

Comments on the principal items in the income statement

(1) Revenues

(thousands of euro)	2005	2004
Sales of core products	1,667,997	1,624,956
Miscellaneous sales	57,380	45,767
Royalty income	15,480	14,419
Other revenues	24,216	18,982
Total	1,765,073	1,704,124

The increase in Group revenues (+3.6% versus 2004) can be attributed to the positive uptake of reorders and of the Fall/Winter collection, a greatly improved product mix, the effects of the development policy for directly operated stores and the significant contribution of the Mediterranean area countries, including Turkey, as well as eastern Europe and Korea.

Sales of core products are stated net of trade discounts.

Miscellaneous sales relate mainly to sports equipment produced for third parties by a subsidiary in Hungary.

Other revenues refer mainly to the rendering of services such as processing, cost recharging and miscellaneous services, including the development of advertising campaigns.

Further details on revenues are given in the "Supplementary information" section of this document.

Sales of core products, by product category

(thousands of euro)	2005	2004
Casual apparel, accessories and footwear	1,551,700	1,479,576
Sportswear	27,714	42,876
Fabrics and yarns	88,583	95,780
Other	-	6,724
Total	1,667,997	1,624,956

Sales of core products, by brand

(thousands of euro)	2005	2004
United Colors of Benetton	1,232,156	1,168,709
Sisley	318,189	310,867
Killer Loop	8,571	11,348
Playlife	20,497	31,526
Other sales	88,584	102,506
Total	1,667,997	1,624,956

The "United Colors of Benetton" brand also includes 429,328 thousand euro in sales by the "UCB Bambino" brand (401,164 thousand euro in 2004).

"Other sales" include sales of fabrics and yarns.

(2) Other operating income and revenues

(thousands of euro)	2005	2004
Reimbursements and compensation payments	2,968	1,691
Rental income	35,410	34,456
Contingent assets	7,255	6,717
Gains on disposal of fixed assets	6,385	27,098
Release of provisions	14,673	3,864
Other operating income	9,910	17,404
Total	76,601	91,230

“Rental income” refers mainly to income from the leasing of commercial premises to be used for the sale of Benetton-label products.

The positive variation in “Release of provisions” is attributable primarily to the release of 2004 provisions, specifically for the closure of a number of stores in France, which, however, continued to operate throughout 2005, thus eliminating the need for the related provision. Fixed assets for these shops, however, have been subject to impairment, recognized in the financial year among “Impairment of property, plant and equipment”, and almost completely offset by the amount of income relative to the above-mentioned releases.

(3) Change in inventories of finished products and work in progress

The change in this item, in the amount of 18,528 thousand euro, is due primarily to the increase in closing inventories of finished products, particularly for companies which manage points of sale directly, as well as of work in progress.

(4) Purchases of raw materials and consumables

(thousands of euro)	2005	2004
Raw materials, semi-finished and finished products, and other materials	544,724	438,728
Purchases for advertising and promotion	1,221	881
Other purchases	14,483	13,078
(Discounts and rebates)	(54)	(114)
Total	560,374	452,573

The change in this balance is mainly due to the increase in production volumes from foreign production sites and to the increase in product sales. The item includes changes in raw materials and consumables inventories.

(5) Payroll and related costs

The change in this item is mainly attributable to the expansion of the direct sales network and to a greater impact of staff incentive policies, and can be detailed as follows:

(thousands of euro)	2005	2004
Wages and salaries	164,273	159,172
Social security contributions	43,713	44,599
Provision for TFR	8,330	8,182
Stock options' costs	2,202	722
Other payroll and related costs	2,525	1,327
Total	221,043	214,002

Further details about the stock options plan and TFR provision calculations are included in the "Supplementary information" section of this document.

The number of staff, divided into categories, is reported in the table below:

	2005	2004	Period average
Management	99	100	100
White collars	4,000	3,674	3,837
Workers	2,400	2,542	2,470
Part-time	1,479	1,108	1,294
Total	7,978	7,424	7,701

Depreciation and amortization

(6) Property, plant and equipment

(thousands of euro)	2005	2004
Depreciation of buildings	12,611	14,991
Depreciation of plant, machinery and equipment	21,007	20,358
Depreciation of furniture, fittings and electronic devices	17,746	18,900
Depreciation of vehicles and aircraft	1,586	1,619
Depreciation of leased assets	898	622
Depreciation of leasehold improvements	8,394	11,505
Total	62,242	67,995

The decrease in depreciation is mainly due to the impairment, carried out in 2004, to the carrying value of certain assets linked to the commercial network, which impacted primarily on "Leasehold improvements".

The decrease in the depreciation value of "Buildings" includes 2,159 thousand euro related to a review in the valuation of the useful life of commercial property in 2005 from 33 to 50 years.

(7) Intangible assets

(thousands of euro)	2005	2004
Amortization of industrial patents and intellectual property rights	249	515
Amortization of licenses, trademarks and similar rights	3,891	3,969
Amortization of deferred charges	12,298	11,370
Amortization of other charges	6,687	11,478
Total	23,125	27,332

The decrease in amortization is due mainly to the impairment, carried out in 2004, to the carrying value of certain intangible assets linked to the commercial network, which impacted primarily on "Amortization of other charges".

Other operating costs

(8) External services

(thousands of euro)	2005	2004
Subcontracted work	341,266	361,917
Distribution and transport	56,295	47,653
Sales commissions	69,846	73,564
Advertising and promotion	59,023	51,934
Emoluments to directors and statutory auditors	5,475	6,438
Maintenance costs	11,736	12,342
Other services	87,587	84,503
Total	631,228	638,351

The reduction in the value of subcontracted work is due to a number of factors linked to the operational flexibility of manufacturing operations which, by favoring the operational methods most closely aligned with the markets the Group is active in, have become more efficient and integrated, resulting in a cost decrease of 20,651 thousand euro compared to the previous year.

Distribution and transport costs rose due to higher volumes resulting mainly from sales growth in Korea, and to an increase in freight forwarding rates applied by suppliers. Sales commissions decreased as a result of the transfer to the Parent Company of Italian and German retail stores which were managed by third parties during the previous financial year.

Advertising and promotion costs increased because of the higher cost incurred to create advertising campaigns for the Group's brands (United Colors of Benetton in particular) and for third-party customers, where incurred costs generated a respective increase in the other revenues balance.

Other services include mainly:

- energy costs of 24,798 thousand euro;
- consultancy and other fees of 11,744 thousand euro;
- insurance premiums of 4,245 thousand euro;
- postage and telephone expenses of 4,061 thousand euro;

- personnel travel expenses of 10,168 thousand euro;
- other costs for miscellaneous services such as company cafeteria, cleaning, graphic and design consultancy, and internships.

Directors and Statutory Auditors compensation paid.

(thousands of euro)

Name and surname	Position held	Duration of office ⁽¹⁾	Gross remuneration
Luciano Benetton	Chairman	Year 2005	1,600
Carlo Benetton	Deputy chairman	Year 2005	800
Alessandro Benetton	Deputy chairman	Year 2005	300
Silvano Cassano	Chief Executive Officer	Year 2005	1,051 ⁽²⁾
Gilberto Benetton	Director	Year 2005	100
Giuliana Benetton	Director	Year 2005	800
Reginald Bartholomew	Director	Year 2005	62
Luigi Arturo Bianchi	Director	Year 2005	81
Giorgio Brunetti	Director	Year 2005	81
Gianni Mion	Director	Year 2005	53
Ulrich Weiss	Director	Year 2005	85
Angelo Casò	Chairman of the Board of Statutory Auditors	Year 2007	62
Antonio Cortellazzo ⁽³⁾	Statutory Auditor	Year 2007	59
Filippo Duodo	Statutory Auditor	Year 2007	127
Dino Sesani	Statutory Auditor	Year 2004	17

(1) Up to the approval of these financial statements.

(2) Including salary for employment and excluding the value of stock options.

(3) Statutory Auditor since May 16, 2005.

In 2004, the Chief Executive Officer, Silvano Cassano, was awarded 1,731,966 options which grant the right to subscribe to the same number of Benetton Group S.p.A. shares at a price of 8.984 euro per share. Up to 50% of the options awarded may be exercised, subject to certain conditions being satisfied, two years after grant date. The remaining 50% may be exercised, subject to certain conditions, four years after the grant date. The expiration of the period for exercise of the options is fixed at five years from the exercise date. Further details about the stock options plan are provided in the Directors' report and in the "Supplementary information" section of this document.

(9) Leases and rentals. The cost of leasing and rentals, in the amount of 104,478 thousand euro (86,420 in 2004), relates mainly to rental costs, which total 92,217 thousand euro and have risen as a result of the opening of new stores and the Group's acquisition of already operating retail stores.

(10) Impairment of property, plant and equipment and intangible assets. This item, in the amount of 50,340 thousand euro (49,116 thousand euro in 2004), is detailed in the "Supplementary information" section of the explanatory notes, in the section describing impairment testing.

(11) Write-downs of doubtful accounts. This item, totaling 17,387 thousand euro (39,240 thousand euro in 2004), relates to the provision for doubtful accounts. For further information, see the note on current receivables.

(12) Provisions for risks. This item mainly includes 4,276 thousand euro of provisions for legal and tax risks, 3,543 thousand euro for the provision for sales agent indemnities, and 11,961 thousand euro for other provisions. The provisions for legal and tax risks refer to disputes which have arisen during the year or in previous financial years, whereas other provisions relate mainly to costs incurred for the closure of stores ("exit costs"). Further comments about this item are in the note on liabilities pertaining to "Other provisions and medium/long-term liabilities".

(13) Other operating costs

(thousands of euro)	2005	2004
Losses on disposal of fixed assets	1,952	6,361
Indirect taxes and duties	8,906	7,980
Donations	2,321	2,307
Returns and discounts relating to sales in previous years	3,082	2,807
Losses on receivables	2,628	2,524
Other operating expenses	16,953	26,195
Total	35,842	48,174

The item "Other operating expenses", totaling 16,953 thousand euro, includes costs of various nature, such as indemnities paid to third parties, general expenses, and other. The reduction can be attributed to the lower costs incurred for the restructuring of the sales network and for early retirement incentives.

(14) Share of income/(loss) of associated companies

This item, totaling a loss of 60 thousand euro, refers to dividends distributed by other companies for a total amount of 43 thousand euro net of losses resulting from the sale of certain investments held by the Group.

(15) Net financial expenses and exchange differences

(thousands of euro)	2005	2004
Financial income	24,139	21,984
(Financial expenses)	(47,269)	(43,941)
Foreign currency hedging gains/(losses) and exchange differences	408	(31)
Total	(22,722)	(21,988)

Financial income

(thousands of euro)	2005	2004
Interest income from securities amount current assets	1,607	606
Interest income from trade and other receivables	546	832
Interest income on bank current accounts	2,513	3,725
Miscellaneous financial income and income from derivatives	19,473	16,821
Total	24,139	21,984

"Miscellaneous financial income and income from derivatives" mainly includes:

- positive differentials on interest rate swaps of 4,049 thousand euro (6,481 thousand in 2004);
- income from currency swaps and forward exchange contracts established to hedge the economic and transaction exchange risk of 13,170 thousand euro (7,297 thousand euro in 2004);
- premiums on translation exchange risk hedging transactions of 930 thousand euro (1,887 thousand in 2004).

Financial expenses

(thousands of euro)	2005	2004
Interest expenses on bonds	(4,636)	(8,076)
Interest expenses on bank current accounts	(1,030)	(379)
Interest expenses on advances against receivables	(303)	(465)
Interest expenses on short-term loans	(1,652)	(531)
Interest on medium/long-term bank loans	(13,511)	(11,816)
Interest expenses on loans from other lenders	(832)	(814)
Miscellaneous financial expenses and expenses from derivatives	(25,305)	(21,860)
Total	(47,269)	(43,941)

"Miscellaneous financial expenses and expenses from derivatives" include mainly:

- negative differentials on interest rate swaps of 4,447 thousand euro (4,933 thousand in 2004);
- expenses from currency swaps and forward exchange contracts established to hedge the economic and transaction exchange risk of 13,791 thousand euro (7,099 thousand euro in 2004);
- premiums on translation exchange risk hedging transactions of 1,107 thousand euro (26 thousand euro in 2004);
- discounts allowed for early settlement of trade receivables of 2,217 thousand euro (3,106 thousand euro in 2004);
- bank charges and commissions of 1,798 thousand euro (1,162 thousand euro in 2004).

Foreign currency hedging gains/(losses) and exchange differences. Exchange rate differences originate mainly from receipts from foreign customers and payment to foreign suppliers and from currency hedging transactions, as well as exchange gains and losses on renegotiation of contracts for forward currency sales. This item also includes exchange differences arising from translation of receivables and payables in foreign currency to the year-end exchange rate.

(16) Income taxes

The total amount includes taxes on income for the year, deferred tax income and expense as detailed below:

(thousands of euro)	2005	2004
Current taxes	13,631	22,636
Deferred tax income:		
- intercompany profits elimination	762	531
- impairment of investments	12,398	8,036
- provisions to write-down and risk reserves	7,090	(6,311)
- taxes on a different depreciation/amortization basis for fixed and intangible assets	(2,487)	4,424
- losses	582	142
- accumulated tax losses carry-forwards	(3,179)	(7,094)
- fair value of derivatives	-	1,194
- others	(1,331)	(1,964)
Total deferred tax income	13,835	(1,042)
Deferred tax expenses:		
- reversal of excess depreciation and the application of finance lease accounting	(2,491)	69
- gains	63	(1,866)
- profits/reserves distributable by subsidiaries	(2,328)	7,957
- fair value of derivatives	(2,476)	-
- others	54	(91)
Total deferred tax expenses	(7,178)	6,069
Total	20,288	27,663

The reconciliation of the tax charge is as follows:

(in %)	2005	2004
Italian statutory tax rate	37.25	37.25
Effect of statutory tax rates of subsidiaries making a profit	(13.38)	(18.12)
Effect of statutory tax rates of subsidiaries making a loss	11.19	10.68
Deferred taxes on profits/reserves distributable by subsidiaries	0.56	5.85
Net effect deriving from the transfer of businesses	(21.21)	(9.22)
Amortization/reversal of excess cost deriving from investments acquired	(0.22)	1.75
Tax benefit deriving from the impairment of investments	-	(5.91)
Effect of accumulated tax losses	(3.86)	(5.25)
Effect deriving from the write-down of tangible and intangible assets	8.61	3.65
Effect of the Italian regional business tax (IRAP)	3.38	1.70
Other, net	(7.22)	(2.04)
Effective tax rate	15.10	20.34