

Transition to IFRS

Key data for year 2004

(millions of euro)	Italian GAAP new format	IFRS reclassifications	IFRS adjustments	Total under IFRS
Revenues	1,686	18	-	1,704
Gross operating income	757	18	-	775
Contribution margin	653	-	-	653
EBITDA	314	-	(2)	312
Operating profit	191	-	(33)	158
Net income/(loss) for the year attributable to the Parent Company and minority interests	123	-	(14)	108
Net income/(loss) for the year attributable to the Parent Company	123	-	(14)	109
Shareholders' equity:				
- Parent Company portion	1,230	-	(24)	1,206
- minority interest portion	7	-	-	7
Total shareholders' equity	1,237	-	(24)	1,213
Net financial position	431	-	10	441

Developments in the regulatory framework

European Community Regulation (EC) 1606/2002, implemented by the Italian legislature through Law 306/2003, requires companies quoted in regulated European markets to adopt international accounting and financial reporting standards (IFRS) for preparing their consolidated financial statements as from January 1, 2005. The Italian government subsequently approved, on February 25, 2005, the legislative decree to implement the options allowed by Article 5 of Regulation (EC) 1606/2002, which made it optional for quoted companies to adopt IFRS for their 2005 financial year but mandatory as from the 2006 financial year. As far as 2005 is concerned, the Benetton Group has elected to apply IFRS to its consolidated financial statements only.

Except for IAS 32 and 39, all the international accounting standards and related interpretations in existence on September 14, 2002 were ratified by the European Commission upon adopting Regulation 1725 on September 29, 2003. The European Commission adopted a series of Regulations during 2004 to ratify international accounting and financial reporting standards that were subsequently published and revised. In detail, the following Regulations were issued:

- no. 707 of April 6, 2004 which ratified IFRS 1 "First-time adoption of International Financial Reporting Standards";
- no. 2086 of November 19, 2004 which ratified IAS 39, with some limitations;
- nos. 2236, 2237 and 2238 of December 29, 2004 which ratified IAS 32, IFRIC 1, other standards revised by the IASB and the new IFRS issued in March 2004;
- no. 211 of February 4, 2005 which ratified IFRS 2.

The version of IAS 39 approved by Regulation (EC) no. 2086/2004 differs from the text approved by the IASB; the Benetton Group will apply IAS 39 in the version published by the IASB.

IFRS conversion process for the Benetton Group

Up to and including first quarter 2005, the Group prepared its consolidated financial statements and other periodic information (quarterly and half-yearly) in accordance with Italian accounting standards (Italian GAAP).

As from the half-year report for 2005, periodic consolidated reports are being prepared in accordance with IFRS, while, in the case of the annual report of the Parent Company Benetton Group S.p.A., these standards will be adopted as from financial year 2006.

Considering this and taking into account the recommendations of CESR (Committee of European Securities Regulators) published on December 30, 2003 containing the guidelines for EU listed companies concerning methods for the transition to IFRS, as well as the Regolamento Emittenti (Issuers' Regulations), as modified by CONSOB (the Italian SEC) by Resolution no. 14990 of April 14, 2005, following, among other things, adoption of International Accounting Principles for interim reporting, the information required by IFRS 1 is illustrated below. In particular, this information considers the effect resulting from conversion to IFRS on the consolidated balance sheet and financial situation, on the consolidated income statement and the consolidated cash flow statements for year 2004.

The following have been prepared for this purpose:

- notes concerning the rules for first-time application of IFRS (IFRS 1) and other selected IFRS, including management's assumptions regarding the IFRS and their interpretations which will be in force and the accounting policies which will be adopted for the purposes of preparing the first complete set of IFRS financial statements as of December 31, 2005;
- reconciliations between consolidated shareholders' equity reported under the previous accounting standards and that under IFRS at the following dates:
 - date of transition to IFRS (January 1, 2004);
 - date of last consolidated financial statements drawn up under the previous accounting standards (December 31, 2004);
- reconciliation between the 2004 results in the full year financial statements prepared under the previous accounting standards and those prepared under IFRS;
- comments on the reconciliations;
- the comments to the main changes made to the cash flow statement following the introduction of the new accounting standards;
- the IFRS consolidated balance sheet as of January 1 and December 31, 2004, and the IFRS consolidated income statement for 2004.

As described in greater detail in the sections below, the IFRS consolidated balance sheet and the IFRS consolidated income statement were prepared by applying the relevant IFRS reclassifications and adjustments to consolidated financial data, presented in accordance with Italian accounting standards, in order to reflect the changes to presentation, recognition, and measurement criteria as required by the IFRS.

With reference to the optional exemptions contained in IFRS 1, the following elections have been followed:

Valuation of property, plant and equipment and intangible assets. IFRS 1 allows the original depreciated/amortized cost to be replaced with the asset's fair value or, if certain requirements are met, with its revalued cost. The Benetton Group is not making use of this exemption, since it has adopted the criterion of depreciated/amortized historic cost for valuing its property, plant and equipment and intangible assets.

Reserve for net exchange differences arising from the translation of the financial statements of foreign subsidiaries. IAS 21 states that the differences arising from translation of the financial statements of a foreign consolidated company must be classified as a separate item in shareholders' equity, which is transferred to the income statement when the company is sold. The Group has adopted the option allowed by IFRS 1 to apply IAS 21 on an onward basis, assuming that, at the date of transition to IFRS, the translation reserve is zero.

Business combinations. IFRS 1 states that, at the transition date, the choice can be made not to apply IFRS 3 "Business Combinations" retrospectively to business combinations which took place before the IFRS transition date. The Benetton Group has made use of this exemption and has adopted IFRS 3 on an onward basis, as from January 1, 2004, even though the effects of its application at the transition date would be minimal.

Hybrid financial instruments. IAS 32 "Financial instruments: recognition and measurement" states that the components of hybrid financial instruments must be divided between liabilities and shareholders' equity. IFRS 1 allows the non-separation of the two components if the liability element no longer exists at the transition date. The Benetton Group does not hold any hybrid financial instruments.

Financial instruments accounted for in accordance with previous standards. Even though it is permitted to adopt IAS 32 and 39 "Financial instruments" for annual financial statements of financial years commencing as from January 1, 2005, the Benetton Group has decided to apply this standard earlier with effect from January 1, 2004.

Date of designation of financial instruments as "instruments at fair value with changes through profit and loss" or "available for sale". IAS 39 allows a financial instrument to be recorded upon initial recognition either in the category "financial assets and liabilities at fair value with changes through income statement" or in the category "available for sale assets". IFRS 1 allows these designations to be made on the IFRS transition date and the Benetton Group has elected to adopt this option.

Derecognition of financial assets and liabilities. IAS 39 requires recognition in the opening balance sheet at January 1, 2004 of financial assets and liabilities, other than derivatives, which were previously derecognized under the former accounting standards. However, IFRS 1 provides for an option to apply the principle of "derecognition" on an onward basis, meaning that it is applicable to financial assets and liabilities, other than derivatives, purchased after the transition date. The Benetton Group does not have any cases which would lead to adoption of the exemption in question.

Share-based payments. IFRS 2 (Share-based payments) may be applied to annual financial statements of years commencing as from January 1, 2005; the Benetton Group has decided to adopt the standard on an onward basis as from the 2004 financial year.

Principal effects of applying IFRS to the opening balance sheet as of January 1, 2004 and to the consolidated financial statements as of December 31, 2004

The differences emerging from the application of IFRS compared with Italian GAAP and the elections made by the Benetton Group in relation to the accounting options contained in the IFRS require the restatement of accounting data prepared under the previous Italian regulations governing financial statements, with effects on the Group's shareholders' equity, its net financial position and net income, which may be summarized as follows:

Opening balance sheet as of January 1, 2004

(thousands of euro)	Italian GAAP	IFRS effects	IFRS
Shareholders' equity including:			
- Parent Company portion	1,173,861	(10,681)	1,163,180
- minority interest portion	12,799	193	12,992
Net financial position	468,446	(468)	467,978

Consolidated financial statements as of December 31, 2004

(thousands of euro)	Italian GAAP	IFRS effects	IFRS
Shareholders' equity including:			
- Parent Company portion	1,230,319	(24,310)	1,206,009
- minority interest portion	6,840	41	6,881
Net financial position	431,034	9,771	440,805
Income for the year attributable to the Parent Company and minority interests:			
- Parent Company	123,074	(14,279)	108,795
- minority shareholders	(494)	41	(453)
Total	122,580	(14,238)	108,342

In particular, the main adjustments, shown before tax and minority interests, are as follows:

(thousands of euro)	Shareholders' equity as of 01.01.2004	Shareholders' equity as of 12.31.2004	Net income year 2004
Total amounts (Parent Company portion and minority interest portion) under Italian GAAP	1,186,660	1,237,159	122,582
less - minority interest portion	(12,799)	(6,840)	492
Parent Company portion under Italian GAAP	1,173,861	1,230,319	123,074
Adjustments to financial statements for IFRS:			
a) reversal of monetary revaluations (IAS 16)	(3,085)	(2,896)	189
b) reversal of start-up and expansion costs (IAS 38)	(7,361)	(3,496)	3,865
c) reversal of goodwill amortization (IFRS 3)	-	721	721
d) straight-line lease installments (IAS 17)	(4,357)	(1,098)	3,308
e) recognition of deferred tax assets (IAS 12)	-	7,146	7,146
f) different tax rate for calculation of "profit in stock" (IAS 12)	73	1,334	1,261
g) discounting of employee benefits to present value (IAS 19)	3,825	4,207	373
h) cost of stock options (IFRS 2)	-	-	(722)
i) derivatives for interest rate risks (IAS 39)	(9,653)	(4,963)	4,690
l) derivatives for exchange rate risks (IAS 39)	1,100	139	(264)
m) securities available for sale (IAS 39)	262	301	(43)
n) impairment loss adjustments for non-current assets (IAS 36)	-	(35,683)	(35,951)
o) provisions for risks and future charges (IAS 37)	4,494	-	(4,563)
p) exchange differences on equity investment disposals (IAS 21)	-	-	69
Tax effect on reconciling items	4,215	10,019	5,684
Minority interests in reconciling items	(194)	(41)	(41)
Parent Company portion under IFRS	1,163,180	1,206,009	108,796

(thousands of euro)	Net financial position 01.01.2004	Net financial position 12.31.2004
Total under Italian GAAP	468,446	431,034
Adjustments to financial statements for IFRS:		
i) derivatives for interest rate risks (IAS 39)	9,653	4,963
l) derivatives for exchange rate risks (IAS 39)	(1,100)	150
m) securities available for sale (IAS 39)	(255)	(294)
Effect of reclassifications	(8,766)	4,952
Total under IFRS	467,978	440,805

Comments on the main IFRS adjustments to items in the balance sheets as of January 1, 2004 and December 31, 2004 and the statement of income for year 2004

We shall now comment on the main changes arising from the application of IFRS compared with the amounts determined under Italian GAAP:

a) **Reversal of monetary revaluations (IAS 16).** In the past, some categories of property, plant and equipment underwent monetary revaluations which were permitted or obligatory under Italian and Spanish law; the amount of these revaluations did not equate to the fair value of these assets and, so, has been eliminated from the value of assets, as has the corresponding reserve under shareholders' equity.

Effects:

- on shareholders' equity as of January 1, 2004: decrease of 3,085 thousand euro, before a positive tax effect of 607 thousand euro;
- on shareholders' equity as of December 31, 2004: decrease of 2,896 thousand euro, before a positive tax effect of 605 thousand euro;
- on net income for year 2004: increase of 189 thousand euro (lower depreciation and other expenses), before a negative tax effect of 2 thousand euro;

b) **Reversal of start-up and expansion costs (IAS 38).** Start-up and expansion costs do not meet the capitalization requirements under IFRS and must, therefore, be expensed to income.

Effects:

- on shareholders' equity as of January 1, 2004: decrease of 7,361 thousand euro, before a positive tax effect of 2,136 thousand euro;
- on shareholders' equity as of December 31, 2004: decrease of 3,496 thousand euro, before a positive tax effect of 947 thousand euro;
- on net income for year 2004: increase of 3,865 thousand euro (lower amortization), before a negative tax effect of 1,189 thousand euro.

c) **Reversal of goodwill amortization (IFRS 3).** IFRS 3 eliminates the concept of goodwill amortization, replacing it with a periodic review, at least once a year, of the validity of the recorded value (impairment test); this provision has had a limited effect on the Benetton Group financial statements, since the amounts previously recorded as "Goodwill" in the consolidated balance sheet related mainly to lease surrender payments for obtaining the lease of buildings for use as stores (key money). This key money is amortized over the term of the associated lease contracts with the exception of French and Belgian "fonds de commerce", which are amortized over 20 years.

Effects:

- on shareholders' equity as of January 1, 2004: none, since application is onward-going;
- on shareholders' equity as of December 31, 2004: increase of 721 thousand euro;
- on net income for year 2004: increase of 721 thousand euro.

d) **Straight-line lease payments (IAS 17).** For the purposes of IAS 17, lease payments, both payable and receivable, have been recognized on a straight-line basis over the term of the related contracts. The Benetton Group has entered into lease contracts in the USA and UK with increasing lease payments. For the purposes of determining the income or

charge for each period in accordance with IFRS, it has therefore been necessary to split these payments into equal amounts over the term of each lease contract.

Effects:

- on shareholders' equity as of January 1, 2004: decrease of 4,357 thousand euro;
- on shareholders' equity as of December 31, 2004: decrease of 1,098 thousand euro;
- on net income for year 2004: increase of 3,308 thousand euro.

The positive impacts in the year 2004 were mainly due to early termination of some lease contracts, with the resulting release to income of the accrued expenses outstanding at the time.

e) **Recognition of deferred tax assets (IAS 12).** Deferred tax assets may only be recorded under Italian GAAP if their recovery is reasonably certain. Under IAS 12 on the other hand, it is sufficient for recovery to be probable. This has resulted in the recognition for IFRS purposes of assets relating to future tax benefits from carried forward tax losses which the Group regards as recoverable.

Effects:

- on shareholders' equity as of January 1, 2004: none, since there were no items likely to be recovered;
- on shareholders' equity as of December 31, 2004: increase of 7,146 thousand euro;
- on net income for year 2004: increase of 7,146 thousand euro.

f) **Different tax rate for calculation of "profit in stock" (IAS 12).** For the purposes of eliminating the intercompany margin contained in the value of goods in stock, the application of IAS 12 within Benetton requires that the tax effect be calculated using the tax rate of the acquirer instead of that of the vendor. Previously that effect was based on the tax rate of the vendor.

Effects:

- on shareholders' equity as of January 1, 2004: increase of 73 thousand euro;
- on shareholders' equity as of December 31, 2004: increase of 1,334 thousand euro;
- on net income for year 2004: increase of 1,261 thousand euro.

g) **Discounting of employee benefits to present value (IAS 19).** Italian GAAP requires the liability for TFR (employee termination indemnity) to be recorded at nominal value calculated as provided in the Civil Code; under IFRS, TFR falls into the category of benefit plans subject to actuarial valuation, with recognition at transition date of all actuarial gains and losses.

Effects:

- on shareholders' equity as of January 1, 2004: increase of 3,825 thousand euro, before a negative tax effect of 1,262 thousand euro;
- on shareholders' equity as of December 31, 2004: increase of 4,207 thousand euro, before a negative tax effect of 1,385 thousand euro;
- on net income for year 2004: increase of 373 thousand euro, before a negative tax effect of 123 thousand euro.

h) **Cost of stock options (IFRS 2).** Italian GAAP does not lay down any particular accounting treatment for stock option plans; such plans are not reflected in the financial statement numbers, but are only described. IFRS 2 considers stock options to be in the

category of “share-based payments” and requires them to be measured at fair value at the time of their grant, recognizing an expense in the income statement and a corresponding credit in shareholders’ equity reserves.

Effects:

- on shareholders’ equity as of January 1, 2004: none (no plan existing at that date);
- on shareholders’ equity as of December 31, 2004: none, since the effect on the income statement offsets the matching effect on shareholders’ equity;
- on net income for year 2004: decrease of 722 thousand euro, related to the last four months of 2004 (the stock options plan approved in September 2004).

i) **Derivatives for interest rate risks (IAS 39).** The Benetton Group holds Interest Rate Swaps (IRS) to manage the risk of changes in interest rates. IRS qualify for treatment as hedging instruments under Italian GAAP, meaning that only the difference between interest paid and that received was booked directly to the income statement on an accruals basis. For the purposes of IFRS, the derivative instruments in question do not meet all the formal requirements of IAS 39 for recognition as hedges, meaning that outstanding IRS have been measured at fair value at the transition date and at December 31, 2004, with the related differences booked to the income statement.

Effects:

- on shareholders’ equity as of January 1, 2004: decrease of 9,653 thousand euro, before a positive tax effect of 3,185 thousand euro;
- on shareholders’ equity as of December 31, 2004: decrease of 4,963 thousand euro, before a positive tax effect of 1,636 thousand euro;
- on net income for year 2004: increase of 4,690 thousand euro, before a negative tax effect of 1,549 thousand euro.

l) **Derivative instruments for exchange rate risks (IAS 39).** The effects of marking to market the exchange component of currency hedging instruments relating to future sales have been included for IFRS purposes in a specific reserve under shareholders’ equity; changes in the value of these hedges were previously booked to the income statement. In addition, in the case of hedges relating to receivables, the derivative’s total “mark to market” valuation is now recorded in the income statement, whereas, previously, the income statement reflected the exchange component and the portion of the interest component relevant to that period.

Effects:

- on shareholders’ equity as of January 1, 2004: increase of 1,100 thousand euro, before a negative tax effect of 378 thousand euro;
- on shareholders’ equity as of December 31, 2004: increase of 139 thousand euro, before a negative tax effect of 46 thousand euro;
- on net income for year 2004: decrease of 264 thousand euro, before a positive tax effect of 103 thousand euro.

m) **Securities available for sale (IAS 39).** Investments of liquid funds in securities have been reclassified into the IAS 39 category “Available for sale financial assets” and consequently measured at fair value, with any effect booked to shareholders’ equity, whereas, previously, they were valued at the lower of historic cost and market value.

Effects:

- on shareholders' equity as of January 1, 2004: increase of 262 thousand euro, before a negative tax effect of 73 thousand euro;
- on shareholders' equity as of December 31, 2004: increase of 301 thousand euro, before a negative tax effect of 81 thousand euro;
- on net income for year 2004: decrease of 43 thousand euro, before a positive tax effect of 19 thousand euro.

The effects arising from the application of IAS 32 and 39, together with reclassifications of some balance sheet items, had the following consequences on the net financial position:

- net financial position as of January 1, 2004: decrease of 468 thousand euro;
- net financial position as of December 31, 2004: increase of 9,771 thousand euro.

n) **Impairment loss adjustments to non-current assets (IAS 36).** In the absence of an Italian accounting standard providing precise guidance on testing coming value of non-current assets, the Benetton Group previously used to write down the value when:

- a) it was decided to dispose of an asset or a group of assets; a typical example would be the decision to close a store, which involved estimating the costs of closure and adjusting the value of associated investments to their market value;
- b) there was some indisputable sign of lasting loss in value by a particular fixed asset (for example following an expert valuation).

A special valuation mechanism was used to analyze investments in stores, both directly operated ("retail") and those operated by third parties ("wholesale"). This type of investment (leasehold improvements, key money, furnishings) was tested on a country level, considering all stores in a single country as a whole.

The 35.7 million euro adjustment arose from the following:

- a) adoption of IAS 36, which eliminated the concept of the "lasting nature" of the loss of value and which set stringent rules for assessing the "value in use" of each individual asset and for identifying in commercial terms the individual store as the Cash Generating Unit, with the calculation of the present value of net cash flows generated by that CGU;
- b) modification of the procedure for analyzing the return on capital employed of individual stores.

This resulted in a certain number of write-downs of assets connected with stores which were insufficiently profitable when considered individually.

Effects:

- on shareholders' equity as of January 1, 2004: none, because the change is attributable to 2004;
- on shareholders' equity as of December 31, 2004: decrease of 35,683 thousand euro, before a positive tax effect of 8,345 thousand euro;
- on net income for year 2004: decrease of 35,951 thousand euro, before a positive tax effect of 8,426 thousand euro.

o) **Provisions for risks and future charges (IAS 37).** Certain provisions contained in the Italian GAAP financial statements at December 31, 2003, made as a result of the decision for early termination of some lease contracts, did not meet all the formal requirements of IAS 37 for recognition as a liability and so were reversed at the transition date; the

expense of terminating these contracts was therefore carried forward to the first half of 2004.

Effects:

- on shareholders' equity as of January 1, 2004: increase of 4,494 thousand euro;
- on shareholders' equity as of December 31, 2004: no effect;
- on net income for year 2004: decrease of 4,563 thousand euro.

p) **Exchange differences on equity investment disposals (IAS 21).** The Benetton Group has applied IAS 21, which requires exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded, to be recorded as income or expenses in the period in which they arise.

Effects:

- on shareholders' equity as of January 1, 2004: no effect;
- on shareholders' equity as of December 31, 2004: no effect;
- on net income for year 2004: increase of 69 thousand euro.

Consolidated IFRS balance sheets at January 1 and December 31, 2004, consolidated IFRS statement of income for the period ended December 31, 2004

In addition to the schedules reconciling shareholders' equity and net income, accompanied by comments on adjustments made to Italian accounting principle values, balance sheets as of January 1 and December 31, 2004 are attached, as well as statement of income for year 2004, with the following information for each category in separate columns:

- values under Italian accounting principles reclassified for IFRS;
- reclassifications to adapt to IFRS principles;
- adjustments to adapt to IFRS principles;
- values in accordance with IFRS.

Consolidated balance sheet - Assets as of January 1, 2004

(thousands of euro)	Italian GAAP new format	IFRS reclassifications	IFRS adjustments	Notes	IFRS principles
Non-current assets					
Property, plant and equipment					
Land and buildings	540,099	(8,390)	(3,085)	1	528,624
Plant, machinery and equipment	88,550	-	-		88,550
Office furniture, furnishings and electronic equipment	44,325	-	-		44,325
Vehicles and aircraft	11,512	-	-		11,512
Assets under construction and advances	17,019	-	-		17,019
Assets acquired through finance leases	12,336	-	-		12,336
Leasehold improvements	-	86,871	-	4	86,871
	713,841	78,481	(3,085)		789,237
Intangible assets					
Goodwill and other intangible assets of indefinite useful life	90,078	(83,236)	-	5	6,842
Intangible assets of finite useful life	140,947	3,879	(7,361)	6	137,465
	231,025	(79,357)	(7,361)		144,307
Other non-current assets					
Investments	20,514	(15,000)	-	7	5,514
Investment securities	8	-	-		8
Guarantee deposits	42,332	-	-		42,332
Medium/long-term financial receivables	30,616	15,000	-	7	45,616
Other medium/long-term receivables	8,662	-	-		8,662
Deferred tax assets	202,250	-	4,295	8	206,545
	304,382	-	4,295		308,677
Total non-current assets	1,249,248	(876)	(6,151)		1,242,221
Current assets					
Inventories	233,735	-	-		233,735
Trade receivables	752,638	-	-		752,638
Tax receivables	26,004	-	-		26,004
Other receivables, prepaid expenses and accrued income	58,307	(3,840)	-	10	54,467
Financial receivables	17,298	3,840	1,100	11	22,238
Available for sale financial assets	27,290	-	255	12	27,545
Cash and cash equivalents	324,835	-	-		324,835
Total current assets	1,440,107	-	1,355		1,441,462
Assets held for sale	8,088	-	-		8,088
TOTAL ASSETS	2,697,443	(876)	(4,796)		2,691,771

Consolidated balance sheet - Shareholders' equity and liabilities as of January 1, 2004

(thousands of euro)	Italian GAAP new format	IFRS reclassifications	IFRS adjustments	Notes	IFRS principles
Shareholders' equity					
Shareholders' equity attributable to the Parent Company					
Share capital	236,026	-	-		236,026
Additional paid-in capital	56,574	-	-		56,574
Fair value and hedging reserve	-	-	1,525		1,525
Other reserves and retained earnings	773,387	-	(12,206)		761,181
Net income for the year	107,874	-	-		107,874
	1,173,861	-	(10,681)		1,163,180
Minority interests	12,799	-	193		12,992
Total shareholders' equity	1,186,660	-	(10,488)		1,176,172
Liabilities					
Non-current liabilities					
Bonds	300,000	(336)	-	13	299,664
Medium/long-term loans	504,894	(540)	-	13	504,354
Other medium/long-term liabilities	705	-	-		705
Lease financing	21,834	-	-		21,834
Retirements benefit obligations	49,774	-	(3,825)	14	45,949
Other provisions and medium/long-term liabilities	42,373	-	(4,494)	15	37,879
	919,580	(876)	(8,319)		910,385
Current liabilities					
Trade payables	331,663	-	-		331,663
Other payables, accrued expenses and deferred income	91,263	(10,950)	4,358	17	84,671
Current income tax liabilities	126,514	-	-		126,514
Current portion of lease financing	4,977	-	-		4,977
Current portion of medium/long-term loans	1,567	-	-		1,567
Current portion of bonds	-	-	-		-
Financial payables	1,340	10,950	9,653	19	21,943
Bank loans and overdrafts	33,879	-	-		33,879
	591,203	-	14,011		605,214
Total liabilities	1,510,783	(876)	5,692		1,515,599
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,697,443	(876)	(4,796)		2,691,771

Consolidated statement of income using the nature of expense method - year 2004

(thousands of euro)	Italian GAAP new format	IFRS reclassifications	IFRS adjustments	Notes	IFRS principles
Revenues	1,686,351	17,773	-	20	1,704,124
Other operating income and revenues	90,644	-	586	21	91,230
Change in inventories of finished products and work in progress	22,811	-	-		22,811
Purchases of raw materials and consumables	452,573	-	-		452,573
Payroll and related costs	213,654	-	348	22	214,002
Depreciation and amortization:					
- of property, plant and equipment	58,671	9,347	(23)	23	67,995
- of intangible assets	40,894	(9,347)	(4,215)	24	27,332
	99,565	-	(4,238)		95,327
Other operating costs:					
- external services	620,578	17,773	-	20	638,351
- leases and rentals	89,728	-	(3,308)	25	86,420
- impairment of property, plant and equipment and intangible assets	13,332	-	35,784	26	49,116
- write-downs of doubtful accounts	39,240	-	-		39,240
- provisions for risks	32,565	-	4,563	27	37,128
- other operating costs	47,957	-	217	28	48,174
	843,400	17,773	37,256		898,429
Operating profit	190,614	-	(32,780)		157,834
Share of income of associated companies	161	-	-		161
Net financial expenses and exchange differences	(26,439)	-	4,451	29	(21,988)
Income before taxes	164,336	-	(28,329)		136,007
Income taxes	41,754	-	(14,091)	30	27,663
Net income/(loss) for the year attributable to the Parent Company and minority interests	122,582	-	(14,238)		108,344
Net income/(loss) attributable to:					
- shareholders of the Parent Company	123,074	-	(14,279)		108,795
- minority shareholders	(492)	-	41		(451)

Consolidated balance sheet - Assets as of December 31, 2004

(thousands of euro)	Italian GAAP new format	IFRS reclassifications	IFRS adjustments	Notes	IFRS principles
Non-current assets					
Property, plant and equipment					
Land and buildings	590,184	(7,303)	(2,895)	1	579,986
Plant, machinery and equipment	80,381	-	(723)	2	79,658
Office furniture, furnishings and electronic equipment	45,180	-	(6,267)	3	38,913
Vehicles and aircraft	10,583	-	-		10,583
Assets under construction and advances	3,724	-	-		3,724
Assets acquired through finance leases	11,743	-	-		11,743
Leasehold improvements	-	72,289	(24,131)	4	48,158
	741,795	64,986	(34,016)		772,765
Intangible assets					
Goodwill and other intangible assets of indefinite useful life	90,285	(85,660)	721	5	5,346
Intangible assets of finite useful life	119,148	20,183	(8,058)	6	131,273
	209,433	(65,477)	(7,337)		136,619
Other non-current assets					
Investments	5,117	-	-		5,117
Investment securities	223	-	-		223
Guarantee deposits	16,715	-	-		16,715
Medium/long-term financial receivables	28,274	-	-		28,274
Other medium/long-term receivables	44,435	-	-		44,435
Deferred tax assets	182,765	-	18,503	8	201,268
	277,529	-	18,503		296,032
Total non-current assets	1,228,757	(491)	(22,850)		1,205,416
Current assets					
Inventories	255,436	-	-		255,436
Trade receivables	657,440	-	144	9	657,584
Tax receivables	39,451	-	-		39,451
Other receivables, prepaid expenses and accrued income	40,478	(4,838)	-	10	35,640
Financial receivables	16,024	4,838	666	11	21,528
Available for sale financial assets	117,878	-	294	12	118,172
Cash and cash equivalents	260,196	-	-		260,196
Total current assets	1,386,903	-	1,104		1,388,007
Assets held for sale	7,840	-	-		7,840
TOTAL ASSETS	2,623,500	(491)	(21,746)		2,601,263

Consolidated balance sheet - Shareholders' equity and liabilities as of December 31, 2004

(thousands of euro)	Italian GAAP new format	IFRS reclassifications	IFRS adjustments	Notes	IFRS principles
Shareholders' equity					
Shareholders' equity attributable to the Parent Company					
Share capital	236,026	-	-		236,026
Additional paid-in capital	56,574	-	-		56,574
Fair value and hedging reserve	-	-	1,114		1,114
Other reserves and retained earnings	814,645	-	(11,145)		803,500
Net income/(loss) for the year	123,074	-	(14,279)		108,795
	1,230,319	-	(24,310)		1,206,009
Minority interests	6,840	-	41		6,881
Total shareholders' equity	1,237,159	-	(24,269)		1,212,890
Liabilities					
Non-current liabilities					
Medium/long-term loans	503,863	(369)	-	13	503,494
Other medium/long-term liabilities	38,659	-	-		38,659
Lease financing	17,748	-	-		17,748
Retirements benefit obligations	51,518	-	(4,211)	14	47,307
Other provisions and medium/long-term liabilities	50,990	-	-		50,990
	662,778	(369)	(4,211)		658,198
Current liabilities					
Trade payables	284,137	-	(146)	16	283,991
Other payables, accrued expenses and deferred income	93,296	(10,280)	1,098	17	84,114
Current income tax liabilities	14,112	-	-		14,112
Current portion of lease financing	6,007	-	-		6,007
Current portion of medium/long-term loans	1,102	-	-		1,102
Current portion of bonds	300,000	(122)	-	18	299,878
Financial payables	4,985	10,283	5,779	19	21,047
Bank loans and overdrafts	19,924	-	-		19,924
	723,563	(119)	6,731		730,175
Total liabilities	1,386,341	(488)	2,520		1,388,373
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2,623,500	(488)	(21,749)		2,601,263

There now follow comments on the main reclassifications and adjustments made, due to application of IFRS, to items in the balance sheets as of January 1 and December 31, 2004 and of statement of income for year 2004.

Balance sheet - Assets

1. Land and buildings:

The adjustments comprise the reversal of monetary revaluations, made in previous years in conformity with the law, which are no longer permitted by IAS 16. The item also shows a reclassification of leasehold improvements.

2. Plant, machinery and equipment:

This item includes all the adjustments made following impairment tests performed on stores on the basis of IAS 36.

3. Office furniture, furnishings and electronic equipment:

This item includes all the adjustments made following impairment tests performed on stores on the basis of IAS 36.

4. Leasehold improvements:

- As of January 1, 2004: this item has been reclassified from intangible fixed assets of definite life to tangible fixed assets, in application of IAS 16 and there has also been a reclassification from land and buildings.
- As of December 31, 2004: this item, as described for preceding periods, has been increased due to reclassifications from intangible fixed assets of definite life to tangible fixed assets on the basis of IAS 16 and from land and buildings; it was also reduced by adjustments following impairment tests made in application of IAS 36.

5. Goodwill and other intangible assets of indefinite useful life:

The Benetton Group has chosen to reclassify the value of lease surrender payments paid for lease of buildings, for use as stores, which were previously classified in goodwill, to intangible fixed assets of definite life, and to depreciate them on the basis of the residual duration of the contracts to which they refer; "fonds de commerce" are an exception to this and are depreciated over 20 years. Also, following suspension of amortization of the residual goodwill due to the application of IFRS 3 and IAS 38 as of December 31, 2004, a positive adjustment has been made to amortization of 721 thousand euro.

6. Intangible assets of finite useful life:

- As of January 1, 2004: changes to this item are attributable to:
 - a) change of classification of leasehold improvements to tangible fixed assets, as described in note 4;
 - b) the reclassification of deferred commercial expenses as described in note 5;
 - c) the reclassification of deferred expenses associated with financial operations reducing medium/long-term loans, as required by IAS 39, which provides for them to be recorded at amortized cost.Adjustments made to this item were entirely due to the reversal of start-up and expansion costs which, based on IAS 38, are not capitalizable.

- As of December 31, 2004: in addition to the reclassifications and adjustments made at the earlier dates, this movement also includes adjustments resulting from impairment tests per IAS 36, mainly relating to deferred commercial expenses (key money).

7. Investments and medium/long-term financial receivables:

The reclassification of 15,000 thousand euro from investments to medium/long-term financial receivables related to shares in Tecnica S.p.A. purchased during the disposal of part of the sports equipment business. This reclassification reflects the substance of the operation (shares to guarantee a financial receivable). In the second half of 2004, the equity investment was sold following early exercise of the call option held by Tecnica S.p.A.

8. Deferred tax assets:

- As of January 1, 2004: the change in this item resulted from the reclassification of deferred tax liabilities; it includes the tax effects of adjustments to various items following application of IFRS, as well as the effect of applying IAS 12 to determine the tax rate for the "profit in stock" calculation.
- As of December 31, 2004: the item includes the same type of adjustments made at the earlier dates as well as a positive adjustment of 7,146 thousand euro resulting from recording of the future benefit of prior year tax losses which the Group believes to be recoverable; this complies with IAS 12 (probability of recovery requirement).

9. Trade receivables:

This item includes the effects of the change due to application of IAS 39 to exchange risk hedges relative to the amount attributable to trade receivables.

10. Other receivables, prepaid expenses and accrued income:

Changes in this item are attributable to reclassification of amounts previously included as accruals and deferrals in financial receivables.

11. Financial receivables:

Changes in this item are attributable to reclassification of amounts previously included as accruals and deferrals as indicated in point 10; this item has also been adjusted following application of IAS 39 to currency hedge transactions.

12. Available for sale financial assets:

This item has been adjusted for the effect of valuation of securities available for sale at fair value as required by IAS 39.

Balance sheet - Shareholders' equity

Changes and adjustments made to items in shareholders' equity have been described in previous tables.

Balance sheet - Liabilities

13. Bonds and medium/long-term loans:

Changes in these items relate to the reclassification, as required by IAS 39, of deferred expenses of financial operations, previously classified to intangible fixed assets.

14. Retirements benefit obligations:

Changes in this item are attributable to the actuarial valuation of TFR resulting from the application of IAS 19.

15. Other provisions and medium/long-term liabilities:

This item was adjusted due to the change in timing, from 2003 to 2004, of the costs of terminating some rental contracts early, as required by IAS 37.

16. Trade payables:

This item includes the effects of the change due to the application of IAS 39 to exchange risk hedges relative to the amount attributable to trade payables.

17. Other payables, accrued expenses and deferred income:

This item includes the effect of the change due to reclassification of accrued expenses and deferred income of a financial nature to financial payables; the adjustments relate to the application of IAS 17 to put lease installments on a straight-line basis over the duration of the contract.

18. Current portion of bonds:

Changes in this item relate, as required by IAS 39, to reclassification of deferred expenses of medium/long-term loans, previously recorded in intangible fixed assets.

19. Financial payables:

This item includes the effects of the change due to the reclassification of accrued expenses and deferred income as per note 17; the adjustments result from the valuation of hedging contracts at fair value as required by IAS 39.

Statement of income adjustments

20. Revenues and other operating costs for services:

This item has been modified due to the application of IAS 18 which establishes recognition of revenues as occurring at the moment of transfer of the risks and rewards associated with ownership of the goods; in particular, revenues from sales in Korea are treated as retail sales.

21. Other operating income and revenues:

This item has mainly been adjusted in respect of gains on sale of capitalized assets which were subject to reversal of monetary revaluations, as required by IAS 16. The most significant effect related to a Spanish company of the Group.

22. Payroll and related costs:

Changes in this item relate to the treatment of stock options according to IFRS 2 and adjustment of TFR (employee termination indemnities reserve) to present value in accordance with IAS 19.

23. Depreciation and amortization of property, plant and equipment:

Adjustments has mainly been changed by the reclassification of depreciation of leasehold improvements from intangible to tangible fixed assets.

24. Depreciation and amortization of intangible assets:

Changes in balance are attributable to the reclassifications in the previous point 23; the adjustments, on the other hand, were due to reversal of amortization for the year of start-up and expansion expenses, which, based on IAS 38, are not capitalizable.

25. Other operating costs for leases and rentals:

Changes in balance are wholly attributable to the application of IAS 17, which requires lease installments to be applied on a straight-line basis over the duration of the contract; the positive effect is due to the release of costs accrued in the transitional financial statements for lease contracts with increasing installments but then terminated early during 2004.

26. Impairment of property, plant and equipment and intangible assets:

This item is mainly affected by write-downs resulting from impairment tests on capitalized assets as required by IAS 36. These write-downs mainly relate to furniture and furnishings, leasehold improvements and deferred commercial expenses (key money).

27. Provision for risks:

This amount refers to expected charges to be paid for the early termination of rental agreements.

28. Other operating costs:

As of December 31, 2004: the adjustments are attributable, in addition to the above, to the recognition of start-up and expansion expenses as chargeable in the period.

29. Net financial expenses and exchange differences:

The adjustments relate to the application of IAS 39 relating to the valuation of securities at fair value of interest rate hedges and to hedge exchange rate risks for securities and derivative instruments.

30. Income taxes:

This item has been modified by the effect of deferred tax income and expenses on all impacts arising from application of IFRS, as well as by the effect of application of IAS 12 which impacts directly on the subject item. In particular:

- a) deferred tax income on intercompany income, calculated so that the tax effect is the same as if realized at the moment when the relative asset or liability is eliminated;
- b) recognition of the future benefit of prior losses of Bentec S.p.A.

Main changes to the statement of cash flow

The statement of cash flow prepared by the Group up to the financial statements for the year to December 31, 2004 had the objective of showing the net financial deficit and surplus of the Group resulting from the change in the net financial position at the end of the year, while the statement of cash flow per IAS 7 aims to show the capacity of the Group to generate "cash and equivalent liquid funds". According to this principle, other equivalent liquid funds represent short-term financial investments and other highly liquid funds which are readily convertible to cash and which are subject to an insignificant risk of changes in value. Therefore, a financial investment is normally classified as equivalent liquid funds if it is short-dated, defined as within three months or less from the date of purchase.

Current account overdrafts, normally, form part of financing assets, except where they are repayable at sight and are an integral part of the management of cash and equivalent liquid funds of a company, in which case they are classified as reducing equivalent liquid funds.

According to IAS 7, the statement of cash flow must indicate separately cash flows deriving from operating, investing and financing activities:

- cash flow from operating activities: cash flows from operating activities are mainly associated with revenue-producing activities and are shown by the Group using the indirect method; under this method, income for the period is adjusted for non-cash items, or items which did not generate liquidity (non-monetary operations);
- cash flow from investing activities: investing activity is shown separately because, among other things, it is indicative of acquisitions/disposals made with the objective of generating future revenues and positive cash flows;
- cash flow from financing activities: financing activities are activities that result in changes in the size and composition of contributed equity and borrowings obtained.

Auditors' report on the IFRS reconciliation schedules illustrating the impact of the transition to International Financial Reporting Standards (IFRS)

To the Board of Directors of Benetton Group S.p.A.

1. We have audited the accompanying Reconciliation Schedules of the consolidated balance sheets at January 1, 2004 and at December 31, 2004 and of the consolidated income statement for the year ended December 31, 2004 (hereinafter the "IFRS Reconciliation Schedules") of Benetton Group S.p.A. and related explanatory notes, as presented in the section "Transition to IFRS" included in the interim consolidated financial reporting for the six-month period ended June 30, 2005.

The aforementioned IFRS Reconciliation Schedules derive from the consolidated financial statements of Benetton Group S.p.A. as of December 31, 2004 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued our report on April 8, 2005. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The IFRS Reconciliation Schedules are the responsibility of the Directors of Benetton Group S.p.A. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS Reconciliation Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the IFRS Reconciliation Schedules, identified in paragraph 1 of this report, have been prepared in compliance with the criteria and standards established by Article 81 of Regulation for Issuers no. 11971/1999 adopted by CONSOB with its Resolution no. 14990 dated April 14, 2005.

4. We draw to your attention that the IFRS Reconciliation Schedules, having been prepared for sole purpose of the transition project for the preparation of the interim consolidated financial reporting at June 30, 2005 and of the consolidated financial statements at December 31, 2005 prepared in accordance with the IFRS endorsed by the European Commission, do not include the comparative financial information and explanatory notes that would be required in order to present fairly the consolidated financial position and the consolidated result of operations of Benetton Group S.p.A. in compliance with IFRS. Furthermore, we point out that the data reported in the IFRS Reconciliation Schedules could be subject to adjustment should the European Commission alter its stance with respect to approval of IFRS or should the IASB or IFRIC issue new pronouncements.

Treviso, September 22, 2005

PricewaterhouseCoopers S.p.A.

Signed by

Roberto Adami

(Partner)

"This report has been translated into the English language solely for the convenience of international readers. The original report was issued in accordance with Italian legislation."