Benetton Group

1999 Annual Report

- Highlights
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- Notes

Benetton Group

1999 Annual Report Highlights

Benetton Group S.p.A., Ponzano Veneto

MAIN CONSOLIDATED COMPANIES

100% Benetton Sportsystem GmbH München	100% Benetton Sportsystem [Schweiz] AG., Stans				
100% Benetton Sportsystem N.V. Amsterdam					
100% Benetton Sportsystem Austria GmbH, Salzburg	100% Benetton Holdings U.S.A. Inc. New York				
	99.87% Rollerblade Inc. Bordentown	100% Benetton Sportsystem U.S.A. Inc., Bordentown			
100% Bencom S.p.A. Ponzano Veneto					
100% Benair S.p.A. Ponzano Veneto	100% Socks & Accessories Benetton [S.A.B.] S.r.l., Sesto Fiorentino	100% Gescom S.r.l. Ponzano Veneto			
100% Benfin S.p.A. Ponzano Veneto					
100% Texcontrol S.p.A. Ponzano Veneto	85% Olimpias S.p.A. Grumolo delle Abbadesse				
50% Filatura di Vittorio Veneto S.p.A., Vittorio Veneto	100% Manifattura Goriziana S.p.A. Gorizia	50% Color Service S.r.l. Dueville	100% Tessitura Travesio S.p.A. Travesio	100% Lanificio di Follina S.p.A. Follina	
100% Benlog S.p.A. Ponzano Veneto	100% Benetton Gesfin S.p.A. Ponzano Veneto	100% S.I.G.I. S.r.l. Ponzano Veneto	100% Fabrica S.p.A. Ponzano Veneto		
		100% Buenos Aires 2000 S.r.l. Ponzano Veneto	100% Colors Magazine S.r.l. Ponzano Veneto		
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100% Benetton Argentina S.A. Buenos Aires	50% Egyptian European Clothing Manufacturers S.A.E., Alexandria	50% DCM Benetton India Ltd. New Delhi	100% Benetton [Far East] Ltd. Hong Kong		
100% Benetton Japan Co. Ltd. Tokyo		100% United Colors of Benetton do Brasil Ltda., São José dos Pinhais			
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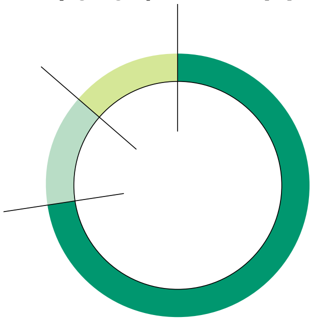
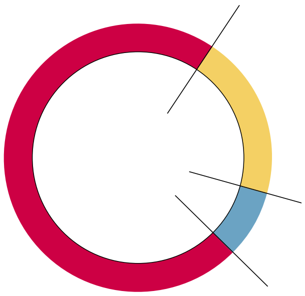
Financial highlights

1999 revenues by geographical area [%]



1999 revenues by activity [%]



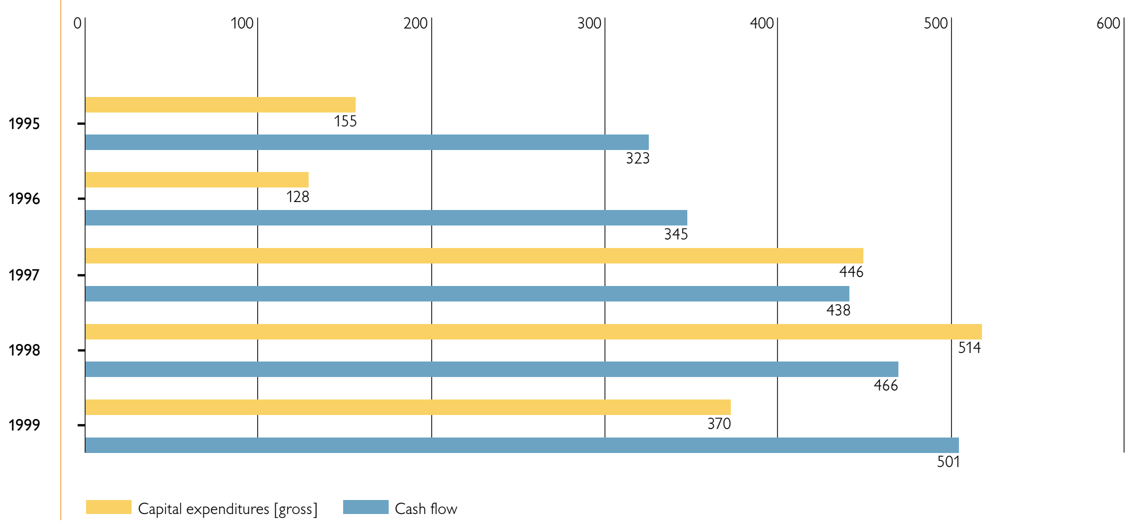
Key operating data [billions of Lire]	1995	%	1996	%	1997	%	1998	%	1999	%
Revenues	2,939	100.0	2,871	100.0	3,637	100.0	3,834	100.0	3,838	100.0
Cost of sales	1,721	58.6	1,716	59.8	2,106	57.9	2,261	59.0	2,147	56.0
Gross operating income	1,218	41.4	1,155	40.2	1,531	42.1	1,573	41.0	1,691	44.0
Income from operations	444	15.1	402	14.0	499	13.7	451	11.8	611	15.9
Net income	220	7.5	246	8.6	290	8.0	293	7.7	322	8.4

Key financial data [billions of Lire]	1995	1996	1997	1998	1999
Working capital	1,285	1,137	1,648	1,365	1,434
Net capital employed	1,836	1,712	2,741	2,628	2,757
Net indebtedness	140	[133]	509	378	576
Stockholders' equity	1,657	1,821	2,030	2,219	2,161
Cash flow [1]	323	345	438	466	501
Capital expenditures in tangible and intangible fixed assets	137	111	120	230	347
Purchase of equity investments	18	17	326	284	23

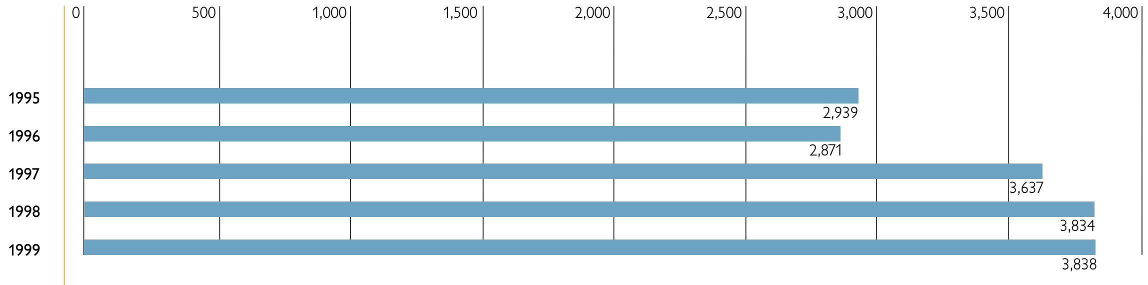
Financial ratios [%]	1995	1996	1997	1998	1999
Return on equity [ROE]	13.3	13.5	14.3	13.2	14.9
Return on investments [ROI]	24.2	23.5	18.2	17.2	22.2
Return on sales [ROS]	15.1	14.0	13.7	11.8	15.9
Net income/sales	7.5	8.6	8.0	7.7	8.4

[1] Income before minority interests + depreciation

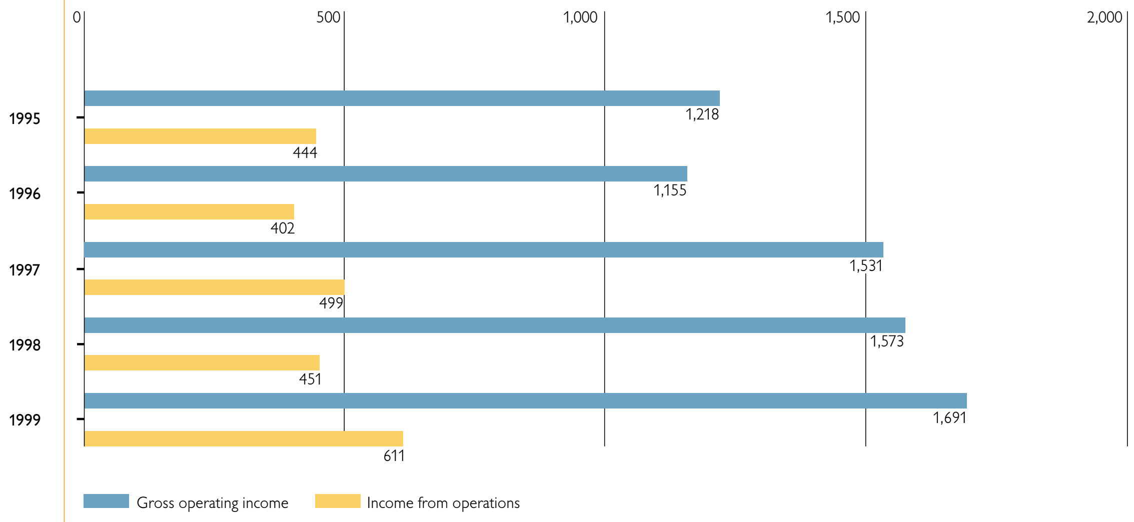
Capital expenditures [gross] and cash flow
[billions of Lire]



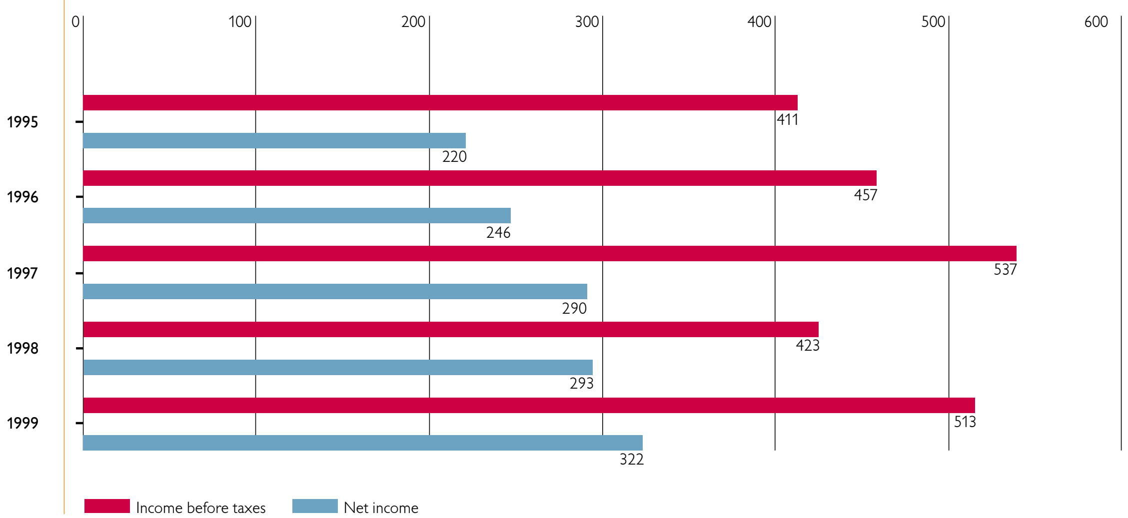
Revenues
[billions of Lire]



Gross operating income and income from operations
[billions of Lire]



Income before taxes and net income
[billions of Lire]



Letter to our Shareholders

1999 represented another important milestone in our program of development for the future. Continuing improvement in the quality of our products and services to our clients, together with our by-now established policy of price containment, has brought very satisfying results, notably an increase of 10% in both sales and profits.

I am convinced that Benetton's growth potential can best be achieved through a two-pronged strategy: the development of the quality of the commercial network and commitment, courage and innovation in the sports sector. In terms of the sales network, we are continuing to open new megastores, some of which are directly managed by us, in historical and commercial centers of cities around the world. They serve as immediate, effective showcases for Benetton's quality, style and taste. They are large stores, also serving as important meeting places, where our concept of quality is extended to complementary customer services. The economic impact of these stores will become increasingly evident in coming years.

In the sports sector, we completed our reorganization. The positive results we had in 1999 confirm the validity of our idea of sport as a global activity, part of everyone's daily life. Our best results came from winter sports, especially in the demanding Japanese market. In general, our improved gross margins bear witness to the continuing enhancement of product quality and customer service, as well as our commitment to innovation and high-tech research.

I am also optimistic about the great opportunities for growth in sportswear, now concentrated in the Playlife and Killer Loop brands. These combine the comfort and reliability of sportswear with the style and colors that express contemporary Made in Italy. Moreover, the wisdom of this combination, is confirmed by the continuing growth of the Playlife store network in Europe and the world, alongside that of traditional sports store channels.

In addition, the international and cosmopolitan sports environment enhances our role as a protagonist in this sector: highly qualified professionals, identifying themselves with the Benetton project, have joined our corporate team. CONI [the Italian Olympic Committee] has demonstrated its esteem by choosing Benetton and Playlife as official clothing suppliers for the Italian Olympic team at Sydney 2000.

1999's positive results were reflected in the stock market, where Benetton shares recorded an increase of 37% during the year, more than double that of the nonetheless commendable growth in the general index of the Milan Stock Exchange. Increasing attention to shareholder returns also contributed to this growth, through a careful strategy of dividends that will continue in coming years to be a priority for our Group.

The flexible Benetton System, based on a readiness to change, has been organized since the beginning around a network logic, making us well positioned for our future in the new economy. For our imminent entrance into electronic commerce we can count on an advanced distribution system and know-how in logistics, conditioned by years of operating in fast-changing global markets.

Fabrica serves as proof of our ability to develop roots, to interact and collaborate with society. I am particularly proud of our research center's work in communication. It is becoming a multicultural entity, in close collaboration with prestigious international institutions. Fabrica's headquarters, designed by Tadao Ando, will be officially inaugurated in June, 2000.

Over and above its significant successes such as the Silver Lion at the Venice Film Festival, Fabrica is working on the Web, in industrial design, in graphics, photography, cinema, music, and publishing. It is playing an important role as catalyst and incubator of new ideas, the benefits of which will enrich our corporate culture.

These activities will help us get away from the attitude of maintaining the status quo and will contribute to the creation of a new intelligence, needed to meet the new rules of a global economy. This mind-set will have a strong entrepreneurial streak and will involve us all, each with our own identity and role, in order to build the Benetton of the future.

THE CHAIRMAN
Luciano Benetton

Distinctive features of the Benetton Group

From the very beginning, the Group has pursued an original strategy that led to the creation of the *Benetton system*, an entrepreneurial formula that has ensured constant growth for the Company. Its five basic principles are:

_ **Innovation**, in the form of a constant commitment to product and process research and development, aimed at identifying the materials, technology and designs enabling the anticipation of market trends - a process that gives a clear and forceful identity to our style and our label.

_ **Flexibility in manufacture and logistics**, based on an effective system of outsourcing. While certain processing stages are largely carried out outside the Company, the Benetton Group remains responsible for organizing, coordinating and overseeing the creative, manufacturing and logistical process, and conducting all-important quality control. At the same time, integration and centralization of logistics maximize efficiency in terms of costs, lead-times and shipment volumes in relation to the manufacturing cycle and market demand.

_ **General business-risk reduction** through a careful strategy of geographic diversification and constant attention to distribution formulae, including the opening of megastores worldwide and the enlargement of existing stores.

_ **A network of independent stores** that is the world's largest and most flexible in organizational terms, and has created a decentralized entrepreneurial structure operating roughly 7,000 outlets worldwide.

_ **Communication**, seen as a key strategic influence, aims at constant enhancement of the Benetton image. Over time, this has earned ever-increasing social and international recognition of the brand.

The synergies created by the combined application of these principles throughout the organization make the *Benetton system* a springboard for the creation of value for our Shareholders. This process is based on four basic strategic approaches.

Lines of strategic growth

_ **Strengthening of the Group's presence in the clothing sector**, supporting the profitable growth of Benetton's traditional business and replicating that philosophy in the sportswear sector. Development of the casual wear business is based on the promotion of a young, dynamic image, close attention to the price/quality ratio, and expansion and upgrading of the store network. In the sportswear sector, the key is to focus on a few high-profile brands offering high-quality, fashionable and technical products with a strong market appeal.

_ **Consolidation of the Group's leadership in sports equipment** by maintaining the ability to improve market share through innovative products and taking advantage of the growth potential of the various sectors. Brand reputation and acknowledged technological leadership are decisive in segments such as inline skates, carving skis, boots, and snowboards.

_ **Optimization of distribution channels,** encompassing separate approaches for the two principal businesses - casual wear and sporting goods. In the former case, development consists of enlarging traditional stores, opening megastores in the world's main cities and finding ad hoc solutions for smaller, specialized outlets. In the sports sector, growth is via the traditional distribution network [especially for equipment] and the opening of Playlife outlets offering sportswear and footwear.

_ **Exploitation of synergies and economies of scale,** by adopting an organizational structure that rationalizes and unifies R&D units, maintains a consistent brand image across the product portfolio, concentrates centralized functions, ensures maximum effectiveness in managing the advertising budget, and improves the management of working capital, including the optimization of logistics.

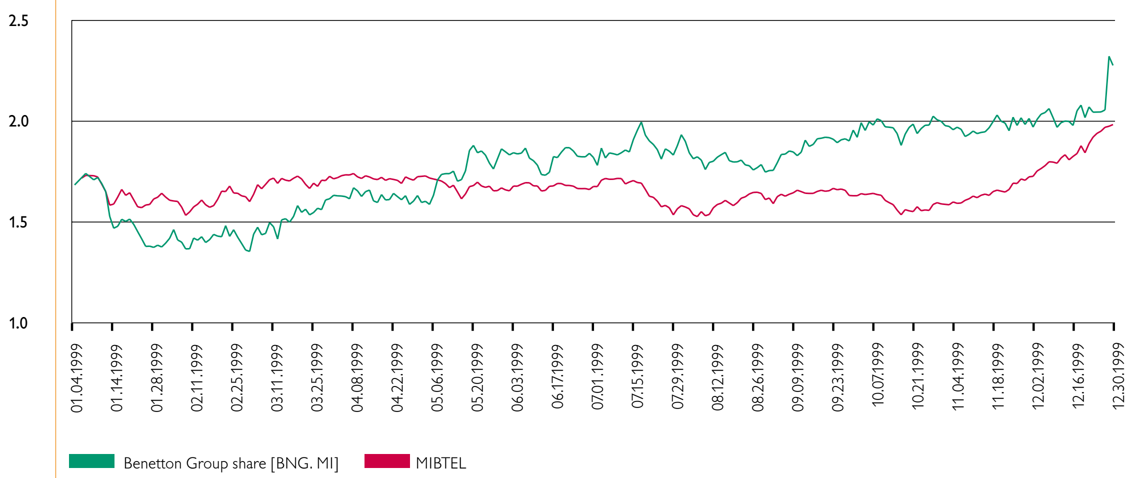
Share and market data	1995 [1]	1996 [1]	1997 [1]	1998	1999
Earnings per share [Lire]	126	141	163	162	178
Stockholders' equity per share [Lire]	949	1,043	1,118	1,222	1,191
Dividend per share [Lire]	42.5	50.0	52.5	220	200
Payout ratio [%]	34	35	32	136	112
Dividend yield	2.6	2.5	2.3	1.4	6.2
Share price: December 31, 1999 [Lire]	1,808	1,812	2,871	3,344	4,409
Share price: December 31, 1999 [Euro]	0.934	0.936	1.483	1.727	2.277
Screen-based market high [Lire]	1,941	2,100	2,949	4,204	4,496
Screen-based market low [Lire]	1,403	1,588	1,840	2,284	2,622
Price/earnings ratio [P/E]	14.3	12.9	17.6	20.6	24.8
Share price/Stockholders' equity per share	1.9	1.7	2.6	2.7	3.7
Market capitalization [billions of Lire]	3,157	3,164	5,213	6,071	8,005
Average No. of shares outstanding [000s] [2]	1,745,537	1,745,416	1,781,849	1,815,356	1,814,736

[1] Restated allowing for one-for-ten share split and increase in par value per share approved by Stockholders' Meeting on May 27, 1998.

[2] Net of treasury shares held during the year.

Exchange rate: 1 Euro = Lire 1,936.27

1999 Benetton share performance
[Euro]



FINANCIAL DEPARTMENT
Investor relations
E-mail: invrel@benetton.it
Tel. +39 - 0422 - 519412
Fax +39 - 0422 - 519336
TV Conference:
+39 - 0422 - 510623/24/25

MEDIA & COMMUNICATION DEPARTMENT
E-mail: fsartor@benetton.it
Tel. +39 - 0422 - 519036
Fax +39 - 0422 - 519930

Benetton Group

1999 Annual Report

Benetton Group
1999 Report of the Directors

UNITED COLORS OF BENETTON.

Benetton Group S.p.A.

Villa Minelli

Ponzano Veneto [Treviso] - Italy

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

Treviso Company Register 4424

Benetton Group S.p.A., Ponzano Veneto

MAIN CONSOLIDATED COMPANIES

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Benetton   Sisley   Playlife

Germany

Germany



UNITED COLORS OF BENETTON.
UNITED COLORS OF BENETTON.
SISLEY

Italy


UNITED COLORS OF BENETTON.
S I S L E Y
S I S L E

Italy


Germany


UNITED COLORS OF BENETTON.

Germany


S I S L E Y

Czech Republic

Denmark

Denmark


UNITED COLORS OF BE

Greece


PLAYLIFE

Taiwan

Directors & other officers

Board of Directors

Luciano Benetton	[1] Chairman
Gilberto Benetton	[2] Deputy Chairman & Joint Managing Director
Carlo Gilardi	[3] Joint Managing Director
Giuliana Benetton	[4] Directors
Carlo Benetton	[5]
Alessandro Benetton	
Gianni Mion	
Angelo Tantazzi	
Ulrich Weiss	
Reginald Bartholomew	
Pierluigi Bortolussi	
Pierluigi Bortolussi	Secretary to the Board

Board of Statutory auditors

Angelo Casò	Chairman
Dino Sesani	Auditors
Filippo Duodo	
Antonio Cortellazzo	Alternate auditors
Marco Leotta	

Independent auditors

Deloitte & Touche S.p.A.

Powers granted

[1] Company representation and power to carry out any action that is consistent with the Company's purposes, except for those expressly reserved by law to the Board of Directors and to the Shareholders' Meeting, with limitation for some categories of action.
[2] Power to carry out any action that is consistent with the Company's purposes, except for those expressly reserved by law to the Board of Directors and to the Shareholders' Meeting, with limitation for some categories of action.
[3] Power to carry out any action consistent with the ordinary administration of the Company, with limitation for some categories of action.
[4] Powers to carry out any action consistent with the creation of the Company's fashion collections.
[5] Powers to carry out any action consistent with the supplying of raw materials and with the production.

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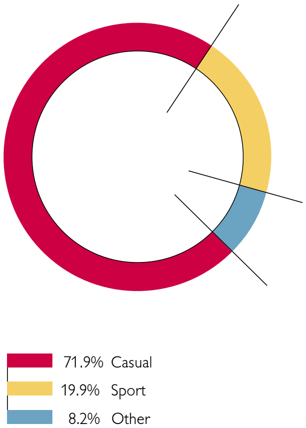
[%]



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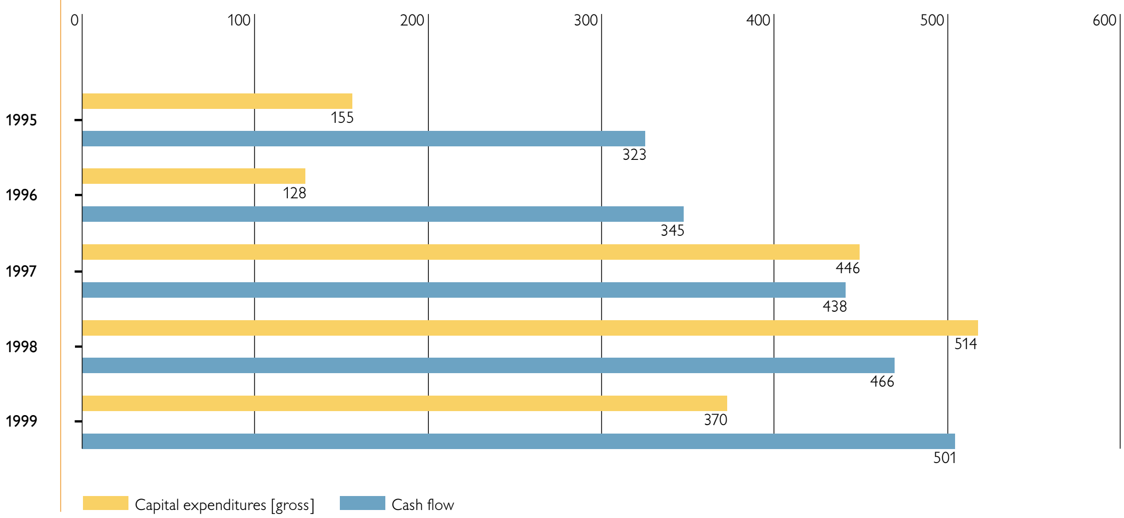
Capital expenditures [gross] and cash flow
[billions of Lire]



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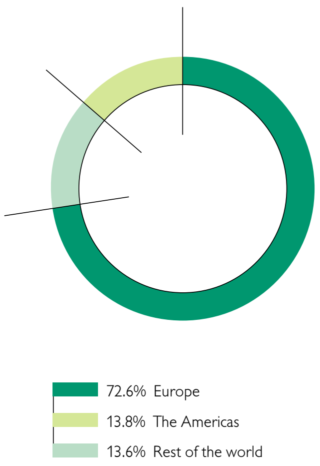

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Share price: December 31, 1999 [Euro]	0.934	0.936	1.483	1.727	2.277
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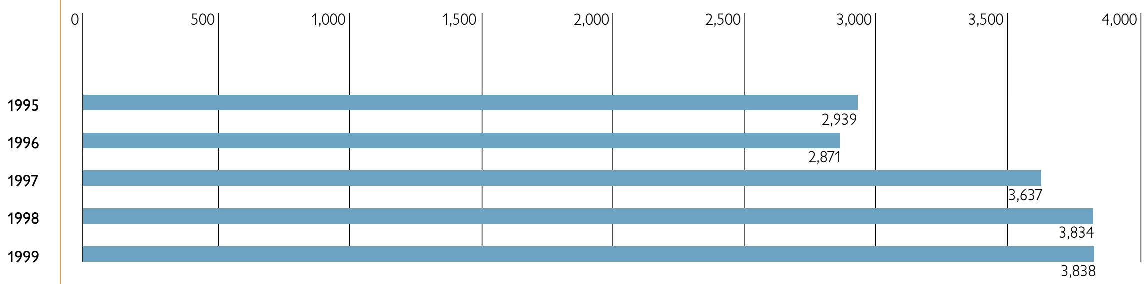
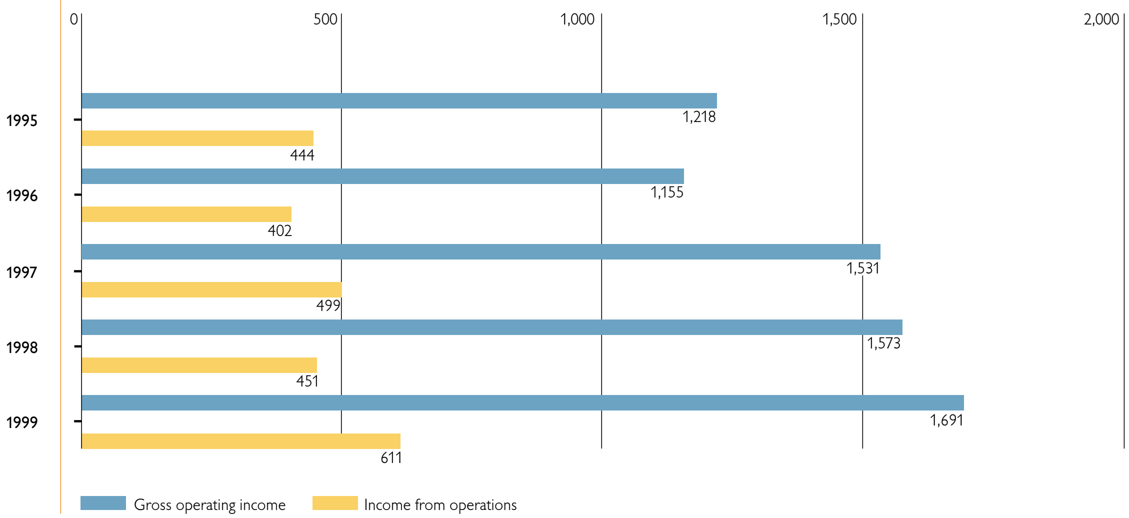
Price/earnings ratio [P/E]	14.3	12.9	17.6	20.6	24.8
Share price/Stockholders' equity per share	1.9	1.7	2.6	2.7	3.7
Market capitalization [billions of Lire]	3,157	3,164	5,213	6,071	8,005
Average No. of shares outstanding [000s] [2]	1,745,537	1,745,416	1,781,849	1,815,356	1,814,736

[1] Restated allowing for one-for-ten share split and increase in par value per share approved by Stockholders' Meeting on May 27, 1998.
[2] Net of treasury shares held during the year.
Exchange rate: 1 Euro = Lire 1,936.27.

Revenues [billions of Lire]



Gross operating income and income from operations [billions of Lire]



Distinctive features of the Benetton Group

From the very beginning, the Group has pursued an original strategy that led to the creation of the *Benetton System*, an entrepreneurial formula that has ensured constant growth for the Company. Its five basic principles are:

_ **Innovation**, in the form of a constant commitment to product and process research and development, aimed at identifying the materials, technology and designs enabling the anticipation of market trends - a process that gives a clear and forceful identity to our style and our label.

_ **Flexibility in manufacture and logistics**, based on an effective system of outsourcing. While certain processing stages are largely carried out outside the Company, the Benetton Group remains responsible for organizing, coordinating and overseeing the creative, manufacturing and logistical process, and conducting all-important quality control. At the same time, integration and centralization of logistics maximize efficiency in terms of costs, lead-times and shipment volumes in relation to the manufacturing cycle and market demand.

_ **General business-risk reduction** through a careful strategy of geographic diversification and constant attention to distribution formulae, including the opening of megastores worldwide and the enlargement of existing stores.

_ **A network of independent stores** that is the world's largest and most flexible in organizational terms, and has created a decentralized entrepreneurial structure operating roughly 7,000 outlets worldwide.

_ **Communication**, seen as a key strategic influence, aims at constant enhancement of the Benetton image. Over time, this has earned ever-increasing social and international recognition of the brand.

The synergies created by the combined application of these principles throughout the organization make the *Benetton System* a springboard for the creation of value for our Shareholders. This process is based on four basic strategic approaches.

Lines of strategic growth

_ **Strengthening of the Group's presence in the clothing sector**, supporting the profitable growth of Benetton's traditional business and replicating that philosophy in the sportswear sector. Development of the casual wear business is based on the promotion of a young, dynamic image, close attention to the price/quality ratio, and expansion and upgrading of the store network. In the sportswear sector, the key is to focus on a few high-profile brands offering high-quality, fashionable and technical products with a strong market appeal.

_ **Consolidation of the Group's leadership in sports equipment** by maintaining the ability to improve market share through innovative products and taking advantage of the growth potential of the various sectors. Brand reputation and acknowledged technological leadership are decisive in segments such as in-line skates, carving skis, boots, and snowboards.

_ **Optimization of distribution channels,** encompassing separate approaches for the two principal businesses - casual wear and sporting goods. In the former case, development consists of enlarging traditional stores, opening megastores in the world's main cities and finding ad hoc solutions for smaller, specialized outlets. In the sports sector, growth is via the traditional distribution network [especially for equipment] and the opening of Playlife outlets offering sportswear and footwear.

_ **Exploitation of synergies and economies of scale,** by adopting an organizational structure that rationalizes and unifies R&D units, maintains a consistent brand image across the product portfolio, concentrates centralized functions, ensures maximum effectiveness in managing the advertising budget, and improves the management of working capital, including the optimization of logistics.

1999 results

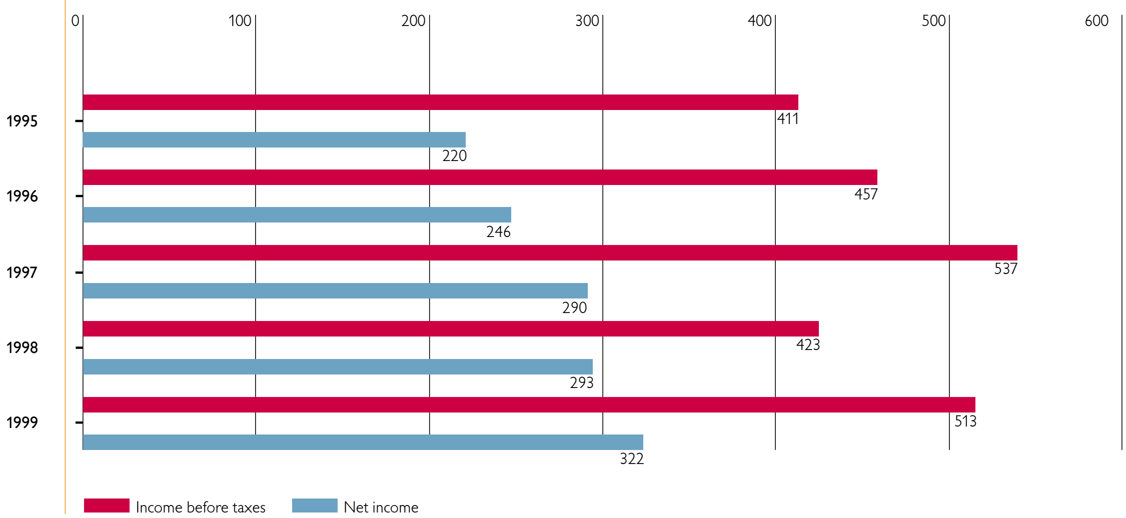
In 1999 revenues for the Benetton Group totaled Lire 3,838 billion, compared with 1998's Lire 3,834 billion. The 1999 results exclude the now deconsolidated revenues of Benetton Shoes Japan and Spiller S.p.A., whose combined operations contributed Lire 90 billion the previous year.

Consolidated net income increased to Lire 322 billion, compared with Lire 293 billion in 1998, an increase of 10%.

In strategic terms, 1999 represented a year of change for Benetton's commercial organization. We undertook a decisive program of investment to acquire high-visibility prestige properties in the world's major city centers, supporting and encouraging the development of our worldwide sales network with megastores. These locations, some managed directly by the Group, are characterized by their substantial dimensions and an elevated quality of customer services. In coming years the increase in Benetton megastores [managed either by the Company or independently] will be accompanied by a reduction in the number of smaller stores. The impact of the megastores on Group revenue will be evident starting in 2000.

During the year, the Group developed the strategy for its e-commerce project. A new company dedicated to the sale of clothing and sports equipment online will be fully operative by the second semester of 2000.

Income before taxes and net income
[billions of Lire]



孕妇装
maternitywear

孕妇装
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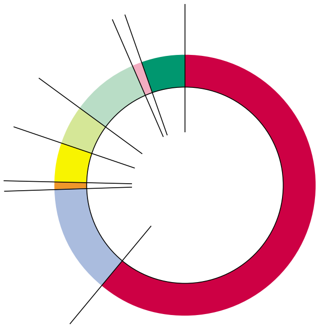
Casual wear

1999 net sales by brand [%]



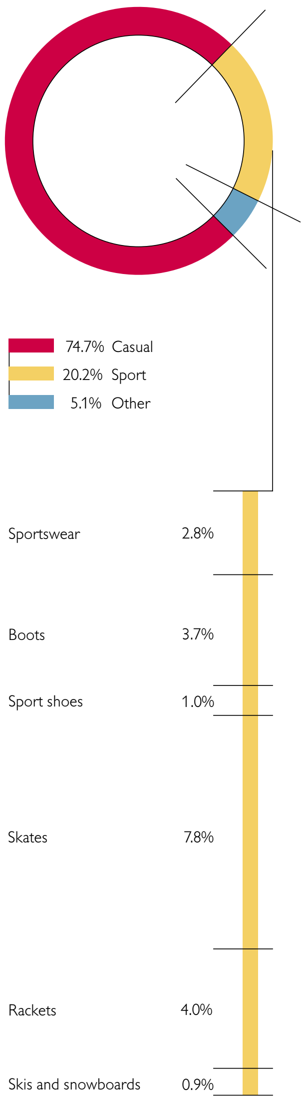
61.0% United Colors of Benetton
13.5% Sisley
0.9% Playlife
4.9% Nordica
4.8% Prince
8.3% Rollerblade
1.2% Killer Loop
5.4% Other

United Colors of Benetton. In addition to its two traditional seasonal collections, United Colors of Benetton offers between-season collections and a constantly-changing series of spot offerings, illustrating its ability to respond quickly to market trends. In Europe the markets expanding most rapidly are Germany, Scandinavia, and Russia, in addition to Italy. With the overcoming of last year's Asian crisis, Korea has had a noticeable recovery in sales, thanks to a new joint venture with a local partner. In the context of the Group's general program to enhance the size and quality of the sales areas, more space has been given to the men's collections. The results have been gratifying for both image and sales. In the children's line, the newborn segment has registered the greatest growth. Distribution for underwear and Undercolors swimwear has also been evolving; these lines are currently carried by more than 300 stores.

Sisley. Over the last year this brand has continued to develop its own identity, characterized by a focus on fashion. At the same time it has confirmed the trend of sustained growth, also in terms of store openings. Commercial development has continued internationally, with the opening of independently owned stores, both unisex [fashion for both men and women in one store] and single sex, and through an increase in average floor space size.

Sports equipment and sportswear

1999 net sales by activity
[%]



Playlife. In 1999 Playlife defined its position in the sports division, confirming its role as the sportswear brand of Benetton, alongside Killer Loop [aimed at a younger market]. The collections for men, women and children have been favorably received by customers. These clothes are sporty and comfortable, destined for maximum freedom of use during leisure time, free from the limits of the technical requirements of any specific sport. This approach has been appreciated by CONI, who chose Playlife, along with Benetton, as the official supplier for sportswear for the Italian Olympic Team in Sydney 2000. In the course of the year, the number of Playlife outlets increased, mainly in Italy, Greece, Spain, Switzerland, Russia, and the countries of ex-Yugoslavia, all of which recorded increases in sales.

Nordica. With the addition of high-tech ski bindings alongside its accredited ski boots and innovative ski collections, Nordica has become a complete winter sports brand. These bindings are perfectly integrated with the ski collection in their technology and design. In their first year they have established such a solid reputation for quality that sales are expected to double in 2000.
Ski boot sales have confirmed Nordica's position as market leader. This achievement has been aided by a notable improvement in service to the stores, both in terms of punctuality and order fulfillment.

Prince. A new line of rackets was launched in 1999, expected to create a revolution in tennis in 2000. Called "Triple Threat" this new line was officially presented in Boston during the Davis Cup semifinal between the United States and Australia. Thanks to a different distribution of weight at three points, optimizing power, precision, control and stability, these rackets confirm Prince's technological lead. During the year, for the first time in the company's history, a Prince athlete [Australian champion Patrick Rafter] became the world's number one-ranked male player.

Rollerblade. Synonymous with in-line skating, Rollerblade continues as the world's leader for number of units sold. To respond to rapid changes in the market, such as the popularity of "soft" models compared with the more traditional rigid frames, a new fitness skate with a soft shoe was developed. It has a folding frame and an innovative braking system - ABT Lite. With its stylish design and contemporary image, the new skate targets the mainly female fitness market, which is growing rapidly especially in France, Germany and Northern Europe. The RB line is aimed at a younger, more dynamic consumer, and is promoted by a group of international champions. Models with extendable shoes have amplified the collection for children, a rapidly growing market segment. They prolong the skate's life span by following the natural growth of the wearers' feet.

Killer Loop. A positioning strategy for Killer Loop snowboards, skateboards and surfboards was developed in 1999. New snowboard collections, reliable and with appealing graphics inspired by pop art, were created in collaboration with Fabrica. The skateboard was responsible for the biggest news of the year: the collection achieved excellent results and became the market leader in Germany. As for surfboards, an agreement was reached with a Californian company for the development of a new line; the first models will be available in the summer of 2000. In 1999 the Killer Loop shoe collection was launched; sales of the clothing line - young, sporty and with a strong character - grew reassuringly, especially for women. The international reputation and acceptance of the brand is underscored by the many offers of co-marketing that have come from world leaders in a variety of sectors, from drinks to videogames. The strongest market growth occurred in Japan, Germany, Italy, Eastern Europe, and Northern Europe.

New sports services. To be closer to sports lovers everywhere, establishing a continuing dialogue with the market, Benetton initiated two innovative services in 1999. Play and Service, the first post-sales service in the world of sports, deals with the repair and maintenance of sports equipment distributed with the Nordica, Killer Loop, Rollerblade and Prince brands. The service offers an international toll-free number [00800/66336633], Europe's first, where customers can ask about maintenance and guarantees.
Rent and Play is a rental service for winter sports equipment and is already operational in major winter tourist locations in Italy and Austria. Here customers can rent everything needed for ski racing, freestyle, carving and snowboard. Nordica and Killer Loop are the brands available; they satisfy the needs of any athlete, from a child to a professional skier, and ensure high technology, professional assistance, safety and good maintenance.

Capital expenditures

The Group's capital expenditures totaled about Lire 350 billion in 1999. The majority of these expenditures [more than Lire 200 billion, in addition to the Lire 70 billion spent the previous year] went towards acquisitions, modernization and upgrading of property, with the goal of improving holdings in commercial outlets.
The principal projects currently underway along these lines are located in major cities in Italy, Europe, and Japan.
Investments in manufacturing and other operating areas [more than Lire 120 billion] were made to upgrade and modernize logistic facilities related to clothing and sports equipment.

Production

Casual wear and sportswear. Production of casual wear and sportswear totaled about 94 million garments in 1999, an increase of roughly 10% over the previous year. During the year a new decentralization program was extended to areas bordering Italy, particularly to Croatia. This was the continuation of initiatives in recent years - a production center in Hungary and the evolution of manufacturing on the Iberian peninsula. The Castrette industrial complex, integrated with a plant in Tunisia, is the center of the European network. Castrette is one of the world's most advanced facilities for manufacturing and logistics.

A program to further improve automatic packaging got underway in the apparel division. It will optimize shipping volumes, including those of hanging garments, ensuring conformity with various international regulations for the handling and recycling of packaging materials. The program includes a study of packaging in collaboration with the Italian Institute of Packaging [Istituto Italiano di Imballaggio]. Package optimization has already meant a reduction of 200,000 units in the number of packages shipped in the last quarter of 1999, equivalent to more than 6% of the total.

To better define its own identity and style and, at the same time, respond intelligently to the demands of a rapidly evolving market, sportswear efforts were concentrated on two brands - Playlife and Killer Loop. In the Playlife collections, the sports characteristics of functionality, comfort and safety coexist with design, style and contemporary colors. The idea is to create a sporty appeal that invites customers to rediscover the quality of leisure time. The Killer Loop collections focus on a younger market and the "Street Life Style" - urban, aggressive and trendy.

Sports equipment. During the year the reorganization program for the sports sector was completed. The production of ski boots, skates, skis, bindings and accessories is now concentrated in Trevignano [near Treviso]. This is the heart of a system which is delocalized, above all in Europe, for certain products or production phases. In Hungary, for example, a complete line for the production of a number of skate models is now operative. This line integrates all manufacturing phases, testing and quality control.

During 2000 Trevignano will become the center for product development, planning and production of Prince rackets.

The production of Killer Loop skateboards is increasing significantly. They are designed by Fabrica, with aggressive graphics and strong colors inspired by pop art and cartoons.

Distribution

Logistics. In 1999, the Group continued to extend its distribution strategy to sports equipment. This strategy entails an integrated system of logistics in which the warehouses are the system's junctions rather than just storage facilities. Physical, information and documentation systems were redesigned with the objective of creating strong synergies in distribution and transportation by combining volumes in the two sectors of clothing and equipment. As part of this process, last October construction began for a new sports packaging center in Trevignano. From here production of sports equipment in various countries around the world will be managed. Extending over 10,000 square meters, the new integrated facility will be completed in May 2000. A program of updating system hardware and software at the automated distribution center of Castrette continued with an estimated investment of Lire 6 billion.

Sales organization. In 1999 the process of enlarging sales display areas to accommodate the complete casual wear and accessories collections continued, with a significant investment program for the acquisition of prestigious properties. This represents an important evolution of the Group's traditional commercial strategy: Company ownership and management of megastores and large stores, alongside independently-owned outlets, to consolidate the reputation and global image of the Group and contribute to its development in international markets. The investments, for which the impact on sales will be visible in 2000, regard valuable properties in the historic and commercial centers of the world's major cities, such as Tokyo, Milan, Paris, Rome, and Moscow.

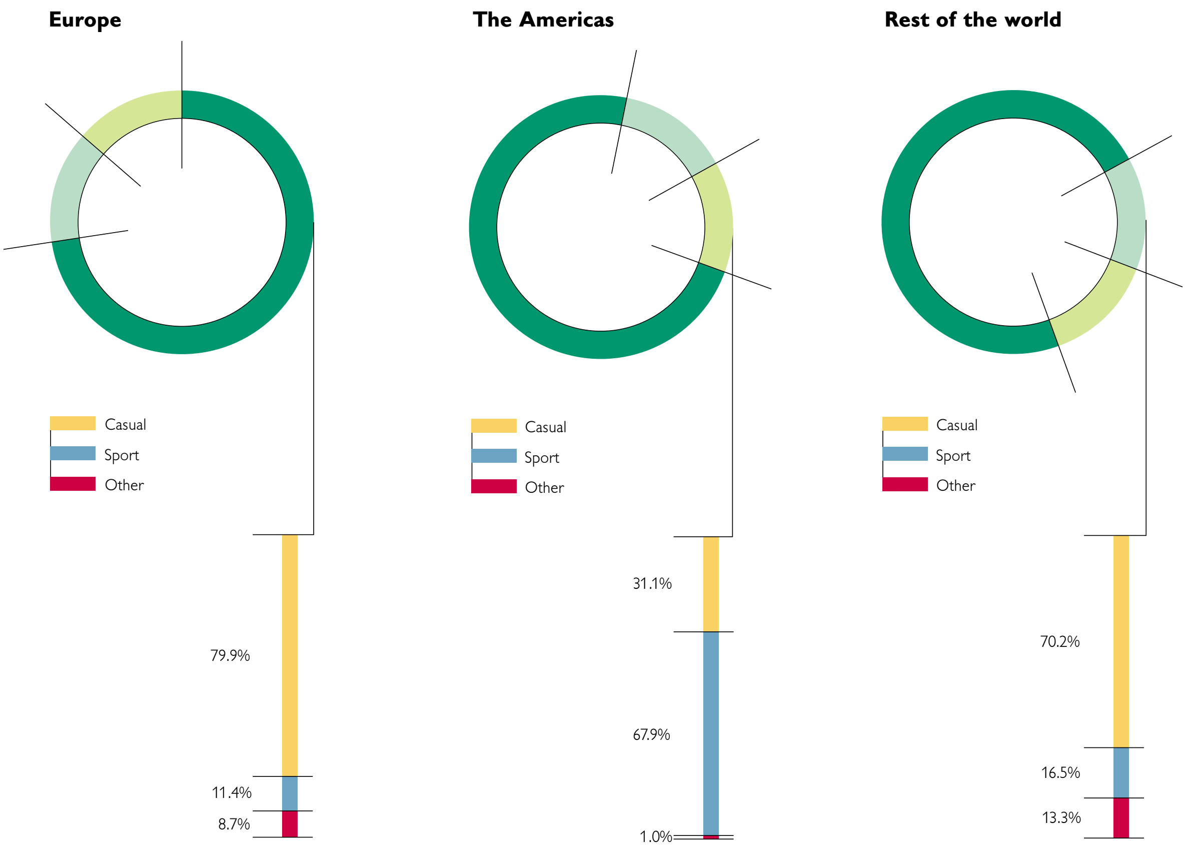
In the sports sector, logistical, commercial, and administrative activities in the U.S. were concentrated in headquarters in Bordentown, New Jersey. Control of all North American activities is now based here, following a major reorganization of U.S.-based subsidiaries. The network of agents was updated and customer service strengthened, with the objective of creating a more customer-focused corporate culture through improved efficiency and quality of service. The Benetton sports division now has a commercial structure focused on three poles: Europe, America and Asia.

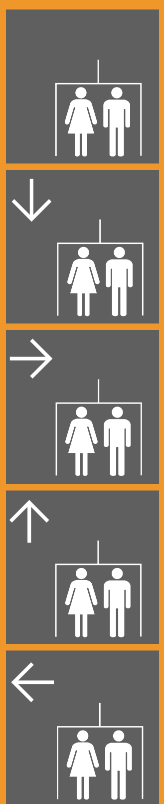
During the year the Playlife network continued to develop; its stores display clothing and shoes with the Playlife, Playlife Kids and Killer Loop brands, complemented by the image of the sports equipment. There were about 70 Playlife stores worldwide at the end of 1999; this number should more than double by yearend 2000.

Licensing. Licensing activities, which enable Benetton Group to extend the presence of its brands through a wide range of products, confirmed their strategic importance in 1999. A significant agreement was reached in Japan with Citizen Watches for the distribution of a new line of watches with the United Colors of Benetton brand. They will be of contemporary design and high quality, guaranteed by Citizens's global know-how. In the home accessories segment, where Benetton is already present with paint and wallpaper, a new line of tableware [porcelain, glasses, cutlery] and giftware has been developed under license by the German company and market leader Rosenthal. During the year the collection of household linen was enriched by new licensing agreements with Broomhill and Design Company, two English firms, and Atrium, a Spanish company.

Licensing in the sports sector, in only its second year of activity, encompassed nine international contracts in the areas of bicycles [Playlife], bags and school accessories [Playlife, Rollerblade], and sunglasses [Prince, Rollerblade, Playlife, Nordica]. In the Japanese market a new licensee will produce skis with the Kästle brand. In the early months of 2000 other licensing agreements are being finalized in the areas of clothing and accessories for motorcycles, school bags, videogames and stationery supplies, with the Playlife, Nordica and Rollerblade brands.

1999 revenues
by geographical area [%]





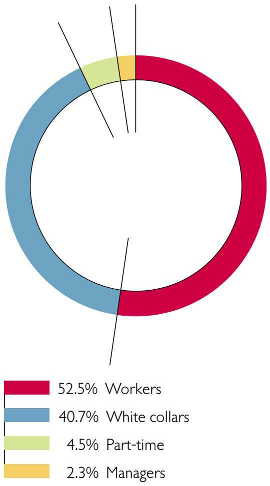
Value-creating intangibles

Research & development

■ **Casual wear and sportswear.** Benetton research, with a staff of 300, has focused on two main areas: transferring the qualities of "easy care" [typical of synthetic fibers] to natural fibers such as wool and cotton; and achieving an ever greater level of comfort in finished clothing. For the former, Benetton specialists, in collaboration with Woolmark Company [responsible for research, development and promotion of pure wool products worldwide], have developed a refined procedure for the creation of wool knitwear that can be easily machine-washed, with quality and reliability guaranteed over time. The same process will soon be extended to wool fabrics, allowing the best possible, safe machine-washing of jackets and pants. At the same time, a cotton "fil-à-fil" has been developed for the production of very practical no-iron shirts.
The second area of research has resulted in greater comfort in garments such as pants and underwear, thanks to the use of special elasticized fabrics. Future research will focus on advanced fabrics, for example with antibacterial qualities or protection against UVA rays or electromagnetic waves.

■ **Sports equipment.** Research and innovation in the sports sector have resulted in 23 patents [plus another eight in the clothing sector]. This effort has been indispensable in guaranteeing ever-greater levels of client satisfaction. It has been responsible for the development of new sports equipment, characterized by avant-garde technology, innovative materials, and a new way of perceiving sports and leisure time in general. After the presentation of the Nordica ski collection in January, a new project to develop ski bindings was completed in only six months. Thanks to complete technological and stylistic integration with its ski boots and other equipment, these made Nordica a total ski brand. To make the use of sports equipment pleasanter as well as safer in general, priority was given to sensory perceptions: visual [new monochromatic tones for the skis] and tactile [the study of new materials for skis and skates that are softer to the touch].
Agreements were reached with major industrial groups with a longstanding tradition in research - such as Bayer, 3M and Bridgestone - and with NASA's Center for Technology Transfer. A contract was signed with the latter for technological applications in the sports arena. These collaborations encompass, in particular, materials that return to their original shape, such as special nickel-titanium alloys and structural adhesives. They make it possible to attach ski and skate parts without resorting to the traditional system of mechanical attachment.

Employees by category
[%]



Quality and the environment. In 1999 Benetton's strategy for the quality and safeguarding of the environment reached two important milestones: the Group received ISO 9001 certification for its entire manufacturing cycle for clothing, and ISO 14001 certification covering the quality of its environmental management. The two projects, which are interrelated, called for a major commitment by the whole Group to attain the international standards required. This commitment extended to all areas of the Company, including its network of outside suppliers, encouraging an innovative quality-based culture. The ISO 14001 certification in particular extends the quality concept to all operations impacting the environment - from disposal of waste materials to emissions control, to transport systems [intermodal, especially rail-based]. The goal is maximum respect for nature and attention to the health of the workforce. All Benetton employees have access to the constantly updated rules and normatives of ISO 9001 and ISO 14001 through the Company's intranet. In 2000 certification will be extended to sports equipment.

Human resources. In 1999 the Group changed its organizational structure to reflect new marketing strategies and the complete integration of the sports sector. Echoes of this transformation will continue to influence management in 2000. The need to respond ever more efficiently to global competition required a significant evolution of the marketing, product development, sales, production and logistics departments. In order to ensure a greater market presence, the Company decided to increase the frequency of its collections, expand sales areas, strengthen links with the commercial network [including directly owned outlets], and develop new sales channels such as electronic commerce.
The training programs developed and carried out in 1999 concerned mainly managerial training [concentrated in two areas: value analysis and e-commerce], the updating of professional skills, process improvement, and programs related to major organizational projects such as ISO 9001 and 14001 certification.
Collaboration with high schools and universities worldwide continued and resulted in internships for some 130 young people and the promotion of sponsorships and research with prestigious international institutions. In addition, the Company began a collaboration with MIP-Politecnico di Milano for a master's degree in strategic design. This program was created to develop project management by teams, using processes and tools appropriate for the specific needs of each project.
At December 31, 1999, the Group employed 6,585 persons.

Social and cultural impact. The Benetton Foundation, a non-profit institution, is 12 years old. In 1999 it continued its work in producing studies, research and experimentation in the fields of Venetian history, the history of games and the history of landscape management. These activities have been reinforced by a network of international scientific relations built up over the years. As far as the Foundation's work in documentation [books, cartography and iconographic material] is concerned, it received the estate of Bianchi Barriviera [relating to the work of Lino Bianchi Barriviera, one of the great Italian engravers of 20th century]. This recognition, following the Foundation's efforts in creating the Fernanda e Riccardo Pivano Library last year, justifies the investments that have made it part of a select group. It is one of a restricted number of private cultural entities in Europe working for the preservation of our natural and social heritage, from books to iconography to the landscape.

Communication. For last year's United Colors of Benetton communication campaign and its spring summer catalogue, Oliviero Toscani conducted an anthropological study of the young Japanese of the Omote Sando neighborhood of Tokyo. Following Corleone, Jerusalem, and the disabled children of Ruhpolding, Toscani's images explored an unusual reality, where aesthetic and cultural codes lead to a system of free, unconventional communication. For this reason it has a natural affinity with the Benetton campaigns.

In April, in advance of its customary autumn campaign, Benetton chose to support the humanitarian actions undertaken for the population of Kosovo, in collaboration with the U.N. High Commission.

In the world of sport Benetton's efforts were focused on the realization of global campaigns taking advantage of the synergies stemming from high visibility international events through both traditional and new media. These included the program Playlife TV and the Internet, plus the visibility guaranteed by the Benetton Formula One team, the Playlife world motorcycle team, the basketball, volleyball, and rugby teams, and by the athletes who compete in the colors of Nordica, Rollerblade, Prince and Killer Loop.

During the year the activities of "Colors" [the magazine about the rest of the world] and Fabrica both enjoyed international acclaim. Fabrica, Benetton's communication research center, received major recognition that consecrated it as one of the world's liveliest and most appreciated multicultural entities.

Its film projects achieved a major success at the Venice Film Festival, with the Silver Lion for best direction awarded to *Seventeen Years*, a film by the Chinese director Zhang Yuan, co-produced by Fabrica's cinema department.

The film *Moloch* by Alexander Sokurov, also co-produced by Fabrica, won the prize for best screenplay at the Cannes Film Festival.

Supplementary information

Year 2000. The program to adapt the Group's information systems for the year 2000 yielded the expected results: there were no malfunctions in any of the Group's systems, plants, equipment or other devices using microprocessors vulnerable to the millennium bug.
This program of adaptation, which took two years, required an investment of about Lire 5 billion. It ended in January, 2000, with three days of testing the compatibility between data processing and the Company's automation facilities.

The Euro. Back in 1998 the Company defined two lines of action for the introduction of the Euro:

- up till December 31, 2000, the lira will continue as the reference currency, with the Euro as a foreign currency; up to that date, Group companies affected will nonetheless be in a position to issue and receive Euro invoices and make and collect payments in Euros; price lists will appear in the currencies of the various country markets;
- from January 1, 2001, the Euro will become the reference currency and the lira will be treated as a foreign currency; Company accounting and reporting will thus be in Euros. Starting with the Spring/Summer 2002 collection, price lists will appear in Euros; orders, invoices and prices will be quoted in both Euros and the relevant local currency.

The realization of this project, already underway, calls for an investment of about Lire 5 billion and a substantial commitment of staff time, calculated at 170 months of manpower-time.
After verification with the Company functions involved, in May 1999, the Group outlined a plan of the changes to be made, defining priorities and modalities of achievement. While for certain systems the changes will be simply an adjustment to handle decimal fractions, for others - because of system obsolescence or major changes required in functionality - reprogramming will be required. About half of the projects are already underway and the rest will begin during the first semester of 2000. Certain systems must be ready by September to handle the 2001 budget.
Parallel to this program, a project got underway based on the installation of an integrated package developed by Sap to replace current administrative procedures, accounting, treasury and management systems, which cannot easily be modified for a system based on the Euro. This project offers the opportunity to redesign the Group's administrative and managerial information system, integrating functional and geographic dimensions, in addition to ensuring management of the Euro as the reference currency starting in January, 2001.

Financial management. With emphasis on centralized financial management, Benetton Gesfin S.p.A. continued operations aimed at optimizing monetary flows and insulating the Group's Italian companies from financial risk.
In the second semester, it began using the Euro exclusively in its market activities, facilitating the gradual passage to this currency which, as noted above, will be adopted by the Italian companies as of January 1, 2001.
Exchange rate risk management of capital employed was also a focus of the 1999 financial year, deriving from the translation into lire of the Stockholders' equity of foreign subsidiaries, expressed in their respective local currencies [capital hedging].

Optimizing the capital structure. On November 16, 1999, the Shareholders' Meeting of Benetton Group S.p.A. approved the distribution of a dividend of Lire 300 billion, equal to Lire 165 per share, over and above the dividend paid in May, 1999, amounting to about Lire 100 billion.

This decision represented the first step in a shareholder-focused strategy; future financial results permitting, it should result in a significant increase of the payout ratio.

This dividend strategy should allow the maintenance of a debt/cash flow ratio capable of guaranteeing a high credit rating: to sustain the strategy of investments in the commercial sector, through a significant fortification of the distribution network, and preserve a significant self-financing capability so the Group can continue its strategies for growth in future years.

Attractive capital remuneration was made possible by strong increases in the Company's net capital over the last five years. This occurred in an economic environment that discouraged the assumption of debt because of high interest rates. The advent of the Euro and the consequent significant change in the cost of money have encouraged the search for an optimizing of the capital structure. This will enable the Company to achieve its objectives in the medium term, and will also encourage value creation.

Treasury shares. In January and March, 1999, in accordance with a resolution of the Shareholders' General Meeting of May 27, 1998, the Company acquired 2,100,000 treasury shares at a price of Lire 250 per share par value, equal to roughly 0.1% of capital stock, for a total of Lire 6,192 million, at an average price of 1.52 Euros [Lire 2,948] per share. The shares were subsequently resold at an average price of 1.87 Euros [Lire 3,613] per share, for a gain of about Lire 1,396 million.

Following the Shareholders' General Meeting of May 6, 1999, the Board of Directors was granted the authority to purchase up to 30 million treasury shares, for a period of time between the day following the effective payment of the dividend relating to the 1998 financial year and the date in which the Shareholder's Meeting will approve the 1999 Financial Statements and, in any case, by no later than June 30, 2000. The minimum purchase price was fixed at 1.00 Euro [Lire 1,936] and a maximum of 2.60 Euros [Lire 5,034] per share.

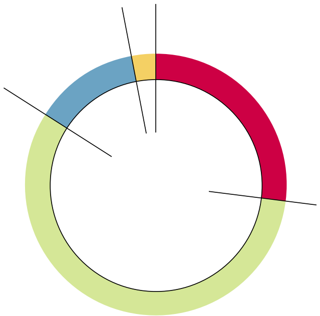
Sale of these shares may occur at a price not below 1.20 Euros [Lire 2,324] per share.

In the month of December 1999, acting under this authority, the Company purchased 5,098,000 treasury shares, with a face value of Lire 250 each, equal to about 0.3% of capital stock, for a total outlay of Lire 19,490 million, at an average price of 1.97 Euros [Lire 3,823] per share. The shares were subsequently resold at an average price of 2.14 Euros [Lire 4,140] per share, for a gain of about Lire 1,616 million.

Benetton Group S.p.A. did not acquire or sell any share or stake in parent companies during 1999, either directly or through its subsidiaries, via trust companies or any other intermediary.

In early 2000, the Company purchased 18,065,000 treasury shares [around 1% of capital stock] for a total outlay of Lire 69,945 million at an average price of 2.00 Euros [Lire 3,874] per share. Subsequently, during March, the Company sold 2,630,000 shares at an average price of 2.19 Euros [Lire 4,248] per share, receiving total proceeds of Lire 11,171 million, for a gain of Lire 988 million.

Shares on the market: breakdown by geographical area [%]



57% Italy
27% Europe [excluded Italy]
13% Usa
3% Rest of the world

Performance of Benetton shares. Benetton shares increased in price by over 37% at the Milan Stock Exchange during 1999. This was superior to the increase of 15.5% registered by the Italian general index [MIBTEL]. Company shares quoted on foreign exchanges performed comparably. In March, following the reconfiguration of Italian indices, Benetton shares moved from Mib30 to Midex.

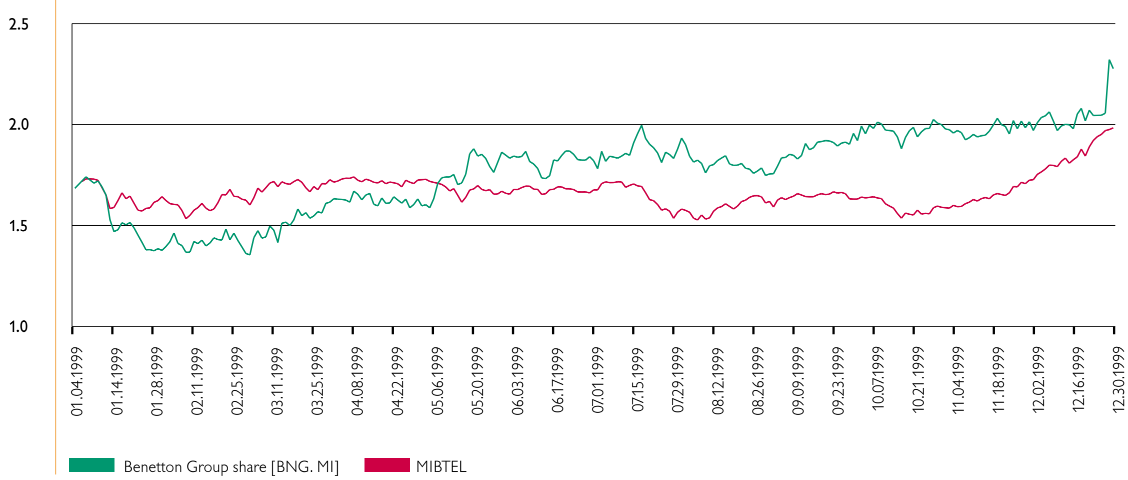
The flow of information to investors continued; the Company met with 140 institutional investors and 40 financial analysts during the year. Financial institutions published 39 reports on the Company, 35 of which contained "buy" recommendations.

The year's share-price and related statistics are summarized below on a comparative basis with the preceding four years.

Share and market data	1995 [1]	1996 [1]	1997 [1]	1998	1999
Earnings per share [Lire]	126	141	163	162	178
Stockholders' equity per share [Lire]	949	1,043	1,118	1,222	1,191
Dividend per share [Lire]	42.5	50.0	52.5	220	200
Payout ratio [%]	34	35	32	136	112
Dividend yield	2.6	2.5	2.3	1.4	6.2
Share price: December 31, 1999 [Lire]	1,808	1,812	2,871	3,344	4,409
Share price: December 31, 1999 [Euros]	0.934	0.936	1.483	1.727	2.277
Screen-based market high [Lire]	1,941	2,100	2,949	4,204	4,496
Screen-based market low [Lire]	1,403	1,588	1,840	2,284	2,622
Price/earnings ratio [P/E]	14.3	12.9	17.6	20.6	24.8
Share price/Stockholders' equity per share	1.9	1.7	2.6	2.7	3.7
Market capitalization [billions of Lire]	3,157	3,164	5,213	6,071	8,005
Average No. of shares outstanding [000s] [2]	1,745,537	1,745,416	1,781,849	1,815,356	1,814,736

[1] Restated allowing for one-for-ten share split and increase in par value per share approved by Stockholders' Meeting on May 27, 1998.
[2] Net of treasury shares held during the year.
Exchange rate: 1 Euro = Lire 1,936.27.

1999 Benetton share performance [Euro]

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Ownership of the Company. Edizione Holding S.p.A. [registered office in Treviso, Italy], a holding company entirely owned by the Benetton family, holds 1,219,056,400 ordinary shares of the Company, equal to 67.15%. Ragione S.A.p.A. di Gilberto Benetton e C. is the parent company of Edizione Holding S.p.A. and owns 40,000,000 ordinary shares of Benetton Group S.p.A. equal to 2.20% of capital stock.

Shareholders by class	%
Edizione Holding S.p.A. and Ragione S.A.p.A. di Gilberto Benetton e C.	69.35
Institutional investors and Banks	20.13
Individuals and others	10.52

By size of holding [as of January 20, 2000]	No. of Shareholders	No. of shares
Less than 5,000 shares	4,269	10,142,012
From 5,000 to 9,999 shares	3,140	16,568,493
Over 10,000 shares	2,231	1,656,598,397
Holdings not yet notified		132,279,208
Total	**9,640**	**1,815,588,110**

In July 1998, Edizione Holding S.p.A. issued a five-year bond worth Lire 600 billion through its Luxembourg-based subsidiary Edizione Finance S.A. It is convertible by the issuer [between July 2000 and July 2003] into Benetton Group S.p.A. shares. For this bond 112,149,532 shares were made available, representing 6.2% of Benetton Group S.p.A.'s capital stock. The conversion of these bonds into shares would raise the outstanding shares from 30.65% to 36.85%.

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

[in millions of Lire]	1998	1999
Accounts receivable	5,289	4,833
Accounts payable	5,381	4,035
Purchases of raw materials	9,520	10,266
Other costs & services	27,235	28,727
Sales of products	8,273	7,775
Revenue from services & other income	1,774	2,354

Corporate Governance. In March 1999, the Company amended its Articles of Association in line with the disclosure requirements under the Consolidated Finance Act, introduced during 1998 [the so-called "Draghi" law], with particular reference to the flow of information from the Directors to the Board of Statutory auditors and the arrangements for appointing a Statutory auditor to represent minority Shareholders. Observance of the principles of Corporate Governance has been a priority of the directors, affecting the way they operate, the subjects they discuss, and, where necessary, the adopting of appropriate policies in conformity with the new rules and regulations.

Within the context of Corporate Governance, Benetton Group S.p.A. will shortly adopt a Code of Self-discipline for publicly owned companies, recently issued by Borsa Italiana S.p.A. [Italian Stock Exchange]. The content of this code does not significantly differ from the principles of governance hitherto adopted by the Company.

Directors. The Company's directors as of December 31, 1999 are listed below:

Name and Surname	Date of birth	Appointed	Position
Luciano Benetton	05.13.1935	1978	Chairman
Gilberto Benetton	06.19.1941	1978	Deputy Chairman & Joint Managing Director
Carlo Gilardi	11.17.1942	1995	Joint Managing Director
Giuliana Benetton	07.08.1937	1978	Director
Carlo Benetton	12.26.1943	1978	Director
Alessandro Benetton	03.02.1964	1998	Director
Gianni Mion	09.06.1943	1990	Director
Angelo Tantazzi	06.08.1939	1995	Director
Ulrich Weiss	06.03.1936	1997	Director
Reginald Bartholomew	02.17.1936	1999	Director
Pierluigi Bortolussi	08.29.1946	1999	Director

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

In May 1999, Reginald Bartholomew and Pierluigi Bortolussi joined the Board of Directors.

Directors' fees for 1999 totaled Lire 10,400 million.

Shares in the Company held by directors and statutory auditors. Benetton Group's directors, Mr. Luciano, Mr. Gilberto, Mrs. Giuliana and Mr. Carlo Benetton, hold in equal measure, directly and indirectly, the entire capital stock of Edizione Holding. Edizione Holding, parent company of Benetton Group S.p.A., together with Ragione S.A.p.A. di Gilberto Benetton e C., controls 69.35% of the capital stock of Benetton Group S.p.A.
In 1999 Edizione Holding S.p.A. sold 40,000,000 shares of Benetton Group to its parent company Ragione S.A.p.A. di Gilberto Benetton e C.
Except for the above, during 1999 Benetton Group's directors - Mr. Luciano, Mr. Gilberto, Mrs. Giuliana and Mr. Carlo Benetton [including their not legally separated consorts and children who are minors] - have not held shares or quotas in Benetton Group S.p.A. or in subsidiary companies, neither directly nor through subsidiaries, trust companies, or third parties, except for the undermentioned, referring to Mr. Gilberto Benetton.
Based on the relevant notifications received, the other Directors and Statutory auditors did not hold shares in the Company in 1999 except for the following:

Name and Surname	Number of shares held as of December 31, 1998	Company in which shares are held	Shares acquired during 1999	Shares sold during 1999	Number of shares held as of December 31, 1999	Basis of ownership
Gilberto Benetton	-	Benetton Group S.p.A.	400,000	-	400,000	property
Dino Sesani	4,360	Benetton Group S.p.A.	-	-	4,360	property

Currently the Company has no stock-option programs.

Principal organizational and corporate changes in the Group. In 1999, reorganization of companies in the sports sector in the United States continued. Particularly noteworthy was the change in headquarters and operations for Rollerblade Inc., from Minneapolis, Minnesota, to Bordentown, New Jersey, where Prince Sports Group already had its headquarters. This change concentrated organizational and operational activities in one location. Along with this initiative, a program to simplify the Company's organizational structure got underway, with the goal of uniting all Benetton Group main activities in U.S.A. and Canada in a single company. The project was initiated and partly achieved in 1999 and will be completed in 2000.
Subsidiaries in Japan, France and Spain were also reorganized. In Japan this resulted in the merger of Benetton Group Japan K.K. into Benetton Sportsystem Japan Co., Ltd., now named Benetton Japan Co., Ltd. In France, Benetton Sportsystem France S.à. r.l. was incorporated into Benetton France Trading S.à r.l. In Spain Benetton S.A., Benetton Sportsystem Iberica S.A. and S.A.B. España S.L. were incorporated into Benetton España S.L.
The decision to acquire whole control of S.A.B. S.r.l., a company active in the production and sales of accessories, is particularly noteworthy. This entailed purchasing the remaining 50% of the company, which also operated through foreign subsidiaries, and the concentration of styling, production, and sales in Benetton Group S.p.A. The operation was completed in December, 1999, with the transfer of sales activities to third parties through independent licensing contracts, given that these activities are outside Benetton's distribution chain.
At the beginning of 1999, Olimpias S.p.A. sold its shares in Spiller S.p.A to its joint partner in the

venture. This investment was considered no longer strategically relevant to the activities of the Group. The Group acquired all minority shares in Texcontrol, S.p.A., whose merger with Olimpias S.p.A., originally planned for 1999, has been postponed to 2000.
Also in the context of organizational simplification [with its organizational and economic advantages], a number of Italian textile manufacturing subsidiaries merged. Notable among these were Olimpias S.p.A, which incorporated Filtravesio S.r.l., Tintoria Astico S.p.A., Finitex S.p.A. and Tessuti di Pordenone S.p.A.; and Texcontrol S.p.A., which incorporated Maglificio Fontane S.p.A.

Significant events since year-end. The following activities are of particular relevance:

- sale to the Renault group of 100% of the shares held by Benetton International N.V. in Benetton [UK] Ltd., which has the controlling interest in Benetton Formula Ltd. The terms of the agreement stipulate that Benetton Group will maintain the role of official sponsor of the team for two years. After more than 15 years, during which Benetton represented an innovative and winning exception in the world of Formula One, this agreement represents a natural evolution of the partnership with Renault. This partnership provided both groups with great sporting satisfaction, a superior technological know-how and excellent returns in terms of worldwide image. In the new scenario of Formula One, where major automotive manufacturers are taking the leading roles, the choice of Benetton to pass its legacy to Renault represents a significant recognition of the French group that, with its technological know-how, has helped the Benetton team enter the annals of Formula One history;
- the creation of United Web S.p.A., a company that will develop Benetton's electronic commerce project worldwide;
- the creation of Benetton Retail Italia S.r.l. and Benetton Retail Deutschland GmbH. These two companies will be directly responsible for the management of several new Company megastores.

Outlook for 2000. In light of results to date, business and financial prospects for 2000 point to an increase in revenues in line with market trends, notwithstanding the deconsolidation of Benetton Formula Ltd. That business had generated Lire 125 billion of revenues in 1999 stemming from sponsorship fees.
The projected increase will in part be based on the opening of megastores for casual wear in the world's major cities and an improvement in market share for sports equipment and clothing.
The improvement of profitability is foreseen through the maintenance of the gross margins achieved last year and the recovery of fixed costs on an annual basis. This was already evident in 1999, especially for sportswear and sports equipment.
In addition, Group indebtedness will decrease, notwithstanding increased investments in production and real estate and significant dividend distributions.

Group results

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

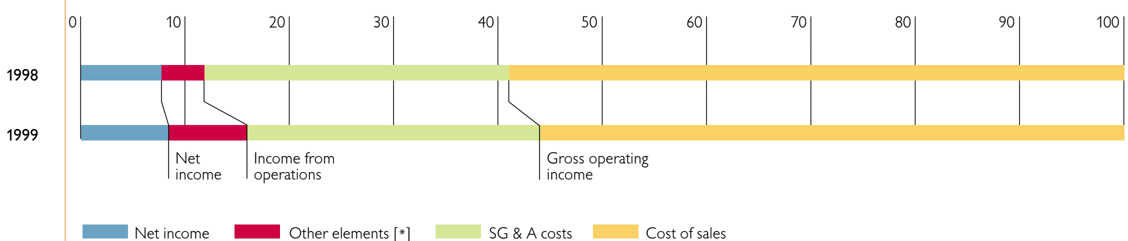
[in billions of Lire]	1998	%	1999	%	Change	%
Revenues	3,833.9	100.0	3,837.8	100.0	3.9	0.1
Cost of sales	[2,260.9]	[59.0]	[2,147.1]	[56.0]	113.8	[5.0]
Gross operating income	1,573.0	41.0	1,690.7	44.0	117.7	7.5
Variable selling costs	[251.6]	[6.6]	[256.7]	[6.7]	[5.1]	2.0
Contribution margin	1,321.4	34.4	1,434.0	37.3	112.6	8.5
General and administrative expenses	[870.3]	[22.6]	[822.8]	[21.4]	47.5	[5.5]
Income from operations	451.1	11.8	611.2	15.9	160.1	35.5
Gains/[losses] on foreign exchange	16.1	0.4	[50.4]	[1.3]	[66.5]	n.s.
Financial income/[charges]	[35.5]	[0.9]	[25.6]	[0.6]	9.9	[27.9]
Extraordinary expenses	[8.9]	[0.2]	[22.4]	[0.6]	[13.5]	n.s.
Income before taxes	422.8	11.1	512.8	13.4	90.0	21.3
Income taxes	[131.0]	[3.4]	[184.4]	[4.8]	[53.4]	40.7
[Income]/loss attributable to minority interests	1.4	-	[6.2]	[0.2]	[7.6]	n.s.
Net income	293.2	7.7	322.2	8.4	29.0	9.9

■ **Performance by activity.** The Group's reporting system has evolved in the wake of the acquisition of Benetton Sportsystem, completed in March, 1998. The changes have provided improved tools for internal management and to facilitate external understanding, as far as strategic developments and related economic/financial performance of the Company are concerned.

Activity sectors on which reporting divisions are based are:

- casual clothing, including complementary products such as accessories and shoes, represented by the Benetton brands [United Colors of Benetton, Undercolors and Sisley];
- sports clothing and equipment, including shoes and accessories, under the brands Playlife, Nordica, Prince, Rollerblade and Killer Loop;
- complementary activities, including the sale of raw materials, semifinished goods and industrial services.

Reclassified income statement [%]



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

■ Results by activity

1999

[in billions of Lire]	Casual wear	%	Sportswear, sports equipment	%	Other sectors	%	Eliminations	Total	%
Revenues	2,762	100.0	763	100.0	725	100.0	[412]	3,838	100.0
Cost of sales	1,529	55.4	463	60.7	562	77.5	[407]	2,147	56.0
Gross operating income	1,233	44.6	300	39.3	163	22.5	[5]	1,691	44.0
Variable selling costs	185	6.7	56	7.4	18	2.5	[2]	257	6,7
Contribution margin	1,048	37.9	244	31.9	145	20.0	[3]	1,434	37.3

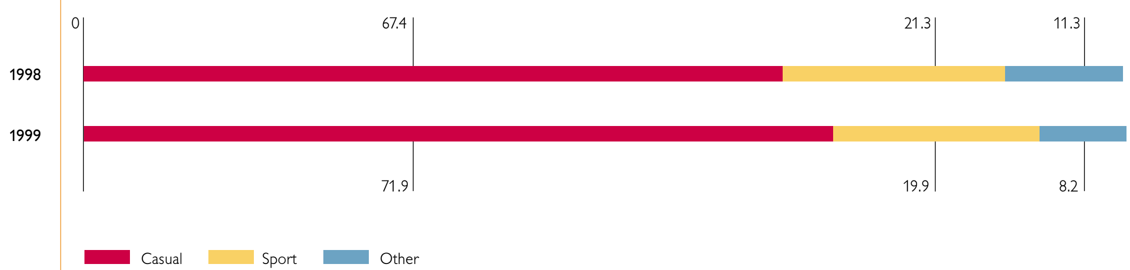
1998

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

Revenues by geographic area:

[in billions of Lire]	1998	%	1999	%	Change	%
Europe	2,710.3	70.7	2,785.2	72.6	74.9	2.8
The Americas	613.6	16.0	528.5	13.8	[85.1]	[13.9]
Rest of the world	510.0	13.3	524.1	13.6	14.1	2.8
Total	**3,833.9**	**100.0**	**3,837.8**	**100.0**	**3.9**	**0.1**

Revenues by activity [%]



Revenues for the Benetton Group equaled Lire 3,838 billion, not counting the revenues from Benetton Shoes Japan and Spiller, whose combined operations contributed Lire 90 billion in 1998.
1999 revenues increased 6.7% in the casual clothing sector, achieved by taking advantage of opportunities in markets such as Japan, Korea and Europe, and expanding brand potential, Sisley in particular. In the sports sector, sales declined by about 8%.
Gross operating income increased to 44% from 41% in 1998, the result of improvements in casual clothing sector [from 42.2% to 44.6%] thanks to further decentralization of production in Europe and a positive performance in the sports equipment sector [from 35.9% to 39.3%]. The latter is the result

of significant rationalization and reorganization of the entire production cycle [product, production and quality control].

Variable sales costs remained stable at Lire 257 billion, a ratio of 6.7% to revenues.

The focus on cost containment of general and overhead expenses resulted in their significant reduction by about Lire 48 billion, with an incidence on revenues of 21.4%.

Advertising and sponsorship costs of Lire 167 billion remain similar to those of last year, representing 4.3% of revenues.

Further rationalization took place during the year, the full impact of which will not be felt until next year. However, this has already resulted in a significant reduction both of personnel costs [Lire 20 billion] and other operating expenses [Lire 8.5 billion] in 1999.

It needs to be emphasized that general expenses include Lire 43 billion for the amortization of the higher value allocated to trademarks and consolidation differences related to the acquisition of Benetton Sportsystem.

The lowering of fixed costs, combined with improvement in the contribution margin, brought the income from operations from 11.8% of revenues in 1998 to roughly 16% in 1999.

Operations on foreign exchange conversion resulted negative [about Lire 50 billion] due to increases in the value of major currencies such as the dollar and the yen.

Reduction in financial charges is due to a reduction in interest rates, partially offset by the impact of the Group's higher average net indebtedness. The latter is related to dividend distribution [Lire 400 billion] and investments in production and real estate.

Other charges increased by Lire 13 billion as a result of restructuring activities for Prince, Rollerblade and S.A.B. [Benetton accessories].

The increase in taxes compared to the previous year is the result of a higher corporate income tax rate in Italian subsidiaries.

Net income of the Group increased by about 10% compared to 1998, representing 8.4% of revenues.

Financial situation - highlights. The key figures reflecting the Group's financial position at the end of 1999, compared to that of 1998, are shown below:

[in billions of Lire]	12.31.1998	12.31.1999	Change
Working capital	1,365	1,434	69
Total capital employed	2,628	2,757	129
Net indebtedness	378	576	198
Stockholders' equity	2,219	2,161	[58]
Minority interests	31	20	[11]

Compared to the previous year, working capital increased by Lire 69 billion due to an increase in other receivables and a reduction in commercial debt, the latter the result of a 30-day reduction in the payment conditions of accounts payable to outside suppliers.

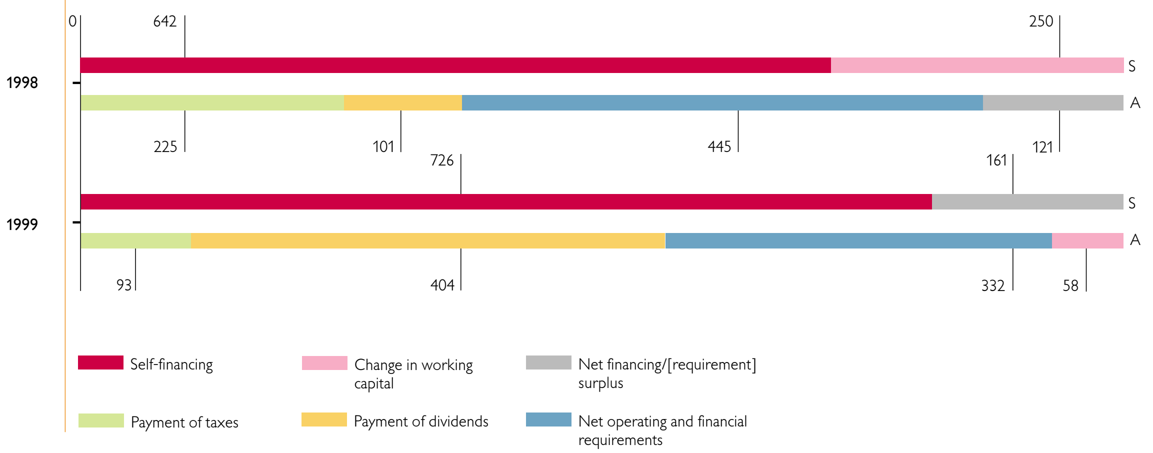
Capital employed was affected by the increase in fixed assets, partially compensated by an increase in provisions for taxes. Net indebtedness was Lire 576 billion at yearend as a result of the above-mentioned factors as well as the significant dividends distributed in 1999 [Lire 400 billion] and the investments in operations made during the year.

Summary statement of cash flows

[in billions of Lire]	1998	1999
Self-financing	642	726
Change in working capital	250	[58]
Net operating and financial investments	[445]	[332]
Payment of dividends	[101]	[404]
Payment of taxes	[225]	[93]
Net financing/[requirement] surplus	**121**	**[161]**

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

Source and application of funds
[billions of Lire]



Consolidated balance sheets reclassified according to financial criteria

	[millions of Lire]		Thousands of Usd [*]
Assets	12.31.1998	12.31.1999	12.31.1999
Current assets			
Cash and banks	1,079,637	430,792	224,043
Marketable securities	222,173	198,085	103,018
Differentials on forward transactions	8,445	421	219
Financial receivables	37,050	189,202	98,399
	1,347,305	**818,500**	**425,679**
Accounts receivable			
Trade receivables	1,691,733	1,634,016	849,806
Other receivables	133,901	194,103	100,948
less - Allowance for doubtful accounts	[183,824]	[148,521]	[77,242]
	1,641,810	**1,679,598**	**873,512**
Inventories	581,621	570,524	296,714
Accrued income and prepaid expenses	87,034	90,636	47,137
	668,655	**661,160**	**343,851**
Total current assets	**3,657,770**	**3,159,258**	**1,643,042**
Investments and other non-current assets			
Equity investments	48,796	53,765	27,962
Securities held as fixed assets	2,454	270,555	140,708
Guarantee deposits	15,091	16,924	8,802
Financial receivables	18,146	11,063	5,753
Other non-current receivables	19,409	16,192	8,421
Total investments and other non-current assets	**103,896**	**368,499**	**191,646**
Tangible fixed assets			
Real estate	603,406	775,647	403,393
Plant, machinery and equipment	733,058	739,571	384,630
Office furniture, furnishings and electronic equipment	114,577	105,657	54,949
Vehicles and aircraft	61,031	78,406	40,777
Construction in progress and advances for tangible fixed assets	19,796	53,472	27,809
Finance leases	26,957	20,534	10,679
less - Accumulated depreciation	[787,413]	[808,550]	[420,504]
Total tangible fixed assets	**771,412**	**964,737**	**501,733**
Intangible fixed assets			
Licenses, trademarks and industrial patents	505,092	470,580	244,736
Deferred charges	125,841	143,505	74,633
Total intangible fixed assets	**630,933**	**614,085**	**319,369**
TOTAL ASSETS	**5,164,011**	**5,106,579**	**2,655,790**

[⁄]

	[millions of Lire]		Thousands of Usd [*]
Liabilities and Stockholders' equity	12.31.1998	12.31.1999	12.31.1999
Current liabilities			
Bank loans	756,374	728,618	378,934
Bonds	35,999	-	-
Short-term loans	7,458	12,007	6,245
Current portion of long-term loans	35,920	18,258	9,495
Current portion of lease financing	4,316	2,765	1,438
Accounts payable	760,080	710,828	369,682
Other payables, accrued expenses and deferred income	152,173	175,529	91,288
Reserve for income taxes	21,922	131,204	68,236
Total current liabilities	**1,774,242**	**1,779,209**	**925,318**
Long-term liabilities			
Bonds	500,000	500,000	260,036
Long-term loans, net of current portion	395,566	406,873	211,603
Other long-term liabilities	52,775	36,228	18,841
Lease financing	10,260	7,728	4,019
Reserve for employee termination indemnities	86,274	91,346	47,507
Other reserves	95,028	103,945	54,059
Total long-term liabilities	**1,139,903**	**1,146,120**	**596,065**
Minority interests in consolidated subsidiaries	**30,888**	**19,888**	**10,343**
Stockholders' equity			
Capital stock	453,897	453,897	236,059
Additional paid-in capital	109,543	109,543	56,970
Surplus from monetary revaluation of assets	42,711	42,711	22,213
Other reserves and retained earnings	1,315,619	1,209,520	629,038
Translation differences	3,978	23,447	12,194
Net income for the year	293,230	322,244	167,590
Total Stockholders' equity	**2,218,978**	**2,161,362**	**1,124,064**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**5,164,011**	**5,106,579**	**2,655,790**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Consolidated statements of income reclassified to cost of sales

	[millions of Lire]		Thousands of Usd [*]
	1998	1999	1999
Revenues	**3,833,917**	**3,837,815**	**1,995,941**
Cost of sales			
Material and net change in inventories	1,205,370	1,066,032	554,414
Payroll and related costs	204,769	211,639	110,067
Subcontract work	703,780	727,802	378,510
Industrial depreciation	71,841	70,308	36,565
Other manufacturing costs	75,138	71,342	37,103
	2,260,898	2,147,123	1,116,659
Gross operating income	**1,573,019**	**1,690,692**	**879,282**
Selling, general and administrative expenses			
Payroll and related cost	259,236	239,076	124,337
Distribution and transport	75,763	79,996	41,604
Sales commissions	175,900	176,697	91,895
Advertising and promotion	169,944	166,715	86,704
Depreciation and amortization	101,935	102,281	53,193
Other expenses	339,182	314,767	163,702
	1,121,960	1,079,532	561,435
Income from operations	**451,059**	**611,160**	**317,847**
Other income/[expenses]			
Foreign currency gain/[loss], net	16,057	[50,358]	[26,190]
Interest income	103,824	52,912	27,518
Interest expense	[139,251]	[78,473]	[40,811]
Other income/[expenses], net	[8,850]	[22,418]	[11,659]
	[28,220]	**[98,337]**	**[51,142]**
Income before taxes and minority interests	**422,839**	**512,823**	**266,705**
Income taxes	131,052	184,412	95,908
Income before minority interests	**291,787**	**328,411**	**170,797**
Minority interests loss/[gain]	1,443	[6,167]	[3,207]
Net income	**293,230**	**322,244**	**167,590**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

ألبسة داخلية
underwear

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ألبسة داخلية
underwear

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ألبسة داخلية
underwear

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ألبسة داخلية
underwear

Statements of cash flow

	[millions of Lire]		Thousands of Usd [*]
	1998	1999	1999
Cash flow from operating activities			
Income before minority interests	291,787	328,411	170,797
Depreciation and amortization	173,776	172,589	89,758
Amortization of deferred charges on long-term loans	1,425	808	420
Provision for doubtful accounts and other non-monetary charges	75,616	61,856	32,170
Provision/[utilization] of exchange fluctuations reserve, net	[6,099]	5,614	2,920
Provision for income taxes	131,052	184,412	95,908
Losses/[gains] on disposal of assets, investments, net	8,498	[2,760]	[1,435]
Payment of termination indemnities and use of other reserves	[33,876]	[25,044]	[13,025]
Self-financing	642,179	725,886	377,513
Payment of taxes	[224,790]	[93,295]	[48,520]
Change in accounts receivable	135,175	[4,575]	[2,379]
Increase in other operating receivables	[4,749]	[22,991]	[11,957]
Decrease in inventories	112,622	4,427	2,302
Decrease in accounts payable	[962]	[36,616]	[19,043]
Increase in other operating payables and accruals	7,742	1,653	860
Change in working capital	249,828	[58,102]	[30,217]
Net cash flow from operating activities	**667,217**	**574,489**	**298,776**
Cash flow from investing activities			
Purchase of new subsidiaries	[284,476]	[23,408]	[12,174]
Purchase of tangible fixed assets	[198,221]	[295,538]	[153,701]
Investment in intangible fixed assets	[31,587]	[51,393]	[26,728]
Sales of tangible fixed assets	24,043	34,074	17,721
Disposal of intangible fixed assets	38,191	4,183	2,175
Net change in investment-related receivables and payables	[398]	[5,944]	[3,091]
Net cash flow from investing activities	**[452,448]**	**[338,026]**	**[175,798]**
Cash flow from other investing activities			
Purchase of equity investments	[7,451]	[674]	[351]
Sale of investments	16,540	7,079	3,682
[Increase]/decrease in guarantee deposits and treasury shares	[1,675]	124	64
Net cash used in other investing activities	**7,414**	**6,529**	**3,395**
Payment of dividends	[100,781]	[404,490]	[210,364]
Net financing/[requirement] surplus	**121,402**	**[161,498]**	**[83,991]**

[./.]

	[millions of Lire]		Thousands of Usd [*]
	1998	1999	1999
Cash flow from financing activities			
Change in Stockholders' equity	1,492	-	-
Change in short-term borrowing	427,837	[154,546]	[80,375]
Proceeds from issuance of long-term debt	10,342	33,563	17,455
Repayment of long-term debt	[310,193]	[75,428]	[39,228]
Change in securities held as fixed assets	49,956	[267,663]	[139,204]
Increase in other financial assets	[10,201]	[26,992]	[14,038]
Decrease in other financial assets	8,206	23,945	12,453
Decrease in lease financing	[1,235]	[4,141]	[2,153]
	176,204	**[471,262]**	**[245,090]**
Change of liquidity	[282,345]	676,572	351,866
Effect of translation adjustments	[15,261]	[43,812]	[22,785]
Net cash provided/[used] by financing activities	**[121,402]**	**161,498**	**83,991**

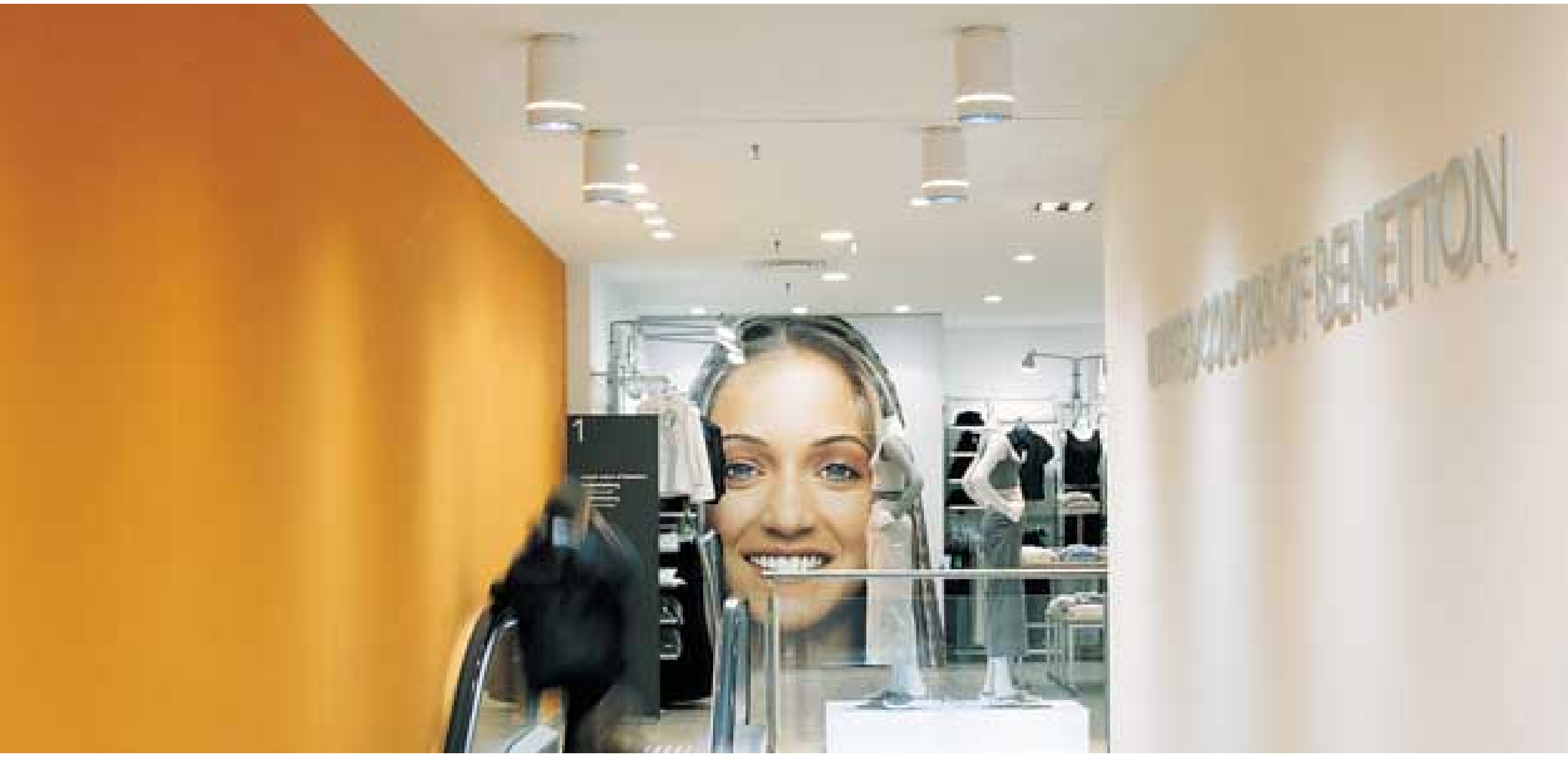
[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Italy

United Kingdom


RD CIRCUS STATION
RVP
Controlled
ZONE


CARNABY STREET
TOTTENHAM COURT ROAD



Italy

Spain

Spain


G-9892-H
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Italy

Brazil

Italia

Italy

United States of America



Argentina


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OF BENETTON.


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CORPORATE INFORMATION

HEADQUARTERS

Benetton Group S.p.A.
Villa Minelli
31050 Ponzano Veneto [Treviso] - Italy
Tel. +39 - 0422 - 519111

LEGAL DATA

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

MEDIA & COMMUNICATION DEPARTMENT

E-mail: fsartor@benetton.it
Tel. +39 - 0422 - 519036
Fax +39 - 0422 - 519930

FINANCIAL DEPARTMENT

Investor relations
E-mail: invrel@benetton.it
Tel. +39 - 0422 - 519412
Fax +39 - 0422 - 519336
TV Conference +39 - 0422 - 510623/24/25

To obtain a copy of the Annual Report: www.benetton.it

Graphic design
Fabrica - Ufficio grafico - Catena di Villorba [Treviso]

Photos
Marirosa Toscani Ballo
Francesco Morandin
Peter Mauss
Lucas Lu
Fernando Costa
Vicky Aguirre

Consultancy & co-ordination
D&C Financial Communication - Milano

Color separations
Sartori - Quinto [Treviso]

Printing
Europrint - Quinto [Treviso] - Italy

Benetton Group

1999 Annual Report Notes

UNITED COLORS OF BENETTON.

Benetton Group
Notes to 1999 consolidated financial statements

Benetton Group S.p.A.

Villa Minelli

Ponzano Veneto [Treviso] - Italy

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

Treviso Company Register 4424

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Consolidated balance sheets - Assets

			[millions of Lire]		Thousands of Usd [*]
			12.31.1998	12.31.1999	12.31.1999
B		**Fixed assets**			
I		Intangible fixed assets			
	1	start-up expenses	6,641	4,637	2,411
	2	research, development and advertising expenses	989	738	384
	3	industrial patents and intellectual property rights	7,356	6,876	3,576
	4	concessions, licenses, trademarks and similar rights	497,736	463,704	241,160
	5	goodwill and consolidation differences	66,935	67,858	35,291
	6	assets under construction	6,188	5,818	3,026
	7	other intangible fixed assets	45,088	64,454	33,521
		Total intangible fixed assets	**630,933**	**614,085**	**319,369**
II		Tangible fixed assets			
	1	real estate	461,741	618,349	321,586
	2	plant and machinery	181,874	169,516	88,161
	3	industrial and commercial equipment	31,316	27,355	14,227
	4	other assets	76,685	96,045	49,950
	5	assets under construction and advances to suppliers	19,796	53,472	27,809
		Total tangible fixed assets	**771,412**	**964,737**	**501,733**
III		Financial fixed assets			
	1	equity investments in:			
		a] subsidiary companies	41,364	46,494	24,180
		b] associated companies	676	103	54
		d] other companies	6,756	7,168	3,728
		Total equity investments	**48,796**	**53,765**	**27,962**
	2	accounts receivable due from:			
		d] third parties:			
		· within 12 months	6,399	14,672	7,630
		· beyond 12 months	33,237	27,987	14,555
		Total accounts receivable due from third parties	**39,636**	**42,659**	**22,185**
	3	other securities	3,041	270,555	140,708
		Total financial fixed assets	**91,473**	**366,979**	**190,855**
		Total fixed assets	**1,493,818**	**1,945,801**	**1,011,957**

[⁄]

			[millions of Lire]		Thousands of Usd [*]
			12.31.1998	12.31.1999	12.31.1999
C		**Current assets**			
I		Inventories			
	1	raw materials, other materials and consumables	202,350	162,157	84,333
	2	work in progress and semi-manufactured products	163,582	177,839	92,489
	4	finished goods and goods for resale	215,106	230,244	119,744
	5	advance payments to suppliers	583	284	148
		Total inventories	**581,621**	**570,524**	**296,714**
II		Accounts receivable			
	1	trade receivables:			
		· within 12 months	1,507,556	1,485,338	772,483
		· beyond 12 months	9,005	4,310	2,242
		Total trade receivables	**1,516,561**	**1,489,648**	**774,725**
	2	subsidiary companies	7,699	4,417	2,297
	3	associated companies	27	32	17
	4	parent company	91	123	64
	5	other receivables:			
		· within 12 months	133,901	183,590	95,480
		· beyond 12 months	10,404	11,882	6,179
		Total other receivables	**144,305**	**195,472**	**101,659**
		Total accounts receivable	**1,668,683**	**1,689,692**	**878,762**
III		Financial assets not held as fixed assets			
	6	other securities	221,586	198,085	103,018
	7	other financial receivables	23,187	180,628	93,940
	8	differentials on forward transactions within 12 months	8,445	421	219
		Total financial assets not held as fixed assets	**253,218**	**379,134**	**197,177**
IV		Liquid funds			
	1	bank and post office deposits	1,023,150	343,228	178,503
	2	checks	55,543	86,606	45,042
	3	cash in hand	944	958	498
		Total liquid funds	**1,079,637**	**430,792**	**224,043**
		Total current assets	**3,583,159**	**3,070,142**	**1,596,696**
D		**Accrued income and prepaid expenses**	**87,034**	**90,636**	**47,137**
TOTAL ASSETS			**5,164,011**	**5,106,579**	**2,655,790**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Consolidated balance sheets - Liabilities and Stockholders' equity

			[millions of Lire]		Thousands of Usd [*]
			12.31.1998	12.31.1999	12.31.1999
A		**Stockholders' equity**			
	I	Capital stock	453,897	453,897	236,059
	II	Additional paid-in capital	109,543	109,543	56,970
	III	Revaluation reserves	42,711	42,711	22,213
	IV	Legal reserve	18,156	23,232	12,082
	VII	Other reserves	1,301,441	1,209,735	629,150
	IX	Net income for the year	293,230	322,244	167,590
		Group interest in Stockholders' equity	**2,218,978**	**2,161,362**	**1,124,064**
		Minority interests	30,888	19,888	10,343
		Total Stockholders' equity	**2,249,866**	**2,181,250**	**1,134,407**
B		**Reserves for risks and charges**			
	2	taxation	8,421	8,413	4,375
	3	other	86,607	95,532	49,684
		Total reserves for risks and charges	**95,028**	**103,945**	**54,059**
C		**Reserves for employee termination indemnities**	**86,274**	**91,346**	**47,507**
D		**Accounts payable**			
	1	bonds:			
		· within 12 months	35,999	-	-
		· beyond 12 months	500,000	500,000	260,036
		Total bonds	**535,999**	**500,000**	**260,036**
	3	due to banks:			
		· within 12 months	789,492	745,549	387,740
		· beyond 12 months	394,094	403,454	209,825
		Total due to banks	**1,183,586**	**1,149,003**	**597,565**
	4	due to other finance providers:			
		· within 12 months	14,279	5,087	2,646
		· beyond 12 months	11,732	11,147	5,797
		Total due to other finance providers	**26,011**	**16,234**	**8,443**
	5	advances from customers	24,101	39,003	20,284
	6	trade payables	754,367	703,862	366,059
	7	securities issued within 12 months	2,335	2,289	1,191
	8	due to subsidiary companies	1	-	-
	10	due to parent company	175	121	63
	11	due to tax authorities:			
		· within 12 months	52,010	163,780	85,177
		· beyond 12 months	46,410	35,045	18,226
		Total due to tax authorities	**98,420**	**198,825**	**103,403**

[↗]

		[millions of Lire]		Thousands of Usd [*]
		12.31.1998	12.31.1999	12.31.1999
12	due to social security and welfare institutions	18,504	17,387	9,043
13	other payables:			
	· within 12 months	55,695	66,022	34,336
	· beyond 12 months	6,365	1,183	615
	Total other payables	**62,060**	**67,205**	**34,951**
	Total accounts payable	**2,705,559**	**2,693,929**	**1,401,038**
E	**Accrued expenses and deferred income**			
1	accrued expenses and deferred income	26,568	35,663	18,547
2	premiums on bond issues	716	446	232
	Total accrued expenses and deferred income	**27,284**	**36,109**	**18,779**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**5,164,011**	**5,106,579**	**2,655,790**

Memorandum accounts

	[millions of Lire]		Thousands of Usd [*]
	12.31.1998	12.31.1999	12.31.1999
Fiduciary guarantees granted			
Guarantees	58	151	79
Commitments			
Sale commitments	-	10,000	5,201
Purchase commitments	30,662	11,813	6,144
Other commitments	-	17,019	8,851
Fiduciary guarantees received			
Notes lodged by third parties	20	20	10
Other			
Currency to be sold forward	1,661,372	1,011,305	525,952
Currency to be purchased forward	325,594	85,109	44,263
Restricted accounts receivable	74,860	25,843	13,440
Notes presented for discount	2,537	1,639	852
TOTAL MEMORANDUM ACCOUNTS	**2,095,103**	**1,162,899**	**604,792**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Consolidated statements of income

			[millions of Lire]		Thousands of Usd [*]
			1998	1999	1999
A		**Value of production**			
	1	Revenues from sales and services	3,833,917	3,837,815	1,995,941
	2	Change in work in progress, semi-manufactured products and finished goods	[90,751]	14,053	7,309
	4	Own work capitalized	1,792	2,045	1,063
	5	Other income and revenues	22,736	32,483	16,893
		Total value of production	**3,767,694**	**3,886,396**	**2,021,206**
B		**Production costs**			
	6	Raw materials, other materials, consumables and goods for resale	1,172,889	1,050,309	546,236
	7	External services	1,344,321	1,443,883	750,923
	8	Leases and rentals	51,448	52,069	27,080
	9	Payroll and related costs:			
	a	wages and salaries	348,947	340,350	177,007
	b	social security contributions	94,857	91,348	47,507
	c	employee termination indemnities	17,100	17,408	9,053
	e	other costs	3,101	1,609	837
		Total payroll and related costs	**464,005**	**450,715**	**234,404**
	10	Amortization, depreciation and writedowns:			
	a	amortization of intangible fixed assets	72,489	74,255	38,618
	b	depreciation of tangible fixed assets	101,287	98,334	51,140
	c	other writedowns of fixed assets	1,872	2,883	1,500
	d	writedowns of current receivables and of liquid funds	40,799	28,989	15,076
		Total amortization, depreciation and writedowns	**216,447**	**204,461**	**106,334**
	11	Change in stock of raw materials, other materials, consumables and goods for resale	5,220	18,141	9,435
	12	Provisions to risk reserves	21,047	19,338	10,057
	14	Other operating costs	43,920	36,977	19,231
		Total production costs	**3,319,297**	**3,275,893**	**1,703,700**
		Difference between production value and costs	**448,397**	**610,503**	**317,506**
C		**Financial income and expenses**			
	15	Income from equity investments	12,033	4,858	2,527
	16	Other financial income:			
	a	from receivables held as financial fixed assets:			
		· subsidiary companies	31	-	-
		· other companies	1,750	624	325
		Total from receivables held as financial fixed assets	**1,781**	**624**	**325**
	b	from securities held as financial fixed assets not representing equity investments	3,040	6,277	3,265
	c	from securities included among current assets not representing equity investments	43,003	17,062	8,873
	d	financial income other than the above:			
		· subsidiary companies	452	216	112
		· other companies	273,150	158,288	82,321
		Total financial income other than the above	**273,602**	**158,504**	**82,433**
		Total other financial income	**321,426**	**182,467**	**94,896**

			[millions of Lire]		Thousands of Usd [*]
			1998	1999	1999
17		Interest and other financial expenses:			
		· subsidiary companies	287	6	3
		· parent company	4,459	2,607	1,356
		· other companies	347,586	273,794	142,393
		Total interest and other financial expenses	**352,332**	**276,407**	**143,752**
		Total financial income and expenses	**[18,873]**	**[89,082]**	**[46,329]**
D		**Changes in value of financial assets**			
18		Revaluations:			
	a	of equity investments	258	-	-
	c	of securities included among current assets not representing equity investments	-	226	117
		Total revaluations	**258**	**226**	**117**
19		Writedowns:			
	a	of equity investments	2,559	219	114
	b	of financial fixed assets not representing equity investments	2,686	2,561	1,332
	c	of securities included among current assets not representing equity investments	3,218	1,272	661
		Total writedowns	**8,463**	**4,052**	**2,107**
		Total changes in value of financial assets	**[8,205]**	**[3,826]**	**[1,990]**
E		**Extraordinary income and expenses**			
20		Income:			
		· gains on disposals	8,487	15,517	8,070
		· other	18,704	23,096	12,011
		Total income	**27,191**	**38,613**	**20,081**
21		Expenses:			
		· losses on disposals	3,077	7,067	3,675
		· taxes relating to prior years	4,229	587	305
		· other	18,365	35,731	18,583
		Total expenses	**25,671**	**43,385**	**22,563**
		Total extraordinary income and expenses	**1,520**	**[4,772]**	**[2,482]**
		Results before income taxes	**422,839**	**512,823**	**266,705**
22		Income taxes	131,052	184,412	95,908
		Income before minority interests	**291,787**	**328,411**	**170,797**
		[Income]/loss attributable to minority interests	1,443	[6,167]	[3,207]
26		**Net income for the year**	**293,230**	**322,244**	**167,590**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Statement of changes in consolidated Stockholders' equity

[millions of Lire]

	Capital stock	Additional paid-in capital	Surplus from monetary revaluations of assets	Other reserves and retained earnings	Translation differences	Net income for the year	Total
Balances as of December 31, 1997	**90,779**	**472,661**	**42,711**	**1,120,797**	**13,381**	**290,140**	**2,030,469**
Allocation of 1997 net income to reserves	-	-	-	290,140	-	[290,140]	-
Increase of capital stock via release of reserves as resolved at the extraordinary Stockholders' meeting on May 27, 1998	363,118	[363,118]	-	-	-	-	-
Dividends distributed, as approved at the ordinary Stockholders' meeting on May 27, 1998	-	-	-	[95,318]	-	-	[95,318]
Translation differences arising from foreign financial statements	-	-	-	-	[9,403]	-	[9,403]
Net income for the year	-	-	-	-	-	293,230	293,230
Balances as of December 31, 1998	**453,897**	**109,543**	**42,711**	**1,315,619**	**3,978**	**293,230**	**2,218,978**
Allocation of 1998 net income to reserves	-	-	-	293,230	-	[293,230]	-
Dividends distributed, as approved at the ordinary Stockholders' meeting on May 6, 1999	-	-	-	[99,757]	-	-	[99,757]
Dividends distributed, as approved at the ordinary Stockholders' meeting on November 16, 1999	-	-	-	[299,572]	-	-	[299,572]
Translation differences arising from foreign financial statements	-	-	-	-	19,469	-	19,469
Net income for the year	-	-	-	-	-	322,244	322,244
Balances as of December 31, 1999	**453,897**	**109,543**	**42,711**	**1,209,520**	**23,447**	**322,244**	**2,161,362**
Balances as of December 31, 1999 thousands of Usd [*]	**236,059**	**56,970**	**22,213**	**629,038**	**12,194**	**167,590**	**1,124,064**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Statement of changes in minority interests

[millions of Lire]

	Capital and reserves	Net income	Total
Balances as of December 31, 1997	**191,982**	**10,241**	**202,223**
Allocation of 1997 net income	10,241	[10,241]	-
Capital stock increase	1,628	-	1,628
Change in consolidation area	655	-	655
Disposal of equity investments	[165,688]	-	[165,688]
Deconsolidation of companies	[707]	-	[707]
Dividends distributed	[5,463]	-	[5,463]
Translation differences	[317]	-	[317]
Net income for the year	-	[1,443]	[1,443]
Balances as of December 31, 1998	**32,331**	**[1,443]**	**30,888**
Allocation of 1998 net income	[1,443]	1,443	-
Disposal of equity investments	[13,042]	-	[13,042]
Deconsolidation of companies	[132]	-	[132]
Dividends distributed	[5,161]	-	[5,161]
Translation differences	1,168	-	1,168
Net income for the year	-	6,167	6,167
Balances as of December 31, 1999	**13,721**	**6,167**	**19,888**

Statements of cash flows

	[millions of Lire]		Thousands of Usd [*]
	1998	1999	1999
Cash flow from operating activities			
Income before minority interests	291,787	328,411	170,797
Depreciation and amortization	173,776	172,589	89,758
Amortization of deferred charges on long-term loans	1,425	808	420
Provision for doubtful accounts and other non-monetary charges	75,616	61,856	32,170
Provision/[utilization] of exchange fluctuations reserve, net	[6,099]	5,614	2,920
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Losses [gains] on disposal of assets, investments, net	8,498	[2,760]	[1,435]
Payment of termination indemnities and use of other reserves	[33,876]	[25,044]	[13,025]
Self-financing	642,179	725,886	377,513
Payment of taxes	[224,790]	[93,295]	[48,520]
Change in accounts receivable	135,175	[4,575]	[2,379]
Increase in other operating receivables	[4,749]	[22,991]	[11,957]
Decrease in inventories	112,622	4,427	2,302
Decrease in accounts payable	[962]	[36,616]	[19,043]
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Purchase of tangible fixed assets	[198,221]	[295,538]	[153,701]
Investment in intangible fixed assets	[31,587]	[51,393]	[26,728]
Sales of tangible fixed assets	24,043	34,074	17,721
Disposal of intangible fixed assets	38,191	4,183	2,175
Net change in investment-related receivables and payables	[398]	[5,944]	[3,091]
Net cash flow from investing activities	**[452,448]**	**[338,026]**	**[175,798]**
Cash flow from other investing activities			
Purchase of equity investments	[7,451]	[674]	[351]
Sale of investments	16,540	7,079	3,682
[Increase] decrease in guarantee deposits and treasury shares	[1,675]	124	64
Net cash used in other investing activities	**7,414**	**6,529**	**3,395**
Payment of dividends	[100,781]	[404,490]	[210,364]
Net financing [requirement] surplus	**121,402**	**[161,498]**	**[83,991]**

[./.]

	[millions of Lire]		Thousands of Usd [*]
	1998	1999	1999
Cash flow from financing activities			
Change in Stockholders' equity	1,492	-	-
Change in short-term borrowing	427,837	[154,546]	[80,375]
Proceeds from issuance of long-term debt	10,342	33,563	17,455
Repayment of long-term debt	[310,193]	[75,428]	[39,228]
Change in securities held as fixed assets	49,956	[267,663]	[139,204]
Increase in other financial assets	[10,201]	[26,992]	[14,038]
Decrease in other financial assets	8,206	23,945	12,453
Decrease in lease financing	[1,235]	[4,141]	[2,153]
	176,204	**[471,262]**	**[245,090]**
Change of liquidity	[282,345]	676,572	351,866
Effect of translation adjustments	[15,261]	[43,812]	[22,785]
Net cash provided [used] by financing activities	**[121,402]**	**161,498**	**83,991**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Consolidated balance sheets in Euro - Assets

[Thousands of Euro]*

			12.31.1998	12.31.1999
B		**Fixed assets**		
	I	Intangible fixed assets		
	1	start-up expenses	3,430	2,395
	2	research, development and advertising expenses	511	381
	3	industrial patents and intellectual property rights	3,799	3,551
	4	concessions, licenses, trademarks and similar rights	257,059	239,483
	5	goodwill and consolidation differences	34,569	35,046
	6	assets under construction	3,196	3,005
	7	other intangible fixed assets	23,286	33,287
		Total intangible fixed assets	**325,850**	**317,148**
	II	Tangible fixed assets		
	1	real estate	238,469	319,351
	2	plant and machinery	93,930	87,548
	3	industrial and commercial equipment	16,173	14,127
	4	other assets	39,605	49,603
	5	assets under construction and advances to suppliers	10,224	27,616
		Total tangible fixed assets	**398,401**	**498,245**
	III	Financial fixed assets		
	1	equity investments in:		
		a] subsidiary companies	21,363	24,012
		b] associated companies	349	53
		d] other companies	3,489	3,702
		Total equity investments	**25,201**	**27,767**
	2	accounts receivable due from:		
		d] third parties:		
		· within 12 months	3,305	7,578
		· beyond 12 months	17,165	14,454
		Total accounts receivable due from third parties	**20,470**	**22,032**
	3	other securities	1,571	139,730
		Total financial fixed assets	**47,242**	**189,529**
		Total fixed assets	**771,493**	**1,004,922**

[⁄]

			12.31.1998	12.31.1999
C		**Current assets**		
	I	Inventories		
	1	raw materials, other materials and consumables	104,505	83,747
	2	work in progress and semi-manufactured products	84,483	91,846
	4	finished goods and goods for resale	111,093	118,911
	5	advance payments to suppliers	301	147
		Total inventories	**300,382**	**294,651**
	II	Accounts receivable		
	1	trade receivables:		
		· within 12 months	778,588	767,113
		· beyond 12 months	4,651	2,226
		Total trade receivables	**783,239**	**769,339**
	2	subsidiary companies	3,976	2,281
	3	associated companies	14	17
	4	parent company	47	63
	5	other receivables:		
		· within 12 months	69,154	94,816
		· beyond 12 months	5,373	6,137
		Total other receivables	**74,527**	**100,953**
		Total accounts receivable	**861,803**	**872,653**
	III	Financial assets not held as fixed assets		
	6	other securities	114,440	102,302
	7	other financial receivables	11,975	93,287
	8	differentials on forward transactions within 12 months	4,361	217
		Total financial assets not held as fixed assets	**130,776**	**195,806**
	IV	Liquid funds		
	1	bank and post office deposits	528,413	177,263
	2	checks	28,686	44,728
	3	cash in hand	487	495
		Total liquid funds	**557,586**	**222,486**
		Total current assets	**1,850,547**	**1,585,596**
D		**Accrued income and prepaid expenses**	**44,949**	**46,810**
TOTAL ASSETS			**2,666,989**	**2,637,328**

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

Consolidated balance sheets in Euro - Liabilities and Stockholders' equity

[Thousands of Euro]*

			12.31.1998	12.31.1999
A		**Stockholders' equity**		
	I	Capital stock	234,418	234,418
	II	Additional paid-in capital	56,574	56,574
	III	Revaluation reserves	22,058	22,058
	IV	Legal reserve	9,377	11,999
	VII	Other reserves	672,138	624,776
	IX	Net income for the year	151,441	166,425
		Group interest in Stockholders' equity	**1,146,006**	**1,116,250**
		Minority interests	15,952	10,271
		Total Stockholders' equity	**1,161,958**	**1,126,521**
B		**Reserves for risks and charges**		
	2	taxation	4,349	4,345
	3	other	44,729	49,338
		Total reserves for risks and charges	**49,078**	**53,683**
C		**Reserves for employee termination indemnities**	**44,557**	**47,176**
D		**Accounts payable**		
	1	bonds:		
		· within 12 months	18,592	-
		· beyond 12 months	258,228	258,228
		Total bonds	**276,820**	**258,228**
	3	due to banks:		
		· within 12 months	407,739	385,044
		· beyond 12 months	203,532	208,367
		Total due to banks	**611,271**	**593,411**
	4	due to other finance providers:		
		· within 12 months	7,375	2,627
		· beyond 12 months	6,059	5,757
		Total due to other finance providers	**13,434**	**8,384**
	5	advances from customers	12,447	20,143
	6	trade payables	389,598	363,514
	7	securities issued within 12 months	1,206	1,182
	8	due to subsidiary companies	1	-
	10	due to parent company	90	63
	11	due to tax authorities:		
		· within 12 months	26,861	84,586
		· beyond 12 months	23,969	18,099
		Total due to tax authorities	**50,830**	**102,685**

[./.]

		12.31.1998	12.31.1999
12	due to social security and welfare institutions	9,557	8,980
13	other payables:		
	· within 12 months	28,764	34,098
	· beyond 12 months	3,287	611
	Total other payables	**32,051**	**34,709**
	Total accounts payable	**1,397,305**	**1,391,299**
E	**Accrued expenses and deferred income**		
1	accrued expenses and deferred income	13,721	18,419
2	premiums on bond issues	370	230
	Total accrued expenses and deferred income	**14,091**	**18,649**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**2,666,989**	**2,637,328**

Memorandum accounts in Euro

[Thousands of Euro]*

	12.31.1998	12.31.1999
Fiduciary guarantees granted		
Guarantees	30	78
Commitments		
Sale commitments	-	5,165
Purchase commitments	15,836	6,101
Other commitments	-	8,790
Fiduciary guarantees received		
Notes lodged by third parties	10	10
Other		
Currency to be sold forward	858,027	522,295
Currency to be purchased forward	168,155	43,955
Restricted accounts receivable	38,662	13,347
Notes presented for discount	1,310	846
TOTAL MEMORANDUM ACCOUNTS	**1,082,030**	**600,587**

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

Consolidated statements of income in Euro

[Thousands of Euro]*

			1998	1999
A		**Value of production**		
	1	Revenues from sales and services	1,980,053	1,982,066
	2	Change in work in progress, semi-manufactured products and finished goods	[46,869]	7,258
	4	Own work capitalized	926	1,056
	5	Other income and revenues	11,742	16,776
		Total value of production	**1,945,852**	**2,007,156**
B		**Production costs**		
	6	Raw materials, other materials, consumables and goods for resale	605,747	542,439
	7	External services	694,284	745,703
	8	Leases and rentals	26,571	26,891
	9	Payroll and related costs:		
	a	wages and salaries	180,216	175,776
	b	social security contributions	48,990	47,177
	c	employee termination indemnities	8,831	8,991
	e	other costs	1,601	831
		Total payroll and related costs	**239,638**	**232,775**
	10	Amortization, depreciation and writedowns:		
	a	amortization of intangible fixed assets	37,437	38,350
	b	depreciation of tangible fixed assets	52,310	50,785
	c	other writedowns of fixed assets	967	1,489
	d	writedowns of current receivables and of liquid funds	21,071	14,972
		Total amortization, depreciation and writedowns	**111,785**	**105,596**
	11	Change in stock of raw materials, other materials, consumables and goods for resale	2,696	9,369
	12	Provisions to risk reserves	10,870	9,987
	14	Other operating costs	22,683	19,097
		Total production costs	**1,714,274**	**1,691,857**
		Difference between production value and costs	**231,578**	**315,299**
C		**Financial income and expenses**		
	15	Income from equity investments	6,215	2,509
	16	Other financial income:		
	a	from receivables held as financial fixed assets:		
		· subsidiary companies	16	-
		· other companies	904	322
		Total from receivables held as financial fixed assets	**920**	**322**
	b	from securities held as financial fixed assets not representing equity investments	1,570	3,242
	c	from securities included among current assets not representing equity investments	22,209	8,812
	d	financial income other than the above:		
		· subsidiary companies	233	112
		· other companies	141,070	81,749
		Total financial income other than the above	**141,303**	**81,861**
		Total other financial income	**166,002**	**94,237**

			1998	1999
	17	Interest and other financial expenses:		
		· subsidiary companies	148	3
		· parent company	2,303	1,347
		· other companies	179,513	141,403
		Total interest and other financial expenses	**181,964**	**142,753**
		Total financial income and expenses	**[9,747]**	**[46,007]**
D		**Changes in value of financial assets**		
	18	Revaluations:		
	a	of equity investments	133	-
	c	of securities included among current assets not representing equity investments	-	117
		Total revaluations	**133**	**117**
	19	Writedowns:		
	a	of equity investments	1,321	113
	b	of financial fixed assets not representing equity investments	1,387	1,323
	c	of securities included among current assets not representing equity investments	1,662	657
		Total writedowns	**4,370**	**2,093**
		Total changes in value of financial assets	**[4,237]**	**[1,976]**
E		**Extraordinary income and expenses**		
	20	Income:		
		· gains on disposals	4,383	8,014
		· other	9,660	11,928
		Total income	**14,043**	**19,942**
	21	Expenses:		
		· losses on disposals	1,589	3,650
		· taxes relating to prior years	2,184	303
		· other	9,485	18,454
		Total expenses	**13,258**	**22,407**
		Total extraordinary income and expenses	**785**	**[2,465]**
		Results before income taxes	**218,379**	**264,851**
	22	Income taxes	67,683	95,241
		Income before minority interests	**150,696**	**169,610**
		[Income]/loss attributable to minority interests	745	[3,185]
	26	**Net income for the year**	**151,441**	**166,425**

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

Notes to the consolidated financial statements

The consolidated financial statements have been prepared in conformity with chapter III of Legislative Decree no. 127 of April 9, 1991, which implements the EC VII Directive in Italy.
The notes to the consolidated financial statements explain, analyze and, in some cases, supplement the data reported on the face of the financial statements and include information required by article 38 and other provisions of Decree 127/1991. Additional information is also provided in order to present a true and fair view of the financial and operating position of the Group, even where this is not required by specific legislation.
Unless otherwise specified, amounts indicated in these notes are expressed in millions of Italian Lire.

Activities of the Group

Benetton Group S.p.A., the Parent Company, and its subsidiary companies [collectively the "Group"] primarily manufacture and market fashion apparel in wool, cotton and woven fabrics, as well as sports equipment, sportswear and casual wear. The manufacture of finished articles from raw materials is primarily undertaken in Italy, partly within the Group and partly using subcontractors, whereas marketing is carried out through an extensive sales network both in Italy and abroad. This network consists of sales representatives and specialty stores that are almost exclusively independently owned.

Form and contents of the consolidated financial statements

The consolidated financial statements of the Group include the financial statements as of December 31, 1999 of Benetton Group S.p.A., the Parent Company, and all the Italian and foreign companies in which the Parent Company holds, directly or indirectly, the majority of the voting rights. They also include the accounts of some 50%-owned companies over which the Group exercises a dominant influence.
The companies included within the scope of consolidation are listed in an appendix.
Financial statements utilized for the consolidation are those prepared for approval at the Stockholders' meetings. Financial statements of foreign subsidiaries have been reclassified, where necessary, for consistency with the format adopted by the Parent Company. Such financial statements have been adjusted so that they are consistent with the accounting policies referred to below.
A reconciliation between Stockholders' equity and net income as reported in the statutory financial statements of the Parent Company, Benetton Group S.p.A., and the consolidated Stockholders' equity and net income of the Group is presented in the note on Stockholders' equity.

Principles of consolidation

The most significant consolidation principles adopted for the preparation of the consolidated financial statements are as follows:
a] The assets and liabilities of subsidiary companies are consolidated on a line-by-line basis and the carrying value of investments held by the Parent Company and other consolidated subsidiaries is eliminated against the related Stockholders' equity accounts.
b] When a company is consolidated for the first time, any positive difference emerging from the elimination of its carrying value on the basis indicated in [a] above, is allocated, where applicable, to the assets of the subsidiary. Any excess arising upon consolidation is accounted for as a consolidation adjustment and is classified as "Goodwill and consolidation differences".
Negative differences are classified within the "Reserve for risks and charges arising on consolidation" if they reflect estimated future losses; otherwise, they are classified as part of the "Consolidation reserve" within Stockholders' equity.
Goodwill is amortized over its estimated useful life.
c] Intercompany receivables and payables, costs and expenses, and all significant transactions between consolidated companies, including the intragroup payment of dividends, are eliminated.
Unrealized intercompany profits and gains and losses arising from transactions between Group companies are also eliminated.
d] The minority Stockholders' interest in the net assets and results for the year of consolidated subsidiaries are classified separately as "Minority interests" in the consolidated balance sheet and as "Income attributable to minority interests" in the consolidated income statement.
e] The financial statements of foreign subsidiaries, including those operating in countries with hyperinflationary economies, are translated into Italian Lire using year-end exchange rates for balance sheet items and average exchange rates for the year for income statement items.
Differences arising from the translation into Lire of foreign currency financial statements are reflected directly in consolidated Stockholders' equity.

The value of Stockholders' equity of foreign subsidiaries is hedged against exchange risks, mainly through the forward sale of currency. Any exchange differences arising from such capital hedging operations are classified as "Translation differences" and therefore adjust consolidated equity.
The difference between the spot and forward exchange rates relating to these capital hedges is recorded as part of "Other financial income" within the income statement.

Accounting policies

These have been adopted in observance of article 2426 of the Italian Civil Code, also taking account of accounting principles prepared by the Italian Accounting Profession and, in the absence thereof, those issued by the International Accounting Standards Committee [I.A.S.C.].

Intangible fixed assets. These are recorded at purchase cost, including related charges. The value of these assets may be subject to revaluation in accordance with statutory regulations.
One method for determining the value of intangible fixed assets is to allocate the excess price deriving from investments acquired or other company transactions. This type of allocation is used for excess prices paid for trademarks acquired under these types of operation, on the basis of an independent appraisal.
Intangible fixed assets are written down in cases where, regardless of the amortization accumulated, there is a permanent loss in value. The value of such assets is reinstated in future accounting periods should the reasons for such writedowns no longer apply.
Book value is systematically amortized on a straight-line basis in relation to the residual economic useful lives of such assets. The duration of amortization plans is based on the estimated economic use of these assets.
Normally amortization periods for trademarks fluctuate between 10 and 15 years, while patents are amortized over three years. Goodwill and consolidation differences are amortized over 10 years. Leasehold improvements costs are amortized over the duration of the lease contract. Start-up and expansion expenses and other deferred charges are mostly amortized over five years.

Tangible fixed assets. These are recorded at purchase or construction cost, revalued where required or permitted by statutory regulations. Cost includes related charges and direct or indirect expenses reasonably attributable to the individual assets. Tangible fixed assets are written down in cases where, regardless of the depreciation accumulated, there is a permanent loss in value. The value of such assets is reinstated in future accounting periods should the reasons for such writedowns no longer apply. Ordinary maintenance costs are fully expensed as incurred. Improvement expenditure is allocated to the related assets and depreciated over their residual useful lives.
Depreciation is calculated systematically on a straight-line basis using rates considered to reflect the estimated useful lives of the assets. In the first year such assets enter into service these rates are halved in consideration of their shorter period of use.

The depreciation rates applied by consolidated companies are as follows:

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

Accelerated depreciation calculated in the financial statements of Group companies is reversed and as a result the related accumulated depreciation is adjusted.
Assets acquired under finance leases are stated at their fair value at the start of the lease and the capital portion of the lease instalments is recorded as a liability.
Such assets are depreciated over their economic useful lives on the same basis as other tangible fixed assets.

Financial fixed assets. Investments in subsidiaries not consolidated on a line-by-line basis, together with those in associated companies, are accounted for on an equity basis, eliminating the Group's share of any unrealized intercompany profits, where significant.
The difference between the cost and the net equity of investments at the time they were acquired is allocated on the basis described in paragraph [b] of the consolidation principles.
Equity investments of less than 20% in other companies are stated at cost, which is written down where there is a permanent loss in value. The original value of these investments is reinstated in future accounting periods should the reasons for such writedowns no longer apply.
Assets leased to third parties are recorded using lease accounting methodology. This involves eliminating the related fixed assets and accumulated depreciation accounts and recording the outstanding capital element of lease contracts as a financial fixed asset.
The excess of lease charges and end-of-lease payments over the cost of the related asset is recognized as interest income on an accrual basis.
Receivables included among financial fixed assets are stated at their estimated realizable value.
Other securities held as financial fixed assets are stated at cost, which is written down where there is permanent loss in value, taking into account any accrued issue premiums and discounts.

Inventories. Inventories are stated at the lower of purchase or manufacturing cost, generally determined on a weighted average cost basis, and their market or net realizable value.
Manufacturing cost includes raw materials and all direct or indirect production-related expenses.
The calculation of estimated realizable value includes any manufacturing costs to be incurred and direct selling expenses. Obsolete and slow-moving inventories are written down in relation to their possibility of employment in the production process or to their useful or net realizable value.

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

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

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

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

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

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

Transactions in foreign currencies. Transactions in foreign currencies are recorded using the exchange rates in effect at the transaction dates. Exchange gains or losses realized during the year are included in the consolidated income statement.
At the date of the financial statements, the Italian Group companies adjusted receivables and payables in foreign currency to the exchange rates ruling at the year end, booking all resulting gains and losses to the income statement. The exchange gains or losses on forward contracts opened to hedge receivables and payables are booked to the income statement; the discount or premium on these contracts is recorded on an accrual basis.
The value of forward contracts, other than those hedging specific foreign currency assets and liabilities, is restated at year-end with reference to the differential between the forward exchange rates applicable to the various types of contract at the balance-sheet date and the contracted forward exchange rates. Any net losses emerging are charged to the income statement.

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

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

Income taxes. Current income taxes are provided on the basis of a reasonable estimate of the tax liability for the year, in accordance with applicable local regulations. The net balance between deferred tax assets and liabilities is also recorded.
Deferred tax assets refer to costs and expenses not yet deductible at year-end, to consolidation adjustments and to the benefit of accumulated tax losses. Deferred tax assets are provided when it was almost certain that they can be recovered in the future.
Deferred tax liabilities refer to transactions where taxation is deferred to future years, such as gains on the disposal of tangible and intangible fixed assets or consolidation adjustments arising from the reversal of accelerated depreciation or lease transactions recorded as finance leases.

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

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

Comments on the principal asset captions

Fixed assets

■ Intangible fixed assets

	12.31.1998		12.31.1999	
[in millions of Lire]	Gross	Net	Gross	Net
Start-up and expansion expenses	13,412	6,641	9,422	4,637
Research and development expenses	1,986	989	1,810	738
Industrial patents and intellectual property rights	28,571	7,356	23,426	6,876
Licenses, trademarks and similar rights	683,125	497,736	694,601	463,704
Goodwill	3,399	2,563	13,943	12,504
Consolidation differences	83,427	64,372	80,515	55,354
Total goodwill and consolidation differences	**86,826**	**66,935**	**94,458**	**67,858**
Assets under construction and advance payments	6,188	6,188	5,818	5,818
Expenses related to bond issues and loans	4,351	2,486	3,666	1,669
Costs for the purchase and development of software	27,299	11,336	29,831	11,472
Leasehold improvements	37,776	26,427	50,164	34,682
Other	9,952	4,839	24,332	16,631
Total other intangible fixed assets	**79,378**	**45,088**	**107,993**	**64,454**
Total	**899,486**	**630,933**	**937,528**	**614,085**

Start-up and expansion expenses include capital stock increase costs of Lire 4,034 million [around Lire 5,436 million as of December 31, 1998]. The residual balance principally relates to corporate reorganization costs.

Research and development expenses reflect the capitalization of costs incurred for the development of new products.

Assets in course of formation and advance payments principally concern costs to register trademarks and patents.

In 1983 the original Benetton trademark was revalued in accordance with Law no. 72 of March 19, 1983. The monetary revaluation was Lire 4,430 million; the residual value at the end of 1999 was Lire 664 million. The difference emerging from the consolidation of the Sportsystem group, with respect to Stockholders' equity at the acquisition date, was allocated to trademarks, Lire 277,130 million, and to consolidation differences, Lire 59,976 million, on the basis of an independent appraisal.

Net values of trademarks are the following:

[in millions of Lire]	12.31.1998	12.31.1999
United Colors of Benetton	2,428	3,427
Sisley	252	424
Nordica	127,955	117,981
Rollerblade	205,817	188,783
Prince	99,163	94,133
Killer Loop	47,880	44,400
Other	5,437	5,364
Total	**488,932**	**454,512**

Changes in the caption "Goodwill" refer to the value of the commercial companies, bought by Benetton Group S.p.A. and a subsidiary company, in the most important Italian cities and in Brussels. The consolidation difference of Lire 55,354 million reflects the residual goodwill emerging from consolidation of the companies acquired, with Lire 43,742 million attributable to Benetton Sportsystem S.p.A. and the remainder to other companies. This consolidation difference is amortized over ten years, which is considered appropriate since it is consistent with the accounting policies currently applied in the sector where Group companies operate.
Leasehold improvements refer to the costs of restructuring and modernizing third party shops, over Lire 30,500 million.
The caption "Other" mainly includes costs incurred to gain early access of third party premises; such costs are amortized over the duration of the rental contracts.

Movements in the principal intangible fixed asset captions during 1999 were as follows:

[in millions of Lire]	Patents	Licenses, trademarks and similar rights	Goodwill and consolidation differences	Leasehold improvements	Other, intangible fixed assets	Total
Net opening balance	7,356	497,736	66,935	26,427	32,479	630,933
Change in the scope of consolidation	-	-	1,992	[349]	[302]	1,341
Additions	630	5,168	12,753	10,239	22,603	51,393
Disposals	[49]	[2,436]	[1,647]	[2,117]	[648]	[6,897]
Amortization	[2,417]	[42,703]	[12,203]	[5,407]	[12,333]	[75,063]
Translation differences and other movements	1,356	5,939	28	5,889	[834]	12,378
Net closing balance	**6,876**	**463,704**	**67,858**	**34,682**	**40,965**	**614,085**

■ **Tangible fixed assets.** Tangible fixed assets are stated net of accumulated depreciation amounting to Lire 808,550 million.

Additions made during 1999 concern the following captions:

- real estate amounting to Lire 207,000 million relates for around Lire 173,000 million to the acquisition, modernization and restructuring costs of property destined for commercial use in major Italian, European and Japanese cities. The residual amount refers for Lire 9,000 million to the construction and restructuring of buildings belonging to the Italian and foreign manufacturing companies, for around Lire 10,000 million to the enlargement of the Villa Pastega complex belonging to Fabrica S.p.A., for approximately Lire 5,000 million to the completion of the outdoor part of Villa Loredan by the Parent Company and for about Lire 10,000 million to other property, mainly belonging to an American subsidiary for the enlargement of its head office;
- plant, machinery and equipment of around Lire 58,000 million for the technological upgrading of the logistics and production structures, principally attributable, for Lire 27,000 million to the Italian production companies, and for Lire 21,000 million to Benetton Group S.p.A., for the purchase of new plant and machinery and to upgrade existing plant, including an automatic packaging system, a system for the storage and distribution of clothing on hangers, as well as the purchase of molds and sundry equipment;
- furniture, fittings, electronic machines and motor vehicles for around Lire 31,000 million. In particular, around Lire 15,000 million refers to the purchase of a new Cessna Citation Excel [I-BENT] aircraft by Benair S.p.A., which runs the airline activities.

The depreciation charge for the year was Lire 98,334 million.

Movements in the principal tangible fixed asset captions during 1999 were as follows:

[in millions of Lire]	Real estate	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances to suppliers	Total
Net opening balance	461,741	181,874	31,316	76,685	19,796	771,412
Change in scope of consolidation	4,302	1,602	[48]	[613]	[211]	5,032
Additions	158,094	34,879	11,795	33,703	57,067	295,538
Disposals	[11,054]	[9,241]	[707]	[5,176]	-	[26,178]
Depreciation	[16,270]	[48,062]	[15,649]	[18,353]	-	[98,334]
Translation differences and other movements	21,536	8,464	648	9,799	[23,180]	17,267
Net closing balance	**618,349**	**169,516**	**27,355**	**96,045**	**53,472**	**964,737**

The amount of tangible fixed assets still held as of December 31, 1999, revalued under Laws no. 72 of March 19, 1983, and no. 413 of December 30, 1991, net of accumulated depreciation and disposals, amounts to Lire 25,066 million. In 1996, a Spanish subsidiary revalued its tangible fixed assets under local legislation [Royal Decree no. 2607/96]. At year-end these assets amounted to Lire 955 million, net of accumulated depreciation. Some of the Group's tangible fixed assets are pledged as security for long-term loans from banks and other providers of finance. The outstanding balance of such loans is Lire 61,075 million as of December 31, 1999.

Other assets include the following assets acquired under finance leases:

[in millions of Lire]	12.31.1998	12.31.1999
Real estate	13,658	12,519
Plant and machinery	11,744	6,490
Other assets	1,555	1,525
less - Accumulated depreciation	[5,835]	[2,770]
Total	**21,122**	**17,764**

Outstanding capital payments due to lessors as of December 31, 1999, classified as amounts due to leasing companies, are reported in the note "Due to other providers of finance".

■ Financial fixed assets

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

	12.31.1998		12.31.1999	
[in millions of Lire]	Group ownership	Book value	Group ownership	Book value
Subsidiary companies:				
· T.W.R. Group Ltd.	50%	40,914	50%	46,116
· other minor investments	-	450	-	378
Associated companies	-	676	-	103
Other companies	-	6,756	-	7,168
Total		**48,796**		**53,765**

Investments in subsidiary companies amounting to Lire 46,494 million, include Lire 46,116 million relating to T.W.R. Group Ltd., which is carried on an equity basis and excluded from the scope of consolidation as it operates in a totally different sector from the rest of the Group. The inclusion of this company would have distorted the consolidated financial statements to the point where they would not have provided a true and fair view of the financial and operating position of the Group. An agreement to sell Benetton Engineering Ltd. was formalized in December 1996. The sale is subject to the company receiving the purchase price from the buyer by the end of 2001, of which Lire 34,259 million has already been paid in accordance with the contract. The subsidiary, which owns 50% of T.W.R. Group Ltd., is wholly owned by Benetton International N.V. The agreed sale price, Gbp 16,000,000, will generate a gain of Gbp 858,000 with respect to the original cost incurred, plus related interest at market rates. The balance, Lire 378 million, relates to other minor subsidiary companies, mainly foreign trading companies, that are carried at cost or at equity, since they are either not yet operating or are in liquidation at the balance-sheet date.
Other investments primarily represent minority interests in Italian and Japanese trading companies and a Swiss company.
Equity investments are analyzed in detail in an attachment.

■ Accounts receivable

	Maturities [in years]				
[in millions of Lire]	Within 1	From 1 to 5	Beyond 5	12.31.1998	12.31.1999
Other receivables:					
· due within 12 months	14,672	-	-	6,399	14,672
· due beyond 12 months	-	11,063	-	18,146	11,063
Guarantee deposits	-	-	16,924	15,091	16,924
Total	**14,672**	**11,063**	**16,924**	**39,636**	**42,659**

Other receivables include around Lire 8,100 million relating to tax advance payments on termination indemnities paid by the Italian companies as per Law no. 140 of May 28, 1997. Starting from January 1, 2000 such advances can be deducted from withholding taxes paid on termination indemnities paid to employees. The residual part refers to financial receivables bearing interest at market rates.

Guarantee deposits mainly include lease contracts with Japanese subsidiaries.

■ Other securities held as financial fixed assets

[in millions of Lire]	12.31.1998	12.31.1999
Long-term Government bonds [B.T.P.] maturing in 2003 and in 2004 bearing interest rates between 3.25% and 4%	-	270,533
Other	3,041	22
Total	**3,041**	**270,555**

These investments were almost entirely made by the subsidiary Benetton Finance S.A. They are stated at purchase cost, as adjusted by the accrued issue discount. Since these securities will be held until maturity, they are classified among financial fixed assets.
Other securities held as financial fixed assets include foreign securities.

Current assets

■ **Inventories.** Inventories, Lire 570,524 million [Lire 581,621 million as of December 31, 1998], recorded net of the related inventory writedown reserve, consist of the following:

[in millions of Lire]	12.31.1998	12.31.1999
Raw materials, other materials and consumables	6,788	5,074
Work in progress and semi-manufactured products	1,550	2,000
Finished goods	13,762	12,331
Total	**22,100**	**19,405**

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

■ Accounts receivable

■ **Trade receivables.** As of December 31, 1999, trade receivables amount to Lire 1,489,648 million [Lire 1,516,561 million as of December 31, 1998], of which approximately Lire 931,500 million are denominated in foreign currencies. Open forward exchange contracts are used to hedge receivables totaling Lire 214,344 million and firm orders worth Lire 319,708 million at year-end exchange rates.
Trade receivables also include Lire 183,647 million [Lire 214,025 million as of December 31, 1998] of bank receipts and notes presented to banks for collection.
Additionally, this account includes approximately Lire 623,000 million relating to sales for the spring/summer season. In accordance with normal conditions of sale, the payment terms for this amount commence from March 2000.
The allowance for doubtful accounts as of December 31, 1999 amounts to Lire 148,521 million [Lire 183,824 million as of December 31, 1998]. Lire 68,123 million of this reserves was used during the year. A prudent assessment of the specific and generic collection risks associated with receivables outstanding at year-end has resulted in an additional provision of Lire 28,989 million to take account of the aging of certain balances and the difficult economic conditions in a number of markets.

■ **Due from subsidiaries, associated companies and the parent company.** Accounts receivable from subsidiary companies of Lire 4,417 million mainly refer to financial receivables, while those from associated companies and the parent company, of Lire 32 million and Lire 123 million respectively, relate to trade receivables.

■ **Other receivables.** Other receivables include:
- VAT recoverable from the tax authorities, Lire 56,028 million [Lire 36,136 million as of December 31, 1998], of which Lire 3,376 million due beyond 12 months;

— tax credits, Lire 14,541 million [Lire 41,530 million as of December 31, 1998], of which Lire 697 million due beyond 12 months;

— other amounts due from the tax authorities, Lire 69,292 million [Lire 28,602 million as of December 31, 1998], of which Lire 750 million due beyond 12 months.

The caption includes Lire 64,706 million resulting from the net balance between deferred tax assets [connected to charges where the tax deduction is deferred and tax benefits on accumulated losses] and deferred tax liabilities [deriving primarily from reversal of accelerated depreciation];

— accounts receivable on the sale of fixed assets for Lire 24,931 million [Lire 8,928 million as of December 31, 1998] of which Lire 7,059 million beyond one year.

The following table shows total deferred taxes, net:

[in millions of Lire]	12.31.1998	12.31.1999
Tax effect of eliminating intercompany profits	8,421	9,365
Tax effect of provisions and costs that will become deductible in future accounting periods	46,109	56,216
Deferred taxes arising on the reversal of accelerated depreciation and the application of finance lease accounting	[48,270]	[41,696]
Deferred taxes on gains taxable over a number of accounting periods	[8,964]	[10,974]
Tax benefits on accumulated losses	22,334	50,939
Other	[2,398]	856
Total	**17,232**	**64,706**

In relation to:

[in millions of Lire]	12.31.1998	12.31.1999
· Italian companies	[8,283]	6,990
· Foreign companies	25,515	57,716
	17,232	**64,706**

■ Financial assets not held as fixed assets

■ **Treasury shares.** In accordance with the resolution at the ordinary meeting, the Parent Company acquired 2,100,000 shares in January and March, at an average price of Euro 1.52 [2,948 Lire] per share, for a total amount of Lire 6,192 million; they were later sold at an average price of Euro 1.87 [3,613 Lire] per share.

In December the Parent Company acquired an additional 5,098,000 shares at an average price of Euro 1.97 [3,823 Lire] each for a total of Lire 19,490 million; subsequently they were sold at an average price of Euro 2.14 [4,140 Lire] each.

Trading in treasury shares gave rise to total gains of Lire 3,012 million.

■ Other securities

[in millions of Lire]	12.31.1998	12.31.1999
Consorzio di Credito per le Opere Pubbliche bonds maturing through 2001 and 2002 at interest rates between 3.1% and 12.63%	134,797	131,202
European Investment Bank bonds in Italian Lire maturing through 2000 and 2002 at interest rates between 3% and 11.25%	40,007	39,644
IBRD bonds in Italian Lire maturing through 2001 and 2002 at interest rates between 10.4% and 10.8%	5,499	5,584
Italian State Railways bonds maturing through 2000 and 2002 at interest rates between 2.863% and 3.5%	13,019	11,904
Long-term Government bonds [B.T.P.] maturing in 2002 at an interest rate of 3%	-	9,414
ENEL bonds maturing in 2002 at an interest rate of 10.63%	25,992	-
Treasury Certificates [C.C.T.] maturing in 2003 at an interest rate of 5.4%	1,935	-
Other	337	337
Total	**221,586**	**198,085**

The ENEL bonds maturing in 2002 were redeemed in advance in February.
Certain securities have been written down to reflect their market value, determined on the basis of stockmarket prices at the end of the year. The amount of these writedowns total Lire 1,272 million.

■ Other financial receivables

[in millions of Lire]	12.31.1998	12.31.1999
Short-term financing	8,188	168,167
Amounts due on repurchase agreements	14,999	12,461
Total	**23,187**	**180,628**

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

■ **Differentials on forward transactions.** During 1999, as in prior years, the proceeds of future sales were sold forward, in order to optimize exchange risk management connected to commercial activities by certain Group companies, mainly Benetton Group S.p.A. Forward contracts and other currency hedges have been put in place with maturities in 2000. Part of these contracts, totaling Lire 37,437 million, was subsequently renegotiated, and the related positive differentials amounting to Lire 391 million, will be collected in 2000. Such differentials, being highly liquid, are classified among current assets.
The residual balance includes Lire 30 million of differentials on hedging transactions.
The value of these commitments is reflected in the memorandum accounts.

■ Liquid funds

[in millions of Lire]	12.31.1998	12.31.1999
Current account deposits [Lire]	79,811	66,595
Current account deposits [foreign currency]	176,503	149,623
Time deposits [Lire]	716,074	10,131
Time deposits [foreign currency]	50,762	116,879
Checks	55,543	86,606
Cash in hand	944	958
Total	**1,079,637**	**430,792**

Average interest rates reflect market returns for the various currencies concerned.
The balances as of December 31, 1999 reflect temporary high liquidity due to significant period-end receipts from customers.

Accrued income and prepaid expenses

[in millions of Lire]	12.31.1998	12.31.1999
Accrued income:		
· financial income	12,810	7,485
· other income	3,604	6,019
Total accrued income	**16,414**	**13,504**
Prepaid expenses:		
· financial charges	681	60
· rentals and leasing charges	4,498	7,821
· advertising and sponsorships	3,453	4,220
· other expenses	61,988	65,031
Total prepaid expenses	**70,620**	**77,132**
Total	**87,034**	**90,636**

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

In 1997, 1998 and 1999 the Group's merger differences were released from further taxation via payment of a substitute tax at 27%. This substitute tax totals around Lire 61,200 million. Substitute tax is classified under "Current income taxes" with a matching balance in "Due to tax authorities". According to the principle accrual some Lire 36,600 million of this tax has been recorded as a prepayment in order to match the cost of freeing up merger differences from tax with the benefits deriving from future savings generated by tax-deductible amortization charges. Given the various periods of amortization of the assets involved and taking account of the prudence principle, the amortization period fixed was 10 years.
Costs incurred by Benetton Formula Ltd. for the design and construction of the single-seater F1 car that participates in the 2000 world championship total around Lire 20,400 million [around Lire 18,700 million as of December 31, 1998].

Comments on the principal liability and equity captions

Stockholders' equity

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

■ **Additional paid-in capital.** Unchanged with respect to the prior year.

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

■ **Legal reserve.** The increase in the legal reserve derives from the allocation of a portion of net income for the year ended December 31, 1998, in conformity with the law and the articles of association.

■ **Other reserves.** As of December 31, 1999, this caption amounts to Lire 1,209,735 million [Lire 1,301,441 million as of December 31, 1998], and includes:

- Lire 32,892 million relating to other reserves of the Parent Company [Lire 335,782 million as of December 31, 1998]; such reserves decreased significantly following a dividend distribution;
- Lire 23,447 million relating to the cumulative translation adjustment generated by translating the foreign-currency financial statements of companies consolidated on a line-by-line basis;
- Lire 1,153,396 million representing the additional equity of consolidated companies with respect to their carrying value, together with other consolidation entries.

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

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

	12.31.1998		12.31.1999	
[in millions of Lire]	Stockholders' equity	Net income	Stockholders' equity	Net income
Per Benetton Group S.p.A. financial statements	1,054,066	101,514	1,123,931	469,194
Net income and Stockholders' equity of consolidated subsidiaries, net of their carrying value	966,404	112,073	861,150	123,464
Reversal of writedown of equity investments	-	112,101	-	9,974
Elimination of dividends paid by consolidated subsidiaries	-	[30,000]	-	[250,000]
Reversal of merger differences and related amortization in Benetton Group S.p.A.	[171,001]	44,316	[157,632]	13,369
Allocation to fixed assets of the difference between the purchase price and the equity of new subsidiaries at the time they were acquired and related depreciation	315,247	[57,620]	290,900	[32,805]
Reversal of accelerated depreciation considering the useful lives of fixed assets and of intercompany gains on disposal of tangible fixed assets, net of the related tax effect	27,629	7,162	47,321	19,692
Application of finance lease accounting, taking account of the related tax effect	7,617	[3,312]	11,176	3,559
Recognition of prepaid tax assets, net of deferred taxes	32,194	[2,389]	-	[32,194]
Elimination of intercompany profits included in the inventory of consolidated subsidiaries, net of the related tax effect	[18,582]	6,399	[23,849]	[5,267]
Adjustment to reflect the equity value of associated companies	4,497	[290]	5,443	[242]
Net effect of other consolidation entries	907	3,276	2,922	3,500
Per Group's consolidated financial statements	**2,218,978**	**293,230**	**2,161,362**	**322,244**

During 1999, Benetton Group S.p.A. and the Italian subsidiaries have adopted the new accounting standard relating to income taxes. The adoption of this standard has resulted in the net balance of prepaid taxes and accumulated deferred taxes being recorded in the statement of income; as of December 31, 1998, this balance was classified as a consolidation adjustment.

■ **Minority interests.** As of December 31, 1998 and 1999, minority interests in consolidated subsidiaries were as follows:

[%]	12.31.1998	12.31.1999
Italian subsidiaries:		
· Socks & Accessories Benetton [S.A.B.] group	50	-
· Olimpias group	15	15
· Texcontrol group	16.231	-
Foreign subsidiaries:		
· Benetton Shoes Japan K.K.	50	-
· Benetton Egypt S.A.E.	50	50
· DCM Benetton India Ltd.	50	50
· Benetton Korea Inc.	50	50

Reserves for risks and charges

■ **Taxation reserve.** As of December 31, 1999, the reserve for fiscal risks amounts to Lire 8,413 million [Lire 8,421 miilion as of December 31, 1998]. It prudently covers contingent liabilities which may arise on the final settlement of outstanding disputes with the revenue authorities.

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

■ Other reserves

[in millions of Lire]	12.31.1998	12.31.1999
Reserve for contingencies	72,073	76,712
Agents' leaving indemnity reserve	13,325	13,016
Exchange fluctuation reserve	1,209	5,804
Total	**86,607**	**95,532**

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

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

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

On March 21, 1997, the High Court in The Hague accepted the appeal by Benetton International N.V. and referred the case to the European Court of Justice in Luxembourg, on the grounds that the matter fell within the jurisdiction of Community law.

On June 1, 1999, the European Court of Justice delivered its judgment, replying to the questions raised by the Dutch High Court. The European Court ruled that the application of the procedural rules of Dutch law were not in conflict with Community regulations. However, at the same time, as upheld by Benetton International N.V., the Court affirmed the principle that the regulations on competition under the Treaty of Rome must be presumed to be public policy norms for the purposes anticipated by Dutch law. In February 2000, the Dutch High Court implemented the judgment issued by the European Court of Justice, ordering the stay of execution of the 1995 arbitration award to be cancelled. Eco Swiss China Time Ltd. has therefore applied under an urgency procedure to obtain enforcement of the bank guarantee originally granted and, hence, payment of the arbitration award, in addition to interest and costs.

Benetton International N.V. will continue in its efforts to defend its theories and safeguard its interest in the current dispute; it is deemed, however, that the risk is adequately covered by the provision made.

On September 16, 1999, the Court of Appeal in The Hague passed sentence in the proceedings

for the cancellation of the 1995 arbitration award. The Court of Appeal failed to uphold the claims of Benetton International N.V. for the cancellation of the award, so the company appealed to the Dutch High Court.
In the meantime, separate arbitration proceedings instigated by Benetton International N.V. are currently taking place between the parties before the Netherlands Arbitration Institute in The Hague. Benetton International N.V. aims to demonstrate in this second arbitration case that the company correctly fulfilled its obligations and sought, in good faith to negotiate the extension of the 1986 license contract and that it is due compensation for the considerable damage suffered as a consequence of breach of contract by the other party.
Benetton International N.V. has submitted its own Statement of Claim, and Eco Swiss China Time Ltd. and Bulova Corporation, for their part, have presented a counterclaim demanding compensation for alleged damages which they attribute to supposed breach of contract by Benetton International N.V. Both parties have presented further documentation.
The Board of Arbitration passed judgment on certain preliminary matters [regarding applicable law and the consequences of article 85 of the Treaty of the European Union] with the Partial Final Award of June 27, 1997. Benetton International N.V. proposed before the ordinary courts in the Netherlands that the Partial Final Award on preliminary matters be cancelled and, as part of these procedures; the related decision in this regard is still pending.
The Board of Arbitration has therefore restarted arbitration proceedings and the parties have presented their cases. In the next few months there will be further hearings and documentation produced by the parties.

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

The agents' leaving indemnity reserve is prudently maintained to reflect contingencies associated with the interruption of agency contracts in certain circumstances covered by Italian law. The provision of an additional Lire 3,179 million during 1999 follows utilizations during the year.

The exchange fluctuation reserve mainly reflects the net effect of adjusting forward contracts hedging financial transactions of two foreign finance companies to the year-end exchange rates.

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

[in millions of Lire]	
Balance as of January 1, 1999	**86,274**
Provision for the year	17,408
Indemnities paid during the year	[11,995]
Other movements	[341]
Balance as of December 31, 1999	**91,346**

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

■ **Bonds.** This caption refers to a bond issued on July 16, 1997 by Benetton Group S.p.A. for Lire 500,000 million, repayable in 2002. The bond bears interest at floating rates which, at year-end, was 3.56%. It is listed on the Luxembourg Bourse.
Bonds issued by Benetton International N.V. in 1994, totaling Luf 750 million at a unit price of Luf 102.25 and repayable on August 4, 1999. The bond is guaranteed by Benetton Group S.p.A. and is listed on the Luxembourg Bourse.

■ Due to banks

[in millions of Lire]	12.31.1998	12.31.1999
Current account overdrafts	41,600	54,792
Import/export advances	108,997	33,151
Advances on receivables and other short-term loans	605,777	640,675
Long-term loans:		
· due within 12 months	33,118	16,931
· due beyond 12 months	394,094	403,454
Total	**1,183,586**	**1,149,003**

Amounts due to banks include Lire 60,310 million secured by mortgages on tangible fixed assets. The caption includes Lire 4,007 million due beyond five years.
Group companies had the following lines of credit available at the balance sheet date: Lire 237 billion for current account overdrafts and Lire 7,478 billion for advances on import/export transactions, the negotiation of trade notes and other short-term loans.

Long-term loans from banks outstanding as of December 31, 1998 and 1999 are as follows.

[in millions of Lire]	12.31.1998	12.31.1999
Multicurrency loan coordinated by Banca di Roma S.p.A. and Deutsche Bank S.p.A disbursed on February 6, 1997 for a total of Usd 200 million, at floating interest rates (3.7025% at the balance sheet date). This loan is repayable in full on December 10, 2001	323,100	356,320
Loan from Efibanca [Ente Finanziario Interbancario S.p.A.] and from European Investment Bank, disbursed in two tranches: Lire 20,000 million, at an annual interest rate of 8.375% repayable in half-yearly instalments through 2001; and Lire 30,000 million, at floating rates (3.705% at the balance sheet date), repayable in half-yearly instalments in arrears through 2003, secured by mortgages on real estate	33,650	25,216
Loans from Efibanca [Ente Finanziario Interbancario S.p.A.] at an annual interest rate of 3.24%, repayable through 2005, secured by mortgages on real estate	4,813	4,125
Loans from Istituto Mobiliare Italiano, at an annual interest rate of 3.25%, repayable through 2004, secured by mortgages on real estate	26,000	21,800
Loan granted by Medio Venezie on December 18, 1998 repayable in half-yearly instalments through January 1, 2007 at an annual interest rate of 2.5% secured by mortgages on real estate	6,000	6,000
Loans from Sanpaolo IMI S.p.A. at floating interest rates 4.378% at December 31, 1999 repayable quarterly through 2002 secured by mortgages on real estate	3,209	2,222
Loan in Yen from Bayerische Vereinsbank expired on October 4, 1999, annual interest rate of 1%	14,375	-
Loans from Fondo Rotazione Iniziative Economiche at annual interest rates between 6% and 8%, repayable in half-yearly instalments through 2004 secured by mortgages on real estate, repaid in advance during 1999	5,948	-
Disbursement by Mediocredito Centrale S.p.A. granted under Law 394 of July 2, 1981 - at a subsidised half-yearly interest rate of 4.118%, repayable in half-yearly instalments in arrears through July 22, 2003	3,458	-
Other Lire loans, of which Lire 555 million secured by mortgages on real estate	1,846	928
Other foreign currency loans obtained by foreign consolidated companies, of which Lire 392 million secured by mortgages on real estate	4,813	3,774
Total long-term loans	**427,212**	**420,385**
less - Current portion	[33,118]	[16,931]
Long-term loans, net of current portion	**394,094**	**403,454**

The disbursement by Mediocredito Centrale S.p.A. granted under Law no. 394 of July 2, 1981 has been reclassified to “Due to other providers of finance”, as Simest S.p.A. took over the contracts of said bank from January 1, 1999.

The non-current portion of these loans as of December 31, 1999 falls due as follows [in millions of Lire]:

Year	12.31.1999
2001	373,900
2002	12,560
2003	9,833
2004	3,154
2005 and beyond	4,007
Total	**403,454**

■ Due to other finance providers

[in millions of Lire]	12.31.1998	12.31.1999
Other short-term loans	7,161	995
Long-term loans:		
· due within 12 months	2,802	1,327
· due beyond 12 months	1,472	3,419
Due to leasing companies:		
· due within 12 months	4,316	2,765
· due beyond 12 months	10,260	7,728
Total	**26,011**	**16,234**

Long-term loans obtained from other providers of finance outstanding as of December 31, 1999 are as follows:

[in millions of Lire]	12.31.1998	12.31.1999
Loans from suppliers of machinery, repayable in instalments over 24 months	2,531	-
Other Lire loans	1,743	3,791
Other foreign currency loans obtained by foreign consolidated companies of which Lire 765 million secured by mortgages on real estate	-	955
Total long-term loans	**4,274**	**4,746**
less - Current portion	[2,802]	[1,327]
Long-term loans, net of current portion	**1,472**	**3,419**

The caption “Other Lire loans” includes the loan originally granted by Mediocredito Centrale S.p.A. under Law 394/81 of Lire 2,767 million which, as of December 31, 1998, was classified under “Due to banks”, as explained previously.
The non-current portion of these loans as of December 31, 1999 falls due as follows [in millions of Lire]:

Year	12.31.1999
2001	864
2002	789
2003	794
2004	108
2005 and beyond	864
Total	**3,419**

The non-current portion of amounts due to leasing companies as of December 31, 1999 falls due as follows [in millions of Lire]:

Year	12.31.1999
2001	2,139
2002	1,823
2003	1,584
2004	1,029
2005 and beyond	1,153
Total	**7,728**

■ **Advances.** Advances amounting to Lire 39,003 million [24,101 million as of December 31, 1998] refer for Lire 34,259 million to the matter previously explained in connection with “Equity investments” in “Financial fixed assets”.

■ Due to tax authorities

[in millions of Lire]	12.31.1998	12.31.1999
Income taxes payable:		
· Italian companies	4,089	121,915
· Foreign companies	17,833	9,289
Total income taxes payable	**21,922**	**131,204**
VAT payable	9,798	16,637
Other amounts due to tax authorities	66,700	50,984
Total	**98,420**	**198,825**

Income taxes payable are stated net of taxes paid in advance and all tax credits and withholdings.
“Other amounts due to tax authorities” mainly comprise the substitute tax, Lire 35,045 million [due beyond 12 months] and amounts withheld at source.

■ **Due to social security and welfare institutions.** This balance totals Lire 17,387 million [Lire 18,504 million as of December 31, 1998] and reflects both the Group's company and employee contributions payable to these institutions at year-end.

■ **Other payables.** Other payables, totaling Lire 67,205 million, include Lire 30,028 million due to employees [Lire 33,220 million as of December 31, 1998], other non-trading payables of Lire 26,285 million [Lire 20,330 million as of December 31, 1998] and differentials on forward transactions of Lire 10,891 million, which refer for 721 million to operations already explained on the assets side of the balance sheet and for Lire 10,170 million to forward contracts hedging the exchange risk on future sales.
Due to employees of two American companies in connection with an incentive plan linked to the increase in value of those companies' shares; outstanding as of December 31, 1998, it was paid off during the year.
"Other payables" do not include amounts due beyond five years.

Accrued expenses and deferred income

[in millions of Lire]	12.31.1998	12.31.1999
Accrued expenses:		
· financial charges	11,018	8,854
· other charges	2,615	2,983
Total accrued expenses	**13,633**	**11,837**
Deferred income:		
· financial income	144	639
· sponsorships	12,164	21,775
· other income	627	1,412
Total deferred income	**12,935**	**23,826**
Premiums on bond issues	716	446
Total	**27,284**	**36,109**

Memorandum accounts

These mainly include currency to be sold or purchased forward. This account group records the Lire value at the balance sheet date of commitments deriving from hedging contracts opened during the year. For the most part, the caption reflects transactions opened to hedge receivables, firm orders and future sales. Those covering future sales were subsequently renegotiated by entering opposite transactions. Other transactions were entered into to hedge the exchange risk on capital invested in Group companies.

As of December 31, 1999, outstanding contracts involving the purchase or sale of interest rate swaps have a notional value of Lire 7,716 million.

The caption "Sales commitments" refers to the commitment to sell land and a portion of an industrial plant located in the Municipality of Trevignano for Lire 10,000 million, Lire 1,000 million of which has already been paid by way of a non-returnable down-payment.
The caption "Purchase commitments" mainly relates to commitments taken on by the companies Società Investimenti e Gestioni Immobiliari [S.I.G.I.] S.r.l. for the purchase of property in Naples and L'Aquila for a total amount of Lire 22,343 million, of which Lire 10,530 million already paid.
"Other commitments" mainly concern the following companies:

- Benetton Group S.p.A. for the amount due to the leaseholder, depending on the ability to taken over rent contracts for a commercial building located in Paris for about Lire 6,640 million, of which Lire 664 million has already been paid by way of guarantee. Furthermore, the Parent Company has committed itself to purchase accounts receivable from Socks & Accessories Benetton U.S.A. Corp. which have still not been collected as of February 28, 2000. The total amount does not exceed Usd 275,000;
- Bencom S.p.A. for preliminaries related to the acquisition of Italian trading companies and a Belgian company for a total of Lire 7,418 million, of which Lire 2,480 million has already been paid as an advance;
- S.I.G.I. S.r.l. for an amount of Lire 3,000 million to be paid to the leaseholder if they free up a building located in Rome.

Restricted receivables relate to transactions involving advances against receivables.

Comments on the principal income statement captions

Value of production

■ Revenues from sales and services

[in millions of Lire]	1998	1999
Sales of core products	3,563,273	3,584,136
Miscellaneous sales	66,110	59,899
Royalty income	25,578	32,372
Miscellaneous revenues	178,956	161,408
Total	**3,833,917**	**3,837,815**

Sales of core products are stated net of unconditional discounts.

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

■ Information by geographic area and business category

[in millions of Lire]	Europe	%	The Americas	%	Other geographic areas	%	Total
Casual wear	2,225,823	79.9	164,344	31.1	367,777	70.2	2,757,944
Sportswear and equipment	317,728	11.4	358,600	67.9	86,593	16.5	762,921
Other sectors	241,682	8.7	5,545	1.0	69,723	13.3	316,950
Total revenues 1999	**2,785,233**	**100.0**	**528,489**	**100.0**	**524,093**	**100.0**	**3,837,815**
Total revenues 1998	**2,710,335**	**-**	**613,564**	**-**	**510,018**	**-**	**3,833,917**

Changes in revenues in the Americas area mainly reflect the considerable contraction of US markets, particularly in the sports sector.

Sales of core products, by product category

[in millions of Lire]	1998	1999
Casual wear	2,315,442	2,556,757
Accessories	116,947	81,572
Casual footwear	64,621	40,354
Sportswear	102,981	101,230
In-line skates	354,933	277,488
Racquets	147,403	143,892
Ski boots	132,864	133,741
Sports footwear	44,051	36,372
Skis and snowboards	30,071	31,466
Fabrics and yarns	212,694	163,039
Other sales	41,266	18,225
Total	**3,563,273**	**3,584,136**

As per the trend in sales by category of products, please see the report on operations.

Net sales of core products, by brand

[in millions of Lire]	1998	1999
United Colors of Benetton	2,103,417	2,184,982
Sisley	390,530	485,278
Nordica	160,127	177,220
Rollerblade	362,439	295,659
Prince	180,265	173,050
Killer Loop	38,497	43,180
Playlife	23,811	30,590
Other sales	304,187	194,177
Total	**3,563,273**	**3,584,136**

The decrease in other sales can be mainly attributed to the exclusion from the consolidation of the net sales of Spiller, which in 1998 contributed Lire 65 billion.

Other income and revenues

[in millions of Lire]	1998	1999
Reimbursements and compensation payments	3,664	3,841
Rentals	5,059	12,549
Gains on disposals of fixed assets	4,319	3,263
Other operating income	9,694	12,830
Total	**22,736**	**32,483**

Production costs

■ Purchasing costs

[in millions of Lire]	1998	1999
Raw materials and finished goods	1,103,832	989,979
Other materials	17,757	16,038
Sundry purchases advertising and promotion	13,274	14,189
Other purchases	39,887	35,451
[Discounts and rebates]	[1,861]	[5,348]
Total	**1,172,889**	**1,050,309**

■ External services

[in millions of Lire]	1998	1999
Subcontract work	686,260	781,549
Distribution and transport	75,763	79,996
Sales commission	175,039	175,789
Advertising and promotion	159,215	150,635
Other services	231,993	239,927
Emoluments to directors and statutory auditors	16,051	15,987
Total	**1,344,321**	**1,443,883**

Other services include power costs, Lire 30,542 million, maintenance costs, Lire 24,644 million, consultancy and other fees, Lire 137,793 million, insurance premiums Lire 8,927 million and personnel travel expenses, Lire 38,021 million.

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

[in millions of Lire]

Name and Surname	Position covered	Duration of office [1]	Gross remuneration
Luciano Benetton	Chairman	12.31.1999	2,440
Gilberto Benetton	Vice Chairman and Managing Director	12.31.1999	2,440
Carlo Gilardi	Managing Director	12.31.1999	1,824
Giuliana Benetton	Director	12.31.1999	2,440
Carlo Benetton	Director	12.31.1999	2,440
Gianni Mion	Director	12.31.1999	55 [2]
Angelo Tantazzi	Director	12.31.1999	150
Alessandro Benetton	Director	12.31.1999	55
Ulrich Weiss	Director	12.31.1999	150
Reginald Bartholomew	Director	12.31.1999	150
Pierluigi Bortolussi	Director	12.31.1999	525
Angelo Casò	Chairman of the Board of Statutory Auditors	12.31.2001	80 [3]
Dino Sesani	Chairman / Auditor	12.31.2001	93 [4]
Filippo Duodo	Auditor	12.31.2001	234
Fanio Fanti	Auditor	12.31.1998	27

[1] Up to the approval of these financial statements.
[2] Amounts paid to Edizione Holding S.p.A.
[3] Position covered from 05.01.1999.
[4] Chairman until 04.30.1999.

■ **Leases and rentals.** Leases and rentals, Lire 52,069 million, mainly relate to rental paid of Lire 38,071 million.

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

	1998	1999	Average of the year
Managers	171	148	160
White collars	2,941	2,681	2,811
Workers	3,774	3,457	3,615
Part-time	349	299	324
Total	**7,235**	**6,585**	**6,910**

The decrease in the number of employees is principally due to the reorganization of certain American and South American subsidiaries and the sale of Spiller S.p.A. by the Olimpias Group.

Amortization, depreciation and writedowns

■ Amortization of intangible fixed assets

[in millions of Lire]	1998	1999
Amortization of start-up and expansion expenses	5,773	2,605
Amortization of research and development expenses	366	302
Amortization of industrial patents and intellectual property rights	2,273	2,417
Amortization of licenses, trademarks and similar rights	42,638	42,703
Amortization of goodwill	361	1,486
Amortization of consolidation difference	8,680	10,717
Amortization of costs for the purchase and development of software	5,536	5,542
Amortization of leasehold improvements	4,505	5,407
Amortization of other charges	2,357	3,076
Total	**72,489**	**74,255**

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

■ Depreciation of tangible fixed assets

[in millions of Lire]	1998	1999
Depreciation of real estate	16,600	16,270
Depreciation of plant and machinery	48,406	48,062
Depreciation of equipment	15,277	15,649
Depreciation of other assets	18,771	16,024
Depreciation of assets acquired under finance leases	2,233	2,329
Total	**101,287**	**98,334**

■ **Writedowns.** "Other writedowns of fixed assets", Lire 2,883 million, mainly relates to the permanent loss in value of certain tangible fixed assets related to two Italian manufacturing companies.
"Writedowns of current receivables and of liquid funds", Lire 28,989 million, reflects a prudent provision to the allowance for doubtful accounts. This is discussed in more detail in the note on current receivables.

■ **Provisions to risk reserves.** This caption, Lire 19,338 million, includes provisions for future risks, Lire 16,094 million. For further details, refer to "Reserves for risks and charges" in the comments on liabilities.

■ Other operating costs

[in millions of Lire]	1998	1999
Indirect taxation	8,467	8,353
Losses on disposal of fixed assets	2,587	2,978
Losses on receivables	2,905	1,904
Other general expenses	29,961	23,742
Total	**43,920**	**36,977**

General expenses and other charges include around Lire 14,000 million of charges incurred by the sports sector for returns and discounts relating to sales made in the prior year.

Financial income and expenses

■ **Income from equity investments.** This balance, Lire 4,858 million [Lire 12,033 million in 1998] includes Lire 3,583 million, of tax credits on dividends distributed by consolidated subsidiaries, not offset against income taxes for the year.

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

[in millions of Lire]	1998	1999
From receivables held as financial fixed assets:		
· other receivables held as financial fixed assets	1,750	624
· interest income from subsidiary companies	31	-
Total from receivables held as financial fixed assets	**1,781**	**624**
From securities held as financial fixed assets not representing equity investments	3,040	6,277
From securities included among current assets not representing equity investments	43,003	17,062
Financial income other than the above:		
· interest income from subsidiary companies	452	216
· interest income from trade and other receivables	12,722	5,795
· interest income from banks	22,796	17,577
· miscellaneous financial income and income from derivatives	21,706	6,101
· exchange gains and income from currency management	215,926	128,815
Total other than the above	**273,602**	**158,504**
Total	**321,426**	**182,467**

The caption "Miscellaneous financial income and income from derivatives" includes:
- positive differentials on interest rate swaps approximately Lire 800 million [approximately Lire 3,000 million in 1998];
- income from cross-currency and currency swaps and forward rate agreements, approximately Lire 3,200 million [approximately Lire 14,000 million in 1998].

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

[in millions of Lire]	1998	1999
Interest expense on bonds	35,239	17,433
Interest expense on bank current accounts	12,356	5,740
Interest expense on import/export advances	5,320	2,561
Interest expense on advances against receivables	3,772	1,174
Interest expense on short-term loans	11,114	14,618
Interest expense on long-term loans	26,744	14,076
Interest expense on loans from other financial providers	7,675	898
Interest expense to subsidiary companies	287	6
Interest expense to the parent company	4,459	2,607
Miscellaneous financial expense and expense on derivatives	45,497	38,121
Exchange losses and charges from currency management	199,869	179,173
Total	**352,332**	**276,407**

Changes in loan interest reflect the drop in interest rates.
Miscellaneous financial expense mainly includes:

- charges on currency and cross-currency swaps and forward rate agreements, approximately Lire 10,000 million [approximately Lire 10,200 million in 1998];
- discounts allowed on the early settlement of trade receivables, approximately Lire 19,700 million [approximately Lire 16,000 million in 1998];
- bank charges and commission of approximately Lire 4,000 million [approximately Lire 4,900 million in 1998].

Extraordinary income and expenses

■ **Extraordinary income**

[in millions of Lire]	1998	1999
Gains on disposal of fixed assets	8,487	15,517
Other income:		
· out-of-period income	11,679	14,557
· other extraordinary income	7,025	8,539
Total	**27,191**	**38,613**

Gains on disposal of fixed assets include Lire 8,600 million related to the sale of the Cessna Citation III [I-BETV] aircraft by the subsidiary Benair S.p.A.; the residual amount refers to other disposals of fixed assets no longer used in operations and resulting from the sale of activities no longer of strategic interest to the Group.
Out-of-period income refers, for around Lire 5,100 million, to a compensation payment received by Edizione Holding S.p.A. and Edizione Ventures N.V., relating to losses, capital losses on disposal of

fixed assets, out-of-period expenses connected to events that occurred prior to the acquisition of the Benetton Sportsystem group, but which emerged in subsequent years; about Lire 1,800 million, refer to the reversal of provisions made in previous years, relating to insurance costs against possible expenses deriving from the utilization of in-line skates that were considered excessive with respect to statistics for the past few years.
The remainder refers to the reversal of commissions provided for in previous years and no longer recognized to agents for receivables that have become uncollectible, tax adjustments provided in prior years and miscellaneous out-of-period income.
Other income includes partial reversal of the reserves for risks in excess of around Lire 3,900 million, damage reimbursements from shipping agents and insurance recoveries for around Lire 3,000 million.

■ Extraordinary expenses

[in millions of Lire]	1998	1999
Losses on disposal of fixed assets	3,077	7,067
Taxes relating to prior years	4,229	587
Other expenses:		
· donations	3,990	6,295
· out-of-period expenses	3,811	2,842
· other extraordinary expenses	10,564	26,594
Total	**25,671**	**43,385**

Losses on disposal of fixed assets refer to the sale of property and plant no longer in use, as well as to operations for the requalification of the distribution network in South America [Brazil and Argentina].
Other charges include, approximately Lire 21,000 million, of restructuring costs relating to North American companies mainly attributable to the centralization at the Bordentown [New Jersey] offices of all operating activities of the subsidiary Rollerblade Inc.; they also include charges for the transfer to Benetton Group S.p.A. of the styling, production and selling activities of the accessories sector, previously managed by S.A.B. S.r.l.
The residual part concerns charges incurred for transfer deeds and acts of various nature and reimbursements recognized to customers against accidents or theft claims.

■ Income taxes

[in millions of Lire]	1998	1999
Income taxes:		
· Italian companies	112,721	203,096
· Foreign companies	28,446	20,024
Total income taxes	**141,167**	**223,120**
Deferred taxes:		
· Italian companies	10,119	[15,284]
· Foreign companies	[20,234]	[23,424]
Total deferred taxes	**[10,115]**	**[38,708]**
Total	**131,052**	**184,412**

The increase in income taxes is mainly due to higher taxable income on the part of the Italian companies.
Deferred taxes include around Lire 22,500 million for fiscal benefits of tax losses carry-forward very likely to be recovered in future years.

The reconciliation of the effective tax rate is as follows:

[%]	1998	1999
Italian statutory tax rate	41.25	41.25
Aggregate effect of different taxation of foreign subsidiaries	[6.40]	[7.20]
Effect of writing down of the cost of consolidated investments	[9.90]	[0.70]
Effect of losses from consolidated subsidiaries	6.00	6.40
Amortization and write off of excess cost deriving from investments acquired	5.50	2.80
Tax effect of loss carry-forwards	[7.00]	[5.80]
Tax exempt income	[1.50]	[0.90]
Other, net	3.05	0.15
Effective tax rate	**31.00**	**36.00**

Appendixes

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

- companies and groups included within the consolidation area as of December 31, 1999;
- consolidated balance sheets in Euro reclassified according to financial criteria;
- consolidated statements of income in Euro reclassified to cost of sales;
- consolidated statements of income in Usd reclassified to cost of sales;
- consolidated balance sheets in Usd reclassified according to financial criteria.

Companies and groups included within the consolidation area as of December 31, 1999

Name of the company	Location	Currency	Capital stock	Group interest [%]
Companies and groups consolidated on a line-by-line basis:				
Parent Company				
Benetton Group S.p.A.	Ponzano Veneto [Tv]	Itl	453,897,027,500	
Italian subsidiaries				
Benfin S.p.A.	Ponzano Veneto [Tv]	Itl	90,000,000,000	100.000
. Olimpias group	Grumolo delle Abbadesse [Vi]	Itl	10,000,000,000	85.000
. Texcontrol group	Ponzano Veneto [Tv]	Itl	17,000,000,000	100.000
Bencom S.p.A.	Ponzano Veneto [Tv]	Itl	3,294,000,000	100.000
. Benair S.p.A.	Ponzano Veneto [Tv]	Itl	3,000,000,000	100.000
. Socks & Accessories Benetton group [S.A.B.]	Sesto Fiorentino [Fi]	Itl	1,000,000,000	100.000
. Gescom S.r.l.	Ponzano Veneto [Tv]	Itl	20,000,000	100.000
Società Investimenti e Gestioni Immobiliari [S.I.G.I.] S.r.l.	Ponzano Veneto [Tv]	Itl	70,000,000,000	100.000
. Buenos Aires 2000 S.r.l.	Ponzano Veneto [Tv]	Itl	1,000,000,000	100.000
Fabrica S.p.A.	Ponzano Veneto [Tv]	Itl	8,000,000,000	100.000
. Colors Magazine S.r.l.	Ponzano Veneto [Tv]	Itl	3,000,000,000	100.000
Benlog S.p.A.	Ponzano Veneto [Tv]	Itl	27,400,000,000	100.000
Benetton Gesfin S.p.A.	Ponzano Veneto [Tv]	Itl	80,000,000,000	100.000
Foreign subsidiaries				
Benetton U.S.A. Corp.	Wilmington	Usd	34,654,000	100.000
Benetton Holdings N.V.	Amsterdam	Itl	39,920,175,194	100.000
. Benetton Japan Co., Ltd.	Tokyo	Jpy	400,000,000	100.000
. . Bene Forte Co., Ltd.	Tokyo	Jpy	10,000,000	100.000
. . Benetton Korea Inc.	Seoul	Krw	2,500,000,000	50.000
. Benetton Argentina S.A.	Buenos Aires	Arp	500,000	100.000
. Egyptian European Clothing Manufacturers S.A.E.	Alexandria	Egp	6,000,000	50.000
. DCM Benetton India Ltd.	New Delhi	Inr	80,000,000	50.000
. Benetton [Far East] Ltd.	Hong Kong	Hkd	51,000,000	100.000
. United Colors of Benetton do Brasil Ltda.	São José dos Pinhais	Usd	18,000,000	100.000
. . Colors Brasil Roupas Ltda.	São José dos Pinhais	Usd	1,000	100.000
. . Novaben Comercio de Roupas Ltda.	Curitiba	Usd	48,449	100.000
. . Ben Store Roupas Ltda.	São Paulo	Usd	246,482	100.000

[⁄]

Name of the company	Location	Currency	Capital stock	Group interest [%]
Benetton Sportsystem N.V.	Amsterdam	Itl	126,912,164,254	100.000
. Benetton Sportsystem Austria GmbH	Salzburg	Ats	45,000,000	100.000
. Benetton Holdings U.S.A. Inc.	New York	Usd	82,961,193	100.000
. Rollerblade Inc.	Bordentown	Usd	133,425,148	99.870
. Benetton Sportsystem USA Group	Bordentown	Usd	65,644,083	100.000
. Benetton Sportsystem Canada Inc.	Montreal	Cad	18,694,998	100.000
Benetton Sportsystem [Schweiz] AG	Stans	Chf	500,000	100.000
Benetton Sportsystem GmbH	München	Dem	5,500,000	100.000
Benetton International N.V.	Amsterdam	Itl	215,495,490,660	100.000
. Benetton Finance S.A.	Luxembourg	Itl	351,508,000,000	100.000
. Lairb Property Ltd.	Dublin	Itl	500,246,900	100.000
. Benetton France Trading S.à r.l.	Paris	Frf	252,859,000	100.000
. Benetton France S.A.	Troyes	Frf	40,000,000	100.000
. Benetton Realty France S.A.	Paris	Frf	272,000,000	100.000
. Benetton España S.L.	Castellbisbal	Esp	100,000,000	100.000
. Benetton Ltda.	Maia	Esc	20,000,000	100.000
. Benetton [UK] Ltd.	London	Gbp	8,225,000	100.000
. Benetton Formula Ltd.	London	Gbp	8,900,000	100.000
. Benetton Retail [1988] Ltd.	London	Gbp	18,780,000	100.000
. Benetton Società di Servizi S.A.	Lugano	Chf	100,000	100.000
. United Colors Communication S.A.	Lugano	Chf	1,000,000	100.000
. Benetton Engineering Ltd.	Enstone	Gbp	12,342,000	100.000
. Benetton Tunisia S.à r.l.	Sahline	Itl	500,000,000	100.000
. Benetton Ungheria Kft.	Nagykallo	Itl	172,696,658	100.000

Investments carried at equity:

. Beijing Benetton Fashion Co. Ltd.	Beijing	Y	3,797,620	50.000
. T.W.R. Group Ltd.	Kidlington	Gbp	20,000,000	50.000
. Benetton Central Europe Ltd.	Warsaw	Zloty	4,224,000	100.000
. Benest Ltd.	Moscow	Rouble	400,000	100.000

Investments in subsidiaries and associated companies carried at cost:

. Consorzio Generazione Forme - Co. Ge. F.	S. Mauro Torinese [To]	Itl	30,000,000	33.333
. Benetton Australia Pty. Ltd.	Sidney	Aud	1,000	100.000
. SNC L'Apollinaire	Paris	Frf	250,000	100.000

[Tv] = Treviso
[Vi] = Vicenza
[Fi] = Florence
[To] = Turin

Consolidated balance sheets in Euro reclassified according to financial criteria

[Thousands of Euro]*

Assets	12.31.1998	12.31.1999
Current assets		
Cash and banks	557,586	222,486
Marketable securities	114,743	102,302
Differentials on forward transactions	4,361	217
Financial receivables	19,135	97,715
	695,825	**422,720**
Accounts receivable		
Trade receivables	873,707	843,899
Other receivables	69,154	100,246
less - Allowance for doubtful accounts	[94,937]	[76,705]
	847,924	**867,440**
Inventories	300,382	294,651
Accrued income and prepaid expenses	44,949	46,810
	345,331	**341,461**
Total current assets	**1,889,080**	**1,631,621**
Investments and other non-current assets		
Equity investments	25,201	27,767
Securities held as fixed assets	1,268	139,730
Guarantee deposits	7,794	8,740
Financial receivables	9,371	5,714
Other non-current receivables	10,024	8,363
Total investments and other non-current assets	**53,658**	**190,314**
Tangible fixed assets		
Real estate	311,633	400,588
Plant, machinery and equipment	378,593	381,957
Office furniture, furnishings and electronic equipment	59,174	54,567
Vehicles and aircraft	31,520	40,493
Construction in progress and advances for tangible fixed assets	10,224	27,616
Finance leases	13,922	10,605
less - Accumulated depreciation	[406,665]	[417,581]
Total tangible fixed assets	**398,401**	**498,245**
Intangible fixed assets		
Licenses, trademarks and industrial patents	260,858	243,034
Deferred charges	64,992	74,114
Total intangible fixed assets	**325,850**	**317,148**
TOTAL ASSETS	**2,666,989**	**2,637,328**

[⁄]

Liabilities and Stockholders' equity	12.31.1998	12.31.1999
Current liabilities		
Bank loans	390,635	376,300
Bonds	18,592	-
Short-term loans	3,852	6,201
Current portion of long-term loans	18,551	9,430
Current portion of lease financing	2,229	1,428
Accounts payable	392,549	367,112
Other payables, accrued expenses and deferred income	78,591	90,653
Reserve for income taxes	11,322	67,761
Total current liabilities	**916,321**	**918,885**
Long-term liabilities		
Bonds	258,228	258,228
Long-term loans, net of current portion	204,292	210,133
Other long-term liabilities	27,256	18,710
Lease financing	5,299	3,992
Reserve for employee termination indemnities	44,557	47,176
Other reserves	49,078	53,683
Total long-term liabilities	**588,710**	**591,922**
Minority interests in consolidated subsidiaries	**15,952**	**10,271**
Stockholders' equity		
Capital stock	234,418	234,418
Additional paid-in capital	56,574	56,574
Surplus from monetary revaluation of assets	22,058	22,058
Other reserves and retained earnings	679,461	624,666
Translation differences	2,054	12,109
Net income for the year	151,441	166,425
Total Stockholders' equity	**1,146,006**	**1,116,250**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**2,666,989**	**2,637,328**

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

Consolidated statements of income in Euro reclassified to cost of sales

[Thousands of Euro]*

	1998	1999
Revenues	**1,980,053**	**1,982,066**
Cost of sales		
Material and net change in inventories	622,522	550,560
Payroll and related costs	105,754	109,302
Subcontract work	363,472	375,878
Industrial depreciation	37,102	36,311
Other manufacturing costs	38,806	36,845
	1,167,656	1,108,896
Gross operating income	**812,397**	**873,170**
Selling, general and administrative expenses		
Payroll and related cost	133,884	123,473
Distribution and transport	39,128	41,314
Sales commissions	90,845	91,256
Advertising and promotion	87,769	86,101
Depreciation and amortization	52,645	52,824
Other expenses	175,173	162,564
	579,444	557,532
Income from operations	**232,953**	**315,638**
Other income [expenses]		
Foreign currency gain [loss], net	8,293	[26,008]
Interest income	53,621	27,327
Interest expense	[71,917]	[40,528]
Other income [expenses], net	[4,571]	[11,578]
	[14,574]	[50,787]
Income before taxes and minority interests	**218,379**	**264,851**
Income taxes	67,683	95,241
Income before minority interests	**150,696**	**169,610**
Minority interests loss/[gain]	745	[3,185]
Net income	**151,441**	**166,425**

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

Consolidated statements of income in Usd reclassified to cost of sales

[Thousands of Usd]*

	1998	1999
Revenues	**1,993,914**	**1,995,941**
Cost of sales		
Material and net change in inventories	626,879	554,414
Payroll and related costs	106,495	110,067
Subcontract work	366,016	378,510
Industrial depreciation	37,363	36,565
Other manufacturing costs	39,077	37,103
	1,175,830	1,116,659
Gross operating income	**818,084**	**879,282**
Selling, general and administrative expenses		
Payroll and related cost	134,821	124,337
Distribution and transport	39,402	41,604
Sales commissions	91,481	91,895
Advertising and promotion	88,383	86,704
Depreciation and amortization	53,014	53,193
Other expenses	176,399	163,702
	583,500	561,435
Income from operations	**234,584**	**317,847**
Other income [expenses]		
Foreign currency gain [loss], net	8,351	[26,190]
Interest income	53,996	27,518
Interest expense	[72,421]	[40,811]
Other income [expenses], net	[4,603]	[11,659]
	[14,677]	[51,142]
Income before taxes and minority interests	**219,907**	**266,705**
Income taxes	68,157	95,908
Income before minority interests	**151,750**	**170,797**
Minority interests loss/[gain]	751	[3,207]
Net income	**152,501**	**167,590**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Consolidated balance sheets in Usd reclassified according to financial criteria

[Thousands of Usd]*

Assets	12.31.1998	12.31.1999
Current assets		
Cash and banks	561,489	224,043
Marketable securities	115,546	103,018
Differentials on forward transactions	4,392	219
Financial receivables	19,269	98,399
	700,696	**425,679**
Accounts receivable		
Trade receivables	879,823	849,806
Other receivables	69,638	100,948
less - Allowance for doubtful accounts	[95,602]	[77,242]
	853,859	**873,512**
Inventories	302,485	296,714
Accrued income and prepaid expenses	45,264	47,137
	347,749	**343,851**
Total current assets	**1,902,304**	**1,643,042**
Investments and other non-current assets		
Equity investments	25,378	27,962
Securities held as fixed assets	1,276	140,708
Guarantee deposits	7,848	8,802
Financial receivables	9,437	5,753
Other non-current receivables	10,094	8,421
Total investments and other non-current assets	**54,033**	**191,646**
Tangible fixed assets		
Real estate	313,815	403,393
Plant, machinery and equipment	381,243	384,630
Office furniture, furnishings and electronic equipment	59,588	54,949
Vehicles and aircraft	31,741	40,777
Construction in progress and advances for tangible fixed assets	10,295	27,809
Finance leases	14,020	10,679
less - Accumulated depreciation	[409,512]	[420,504]
Total tangible fixed assets	**401,190**	**501,733**
Intangible fixed assets		
Licenses, trademarks and industrial patents	262,684	244,736
Deferred charges	65,447	74,633
Total intangible fixed assets	**328,131**	**319,369**
TOTAL ASSETS	**2,685,658**	**2,655,790**

[⁄]

Liabilities and Stockholders' equity	12.31.1998	12.31.1999
Current liabilities		
Bank loans	393,369	378,934
Bonds	18,722	-
Short-term loans	3,879	6,245
Current portion of long-term loans	18,681	9,495
Current portion of lease financing	2,245	1,438
Accounts payable	395,296	369,682
Other payables, accrued expenses and deferred income	79,141	91,288
Reserve for income taxes	11,401	68,236
Total current liabilities	**922,734**	**925,318**
Long-term liabilities		
Bonds	260,036	260,036
Long-term loans, net of current portion	205,723	211,603
Other long-term liabilities	27,447	18,841
Lease financing	5,336	4,019
Reserve for employee termination indemnities	44,868	47,507
Other reserves	49,421	54,059
Total long-term liabilities	**592,831**	**596,065**
Minority interests in consolidated subsidiaries	**16,064**	**10,343**
Stockholders' equity		
Capital stock	236,059	236,059
Additional paid-in capital	56,970	56,970
Surplus from monetary revaluation of assets	22,213	22,213
Other reserves and retained earnings	684,217	629,038
Translation differences	2,069	12,194
Net income for the year	152,501	167,590
Total Stockholders' equity	**1,154,029**	**1,124,064**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**2,685,658**	**2,655,790**

[*] Exchange rate: Usd 1 = Lire 1,922.81 as of December 31, 1999.

Report of the Independent Auditors pursuant to article 156 of Presidential Decree No. 58 of February 24, 1998

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

We have audited the consolidated financial statements of Benetton Group S.p.A. as of and for the year ended December 31, 1999. Responsibility for the preparation of the consolidated financial statements lies with the Company's directors. We are responsible for expressing our professional opinion on the consolidated financial statements based on our audit work.

Our examination was made in accordance with the auditing standards and procedures recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ["CONSOB"]. In accordance with these standards and procedures, our audit was planned and carried out with a view to acquiring all elements needed to ascertain whether the consolidated financial statements were affected by material errors and whether they were reliable taken as a whole. Auditing includes an examination, based on random tests, of the supporting documentation for the accounting balances and other information contained in the consolidated financial statements; it also entails evaluating the adequacy and correctness of the accounting principles used, as well as the reasonableness of the estimates made by the directors. We consider the work that we have performed an adequate basis on which to express our professional opinion. For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated April 9, 1999.

In our opinion, the consolidated financial statements of Benetton Group S.p.A. as of December 31, 1999 comply with the regulations governing their preparation; in other words, they have been prepared in a clear manner and give a true and fair view of the Group's assets and liabilities, financial position and results for the year.

DELOITTE & TOUCHE S.p.A.

Andrea Ruggeri
PARTNER

Fausto Zanon
PARTNER

Treviso, Italy, March 31, 2000

CORPORATE INFORMATION

HEADQUARTERS

Benetton Group S.p.A.
Villa Minelli
31050 Ponzano Veneto [Treviso] - Italy
Tel. +39 - 0422 - 519111

LEGAL DATA

Capital stock: Lire 453,897,027,500 fully paid-in
Treviso Company register no. 4424
Treviso Register of Commerce: 84146
Tax ID: 00193320264

MEDIA & COMMUNICATION DEPARTMENT

E-mail: fsartor@benetton.it
Tel. +39 - 0422 - 519036
Fax +39 - 0422 - 519930

FINANCIAL DEPARTMENT

Investor relations
E-mail: invrel@benetton.it
Tel. +39 - 0422 - 519412
Fax +39 - 0422 - 519336
TV Conference +39 - 0422 - 510623/24/25

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Graphic design
Fabrica - Ufficio grafico - Catena di Villorba [Treviso]

Photos
Marirosa Toscani Ballo
Francesco Morandin
Peter Mauss
Lucas Lu
Fernando Costa
Vicky Aguirre

Consultancy & co-ordination
D&C Financial Communication - Milano

Color separations
Sartori - Quinto [Treviso]

Printing
Europrint - Quinto [Treviso] - Italy