
<i>Fiscal effect of eliminating intercompany profits</i>	9,062	17,113
<i>Fiscal effect on provisions and costs that will be deductible in future accounting periods</i>	69,048	72,103
<i>Fiscal effect of reversing excess depreciation and applying finance lease accounting</i>	(43,574)	(43,673)
<i>Fiscal effect of deferring the taxability of capital gains to future accounting periods</i>	(28,616)	(19,331)
<i>Fiscal effect of a partial distribution to the parent company of the retained earnings of foreign subsidiaries</i>	(4,400)	(4,400)
<i>Other</i>	(1,832)	(6,822)
Total	(312)	14,990
In relation to:		
- Italian companies	(4,236)	6,775
- Foreign companies	3,924	8,215
	(312)	14,990

In 1994, this balance, Lire 312 million, was included within the "Taxation reserve".

11. Financial assets not held as fixed assets

Other securities

This caption comprises:

	12-31-1994		12-31-1995	
	Book value	Face value	Book value	Face value
<i>Long-term Government bonds (BTP) maturing through 1996 at interest rates between 11.5% and 12.5%</i>	75,370	75,000	74,794	75,000
<i>Treasury certificates (CCT) maturing in 1996 at average interest rates between 10.15% and 10.45%</i>	54,528	55,000	79,667	80,000
<i>Treasury certificates cum Option (CTO) maturing in 1997 at an average interest rate of 12.5%</i>	10,000	10,000	-	-
<i>Goldman Sachs Group bonds matured in 1995 at interest rates of 12% and 12.65%</i>	20,000	20,000	-	-
<i>Consorzio di Credito per le Opere Pubbliche bonds maturing in 2001 and 2002 at interest rates between 9.4% and 12.63%</i>	-	-	48,329	47,000
<i>European Investment Bank bonds in Italian lire, Portuguese escudos and Spanish pesetas, maturing in 1996, 2001 and 2002 at interest rates between 11.10% and 15.75%</i>	-	-	15,934	14,955
<i>IBRD bonds in Portuguese escudos and Spanish pesetas, maturing in 1996, at interest rates between 12% and 13.625%</i>	-	-	6,564	6,274
<i>French Treasury bills (BTAN) maturing in 1996 at an interest rate of 9%</i>	55,726	54,562	58,476	58,214
<i>Other</i>	12,872	14,583	6,317	6,279
Total	228,496	229,145	290,081	287,722

Asset swap transactions as of December 31, 1995 hedge investments against price fluctuations in long-term Government bonds, Lire 45,000 million.

French Treasury bills and part of the long-term Italian Government bonds have been written down by Lire 3,118 million to their market value, determined on the basis of average stock market prices over the month of December.

The market value of other securities held as of December 31, 1995 approximates their carrying value.

"Other" includes various securities, reflecting the temporary deployment of liquidity by subsidiary companies.

Other financial receivables

This caption includes:

	12-31-1994	12-31-1995
<i>Commercial paper</i>	10,000	-
<i>Short-term financing</i>	-	117,244
<i>Amounts due on repurchase agreements</i>	-	10,000
	10,000	127,244

Short-term financing relates to the temporary use of liquidity.

In particular, Lire 64,000 million was invested with J.P. Morgan S.p.A. and Lire 46,000 million with other leading banks.

The balance, Lire 7,244 million, reflects loans in various currencies granted by subsidiary companies to third parties.

Other financial receivables earn interest at market rates.

Differentials on forward transactions

During 1995, as in prior years, the parent company sold forward the proceeds of future sales in order to hedge the exchange risks relating to revenues from the 1996 and 1997 collections.

The value of these commitments, including the positions opened in 1993 and 1994, is reflected among the "Commitments, contingencies and memorandum accounts". Part of these contracts, totaling Lire 1,972 billion, were subsequently renegotiated and the related positive differentials, recorded within "Other financial income", total Lire 78,366 million. Lire 72,122 million of such gains will be collected in 1996 and Lire 6,244 million in 1997. The residual balance, Lire 2,525 million, reflects the differentials emerging from similar positions opened in 1993 and 1994, which will be collected in 1996. Such differentials, being highly liquid, are classified at their nominal value among current assets.

12. Liquid funds

This caption consists of:

	12-31-1994	12-31-1995
<i>Current account deposits (Lire)</i>	99,202	35,586
<i>Current account deposits (foreign currency)</i>	109,072	157,262
<i>Time deposits (Lire)</i>	136,360	150,414
<i>Time deposits (foreign currency)</i>	42,420	86,805
<i>Checks</i>	17,027	28,011
<i>Banknotes and coins</i>	698	541
Total	404,779	458,619

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

The balances as of December 31 reflect temporary, substantial liquidity deposited in foreign currency accounts and significant year-end receipts from customers.

13. ACCRUED INCOME AND PREPAID EXPENSES

This caption is analyzed as follows:

	12-31-1994	12-31-1995
<i>Accrued income:</i>		
- <i>financial income</i>	31,119	33,900
- <i>other income</i>	1,026	3,041
<i>Total accrued income</i>	32,145	36,941
<i>Prepaid expenses:</i>		
- <i>financial charges</i>	15,887	5,175
- <i>rentals and leasing charges</i>	3,814	4,028
- <i>advertising, promotion and sponsorships</i>	1,825	2,748
- <i>other expenses</i>	4,289	4,138
<i>Total prepaid expenses</i>	25,815	16,089
Total	57,960	53,030

Accrued financial income mainly relates to interest deriving from temporary investments.

Prepaid financial charges mainly relate to the non-current portion of interest expense on currency swaps entered by foreign subsidiaries to hedge exchange risks.

COMMENTS ON THE PRINCIPAL LIABILITY AND EQUITY CAPTIONS

(in millions of Lire)

STOCKHOLDERS' EQUITY

14. Capital stock

The capital stock of Benetton Group S.p.A. is represented by 174,553,725 issued and fully-paid ordinary shares, par value Lire 500 each. The 1980 spinoff 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 87,276,862,500.

15. Additional paid-in capital

This caption is unchanged with respect to the prior year.

16. Revaluation reserves

This caption reflects the residual amount of revaluation reserves established in accordance with the provisions of Law 72 of March 19, 1983, together with the net surplus following the revaluation in accordance with Law 413/91 of December 30, 1991.

Taxation has not been provided in respect of these reserves or those capitalized, since, at this time, the conditions which would give rise to such taxation are not expected to occur.

The decrease of Lire 88 million with respect to the prior year derives from the disposal of a building previously revalued under Law 413/91 and, pursuant to this Law, the consequent release of the related amount after taxation to the extraordinary reserve.

17. Legal reserve

The increase in the legal reserve, Lire 1,100 million, derives from the allocation, in conformity with legal and statutory requirements, of part of the Parent Company's net income for the year ended December 31, 1994.

18. Other reserves

As of December 31, 1995, this caption amounts to Lire 814,282 million (Lire 672,527 million as of December 31, 1994) and includes:

- Lire 112,947 million relating to other reserves of the Parent Company (Lire 102,892 million as of December 31, 1994);
- Lire 15,700 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 685,635 million representing the additional equity of consolidated companies with respect to their carrying value, together with other consolidation entries.

The first of the schedules 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.

The statement of changes in consolidated stockholders' equity for the years ended December 31, 1994 and 1995 is presented as an attachment to these notes.

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

	12-31-1994		12-31-1995	
	Stockholders' equity	Net income	Stockholder's equity	Net income
<i>Per Benetton Group S.p.A. financial statements</i>	798,826	80,888	865,839	136,834
<i>Group share of net income and stockholders' equity of consolidated subsidiaries, net of their carrying value</i>	547,372	244,670	633,701	164,196
<i>Elimination of dividends paid by consolidated subsidiaries</i>	-	(75,474)	-	(64,255)
<i>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</i>	89,713	(8,448)	94,369	(12,041)
<i>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</i>	10,378	3,132	11,441	(367)
<i>Application of finance lease accounting, taking account of the related tax effect</i>	13,591	(45,958)	10,219	(1,801)
<i>Recognition of deferred tax assets, net of deferred taxes on any future distribution of reserves from subsidiaries to the parent company</i>	62,495	5,064	62,489	25
<i>Elimination of intercompany profit included in the inventory of consolidated subsidiaries, net of the related tax effect</i>	(12,330)	(869)	(19,675)	(7,345)
<i>Adjustment to reflect the equity value of associated companies</i>	(2,492)	1,177	(6,386)	(516)
<i>Net effect of other consolidation entries</i>	(3,397)	6,038	4,961	5,525
<i>Per Group's consolidated financial statements</i>	1,504,156	210,220	1,656,958	220,255

Minority interests

As of December 31, 1995 and 1994, minority interests in consolidated subsidiaries are as follows:

	12-31-1994	12-31-1995
<i>Italian subsidiaries:</i>		
- Calzaturificio di Varese S.p.A.	36.92%	36.92%
- Azimut S.p.A.	25%	25%
- Socks & Accessories Benetton (S.A.B.) S.r.l.	50%	50%
- Benetton Legs S.r.l.	50%	-
- Colors Communications S.r.l.	10%	-
- Manifatture Stefani S.p.A.	22%	22%
- Texcontrol S.p.A.	18.125%	18.125%
- Maglificio Fontane S.p.A.	25%	25%
- Immobiliare Castrette S.p.A.	50%	-
<i>Foreign subsidiaries:</i>		
- Benetton (Hong Kong) Ltd.	50%	-
- Benetton Group Japan K.K.	10%	10%
- Benetton Kanto K.K.	11.333%	11.333%
- Beijing Benetton Fashion Co. Ltd.	50%	50%
- Benetton China Japan K.K.	31%	31%
- United Agency K.K.	14%	14%
- Benetton Shoes Japan K.K.	50%	50%
- Benetton Bosphorus Casual Wear A.S.	50%	-
- Bene Moda K.K.	50%	50%
- Benetton Egypt S.A.E.	50%	50%
- DCM Benetton India Ltd.	50%	50%
- Benetton Time S.A.	48%	48%
- United Colors of Benetton do Brasil S.A.	50%	-
- Unirio Comercio de Roupas Ltda.	50%	-
- Collalto Comercio de Roupas Ltda.	50%	-
- Colorben Comercio de Roupas Ltda.	-	50%
- Benetton Chubu Co. Ltd.	28%	-
- Benetton Kansai K.K.	10%	10%
- Tohoku Benetton Co. Ltd.	10%	-
- Benetton Chu-Shikoku Co. Ltd.	10%	-
- Kyushu Benetton Co. Ltd.	10%	-

19. RESERVES FOR RISKS AND CHARGES

Taxation reserve

This reserve comprises:

	12-31-1994	12-31-1995
<i>Reserve for fiscal risks</i>	7,630	7,650
<i>Deferred taxes:</i>		
- <i>Italian companies</i>	4,236	-
- <i>Foreign companies</i>	(3,924)	-
<i>Total deferred taxes</i>	312	-
Total	7,942	7,650

The reserve for fiscal risks prudently covers contingent liabilities which may arise on the final settlement of outstanding disputes with the tax authorities.

The taxes paid in advance on timing differences, net of deferred taxation and the taxation provided on consolidation adjustments, are classified among "Other receivables" in 1995.

Taxes that would be due upon the distribution of reserves have not been provided, since the transactions which would determine such taxation are not expected to occur.

Taxes that would be due on the distribution of monetary revaluation reserves have not been provided as the likelihood of such distribution is remote, given that these amounts are deemed to be permanently reinvested.

The tax benefit of substantial loss carry-forwards accumulated by certain consolidated companies will be recorded only when realized.

Other reserves

This caption is analyzed as follows:

	12-31-1994	12-31-1995
<i>Reserve for contingencies</i>	6,325	32,532
<i>Agents' leaving indemnity reserve</i>	8,397	9,284
<i>Exchange fluctuation reserve</i>	45,930	40,335
Total	60,652	82,151

The reserve for contingencies includes approximately Lire 6 billion to cover risks which may arise from current legal disputes with a limited number of customers, particularly in Germany and France, and in connection with the termination of a number of agency contracts.

The above amount is considered adequate in view of the favorable outcome of certain disputes in Germany and given that the amounts due from these customers have been written down to their estimated realizable value in the consolidated financial statements.

The Dutch subsidiary, Benetton International N.V. is party to a dispute over a license contract with the timepiece manufacturers, Eco Swiss China Time Limited, and its colicensee, Bulova Corporation.

In 1986, Benetton International N.V. signed a license contract with Eco Swiss China Time Ltd. (the licensee) and Bulova Corp. (colicensee) for the use of the Benetton trademark in the timepiece sector. The duration of the contract was eight years and therefore expired in 1994.

Significant problems in the relationship with Eco Swiss China Time Ltd. began to emerge at the end of 1989, such that, in 1991, Benetton International N.V. sent that company a letter notifying its intention to terminate the contract. The grounds indicated by Benetton were essentially that:

- royalties were not being paid, or were inadequate;
- the license was effectively being sublicensed to a subsidiary company of Eco Swiss China Time Ltd.;
- the company refused to accept its share of audit fees incurred by Arthur Andersen;
- a number of group companies had gone bankrupt (including Eco Swiss S.p.A., the European subholding of the Eco Swiss Group).

Eco Swiss China Time Ltd. and Bulova Corp. did not accept the termination of the contract and, on the basis of a compromise clause, took the case to arbitration in the Netherlands.

Substantial damages claimed against Benetton International N.V. were confirmed on June 23, 1995, by an arbitration award that condemned 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. presented two appeals against the award: the first, based on the merits of the case, requesting that the award be quashed, and the second, raising objections based on legal grounds, that the award be overturned.

Benetton International N.V., having previously applied for a stay of execution, obtained through the courts a temporary stay in regard to Eco Swiss China Time Ltd., pending the decision of the competent tribunals on the questions indicated above. In January 1996, an amount of Dutch Guilders (f.) 6.5 million (including f. 3 million drawn from preexisting reserves) was paid to Bulova Corp., since the competent tribunal did not consider, in connection with Bulova Corp., that there was any doubt about the future recovery of this amount should the final decision be in favor of Benetton International N.V.

Having considered the opinion of the Company's attorneys and the valid legal and de facto grounds that exist for a ruling in the Company's favor, nonetheless, the Directors have prudently recorded an additional provision of f. 25 million.

The merits of the challenges have still not been determined by the Netherlands courts. In the interim, after previously denying a stay in one of the two proceedings, the Court of Appeal of the Hague on March 28, 1996, granted a stay of enforcement in the other proceeding of the principal award made to Eco. (See note 29)

The agents' leaving indemnity reserve was created in prior years and is prudently maintained to reflect contingencies associated with the interruption of agency contracts in certain circumstances covered by Italian law. The reserve was utilized for Lire 1,352 million in relation to the termination of agency agreements in 1995 and increased during the year by provisions of Lire 2,239 million.

The exchange fluctuation reserve reflects the net effect of adjusting the unhedged foreign currency receivables and payables of Italian companies in the Group using year-end exchange rates. The effect deriving from the Group's foreign currency borrowing is linked to its core business and financial activities at the international level.

20. RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES

Movements in this reserve during the year were as follows:

<i>Opening balance as of January 1, 1995</i>	<i>56,684</i>
<i>Provision for the year</i>	<i>17,114</i>
<i>Indemnities paid during the year</i>	<i>(15,103)</i>
<i>Other movements</i>	<i>41</i>
<i>Closing balance as of December 31, 1995</i>	<i>58,736</i>

"Other movements" essentially relate to the addition of balances for companies acquired during 1995. Related provisions charged in expense in 1993 and 1994 were Lire 11,827 million and Lire 13,595 million respectively.

21. ACCOUNTS PAYABLE

The composition of and significant changes in this account group during the year are set out below:

Bonds

These consist of the following:

- EuroLire bond, guaranteed by Benetton Group S.p.A., issued on July 29, 1993, by the Dutch subsidiary Benetton International N.V., for Lire 200,000 million, bearing interest at 4.5% payable annually and repayable in 1998. Each bond, par value Lire 5 million, carries 63 warrants, relating to the ordinary shares of Benetton Group S.p.A., (the "Ordinary Share(s)"). Such warrants, of which a total of 2,520,000 were issued and are only exercisable on July 29, 1996, entitle the bearer to receive, at the option of the Company's management, either (i) one Ordinary Share which the Company would have to purchase in the stock market, or (ii) an amount in Lire equal to the closing price of one Ordinary Share on the Milan Stock Exchange ("MSE") on a reference date that is two business days before July 29, 1996. In connection with this operation, Benetton International N.V received a premium of approximately Lire 7,800 million in 1993, and is committed to pay financial counterparties the additional value over and above Lire 29,973 per share at the warrant expiration date. During the first half of 1995, Benetton International N.V. entered into equity option transactions in order to hedge the risk of price fluctuations in Ordinary Shares connected with the potential cash payments to warrant holders. These options fix the weighted average cost of settling the warrants at approximately Lire 15,900 per warrant. As a result of all these transactions, the aggregate cost of servicing the warrants is Lire 38,300 million which is recognized on an accrual basis, reflecting the accumulation on interest. The interest charge for 1995, 1994, and 1993 were approximately Lire 8,700 million, Lire 6,400 million and Lire 5,000 million, respectively.
- Bonds totaling LuxF 750 million (Lire 40,365 million at the December 31, 1995 exchange rate) were issued in 1994, by the subsidiary company, Benetton Finance N.V., at a unit price of LuxF 102.25, bearing interest at 7.75% p.a., repayable on August 4, 1999. Following an operation linked to an interest-rate swap, the bonds bear interest at a floating rate which is equal to the six month London Interbank Offering Rate ("LIBOR") in Italian Lire plus 0.25 percent, (11.19% at December 31, 1995). The bond is guaranteed by Benetton Group S.p.A. and listed on the Luxembourg Bourse.
- Bond issued on January 27, 1992, by Benetton España S.L. for Ptas 3,000,000,000, equivalent to Lire 39,162 million at the December 31, 1995 exchange rate. This bond bears interest at an annual rate of 12.10% and is repayable in full on January 27, 1997.

Convertible bonds

- Ten-year bond, issued in 1988 by a subsidiary of Manifatture Stefani S.p.A. for Lire 300 million. This bond is convertible at par from January 1, 1998.

Due to banks

Amounts due to banks at the balance sheet date are classified as follows:

	12-31-1994	12-31-1995
<i>Current account overdrafts</i>	56,451	50,029
<i>Import/export advances</i>	98,208	71,221
<i>Lines of credit, advances on receivables and other short-term loans</i>	301,749	446,753
<i>Long-term loans:</i>		
- <i>due within 12 months</i>	26,093	162,021
- <i>due beyond 12 months</i>	354,984	204,069
Total	837,485	934,093

This caption includes Lire 153,250 million due beyond five years.

Amounts due to banks include around Lire 63,900 million secured by mortgages on tangible fixed assets.

Group companies had the following lines of credit available at the balance sheet date: Lire 267 billion for current account overdrafts; and Lire 4,703 billion for advances on import/export transactions, the negotiation of trade notes and other short-term loans.

The weighted-average interest rates at year end are as follows:

- Overdrafts	10.01%
- Import/export advances	5.75%
- Advances against receivables and bank receipts	10.61%
- Other short-term borrowings	5.49%

Long-term loans from banks outstanding as of December 31, 1995 and 1994 are as follows:

	12-31-1994	12-31-1995
<i>Multicurrency loan obtained from an international banking syndicate for ECU 100,000,000, repayable through February 6, 1996, at floating interest rates that depend on the currencies chosen</i>	147,707	152,191
<i>Loan from Istituto Bancario San Paolo di Torino SpA, London Office, with the backing of leading international banks, at an annual interest rate of 8.5%, repayable in semiannual installments in arrears through 2003; the company has an interest rate swap associated with this loan that effectively modifies the fixed interest rate to a floating rate equal to LIBOR plus 0.60 per cent, which at year end was 11.725%. Linked to this loan, as part of its treasury management, a foreign subsidiary has temporarily invested in rights, transferable without restriction, in whole or in part, issued by one of the international banks party to the loan. The consolidated financial statements reflect the economic substance of the transaction by identifying just the financial resources employed by third-party subscribers for securities linked with the above loan</i>	163,966	136,282
<i>Loan from Efibanca (Ente Finanziario Interbancario SpA) and the European Investment Bank, disbursed in two tranches, at annual interest rates of 8.55% and 10.675%, repayable in semiannual installments in arrears from 1996 through 2003, secured by mortgages on property</i>	20,000	50,000
<i>Loan from Efibanca (Ente Finanziario Interbancario S.p.A.) at an annual interest rate of 10.5%, repayable in full on April 9, 1997</i>	-	10,000
<i>Loans from Mediocredito delle Venezie at annual interest rates between 8.25% and 11.5%, repayable in semiannual installments through 1996, secured by mortgages on property and liens on machinery</i>	2,822	1,340
<i>Loans from Friulia at annual interest rates between 7% and 10%, repayable in semiannual installments through 1996</i>	1,453	368
<i>Loans from Fondo Rotazione Iniziative Economiche at annual interest rates between 6% and 8%, repayable in semi-annual installments through 1999, secured by mortgages on property</i>	6,438	5,079
<i>Other Lire loans secured by mortgages on real estate</i>	5,298	3,144
<i>Loan from Credito Italiano for £ 6,000,000 at an annual rate of 10.875%, repayable through 1995</i>	7,600	-
<i>Other foreign currency loans obtained by foreign consolidated companies; residual value of Lire 4,372 million as of December 31, 1995, secured by mortgages on real estate</i>	25,793	7,686
Total long-term loans	381,077	366,090
<i>Less - Current portion</i>	<i>(26,093)</i>	<i>(162,021)</i>
Long-term loans, net of current portion	354,984	204,069

The non-current portions of these loans as of December 31, 1995 fall due as follows:

1997	20,222
1998	10,593
1999	10,458
2000	9,546
2001 and beyond	153,250
	204,069

Due to other providers of finance

Financial payables due at the balance sheet date to other providers of finance are analyzed below:

	12-31-1994	12-31-1995
Commercial paper	-	361
Other short-term loans	10,064	307
Long-term loans:		
- due within 12 months	13,034	7,096
- due beyond 12 months	7,356	5,549
Due to leasing companies:		
- due within 12 months	7,544	3,146
- due beyond 12 months	4,689	10,970
Total	42,687	27,429

Long-term loans obtained from other providers of finance outstanding as of December 31, 1995 and 1994 are as follows:

	12-31-1994	12-31-1995
Loans from suppliers of machinery, repayable in installments over 24 months	18,361	11,601
Other Lire loans	417	417
Other foreign currency loans obtained by foreign consolidated companies, secured by mortgages on real estate	1,612	627
Total long-term loans	20,390	12,645
Less: Current portion	(13,034)	(7,096)
Long-term loans, net of current portion	7,356	5,549

The non-current portions of these loans as of December 31, 1995 fall due as follows:

1997	5,130
1998	60
1999	33
2000	36
2001 and beyond	290
	5,549

The non-current portion of amounts due to leasing companies as of December 31, 1995 fall due as follows:

1997	2,932
1998	2,576
1999	2,220
2000	931
2001 and beyond	2,311
	10,970

Securities issued

These amount to Lire 11,830 million (Lire 20,714 million as of December 31, 1994) and include Lire 5,429 million of assisted loans under the Sabatini Law (Law 1329 of November 28, 1965) for the purchase of tangible fixed assets (Lire 10,733 million in 1994).

The maturities of such assisted loans as of December 31, 1995 are as follows:

<i>1996</i>	<i>3,618</i>
<i>1997</i>	<i>1,136</i>
<i>1998</i>	<i>543</i>
<i>1999</i>	<i>132</i>
	<i>5,429</i>

Due to subsidiary companies

Amounts due to subsidiary companies, Lire 2,227 million, mainly comprise trade payables to companies not consolidated on a line-by-line basis.

Due to tax authorities

This caption is analyzed as follows:

	<i>12-31-1994</i>	<i>12-31-1995</i>
<i>Income taxes payable:</i>		
- <i>Italian companies</i>	<i>11,875</i>	<i>57,670</i>
- <i>Foreign companies</i>	<i>15,711</i>	<i>12,627</i>
<i>Total income taxes payable</i>	<i>27,586</i>	<i>70,297</i>
<i>VAT payable</i>	<i>3,675</i>	<i>5,895</i>
<i>Other amounts due to tax authorities</i>	<i>23,363</i>	<i>22,382</i>
<i>Total</i>	<i>54,624</i>	<i>98,574</i>

Income taxes payable are stated net of taxes paid in advance and all tax credits and withholdings that would reduce the tax liability.

Due to social security and welfare institutions

This balance totals Lire 16,441 million (Lire 15,757 million as of December 31, 1994) and reflects both Group and employee contributions payable to these institutions at year-end.

Other payables

Other payables, totaling Lire 33,836 million, include Lire 20,175 million due to employees (Lire 18,627 million as of December 31, 1994) and other non-trading payables of Lire 13,661 million (Lire 12,571 million in 1994). Accounts payable beyond five years are not included in this caption.

22. ACCRUED EXPENSES AND DEFERRED INCOME

This caption comprises the following:

	12-31-1994	12-31-1995
<i>Accrued expenses:</i>		
- financial charges	53,487	51,896
- other charges	4,453	3,432
Total accrued expenses	57,940	55,328
<i>Deferred income:</i>		
- financial income	4,737	1,528
- sponsorships	8,040	9,337
- other income	2,075	1,230
Total deferred income	14,852	12,095
Premiums on bond issues	772	587
Total	73,564	68,010

Financial income mainly reflects the deferral to the following accounting period of the interest element of premiums on currency swaps entered into by foreign subsidiaries.

23. COMMITMENTS, CONTINGENCIES AND MEMORANDUM ACCOUNTS

These mainly include currency to be sold or purchased forward.

This 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 foreign currency 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 by Group companies.

The objective of these transactions is to optimize currency management and secure the Company's operating margins and exchange position.

<i>Description</i>	<i>Amount as of December 31, 1995</i> <i>(in millions of Lire)</i>
	<i>Forward value</i>
<i>Currency to be sold forward</i>	5,674,873
<i>Currency to be purchased forward</i>	3,204,780
	<i>Notional amount</i>
<i>Forward rate agreements</i>	650,000
<i>Interest rate swaps</i>	745,077

COMMENTS ON THE PRINCIPAL STATEMENT OF INCOME CAPTIONS

(in millions of Lire)

24. VALUE OF PRODUCTION

Revenues from sales and services

Revenues from sales of products and services are detailed below:

	1994	1995
<i>Sales of core products</i>	2,596,939	2,724,372
<i>Miscellaneous sales</i>	49,020	50,601
<i>(Discounts)</i>	(5,207)	(7,388)
<i>Royalty income</i>	13,727	13,642
<i>Miscellaneous revenues</i>	133,193	157,907
Total	2,787,672	2,939,134

Miscellaneous revenues principally consist of manufacturing, advertising and promotion services rendered to third parties.

Information by geographic area

The following information is provided by geographic area:

	Italy (excluding Italy)	Europe	The Americas (c) (d)	Other countries	Inter- company	Consoli- dated transactions	
1993							
<i>Net sales and other revenues (a)</i>		850,609	1,062,823	270,021	568,005	-	2,751,458
<i>Operating income (a)</i>	165,003	204,150	(22,418)	74,490	(13,299)	407,926	
<i>Identifiable assets (b)</i>	2,428,705	475,976	228,684	260,654	-	3,394,019	
1994							
<i>Net sales and other revenues (a)</i>		882,744	1,019,478	227,302	658,148	-	2,787,672
<i>Operating income (a)</i>	151,153	175,040	(19,318)	93,841	(11,976)	388,740	
<i>Identifiable assets (b)</i>	2,291,554	810,637	163,094	271,880	-	3,537,165	
1995							
<i>Net sales and other revenues (a)</i>		1,011,727	1,034,665	208,459	684,283	-	2,939,134
<i>Operating income (a)</i>	195,568	182,529	(23,737)	112,833	(23,390)	443,803	
<i>Identifiable assets (b)</i>	2,633,545	825,485	143,331	234,718	-	3,837,079	

The decrease in revenues from "The Americas" is linked to the termination during the year of production and marketing activities in the cosmetics sector.

(a) Amounts principally determined by destination.

(b) By geographic location.

(c) Operating income in the Americas includes in operating results, Lire 15,961 million of loss in 1995 (Lire 5,800 million in 1994 and Lire 9.842 million in 1993) arising from Cosmetics Group; therefore it includes Lire 6,486 million of loss in 1995 (Lire 8,083 million in 1994 and Lire 7,590 million in 1993), arising from subsidiaries operating in countries with hyper-inflationary economies.

(d) Identifiable assets in the Americas include the financial assets of Benetton Finance N.V., located in the Dutch Antilles, amounting to Lire 37,322 million as of December 31, 1995 (Lire 16,053 and 106,029 million respectively in 1994 and 1993).

Sales of core products, by business category

	1994	1995
<i>Clothing</i>	2,220,233	2,259,385
<i>Fabrics and yarns</i>	99,862	193,059
<i>Footwear</i>	98,597	98,533
<i>Accessories</i>	134,202	158,887
<i>Cosmetics</i>	44,045	14,508
Total	2,596,939	2,724,372

Sales of core products, by trademark

	1994	1995
<i>Benetton</i>	1,652,914	1,657,136
<i>012 and Zerotondo</i>	435,935	502,379
<i>Sisley and 999</i>	338,003	321,555
<i>Other sales</i>	170,087	243,302
Total	2,596,939	2,724,372

25. PRODUCTION COSTS

Purchasing costs

This caption consists of the following:

	1994	1995
<i>Raw materials and finished goods</i>	855,513	859,981
<i>Other materials</i>	29,332	30,025
<i>Sundry purchases - advertising</i>	1,697	2,212
<i>Other purchases</i>	25,112	34,261
<i>(Discounts and rebates)</i>	(1,430)	(1,743)
Total	910,224	924,736

Services received

This caption consists of the following:

	1994	1995
<i>Subcontracted work</i>	562,863	572,893
<i>Transport and distribution</i>	56,007	56,969
<i>Commission expense</i>	107,301	114,994
<i>Advertising and promotion</i>	131,106	116,538
<i>Other services</i>	127,344	156,362
Total	984,621	1,017,756

Advertising cost for Tribù perfume significantly decreased in 1995 compared with 1994.

Other services mainly include power costs, maintenance costs, consultancy and other fees, insurance premiums and personnel travel expenses.

Payroll and related costs

The rise in payroll and related costs, Lire 16,400 million, reflects normal wage inflation.

Group personnel are listed below, by category:

	1994	1995	Average for the year
<i>Managerial personnel</i>	192	141	167
<i>Clerical personnel</i>	2,384	2,125	2,254
<i>Factory personnel</i>	3,599	3,583	3,591
<i>Part-time personnel</i>	125	169	147
Total	6,300	6,018	6,159

The fall in the number of employees is mainly due to termination of the operating activities of the cosmetics group, the reorganization of the Maglificio Fontane group and the effect of deconsolidating Benetton Bosphorus Casual Wear A.S..

Amortization, depreciation and writedowns

Amortization and depreciation are analyzed below, by asset category:

Amortization of intangible fixed assets

	1994	1995
<i>Amortization of start-up and expansion expenses</i>	6,448	7,219
<i>Amortization of research, development and advertising expenses</i>	372	273
<i>Amortization of industrial patents and intellectual property rights</i>	54	82
<i>Amortization of licenses, trademarks and similar rights</i>	1,782	1,775
<i>Amortization of goodwill</i>	162	147
<i>Amortization of consolidation differences</i>	1,129	1,616
<i>Amortization of costs for the purchase and development of software</i>	6,723	4,900
<i>Amortization of other charges</i>	3,316	3,236
Total	19,986	19,248

Depreciation of tangible fixed assets

	1994	1995
<i>Depreciation of real estate</i>	10,622	12,259
<i>Depreciation of plant and machinery</i>	43,051	51,125
<i>Depreciation of equipment</i>	2,835	2,250
<i>Depreciation of other assets</i>	13,568	14,093
<i>Depreciation of assets acquired under finance leases</i>	5,550	2,014
Total	75,626	81,741

Writedowns

The caption "Writedown of current receivables and of liquid funds", Lire 60,839 million, relates to the provision for doubtful accounts. This is discussed in the note on current receivables.

Other operating costs

This caption consists of the following:

	1994	1995
<i>Emoluments to Directors and Statutory Auditors</i>	14,627	15,241
<i>Indirect taxation</i>	13,529	16,042
<i>Losses on disposal of fixed assets</i>	5,646	2,400
<i>Losses on receivables</i>	1,005	6,033
<i>Other general expenses</i>	15,451	11,634
Total	50,258	51,350

Indirect taxation includes capital taxes amounting to Lire 7,689 million.

Emoluments earned during the year by the Directors and Statutory Auditors of the parent company total around Lire 6,500 million and Lire 280 million, respectively.

26. FINANCIAL INCOME AND EXPENSE

Income from equity investments

This balance, Lire 11,891 million (Lire 21,066 million in 1994), includes Lire 10,349 million of interest income on tax credits deriving from dividends distributed by consolidated subsidiaries.

Other financial income

This caption consists of the following:

	1994	1995
<i>From receivables held as financial fixed assets:</i>		
- assets leased to third parties	6,326	142
- other receivables held as financial fixed assets	1,363	458
<i>Total</i>	<i>7,689</i>	<i>600</i>
<i>From securities held as financial fixed assets not representing equity investments</i>	<i>12,216</i>	<i>17,141</i>
<i>From securities included among current assets not representing equity investments</i>	<i>50,409</i>	<i>27,663</i>
<i>Financial income other than the above:</i>		
- interest income from subsidiary companies	-	586
- interest income from trade and other receivables	12,131	5,961
- interest income from banks	23,000	21,979
- miscellaneous financial income	87,698	59,900
- exchange gains and income from currency management	315,705	456,901
<i>Total</i>	<i>438,534</i>	<i>545,327</i>
Total	508,848	590,731

As discussed in relation to consolidation principles, other financial income includes approximately Lire 24,100 million (around Lire 16,900 million in 1994) of exchange gains on capital hedging transactions, representing the differentials between spot and forward exchange rates. This caption also includes positive differentials on interest rate swaps and forward rate agreements, approximately Lire 18,100 million; premiums collected on options, approximately Lire 8,400 million (around Lire 2,400 million in 1994); and income from currency swaps, approximately Lire 8,600 million (around Lire 12,200 million in 1994).

Interest and other financial expense

This caption consists of the following:

	1994	1995
<i>Interest expense on bonds</i>	<i>14,643</i>	<i>17,042</i>
<i>Interest expense on bank current accounts</i>	<i>7,642</i>	<i>10,464</i>
<i>Interest expense on import/export advances</i>	<i>15,897</i>	<i>5,003</i>
<i>Interest expense on advances against receivables</i>	<i>4,621</i>	<i>6,879</i>
<i>Interest expense on short-term loans</i>	<i>36,278</i>	<i>25,845</i>
<i>Interest expense on long-term loans</i>	<i>36,225</i>	<i>30,792</i>
<i>Interest expense on loans from other providers of finance</i>	<i>4,994</i>	<i>5,142</i>
<i>Miscellaneous financial expense</i>	<i>113,975</i>	<i>80,897</i>
<i>Exchange losses and charges from currency management</i>	<i>318,899</i>	<i>410,944</i>
Total	553,174	593,008

The rise in exchange losses is linked to foreign currency hedges.

Exchange losses are substantially compensated by exchange gains recorded during the year.

Miscellaneous financial expense mainly includes:

- negative differentials on interest rate swaps and forward rate agreements, Lire 25,600 million;
- the current portion of charges deriving from the valuation of warrants including accrued interest amounting to approximately Lire 11,500 million (around Lire 8,200 million in 1994) ;
- premiums paid on options, approximately Lire 5,600 million (around Lire 750 million in 1994);
- charges on currency swaps, approximately Lire 19,500 million (around Lire 9,900 million in 1994);
- discounts allowed on the early settlement of trade receivables, approximately Lire 7,000 million (around Lire 8,500 million in 1994);
- bank charges and commission of approximately Lire 6,200 million (around Lire 5,200 million in 1994).

27. EXTRAORDINARY INCOME AND EXPENSE

Income

This caption includes:

	1994	1995
<i>Gains on disposals</i>	2,494	2,652
<i>Other income:</i>		
- <i>Out-of-period income</i>	16,390	7,653
- <i>Other extraordinary income</i>	9,033	6,557
Total	27,917	16,862

Other extraordinary income mainly consists of insurance reimbursements in connection with thefts and damage in prior years.

Expense

This caption includes:

	1994	1995
<i>Losses on disposals</i>	6,297	3,673
<i>Taxes relating to prior years</i>	-	508
<i>Other expense:</i>		
- <i>Donations</i>	3,792	3,892
- <i>Out-of-period expense</i>	8,001	4,930
- <i>Other extraordinary expense</i>	13,346	34,136
Total	31,436	47,139

Other extraordinary expense includes approximately Lire 28,500 million provided to the reserve for risks and charges and amounts already paid in connection with the dispute with Eco Swiss China Time Ltd. and Bulova Corp..

The balance mainly relates to compensation payments made to third parties against accident and theft claims.

Income taxes

The tax liability for the year amounts to Lire 188,659 million, of which Lire 178,412 million relates to Italian companies.

The provision for income taxes includes the following amounts (in millions of Lire):

	1993	1994	1995
<i>Current:</i>			
<i>Italian companies</i>	144,042	137,132	189,365
<i>Foreign companies</i>	22,730	14,379	15,427
<i>Deferred:</i>			
<i>Italian companies</i>	(21,617)	(3,658)	(10,953)
<i>Foreign companies</i>	(6,938)	2,701	(5,180)
Total	138,217	150,554	188,659

The effective tax rate on income before taxes and minority interests is 45.9% (42.1% in 1994).

This is less than the ordinary Italian tax rate, primarily due to the effect of the lower rates applicable to the earnings of certain foreign subsidiaries, the use of tax loss carry-forwards and the receipt of tax-exempt income.

The reconciliation of the effective tax rate is as follows:

	1993	1994	1995
<i>Italian statutory tax rate</i>	52.2%	53.2%	53.2%
<i>Aggregate effect of different taxation of foreign subsidiaries</i>	(13.7%)	(15.8%)	(10.0%)
<i>Effect of writing down of the cost of consolidated investments</i>	(7.6%)	(5.7%)	(8.8%)
<i>Effect of losses from consolidated subsidiaries</i>	12.5%	14.0%	15.1%
<i>Tax exempt income</i>	(0.9%)	(0.8%)	(1.2%)
<i>Tax effect of loss carry-forwards</i>	(5.1%)	(4.4%)	(0.3%)
<i>Other, net</i>	2.1%	1.6%	(2.1%)
Effective tax rate	39.5%	42.1%	45.9%

The deferred tax provision represents the effect of the following timing differences (in millions of Lire):

	1993	1994	1995
<i>Accounting for leases</i>	(2,477)	(7,190)	(10,686)
<i>Provision for doubtful accounts</i>	(22,022)	(17,664)	(18,211)
<i>Depreciation</i>	552	5,614	42
<i>Losses on accounts receivable</i>	14,401	14,143	20,674
<i>Provision for future distribution of retained earnings</i>	(10,000)	(1,000)	-
<i>Other net</i>	(9,009)	5,140	(7,952)
	(28,555)	(957)	(16,133)

28. TRANSACTIONS WITH RELATED PARTIES

The Benetton Group engages in commercial and financial transactions with subsidiaries of Edizione Holding S.p.A. (the ultimate parent company) and other companies which, either directly or indirectly, are linked by common interests with the ultimate majority stockholders of the Group.

The conditions of such transactions are fully consistent with those applied in the ordinary course of business.

The effect of such transactions is summarized below:

	1994	1995
<i>Accounts receivable</i>	11,900	11,800
<i>Accounts payable</i>	1,400	4,800
<i>Purchase of raw materials</i>	4,900	8,900
<i>Other costs</i>	22,800	22,900
<i>Sale of products</i>	9,500	10,100
<i>Services provided and other income</i>	4,000	3,600

During 1994 the Group entered into the following transactions with subsidiaries of Edizione Holding S.p.A.:

- sale of Cusignana factory for Lire 10,020 million with a non-significant loss
- purchase of full control over Benetton Engineering Ltd. (see note 5).

29. LEGAL MATTERS

Benetton has been a party to a number of lawsuits, primarily with customers, arising in the normal course of business.

In particular, Benetton has been a party in 1995 to a number of lawsuits with French and German customers alleging a drop in sales caused by Benetton's advertising campaigns and refusing to pay for goods supplied on a regular basis. Nine judgements on this issue and other alleged breaches of contract by Benetton have already been rendered by the German courts, all in favour of Benetton. An additional provision of Lire 2,000 million has nonetheless been prudently recorded to cover risks which might arise from these legal disputes. The amount is considered adequate in view of the above legal pronouncements and because the amounts due by these customers have been written down to their estimated realizable value in the 1995 consolidated financial statements.

The only suit brought or pending against the Company in the United States in 1995 involved a claim for back rent on a terminated lease of a single retail store, and that litigation has now been settled.

Benetton International N.V. ("BINV") is a party to various disputes with Eco Swiss China Time Ltd. ("Eco") and Bulova Corporation ("Bulova"), arising from a trademark licensing agreement entered into by the companies in 1986. The agreement provided for the manufacture and sale by Eco of timepieces carrying the Benetton and Bulova trademarks. BINV attempted to terminate the agreement in 1991, prior to its expiration date in 1994, but an arbitral tribunal in the Netherlands subsequently held that it was not entitled to do so. In June 1995, the tribunal awarded Eco approximately US\$ 23.7 million and Bulova US\$ 2.8, together with interest and costs. (Also see note 27 to the Consolidated Financial Statement).

BINV has challenged the awards in two separate proceedings in the courts of the Netherlands. The merits of the challenges have still not been determined by the Netherlands courts. In the interim, after previously denying a stay in one of the two proceedings, the Court of Appeal of the Hague on March 28, 1996, granted a stay of enforcement in the other proceeding of the principal award made to Eco. The principal ground relied upon by the Court of Appeal was that the 1986 licensing agreement was void and unenforceable as a matter of the competition law of the European Union. The award made to Bulova had previously been paid by BINV, although it is subject to recovery if BINV ultimately prevails on the merits of its challenges to the arbitral awards. BINV anticipates that the full merits of its various challenges to the awards, including the application of European Union competition law, will be the subject of lengthy additional proceedings in the Netherlands courts.

As those proceedings continue, a separate arbitral proceeding initiated by BINV is beginning in The Hague. BINV contends in this second arbitral proceeding both that it satisfied any obligations it may have had to negotiate in good faith regarding an extension of the 1986 licensing agreement and that it is entitled to substantial awards of compensatory and other damages from Eco and Bulova regarding conduct occurring during and since the expiration of that agreement. BINV submitted its Statement of Claim on April 29, 1996. Eco and Bulova are scheduled to submit their answers, and BINV anticipates that they will assert substantial counterclaims for damages. BINV also anticipates that the arbitral proceedings will continue for a lengthy period.

30. SUBSEQUENT EVENTS

The Group's strategic plan for its corporate structure has moved a step nearer completion with the assignment to Benfin SpA of control of most of the manufacturing companies. This sub-holding company has taken over the 63.08% stake in Calzaturificio di Varese SpA (whose shares are quoted on the Milan over-the-counter market) held by Benetton Fashion SpA, an affiliated company.

The interest mentioned has been increased to 85.92% via the purchase of a further 22.84% holding from Edizione Holding SpA.

This substantial controlling interest will ensure an unambiguous strategic direction for Calzaturificio di Varese, combined with raised managerial and operational efficiency. Benfin SpA will launch a Public Offer to purchase the remaining shares, given the small proportion traded (14.08%) and the limited amount of dealings in these.

The Group has increased its 75% holding in Azimut SpA to 100%, via the purchase of the remaining shares from third parties.

On January 31, 1996, Benetton Group SpA ceased to be listed on the Toronto Stock Exchange. No transactions had taken place for over two years (these being concentrated on the New York Stock Exchange); Canadian stockholders were very few, while the volume of American Depositary Shares (ADSs) in issue in Canada was insignificant.

31. RECONCILIATION TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES AND CANADA

The Group's accounting policies that differ significantly from accounting principles generally accepted in the United States of America ("US") and Canada are described below:

Differences which have an effect on net income and Stockholders' equity.

(a) Revaluation of Fixed Assets and Trademarks

In 1991 and prior years, certain categories of property, plant and equipment and trademarks were revalued to amounts in excess of historical cost.

This procedure, which was authorized by Italian law, was allowed under Italian accounting practice to give consideration to the effects of local inflation.

Revaluations were credited to stockholders' equity and revalued assets are depreciated over their remaining useful lives. Accounting principles in the US and Canada do not permit the revaluation of such assets.

The reconciliation to accounting principles in the US and Canada eliminates the effect of the revaluation. As of December 31, 1995, the residual gross amount of revaluation was Lire 13,684 million for fixed assets and Lire 4,430 million for trademarks.

Surplus from monetary revaluation of assets reserve, amounting to Lire 45,028 million, represents the original revaluation effected in accordance with Italian Law and still subject to taxation in case of distribution.

The 1991 revaluation resulted in an asset revaluation of Lire 27,104 million for legal and tax purposes and a Lire 4,030 million revaluation for consolidated financial reporting purposes (considering the partial offsetting of the revaluation with the reversal of excess depreciation on the same fixed assets reflected as adjustment in the consolidated financial statements and prior years consolidating entries related to purchase price allocation). In order to maintain a record of the amount of asset revaluation for legal and tax purposes, Lire 23,074 million was transferred from other reserves to "surplus from monetary revaluation of assets".

The Lire 6,593 million adjustment in the reconciliation of stockholders' equity represents the remaining excess of revaluations for financial reporting purposes and differs from the 45,028 million Lire "surplus from monetary revaluation of assets" in the statement of stockholders' equity because:

- a) Revaluations made for legal purposes (and subject to taxation in case of distribution) but not for consolidated financial reporting purposes, as noted above.
- b) Depreciation on the revalued assets.
- c) Sales of revalued assets.

(b) Purchases and Sales with Parent Company

The Group has entered into several significant purchases and sales of companies with its parent, Edizione Holding S.p.A., and an affiliate of Edizione. The prices paid were based upon independent appraisal. The Group recorded the assets of purchased businesses at their acquisition value. Goodwill was charged directly to consolidated equity. In the case of sales transactions, the difference between carrying value and selling price was reflected as a gain in the accompanying financial statements.

Under US and Canadian generally accepted accounting principles, transactions between members of a "controlled group" should not result in gains or losses, or increases in asset carrying values. Accordingly, gains recognized on these transactions have been reversed in the accompanying reconciliation.

Generally accepted US and Canadian accounting principles also require the use of a method of accounting, consistent with "pooling of interests" accounting, for acquisitions and dispositions between members of a "controlled group" if the amounts involved are material.

The accompanying reconciliation has not been restated to reflect these transactions as a "pooling of interests" as the net aggregate effect of the transactions is not material.

(c) Valuation of Warrants

The Group issued two series of bonds with warrants, which expired respectively in 1991 and 1993, at an interest rate which was lower than market rate for similar bonds without warrants. US and Canadian generally accepted accounting principles require a portion of the proceeds received to be allocated to the warrants. Such amount was originally approximately Lire 49,120 million. For US and Canadian generally accepted accounting purposes, the difference between the redemption price of the bonds and their carrying amount (net of the value assigned to the warrants) should be amortized as interest expense over the life of the bonds.

With regard to the 1993 issues, such a treatment has been adopted for the "knock-out warrants" related to 200 billion Eurolire Bond issued in July, 1993 (Note 21).

(d) Accounting for Goodwill

Up to 1992, goodwill on investments acquired was charged or credited to stockholders' equity at the date of purchase. This policy differs from US and Canadian generally accepted accounting principles which require that such differences be reflected as an assets in the balance sheet of the acquiring company and then amortized over a period not in excess of 40 years.

The adjustment in the accompanying reconciliation has been made to recognize the goodwill on acquisitions from third parties made in 1990 and prior years originally amounting to Lire 7,330 million. Goodwill is being amortized over a 10 year period, corresponding to the estimated useful lives of the underlying assets acquired.

(e) Deferred Charges

The Group has deferred certain taxes paid on capital stock increases and stock exchange listing costs and is amortizing these amounts over 5 years. Under US and Canadian generally accepted accounting principles, these taxes and listing costs would have been considered to be a reduction of the proceeds received and charged to capital stock or additional paid-in capital. The accompanying reconciliation reflects the adjustment to follow US and Canadian generally accepted accounting principles.

(f) Foreign Currency Translation

Since 1989, the Group's policies and procedures with respect to the translation of financial statements of foreign subsidiaries operating in hyper-inflationary economies, have been in conformity with the requirements of Statement of Financial Accounting Standards No. 52.

Group accounting policies state that long term debts denominated in a foreign currency are translated using the exchange rate at the balance sheet date, with losses included in the determination of net income and unrealized net gains deferred.

Canadian accounting principles require losses to be deferred and amortized over the remaining life of the debt.

The accompanying reconciliation provides the adjustment, net of related tax effect, which would be required to conform with Canadian accounting principles.

In addition the accompanying reconciliation in 1994 provides the cumulative effect on net income for US GAAP of change in accounting for premiums on forward contracts entered into in order to hedge investments in foreign subsidiaries (note 3).

The Company has forward contracts maturing in 1996 and 1997 in order to hedge future sales in foreign currencies for a total amount of Lire 963 billion. Since such contracts do not hedge firm commitments, they are to be considered as anticipatory hedging and, under US GAAP, accounted for as speculative transactions, using the mark to market valuation ("m.t.m.").

Such valuation results in a net unrealized gain of Lire 13.6 billion before taxes at December 31, 1995.

At December 31, 1994 the "m.t.m." of anticipatory hedging resulted in a net loss (Lire 2.3 billion) and in accordance with Italian GAAP was reflected in the consolidated financial statements.

Therefore at December 31, 1994 the "m.t.m." was consistent with US GAAP .

(g) Accounting for Deferred Income Taxes

The Group provides for deferred income taxes on timing differences between book and taxable income which are expected to become payable or recoverable in the foreseeable future using the liability method.

The accompanying reconciliation reflects the tax effects related to reconciling adjustments.

In 1992, Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" was issued in the US and was adopted by the Group in the year 1993.

The deferred tax methodology required under US GAAP differs in certain circumstances from the deferred income tax methodology under Italian GAAP due to different treatment of tax assets mainly deriving from tax loss carry-forward.

(h) Net Income per Share

Under Italian accounting principles, earnings per share are not required to be disclosed. The approximate net income per share amounts, based on income determined in accordance with accounting principles generally accepted in the US and Canada as shown in the accompanying reconciliation, have been calculated based on the average number of shares outstanding.

The following tables summarize the significant adjustments to consolidated net income and stockholders' equity which would be required if accounting principles generally accepted in the US and Canada had been applied instead of those established or adopted by the Italian Accounting Profession.

(i) Marketable securities

Under Italian GAAP, marketable securities are carried at the lower of cost or market value. Under U.S. GAAP, effective with fiscal years beginning after December 15, 1993, companies are required to adopt Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investment in Debt and Equity Securities" (SFAS 115"), which changes the accounting for investments in marketable securities from a lower of cost or market methodology to a fair market value methodology. Under this methodology, the Company would classify its marketable securities as available for sale; however, the effect of SFAS 115 on net income and shareholder's equity is not significant.

Differences which have an effect on the format of the financial statements

The balance sheet and income statement formats adopted by the Group in 1995 and 1994 as a result of changes in Italian reporting requirements differ from the financial statement format typically followed under the requirements of U.S. GAAP. Since the Group has included in appendix 2 and 3 financial statements prepared in accordance with Italian GAAP but adjusted to follow an international financial statement presentation format consistent with the one used by the Group in prior years, which is also similar to the format required under U.S. GAAP, separate balance sheet and income statement account reconciliations to the amounts determined under U.S. GAAP have not been presented as part of the U.S. GAAP reconciliation.

Reconciliation to generally accepted accounting principles in the United States and Canada

	1993	(Millions of Lire)(1) 1994	1995	(Thousands of US \$) (1) (2) 1995
Net income:				
Net income as reported in the consolidated statements of income	208,038	210,220	220,255	139,015
Items increasing (decreasing) reported income:				
Reduction in depreciation and amortization of fixed assets and trademarks as a consequence of the elimination of revaluation, including impact of disposals	3,134	5,160	475	300
Adjustment related to acquisitions and dispositions of companies under common control	8,977	13,695	9,435	5,955
Warrant accounting	(3,780)	-	-	-
Amortization of goodwill	(1,252)	(1,052)	(1,989)	(1,256)
Adjustment of deferred charges	-	2,831	2,831	1,787
M.t.m. gain deriving from adjustment to conform anticipatory hedging transactions to SFAS 52	-	-	13,643	8,611
Accounting for deferred income tax	-	1,492	2,605	1,644
Tax effect of reconciling adjustments	(57)	(5,376)	(8,774)	(5,538)
Net income before cumulative effect of adoption of SFAS 109 and change in accounting for premiums on capital hedging	215,060	226,970	238,481	150,518
Cumulative effect of adoption of SFAS 109	19,496	-	-	-
Cumulative effect of change in accounting for premiums on capital hedging	-	9,200	-	-
Net income in accordance with accounting principles generally accepted in the US	234,556	236,170	238,481	150,518
Differences between US and Canadian GAAP:				
Elimination of cumulative effect of adoption of SFAS 109	(19,496)	(1,492)	(2,605)	(1,644)
Elimination of cumulative effect of change in accounting for premiums on capital hedging	-	(9,200)	-	-
Deferral of exchange rate loss on long term loans, net of tax effect	(8,090)	5,030	(5,362)	(3,384)
Net income in accordance with accounting principles generally accepted in Canada	206,970	230,508	230,514	145,490
Income per share before cumulative effect of accounting change	1,315	1,307	1,366	0.86
Cumulative effect of adoption of SFAS 109 and change in accounting for premiums on capital hedging	119	53	-	-
Net income per share amounts in accordance with accounting principles generally accepted in the US	1,434	1,360	1,366	0.86
Net income per share amounts in accordance with accounting principles generally accepted in Canada	1,265	1,328	1,320	0.83

(1) Except per share data, which are in Lire and US \$.

(2) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995.

Year Ended December 31,

	(Millions of Lire)			(Thousands of US \$) (1)
	1993	1994	1995	1995
Stockholders' equity:				
Balance as reported in the consolidated balance sheets	1,063,278	1,504,156	1,656,958	1,045,795
<i>Items increasing (decreasing) stockholders' equity:</i>				
Elimination of revaluations of fixed assets and trademark net of related depreciation and amortization	(13,785)	(8,625)	(8,150)	(5,144)
Adjustments related to acquisitions and dispositions of companies under common control	(75,512)	(64,222)	(55,434)	(34,988)
Warrant accounting	-	-	-	-
Reinstatement of goodwill previously written-off	6,043	4,991	3,002	1,895
Adjustment of deferred charges	-	(11,325)	(8,494)	(5,361)
M.t.m. gain deriving from adjustment to conform anticipatory hedging transactions to SFAS 52	-	-	13,643	8,611
Accounting for deferred income tax	19,496	20,988	23,593	14,891
Tax effect of reconciling adjustments	5,611	7,766	(1,008)	(636)
Balance in accordance with accounting principles generally accepted in the US	1,005,131	1,453,729	1,624,110	1,025,063
<i>Differences between US and Canadian GAAP:</i>				
Elimination of cumulative effect of adoption of SFAS 109	(19,496)	(20,988)	(23,593)	(14,891)
Deferral of exchange rate loss on long term loans, net of tax effect	4,390	9,420	4,058	2,561
Balance in accordance with accounting principles generally accepted in Canada	990,025	1,442,161	1,604,575	1,012,733

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995.

Differences which do not have an effect on net income and stockholders' equity.

1. Amortization of License

As discussed in Note 4 the Group is not amortizing certain license costs, as the amounts will be fully recoverable upon disposal of the underlying assets.

Under US and Canadian generally accepted accounting principles, such amounts would be amortized over the life of the license. No adjustment has been made for this item in the accompanying reconciliation, as the amounts involved are not significant.

2. Enjoyment rights

During 1991, the Group acquired the right to receive the majority of the dividend payments on the common stock of a leading Italian company for a period of three years.

In accordance with Italian accounting principles, the consideration paid for this investment is amortized in equal instalments over the three year period of the related contracts and dividends are credited to income on a cash basis.

Under U.S. and Canadian generally accepted accounting principles, the proper treatment would be to match the amortization of enjoyment rights against dividends received.

No adjustment has been made for this item in the accompanying reconciliation as the amounts involved are not significant.

Companies and groups included within the scope of consolidation as of December 31, 1995

<i>Name of the company</i>	<i>Location</i>	<i>Currency</i>	<i>Capital stock</i>	<i>Group interest</i>
<i>Companies and groups consolidated on a line-by-line basis:</i>				
<i>Parent company</i>				
<i>Benetton Group S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>87,276,862,500</i>	
<i>Italian Subsidiaries</i>				
<i>Benfin S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>10,000,000,000</i>	<i>100%</i>
<i>. Gruppo Manifatture Stefani</i>	<i>Grumolo delle Abbadesse (VI)</i>	<i>Lit.</i>	<i>600,000,000</i>	<i>78%</i>
<i>. Gruppo Texcontrol</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>17,000,000,000</i>	<i>81.875%</i>
<i>. Gruppo Maglificio Fontane</i>	<i>Fontane di Villorba (TV)</i>	<i>Lit.</i>	<i>1,250,000,000</i>	<i>75%</i>
<i>. Gruppo Galli Filati</i>	<i>Prato (FI)</i>	<i>Lit.</i>	<i>4,000,000,000</i>	<i>100%</i>
<i>Bencom S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>3,000,000,000</i>	<i>100%</i>
<i>. Benair S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>3,000,000,000</i>	<i>100%</i>
<i>. Immobiliare Castrette S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>6,000,000,000</i>	<i>100%</i>
<i>Fabrica S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>8,000,000,000</i>	<i>100%</i>
<i>. Colors Magazine S.r.l.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>199,000,000</i>	<i>100%</i>
<i>Benetton Fashion S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>70,000,000,000</i>	<i>100%</i>
<i>. Gruppo Calzaturificio di Varese</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>8,808,569,580</i>	<i>63.082%</i>
<i>. Gruppo Azimut</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>550,000,000</i>	<i>75%</i>
<i>. Gruppo Socks & Accessories Benetton (S.A.B.)</i>	<i>Sesto Fiorentino (FI)</i>	<i>Lit.</i>	<i>1,000,000,000</i>	<i>50%</i>
<i>Benlog S.p.A.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>27,400,000,000</i>	<i>100%</i>
<i>Foreign subsidiaries</i>				
<i>Benetton U.S.A. Corp.</i>	<i>Delaware</i>	<i>US \$</i>	<i>29,654,000</i>	<i>100%</i>
<i>. Benetton Services Corp.</i>	<i>New York</i>	<i>US \$</i>	<i>900,000</i>	<i>100%</i>
<i>. Benetton Retail Corp.</i>	<i>Delaware</i>	<i>US \$</i>	<i>1,301,000</i>	<i>100%</i>
<i>. Benetton Manufacturing Corp.</i>	<i>Delaware</i>	<i>US \$</i>	<i>10,000,000</i>	<i>100%</i>
<i>Benetton Capital Investments N.V.</i>	<i>Amsterdam</i>	<i>f.</i>	<i>29,070,000</i>	<i>100%</i>
<i>. Benetton Finance N.V.</i>	<i>Curaçao</i>	<i>US \$</i>	<i>26,000</i>	<i>100%</i>
<i>Benetton Holdings N.V.</i>	<i>Amsterdam</i>	<i>f.</i>	<i>45,433,000</i>	<i>100%</i>
<i>. Benetton Cosmetici Holding S.A.</i>	<i>Lugano</i>	<i>SwF</i>	<i>1,600,000</i>	<i>100%</i>
<i>. Benetton Cosmetici S.A.</i>	<i>Lugano</i>	<i>SwF</i>	<i>50,000</i>	<i>100%</i>
<i>. Benetton Cosmétiques France S.A.</i>	<i>Paris</i>	<i>F</i>	<i>28,050,000</i>	<i>100%</i>
<i>. Benetton Cosmetics Deutschland GmbH</i>	<i>Bielefeld</i>	<i>DM</i>	<i>50,000</i>	<i>100%</i>
<i>. Benetton Cosmetics Corp.</i>	<i>New Jersey</i>	<i>US \$</i>	<i>3,500,000</i>	<i>100%</i>
<i>. Benetton Group Japan K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>400,000,000</i>	<i>90%</i>
<i>. Benetton Kansai K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>10,000,000</i>	<i>90%</i>
<i>. Benetton Argentina S.A.</i>	<i>Buenos Aires</i>	<i>US \$</i>	<i>500,000</i>	<i>100%</i>

Name of the company	Location	Currency	Capital stock	Group interest
<i>Benetton International N.V.</i>	<i>Amsterdam</i>	<i>f.</i>	<i>207,570,000</i>	<i>100%</i>
<i>. Benetton France Trading S.a.r.l.</i>	<i>Troyes</i>	<i>F</i>	<i>240,000,000</i>	<i>100%</i>
<i>. Benetton France S.A.</i>	<i>Troyes</i>	<i>F</i>	<i>40,000,000</i>	<i>100%</i>
<i>. Benetton Realty France S.A.</i>	<i>Troyes</i>	<i>F</i>	<i>272,000,000</i>	<i>100%</i>
<i>. Catys S.a.r.l.</i>	<i>Troyes</i>	<i>F</i>	<i>410,040</i>	<i>100%</i>
<i>. Benetton España S.L.</i>	<i>Castellbisbal</i>	<i>Ptas.</i>	<i>100,000,000</i>	<i>100%</i>
<i>. Benetton S.A.</i>	<i>Castellbisbal</i>	<i>Ptas.</i>	<i>200,000,000</i>	<i>100%</i>
<i>. Benetton Lda.</i>	<i>Lisbona</i>	<i>Esc</i>	<i>20,000,000</i>	<i>100%</i>
<i>. Benetton (U.K.) Ltd.</i>	<i>London</i>	<i>£</i>	<i>52,334</i>	<i>100%</i>
<i>. Benetton Formula Ltd.</i>	<i>London</i>	<i>£</i>	<i>3,900,000</i>	<i>100%</i>
<i>. Benetton Retail (1988) Ltd.</i>	<i>London</i>	<i>£</i>	<i>7,700,000</i>	<i>100%</i>
<i>. Benetton Società di Servizi S.A.</i>	<i>Lugano</i>	<i>SwF</i>	<i>50,000</i>	<i>100%</i>
<i>. Benetton do Brasil Textil Ltda.</i>	<i>Sao José dos Pinhais</i>	<i>R\$</i>	<i>10,405</i>	<i>100%</i>
<i>. United Colors of Benetton do Brasil S.A.</i>	<i>Sao José dos Pinhais</i>	<i>R\$</i>	<i>1,667,818</i>	<i>100%</i>
<i>. Colorben Comercio de Roupas Ltda.</i>	<i>Sao Paulo</i>	<i>R\$</i>	<i>468</i>	<i>50%</i>
<i>. Unirio Comercio de Roupas Ltda.</i>	<i>Rio de Janeiro</i>	<i>R\$</i>	<i>5,000</i>	<i>100%</i>
<i>. Colors Brasil Roupas Ltda.</i>	<i>Rio de Janeiro</i>	<i>R\$</i>	<i>1,000</i>	<i>100%</i>
<i>. Jumar III Comercio de Roupas Ltda.</i>	<i>Rio de Janeiro</i>	<i>R\$</i>	<i>20,000</i>	<i>100%</i>
<i>. Benetton Japan K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>400,000,000</i>	<i>100%</i>
<i>. Benetton Shoes Japan K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>60,000,000</i>	<i>50%</i>
<i>. Bene Moda K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>60,000,000</i>	<i>50%</i>
<i>. United Agency K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>15,000,000</i>	<i>86%</i>
<i>. Benetton China Japan K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>50,000,000</i>	<i>69%</i>
<i>. Beijing Benetton Fashion Co. Ltd.</i>	<i>Beijing</i>	<i>Y</i>	<i>3,797,620</i>	<i>50%</i>
<i>. Benetton Kanto K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>150,000,000</i>	<i>88.67%</i>
<i>. Benetton (Far East) Ltd.</i>	<i>Hong Kong</i>	<i>Hk \$</i>	<i>31,000,000</i>	<i>100%</i>
<i>. United Colors Communication S.A.</i>	<i>Lugano</i>	<i>SwF</i>	<i>1,000,000</i>	<i>100%</i>
<i>. Egyptian European Clothing Manufacturers S.A.E.</i>	<i>Alexandria</i>	<i>LE</i>	<i>4,000,000</i>	<i>50%</i>
<i>. Benetton Mexico S.A. de C.V.</i>	<i>Mexico City</i>	<i>N\$</i>	<i>11,060,000</i>	<i>100%</i>
<i>. Benetton Services S.A.</i>	<i>Lugano</i>	<i>SwF</i>	<i>1,400,000</i>	<i>100%</i>
<i>. Benetton Korea Inc.</i>	<i>Seoul</i>	<i>W</i>	<i>110,000,000</i>	<i>100%</i>
<i>. DCM Benetton India Ltd.</i>	<i>New Delhi</i>	<i>Rs.</i>	<i>80,000,000</i>	<i>50%</i>
<i>. Benetton Time S.A.</i>	<i>Luxembourg</i>	<i>US \$</i>	<i>300,000</i>	<i>52%</i>
<i>. Benetton Engineering Ltd.</i>	<i>Enstone</i>	<i>£</i>	<i>8,200,000</i>	<i>100%</i>
<i>. Benetton Tunisia S.a.r.l.</i>	<i>Akouda</i>	<i>At</i>	<i>303,900</i>	<i>100%</i>
<i>. Benetton Textile Services GmbH</i>	<i>Düsseldorf</i>	<i>DM</i>	<i>50,000</i>	<i>100%</i>
<i>Investments carried at equity:</i>				
<i>. Texmantova S.p.A.</i>	<i>Garbagnate Milanese (MI)</i>	<i>Lit.</i>	<i>9,625,000,000</i>	<i>21.733%</i>
<i>. Shanghai Benetton Ltd.</i>	<i>Shanghai</i>	<i>Y</i>	<i>2,780,000</i>	<i>41.4%</i>
<i>. Benetime Japan K.K.</i>	<i>Tokyo</i>	<i>Yen</i>	<i>10,000,000</i>	<i>24%</i>
<i>. T.W.R. Group Ltd.</i>	<i>Kidlington</i>	<i>£</i>	<i>20,000,000</i>	<i>50%</i>
<i>. Colors Communications S.r.l.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>20,000,000</i>	<i>100%</i>
<i>. Filtravesio S.r.l.</i>	<i>Ponzano Veneto (TV)</i>	<i>Lit.</i>	<i>199,000,000</i>	<i>100%</i>
<i>. Benetton (Hong Kong) Ltd.</i>	<i>Hong Kong</i>	<i>Hk \$</i>	<i>1,000,000</i>	<i>50%</i>
<i>. Benetton Central Europe Ltd.</i>	<i>Warsaw</i>	<i>Zloty</i>	<i>4,204,700</i>	<i>100%</i>
<i>Investments in subsidiaries and associated companies carried at cost:</i>				
<i>. Benetton China Holdings Ltd.</i>	<i>Beijing</i>	<i>US \$</i>	<i>2,600,000</i>	<i>50%</i>

**Consolidated balance sheets as of
December 31, 1994 and 1995**

Appendix 2

(reclassified in accordance with financial criteria)

(in millions of Lire)

(Thousands
of US \$) (1)

Assets	12/31/94	12/31/95	12/31/95
Current Assets			
Cash	404,779	458,619	289,459
Marketable securities	249,281	400,092	252,520
Differentials on forward transactions	50,937	80,891	51,055
Financial receivables	38,623	141,324	89,197
Assets leased to third parties	156	173	109
Accounts receivable			
Trade receivables	1,384,971	1,410,432	890,199
Other receivables	177,605	158,510	100,044
Less- Allowance for doubtful accounts	(173,276)	(169,935)	(107,255)
	<u>1,389,300</u>	<u>1,399,007</u>	<u>882,988</u>
Inventories	489,970	506,363	319,593
Prepayments and accrued income	57,960	53,030	33,470
	<u>2,681,006</u>	<u>3,039,499</u>	<u>1,918,391</u>
Investments and other non-current assets			
Investments	40,200	47,151	29,759
Securities held as fixed assets	112,158	20,767	13,107
Guarantee deposits	30,268	29,753	18,779
Financial receivables	6,207	4,104	2,590
Other non current receivables	1,373	2,078	1,312
Assets leased to third parties	1,227	1,054	665
	<u>191,433</u>	<u>104,907</u>	<u>66,212</u>
Fixed assets			
Land and buildings	393,552	447,822	282,645
Plant, machinery and equipment	439,188	505,931	319,320
Office furniture, furnishings and electronic equipment	74,337	65,656	41,439
Vehicles and aircraft	46,228	47,931	30,252
Construction in progress and advances for fixed assets	23,826	6,186	3,905
Finance leases	42,829	21,729	13,714
Less- Accumulated depreciation	(426,362)	(477,238)	(301,211)
	<u>593,598</u>	<u>618,017</u>	<u>390,064</u>
Intangible assets			
Licenses and trademarks	10,039	12,310	7,770
Deferred charges	61,089	62,346	39,350
	<u>71,128</u>	<u>74,656</u>	<u>47,120</u>
Total assets	<u>3,537,165</u>	<u>3,837,079</u>	<u>2,421,787</u>

(1)Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

	(in millions of Lire)		(Thousands of US \$) (1)
<i>Liabilities and stockholders' equity</i>	12/31/94	12/31/95	12/31/95
<i>Current liabilities</i>			
<i>Bank loans</i>	456,408	568,003	358,497
<i>Short-term loans</i>	10,065	668	422
<i>Current portion of long-term loans</i>	44,655	172,735	109,022
<i>Current portion of lease financing</i>	7,544	3,146	1,986
<i>Accounts payable</i>	511,634	528,624	333,643
<i>Other payables and accruals</i>	156,622	144,899	91,454
<i>Reserve for income taxes</i>	27,586	70,297	44,368
<i>Total current liabilities</i>	1,214,514	1,488,372	939,392
<i>Long-term liabilities</i>			
<i>Bonds</i>	275,677	279,827	176,614
<i>Long-term loans, net of current portion</i>	367,545	211,429	133,444
<i>Other long-term liabilities</i>	1,402	2,123	1,340
<i>Lease financing</i>	4,689	10,970	6,924
<i>Reserve for termination indemnities</i>	56,684	58,736	37,071
<i>Reserve for deferred income taxes</i>	312	-	-
<i>Other reserves</i>	68,282	89,801	56,678
	774,591	652,886	412,071
<i>Minority interests in consolidated subsidiaries</i>	43,904	38,863	24,528
<i>Stockholders' equity</i>			
<i>Capital stock</i>	87,277	87,277	55,085
<i>Additional paid-in capital</i>	472,661	472,661	298,322
<i>Surplus from monetary revaluation of assets</i>	45,116	45,028	28,420
<i>Other reserves and retained earnings</i>	675,550	816,037	515,045
<i>Translation differences</i>	13,332	15,700	9,909
<i>Net income for the year</i>	210,220	220,255	139,015
	1,504,156	1,656,958	1,045,796
<i>Total liabilities and stockholders' equity</i>	3,537,165	3,837,079	2,421,787

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

Consolidated statements of income for the years ended December 31,

	(in millions of Lire)			(Thousands of US \$) (1)
	1993	1994	1995	1995
Revenue:				
Net sales	2,639,809	2,640,752	2,767,585	1,746,772
Other revenues	111,649	146,920	171,549	108,274
	<u>2,751,458</u>	<u>2,787,672</u>	<u>2,939,134</u>	<u>1,855,046</u>
Cost of sales:				
Material and net change in inventories	831,243	804,809	872,790	550,865
Payroll and related cost	150,025	160,619	171,687	108,361
Subcontract work	506,857	562,863	549,958	347,108
Industrial depreciation	55,846	54,428	59,226	37,381
Other manufacturing costs	47,432	56,335	67,631	42,685
	<u>1,591,403</u>	<u>1,639,054</u>	<u>1,721,292</u>	<u>1,086,400</u>
Gross margin	1,160,055	1,148,618	1,217,842	768,646
Selling, general and administrative expenses:				
Payroll and related cost	149,175	160,242	165,579	104,506
Distribution and transport	54,659	56,007	56,969	35,956
Sales commission	114,030	107,301	114,994	72,579
Advertising and promotion	151,763	132,803	119,993	75,734
Depreciation and amortization	35,039	41,184	41,763	26,359
Other expenses	247,463	262,341	274,741	173,404
	<u>752,129</u>	<u>759,878</u>	<u>774,039</u>	<u>488,538</u>
Income from operations	407,926	388,740	443,803	280,108
Other (income) expenses:				
Foreign currency (gain) loss, net	8,779	3,194	(45,957)	(29,006)
Interest income	(151,583)	(188,646)	(131,422)	(82,947)
Interest expense	205,804	229,449	178,062	112,384
Other (income) expense, net	(4,933)	(13,000)	32,025	20,213
	<u>58,067</u>	<u>30,997</u>	<u>32,708</u>	<u>20,644</u>
Income before taxes and minority interests	349,859	357,743	411,095	259,464
Income taxes	138,217	150,554	188,659	119,073
Income before minority interests	211,642	207,189	222,436	140,391
Minority interests	3,604	(3,031)	2,181	1,376
Net income	208,038	210,220	220,255	139,015

(1) Exchange rate: US \$ 1 = Lire 1,584.4 as of December 31, 1995

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

Valuation and qualifying accounts
As of December 31, 1993, 1994 and 1995
(Millions of Lire)

Description	Balance at Beginning of Period	Additions Charged to Profit/Loss	Other(1)	Deductions	Balance at End of Period
<i>Deducted in the Balance Sheets from the assets to which it applies:</i>					
<i>Allowance for doubtful accounts</i>					
1993	126,512	70,081	(2,055)	(44,454) (2)	150,084
1994	150,084	66,888	(1,818)	(41,878) (2)	173,276
1995	173,276	60,839	(3,389)	(60,791) (2)	169,935
<i>Inventory valuation reserve</i>					
1993	18,005	3,497	1,334	(6,584)	16,252
1994	16,252	5,036	1,008	(8,327)	13,969
1995	13,969	12,291	(420)	(10,387)	15,453
<i>Other reserves</i>					
<i>- Exchange fluctuation reserve</i>					
1993	20,055	36,782	(46)	(1,230)	55,561
1994	55,561	12,187	1	(21,819)	45,930
1995	45,930	6,285	(4)	(11,876)	40,335
<i>- Risk reserve</i>					
1993	14,210	9,621	(3,613)	(13,119)	7,099
1994	7,099	5,360	(1,147)	(4,987)	6,325
1995	6,325	30,517	(1,218)	(3,092)	32,532
<i>- Taxation reserve</i>					
1993	-	2,000	5,580	-	7,580
1994	7,580	50	-	-	7,630
1995	7,630	-	20	-	7,650
<i>- Reserve for agents' termination indemnities</i>					
1993	8,992	207	80	(60)	9,219
1994	9,219	272	(840)	(254)	8,397
1995	8,397	2,239	-	(1,352)	9,284
<i>- Total other reserves</i>					
1993	43,257	48,610	2,001	(14,409)	79,459
1994	79,459	17,869	(1,986)	(27,060)	68,282
1995	68,282	39,041	(1,202)	(16,320)	89,801

- (1) Represents balances of acquired companies, transfers from other reserve accounts and the effect of translation adjustment.
- (2) Represents write-offs of uncollectible accounts.

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

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, 1995, which report net income of Lire 220,255 million, total assets of Lire 3,837,079 million, total liabilities of Lire 2,141,258 million, stockholders' equity of Lire 1,695,821 million, and memorandum accounts which total Lire 9,005,149 million, together with the Report on Operations.

Based on information 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. Such statements were audited by Deloitte & Touche S.n.c. di Adolfo Mamoli e C., who have not communicated to us any censurable matters concerning the Parent Company.
2. The financial statements of the subsidiary and associated companies included within the scope of consolidation were examined, as required by the law, by the respective Boards of Statutory Auditors and Independent Auditors. We have not been informed of any irregularities of any kind in relation to such financial statements.
3. In our opinion, the abovementioned 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 principles of consolidation and the criteria for establishing the scope of consolidation laid down in Decree 127/91. The instructions contained in articles 32 and 38 of such Decree have also been respected. Accordingly, taken as a whole, the consolidated financial statements fairly present the balance sheet and statement of income of the Benetton Group as of and for the year ended December 31, 1995.

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 Decree 127/91.
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

Dino Sesani
Fanio Fanti
Filippo Duodo

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

BENETTON GROUP S.p.A.

We have audited the accompanying consolidated balance sheet of BENETTON GROUP S.p.A. (an Italian Corporation) and subsidiaries as of December 31, 1995 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain subsidiaries, which financial statements represented 23 percent of total consolidated assets as of December 31, 1995 and 21 percent of total consolidated revenues for the year then ended. The financial statements of these subsidiaries were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in the consolidated financial statements for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Canada. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BENETTON GROUP S.p.A. and subsidiaries as of December 31, 1995, and the results of their operations and their cash flows for the year ended December 31, 1995, in conformity with the accounting principles established or adopted by the Italian Law and the Italian Accounting Profession.

The accounting principles referred to above vary in certain respects from accounting principles generally accepted in the United States of America and Canada. A description of the significant differences and the adjustments required to conform consolidated net income and stockholders' equity for the year ended December 31, 1995, to generally accepted accounting principles in the United States and Canada are set forth in Note 31 to the consolidated financial statements.

Our audit comprehended the translation of Italian Lire amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4. Such U.S. dollar amounts are presented solely for the convenience of international readers.

DELOITTE & TOUCHE S.n.c.

Treviso, Italy
April 5, 1996
(April 29, 1996 as to Notes 19 and 29)

Information for Stockholders

Corporate Headquarters

Benetton Group S.p.A.
Villa Minelli
31050 Ponzano (TV)
Italy
Capital Stock: Lire 87,276,862,500 fully paid
Registered No. 4424 Treviso
Tel.: (39) 0422-4491

Stock Exchange Listings

Benetton Group S.p.A. stock is listed on the following Stock Exchanges: Milan, Frankfurt, New York (symbol BNG) and is admitted for trading on the Stock Exchange Automated Quotation System (SEAQ International) in London. Since July 18, 1994, following the introduction in Italy of a Telematic Quotation System for all securities, centralized on the Milan Stock Exchange, the Company's Ordinary Shares are no longer listed or traded on the Rome, Turin and Venice Stock Exchanges.

Investor Relations

Investor Relations Office
Benetton Group S.p.A.
Villa Minelli
31050 Ponzano (TV)
Italy
Tel.: (39) 0422-449412

Annual Meetings and Payment of Dividends

Annual meetings of stockholders are held at Company's Headquarters normally in April. Dividends are paid usually about the middle of May.

Stock Transfer Agent

For holders of ADRs:
Morgan Guaranty Trust Company
60 Wall Street
New York, New York 10260
U.S.A.

Reports available to Stockholders

The following reports may be obtained

without charge:

Annual Report
Half-Year Report.

Requests should be addressed to:
Stockholder Relations
Corporate Secretary's Office
Benetton Group S.p.A.
Villa Minelli
31050 Ponzano (TV)
Italy

Independent Accountants

Informazioni agli Azionisti

Sede

Benetton Group S.p.A.
Villa Minelli
31050 Ponzano (TV)
Italy
Cap. Soc.. Lit. 87.276.862.500 i.v.
R.I. di Treviso n. 4424
Tel.: (39) 0422-4491

Borse Valori

Il Titolo Benetton Group S.p.A. è quotato alle Borse Valori di Milano, Francoforte, New York ed è trattato alla SEAQ di Londra. Dal 18 Luglio 1994, con l'avvio della trattazione continua (Sistema Telematico) il titolo non è più quotato e trattato alle Borse Valori di: Roma, Torino e Venezia.

Rapporti con gli Investitori

Ufficio Rapporti con gli Investitori
Benetton Group S.p.A.
Villa Minelli
31050 Ponzano (TV)
Italia
Tel.: (39) 0422-449412

Assemblea Annuale e Pagamento dei Dividendi

L'assemblea annuale degli azionisti si tiene presso la sede della società normalmente in aprile. I dividendi vengono pagati generalmente intorno alla metà di maggio.

Depositario per gli ADR

Per possessori ADR:
Morgan Guaranty Trust Company
60 Wall Street
New York, New York 10260
U.S.A.

Documentazione per gli Azionisti

Sono disponibili gratuitamente:
Bilancio
Relazione Semestrale.
Eventuali richieste possono essere inoltrate a:

Ufficio Relazioni con gli Azionisti
Segreteria della Società
Benetton Group S.p.A.
Villa Minelli
31050 Ponzano (TV)
Italia

Società di Revisione

Deloitte & Touche S.n.c.
Viale della Repubblica, 22
31020 Fontane di Villorba - (TV)
Italy

Deloitte & Touche S.n.c.
Viale della Repubblica, 22
31020 Fontane di Villorba - (TV)
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