

## Consolidated Group results

### Consolidated income statement

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

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

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

Revenues amounted to 1,765 million euro, compared with the 1,704 million of 2004, for an increase of 3.6%. Apparel sales to third parties amounted to 1,629 million euro, an annual increase of 3.9% from the 1,568 million of 2004, with a growth in revenues for the fourth quarter of 7.4%. Revenue performance was mainly influenced by the policy of developing the commercial network and the improvement of product mix, along with initiatives for expanding the directly operated network. This growth

was also the result of the strong performance of reorders for the 2005 Fall/Winter collections, as well as the positive market response to the 2006 Spring/Summer collections and the contribution of countries in the Mediterranean, including Turkey, as well as in eastern Europe and Korea. In the apparel segment, the new Turkish partnership also played an important role, generating 30 million euro in revenues from May to December. Sales were also influenced by roughly 10 million euro for positive exchange rates trends, equal to 0.6% of revenues.

The textile segment, which suffered from a difficult market context, recorded 100 million euro in revenues from third parties, compared with 106 million euro in 2004, for a decline of 6.4%.

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

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

Gross operating income came to 770 million euro, representing 43.6% of revenues, compared with 45.5% in 2004, influenced by the above-mentioned commercial development policies and offset in part by more efficient production. Margins were also somewhat influenced by the lower use of production capacity in the textile segment.

Selling costs amounted to 127 million euro, compared with the 121 million of the previous year, representing 7.2% of revenues, compared with the 7.1% of 2004.

Distribution and transport costs increased as a result of the increase in volumes, and in particular in relation to the sales growth in Korea. This increase was partially offset by the decrease in commission costs, which benefited from the transfer to the Group of agencies in Italy and Germany in 2004. The contribution margin came to 643 million euro, representing 36.4% of revenues. This compares with 654 million euro in 2004, which represented 38.4% of revenues.

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

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

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

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

Other income and expenses, in the amount of 178 million euro, rose by 3 million euro over the previous year, for an increase of 1.6% and representing 10% of revenues, from 10.3% of the previous year. This item includes overhead costs, provisions, net operating costs, and other income and expenses.

Overhead costs, in the amount of 82 million, increased by 4 million euro over 2004, with the percentage on revenues remaining unchanged at 4.6%. Provisions amounted

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

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

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

Net financial expenses and exchange differences amounted to 1.3% of revenues, in line with the prior year. This result reflects the combined effect of a decrease in average net indebtedness for the period, the slight increase in interest rates on the debt of certain foreign subsidiaries, and an increase in the time value component of currency hedging.

The tax charge amounted to 20 million euro, compared with the 28 million euro of the previous year, representing a tax rate of 15.1%, down from the 20.3% of the previous year. This reduction in tax burden is due primarily to the measurement, based on forecasts of future earnings, of the fiscal benefits connected with the corporate reorganization in 2003.

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

### **Business segments**

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

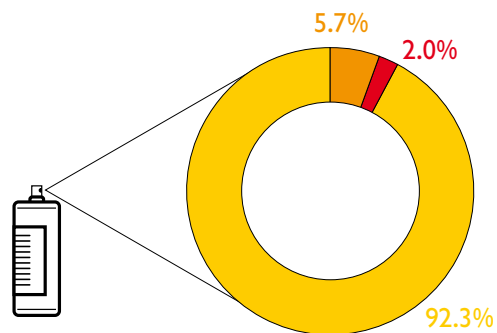
The business segments are as follows:

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

### 2005 revenues from third parties by activity

millions of euro

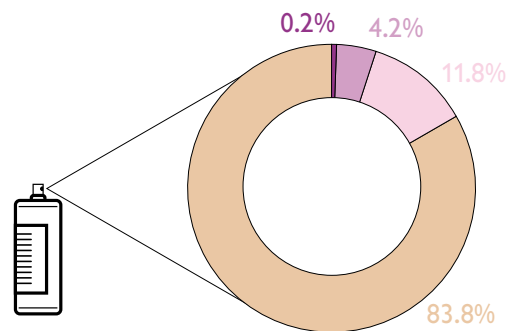
Apparel	1,629
Textile	100
Other and unallocated	36



### 2005 revenues from third parties by geographic area

millions of euro

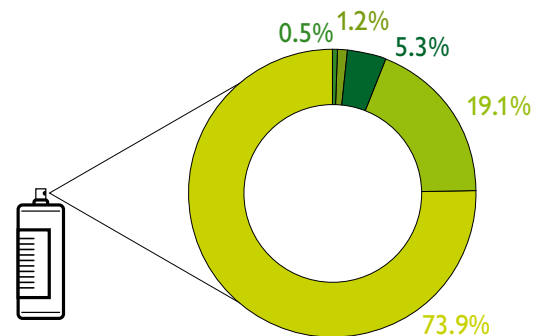
Europe	1,481
Asia	207
The Americas	73
Rest of the world	4



### 2005 sales by brand

millions of euro

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



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

**Segment results - 2005**

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

**Segment results - 2004**

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

### Apparel segment results

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

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

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

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

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

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

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

### **Textile segment results**

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

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

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

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

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

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

### Other and unallocated segment results

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

The segment includes the sales of sports equipment, particularly as produced for third parties by one of the Group's manufacturing companies.

Revenues increased by 6 million euro, or 22%, year on year. The percentage on revenues of cost of sales went from 92% to 93.8%.

General and operating expenses fell by 2 million euro.

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

The average number of employees in the period was 227.

### Balance sheet and financial position highlights

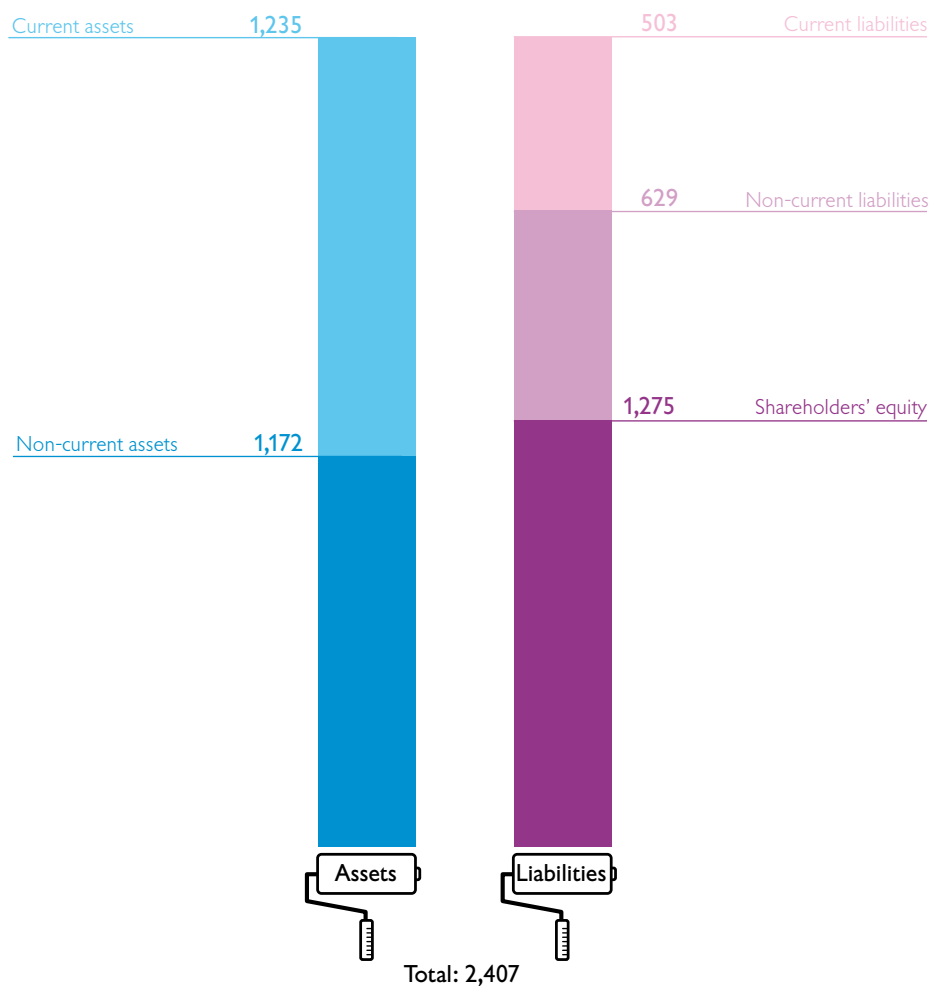
The most significant elements of the balance sheet and financial position, compared with December 31, 2004 are as follows:

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

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

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

## 2005 balance sheet structure (millions of euro)



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

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

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

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

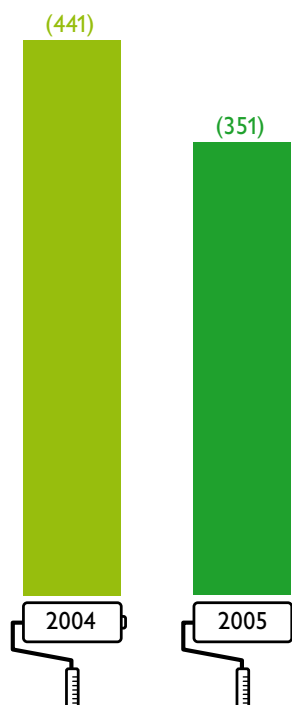
On June 10, 2005, in order to support the seasonal financial needs of the Group business and to meet future commitments, Benetton Group S.p.A. signed a revolving credit line of 500 million euro with a pool of ten banks, maturing in June 2010. This line may be drawn down in the form of one, three or six-month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

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

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

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

## 2005 net financial position (millions of euro)



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

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

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

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

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

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

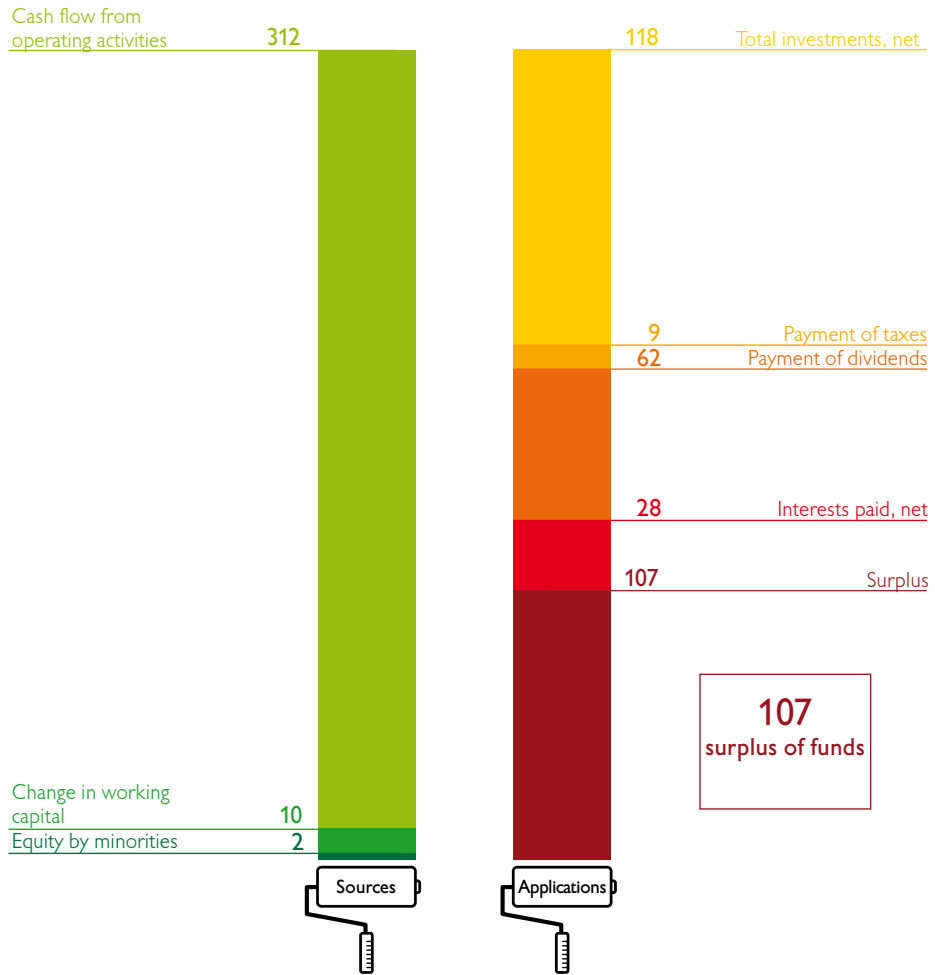
Cash flows during year 2005 are summarized below with comparative figures for last year:

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

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

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

2005 sources and applications of funds (millions of euro)



**107**  
surplus of funds