UNITED COLORS OF BENETTON.

Benetton Group Annual Report 2003 UNITED COLORS OF BENETTON.

Benetton Group S.p.A.

Villa Minelli

Ponzano Veneto [Treviso] - Italy

Share Capital: Euro 236,026,454.30 fully paid-in

Tax ID/Treviso Company register: 00193320264

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Main consolidated companies as of December 31, 2003

Benetton Group SpA Ponzano Veneto [Tv]

100%	100%	100%		
Benind SpA	Benetton Retail Italia Srl	Bentec SpA		
Ponzano Veneto [Tv]	Ponzano Veneto [Tv]	Ponzano Veneto [Tv]		
100%	100%	85%	50%	
Benfin SpA	Benair SpA	Olimpias SpA	Filatura di Vittorio Veneto SpA	
Ponzano Veneto [Tv]	Ponzano Veneto [Tv]	Ponzano Veneto [Tv]	Vittorio Veneto [Tv]	
100%	100%			
Bencom Srl	I.M.I. Italian Marketing International Srl			
Ponzano Veneto [Tv]	Ponzano Veneto [Tv]			
100%	100%	i		
SIGI SrI	Buenos Aires 2000 Srl			
Ponzano Veneto [Tv]	Ponzano Veneto [Tv]			
100%	100%			
Fabrica SpA	Colors Magazine Srl			
Ponzano Veneto [Tv]	Ponzano Veneto [Tv]			
100%	100%	3%	100%	100%
Benetton Retail International SA	Benetton Retail Belgique SA	Benetton Real Estate Austria GmbH	Benetton Retail Ungheria Kft	Benetton 2 Retail Comércio de
Luxembourg	Bruxelles	Wien	Budapest	Produtos Têxteis SA, Maia [Portugal]
	100%	100%		
	Benetton Asia Pacific Ltd	Benetton Retail [1988] Ltd		
	Hong Kong	London		
	9 0			
	100%	100%	51%	
	Benetton Retail France SAS	Benetton Retail Deutschland GmbH	New Ben GmbH	
	Paris	München	Frankfurt am Main	
100%	100%	100%		
Benetton International Property NV SA	Benetton Realty Spain SL	Benetton Realty Portugal Imobiliaria SA		
Amsterdam	Castellbisbal	Maia [Portugal]		
7 1110361 54111		- Tala [r ortagar]		
	100%	97%	100%	100%
	Benetton Real Estate International SA	Benetton Real Estate Austria GmbH	Benetton France Trading Sàrl	Benetton Realty Russia OOO
	Luxembourg	Wien	Paris	Moscow
100%	100%	100%	100%	
Benetton Deutschland GmbH	Benetton USA Corp.	Benetton Realty France SA	Benetton Australia Pty Ltd	
München	Wilmington	Paris	Sydney	
			, ,	
100%	100%	100%	50%	
Benetton International NV SA	Benetton Argentina SA	Benetton Austria GmbH	DCM Benetton India Ltd	
Amsterdam	Buenos Aires	Salzburg	New Delhi	
	100%	100%	100%	l .
	Benetton Ungheria Kft	United Colors Communication SA	Benetton Trading USA Inc	
	Nagykallo	Lugano	Bordentown	
	- -	0		
	100%	100%	I	
	United Colors of Benetton do Brasil	Benetton [Far East] Ltd	<u> </u>	
			1	
	United Colors of Benetton do Brasil	Benetton [Far East] Ltd	100%	1
	United Colors of Benetton do Brasil Ltda, Curitiba	Benetton [Far East] Ltd	100% Benetton Sportsystem Taiwan Ltd	ı
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	United Colors of Benetton do Brasil Ltda, Curitiba 100% Benetton Manufacturing Holding NV	Benetton [Far East] Ltd Hong Kong 100% Benetton Croatia doo Osijek 100% Benetton Slovakia sro	Taichung 100% Benetton Manufacturing Tunisia Sàrl	
	United Colors of Benetton do Brasil Ltda, Curitiba 100% Benetton Manufacturing Holding NV	Benetton [Far East] Ltd Hong Kong 100% Benetton Croatia doo Osijek	Taichung	
	United Colors of Benetton do Brasil Ltda, Curitiba 100% Benetton Manufacturing Holding NV	Benetton [Far East] Ltd Hong Kong 100% Benetton Croatia doo Osijek 100% Benetton Slovakia sro	Taichung 100% Benetton Manufacturing Tunisia Sàrl	
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Board of Directors		
	Luciano Benetton [1]	Chairman
	Carlo Benetton	Deputy Chairman
	Silvano Cassano [2]	Managing Director
	Civiliana Daniettan	Discrete
	Giuliana Benetton Gilberto Benetton	Directors
	Alessandro Benetton	
	Reginald Bartholomew	
	Luigi Arturo Bianchi	
	Sergio De Simoi	
	Gianni Mion	
	Ulrich Weiss	
	Pierluigi Bortolussi	Secretary to the Board
Board of Statutory Audit	core	
board of Statutory Addit	.013	
	Angelo Casò	Chairman
	Filippo Duodo	Auditors
	Dino Sesani	
	Antonio Cortellazzo	Alternate Auditors
	Marco Leotta	Aiternate Auditors
	Tiarco Leotta	
Independent Auditors		
	Deloitte & Touche S.p.A.	
	Powers granted [1] Company representation and power	[2] Dougnate comments and the state of the st
	Company representation and power	
	action that is consistent with the Cor	mpany's the ordinary administration of the Company as wel
	purposes, except for those expressly to the Board of Directors and to the	y reserved by law as certain acts of extraordinary administration,

Letter to the Shareholders from the Chairman and Founder of the Benetton Group, Luciano Benetton
Dear Shareholders,
In almost 40 years of existence [due to be celebrated in 2005], Benetton has shown that it is a flexible group, geared to change and to
contradictory scenarios, well equipped to face the future.
The main reason for this is our business model, which even today makes us unique and extremely hard to imitate: a model based on three
fundamental values. The first is brand awareness, brands that are symbols of the Italian temperament and Italian effort, which are able to
give our products added value in terms of style and quality of life.
The second value is the structure of the Benetton model, based on the one hand on a consolidated sales network of entrepreneurial
partners; and, on the other, based on industrial know-how that is constantly updated and refined thanks to major investment in innovation.
The third value is the quality of the product, which we consolidate and sustain through continuous research into raw materials and design. It
is a quality that is "made in Italy" which we intend to guarantee so that we can offer the market something extra in terms of identity,
innovation and attention to details.
Today we are ever more realistic and at the same time, while conscious of the difficulties of the current economic climate, we are optimistic.
In particular, we are thinking of important development in China and India, because we know that we can count on a wealth of structures,
resources and experience in Asian markets: above all in Japan and South Korea, where Benetton brands are well known and greatly
appreciated. This is a new challenge to do even better that which we already do well.
Luciano Benetton
Chairman Benetton Group



Letter to the Shareholders from the Managing Director of the Benetton Group, Silvano Cassano
Dear Shareholders,
During 2003, the Benetton Group confirmed its solidity and achieved important results despite the situation of worldwide economic
uncertainty: in particular, satisfactory profits, strong cash flow, and debt that continues to fall despite constant investment over the years.
Starting from Benetton's long-standing emphasis on quality, style and innovation, the 2004-2007 Guidelines presented to the financial
community in 2003 aim for sustainable growth thanks, above all, to strong brand positioning, continuous updating of the product mix, eve
faster commercial expansion and significant investment in production facilities.
Improved brand definition for United Colors of Benetton, Sisley, Playlife and Killer Loop, needed to ensure a more precise and strong
perception of each label on the part of customers, will go hand in hand with expansion of the product range with an emphasis on
higher-margin items, such as menswear collections and tailored garments, and on accessories and licensed products.
might margin reems, such as mensived concessors and tanored garments, and on decessories and neemsed products.
As regards our markets, in addition to developing the sales network in the European market [also in terms of floor-space], the Benetton
Group is determined to increase its presence in large emerging nations such as Russia, China, India, in South Korea and the various Easte.
European markets.
Production investments in turn aim to speed up response times and bring us closer to the market and its requests. These are concrete
objectives whose achievement will be helped by the new industrial organization based on autonomous production and logistics centers,
which make it easier to reach the various regional markets more rapidly.
We expect to see a positive economic impact from these interventions already in 2005 and I am convinced that the coming year's results
will confirm that we are on the right track.
Silvano Cassano
Managing Director



Abstract of the 2004-2007 Guidelines presented in December 2003 to the international financial community in Milan, London, and New York.



- **▶** Leverage on global brand awareness
- Confirm business model
- Quality over price
- **>** Sustainable long-term top line growth
- **▶** EBIT margin improvements
- **>** Strong cash flow generation



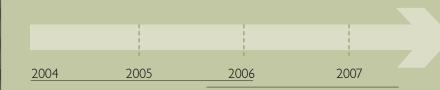
		Potential positive effects
Brands' positioning and consumer focus		Store traffic
Quality, style and innovation		Conversion rates
▶ Brand extension	>	
Time to market, customised deliveries		Network growth
Growth outside domestic market		No war on price
Full integration of IT systems		Enabler

Quality, style and innovation		Accessories
Brand extension	>	Fully exploit accessories business opportunities in Benetton network [especially clothing related accessories and footwear]
Implementation timeline	>	Focus on quality and style
	>	Development of dedicated visual merchandising concepts
		● From euro 60m in 2003 to euro 130m in 2007
		Licensing
	>	Growth through new product categories and geographical areas
		➤ Home, personal care, fashion accessories
		➤ Partnership with international players
		> Focus on high quality distribution
		➤ Leverage on Benetton network
		▶ From euro 10m in 2003 to euro 23m in 2007

Quality, style and innovation

Brand extension

Implementation timeline



De-localisation

- ▶ Increase revenues/sqm
- Network investments to sustain growth
- Margin improvements
- ▶ Product, operations and IT investments
- **DOS** validation of sales analysis
- ▶ International growth

Full financial impact of strategy starting from 2H 2005



Income statement	ouro milliono	2002 actual	2003 forecast	2004 preliminary	2007 target	2003-07 growth
Cash flow & financial ratios	euro millions			budget		
	Revenues	1,992	1,845	1,800	2,187	18.5%
Financial summary						
,	Gross profit	867	809	775	991	22.5%
	Gross margin [%]	43.5%	43.8%	43.1%	45.3%	
	EBIT	243	231	223	324	40.3%
	EBIT margin [%]	12.2%	12.5%	12.4%	14.8%	
	Strong EBIT margin retention t	from revenues	growth			

Income statement		2002	2003	2004	2007
		actual	forecast	preliminary	target
Cash flow & financial ratios	euro millions			budget	
	Cash flow from operations	245	264	262	311
Financial summary	'				
	Net investments	[160]	[148]	[120]	[93]
	as % of sales	8.0%	8.0%	6.7%	4.2%
	Free cash flow from operations	85	116	142	219
	'				
	ROIC		9.0%	9.1%	12.5%-13.0%
	ROE		9.7%	10.1%	14.0%-14.5%
	Strong cash flow generation and significant i	mprovements	in ROIC, ROE a	nd value creation in	dicators
			,		

Income statement	Revenue growth driven by increase in total sqm and revenues/sqm
Cash flow & financial ratios	Stable gross margins: cost of goods sold reduction reinvested for growth
Financial summary	Investment plan to support operations and distribution network
	Assessment of balance sheet opportunities in progress
	● Group corporate streamlining



● Financial highlights

Key operating data [millions of euro]	2003	%	2002	%	2001	%	2000	%	1999	%
Revenues	1,859	100.0	1,992	100.0	2,098	100.0	2,018	100.0	1,982	100.0
Cost of sales	1,049	56.4	1,124	56.4	1,189	56.7	1,138	56.4	1,109	56.0
Gross operating income	810	43.6	868	43.6	909	43.3	880	43.6	873	44.0
Income from operations	232	12.5	243	12.2	286	13.6	309	15.3	316	15.9
Net income/[loss]	108	5.8	[10]	[0.5]	148	7.1	243	12.1	166	8.4
Key financial data [millions of euro]	2003		2002		2001		2000		1999	
Working capital	729		798		811		772		741	
Assets due to be sold	8		114		-		-		-	
Net capital employed	1,655		1,768		1,896		1,723		1,424	
Net financial position	468		613		640		536		297	
Shareholders' equity	1,174		1,141		1,241		1,175		1,116	
Self-financing	327		349		374		311		375	
Capital expenditures in tangible										
and intangible fixed assets	151		169		311		305		179	
Purchase of equity investments	19		1		-		7		12	
Financial ratios [%]	2003		2002		2001		2000		1999	
Return on equity [ROE]	9.2		[0.9]		11.9		20.7		14.9	
Return on investments [ROI]	14.0		13.7		15.1		17.9		22.2	
EBITDA	18.0		18.8		19.0		19.8		20.4	
Return on sales [ROS]	12.5		12.2		13.6		15.3		15.9	
Net income[loss]/sales	5.8		[0.5]		7.1		12.1		8.4	
Share and market data	2003		2002		2001		2000		1999	
Earnings/[Loss] per share [euro] [1]	0.59		[0.05]		0.82		1.35		0.92	
Shareholders' equity per share [euro] [1]	6.47		6.29		6.86		6.50		6.15	
Dividend per share [euro] [1]	0.38		0.35		0.41		0.46		1.03	
Pay out ratio [%]	64		n.a.		50		37		112	
Dividend yield	3.8		4.8		3.6		4.8		6.2	
Share price: December 31 [euro]	9.11		8.50		12.72		22.01		22.77	
Screen-based market: high [euro]	11.30		15.90		22.44		24.20		23.22	
Screen-based market: low [euro]	5.90		8.50		9.75		18.71		13.54	
Price/earnings ratio [P/E]	15.4		n.a.		15.5		16.5		24.8	
Share price/Shareholders' equity per share	1.4		1.4		1.9		3.4		3.7	
Market capitalization [thousands of euro]	1,654,001		,543,068		309,428		3,996,109		134,094	
Average no. of shares outstanding [2]	181,558,811		,341,018		720,969		0,505,910		473,602	
Number of shares outstanding	181,558,811	181	,558,811	181,.	558,811	18	1,558,811	181,.	558,811	

^[1] Restated after a reverse split of the shares approved by Shareholders' Meeting on May 8, 2001.

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



Directors' report

The evolution of the Benetton Group

Having completed the disposal of the sports equipment brands, a new development plan was launched in May 2003 with the appointment of a new management team, headed by the Managing Director, Silvano Cassano. This plan proposes to focus the Benetton Group on its core business [casual and sportswear], to raise the level of competitiveness and to continue international expansion.

A period of analysis then led in December to the presentation of the 2004-2007 Guidelines, which use the leverage of strong brand awareness, above all for the United Colors of Benetton and Sisley labels, and emphasize product quality rather than a sterile price war. The lines of strategy also intend to enhance the fundamental characteristics of the Benetton business model, based on a commercial distribution system which makes use of a widespread and highly professional network of entrepreneurial partners and targeted opening of directly owned stores, as well as on valid and generally acknowledged industrial know-how.

The structural and corporate reorganization

The various activities of the Benetton Group have been split into three companies to reflect the new lines of strategy:

Bencom S.r.l., which handles brand management and all sales and marketing activities; Benind S.p.A., which has been delegated production and logistics; and Bentec S.p.A., which looks after IT systems and services. This reorganization is also designed to improve even more the efficiency and competitiveness of the individual areas, bringing the Group closer to the market.

From a corporate point of view, we have set up an Executive Committee consisting of the Chairman Luciano Benetton, the Managing Director Silvano Cassano and Directors Alessandro Benetton and Gianni Mion, to make the Group's decision-making processes more rapid and effective. Executive Committee meetings are also attended by the Board of Statutory Auditors and the Chairman of the Internal Audit Committee Ulrich Weiss.

Brands and markets

During the course of 2003, the new Market Analysis Department, part of the Marketing function, carried out research to give the United Colors of Benetton, Sisley, Playlife and Killer Loop labels a more precise and distinctive positioning, so as to translate their world-wide renown into better growth opportunities on the various markets.

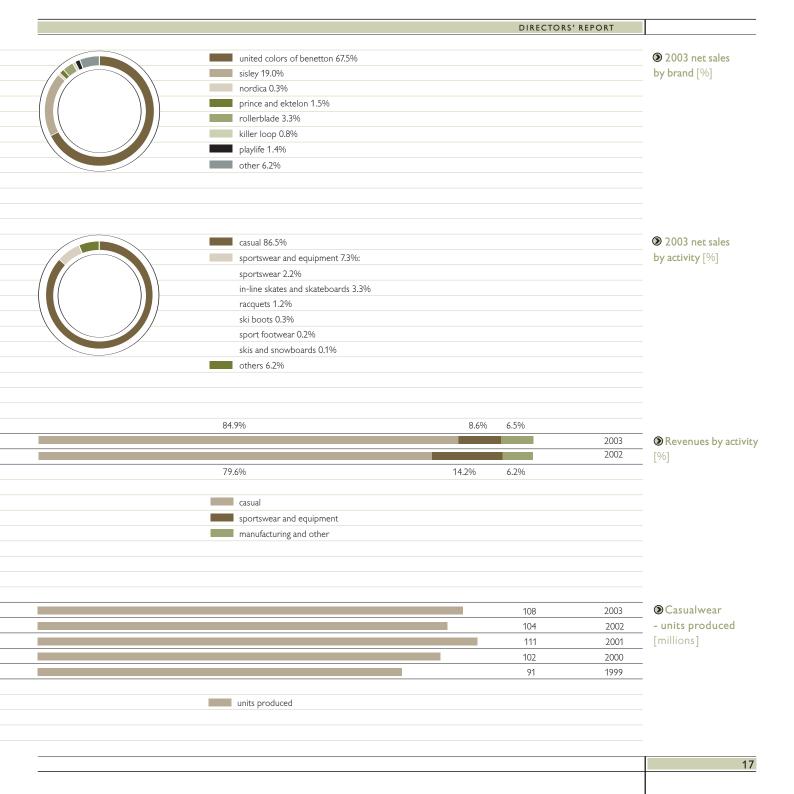
Confirming its characteristics of reliability and confidence, which mean a high level of trust on the part of the customer, United Colors of Benetton is aiming for increasingly high added value in terms of innovation and quality, above all through the evolution of its colorful and dynamic style, research into new materials and attention to detail.

Sisley intends to emphasize its fashionable, sexy and Latin identity to attract a public with medium-to-high purchasing power, people who are as interested in quality as they are in fashion trends. Playlife and Killer Loop, the sportswear brands, are now managed by a new dedicated and autonomous business unit. Playlife is aiming for an image that combines sport and Italian elegance, while Killer Loop projects a more extreme character linked to the young, their music and urban lifestyles.

As regards the sales organization, the objectives identified in the 2004-2007 Guidelines involve consolidation of the Group's presence in strategic areas and greater penetration of emerging markets such as China, South Korea, India and Eastern Europe. This is the general strategy that is reflected in the inauguration during 2003 of new megastores in Birmingham [Great Britain], Vienna [Austria], Kiev [Ukraine], as well as Palermo and Taranto in Italy, among others. The next step in the network's development will be the opening of a third Paris megastore in Boulevard Haussmann during the spring of 2004.

Capital expenditures

Total capital expenditure during 2003 amounted to 151 million euro. In 2002, the Group had invested 169 million euro. The acquisition of retailing companies and properties, as well as upgrades and improvements to commercial premises accounted for around 117 million euro, on top of the 730 million euro already invested in previous years; the more important investments were made in Italy, Austria, France and Spain.



As regards investments in production facilities, we would mention those in plant and machinery such as looms, spoolers, thread spoolers and dye kitchens.

Other investments were in intangibles, the costs incurred for software licenses and for in-house software development totaling 8 million euro, of which 5 million was for new SAP licenses and implementation advice as this project involves integrating all areas of the company.

Research and development

Benetton's R&D efforts are geared to style and new materials, on the one hand, and technology, on the other, with a view to finding innovative solutions for its production processes. Constant comparison with the evolution of tastes and habits makes it possible to anticipate trends in what is now a global market and to propose in a rapid and flexible way clothing collections that simultaneously reflect international fashion and the Benetton style. This also includes the research and selection of raw materials so that we can present not only classic, high quality natural fibres, but also innovative fabrics that are able to combine quality, convenience and costs in line with what the market wants.

Technology

During the course of 2003, technological evolution went hand in hand with the development of the new Guidelines, to help achieve the objectives of quality, turnover and profitability. Capital expenditure in the field of information technology, in particular, concerned the development of a new integrated platform to acquire and process sell out data. Other interventions concerned product research and innovation with the development [as part of a European Union project] of a system to create virtual prototypes of clothes and integration of all of the Group's electronic archives with the Documentum platform. Investments on the industrial front were directed above all at upgrading the operational autonomy and output of the various delocalized production units [especially in Eastern Europe and in Tunisia, where a two-year project has been started up to boost production capacity], as well as of the three logistics hubs in Europe, Asia and America, with the primary objective of being able to intervene more rapidly on the market.

Communication

Once again, the worldwide 2003 communications campaign for United Colors of Benetton has made the ability and experience of the Group available to an important humanitarian organization for communications on social issues. Food for life, devised and implemented by Fabrica together with the WFP-World Food Programme [the largest international aid organization for the relief of hunger], reminds us that, beyond personal survival, food represents an important driver for both peace and the social and economic development of emerging nations.

Since last November, the image of the United Colors of Benetton label has been able to benefit from the skill and international experience of our new Art Director Joel Berg, who is looking after product advertising, store advertising and presentation of the collections.

Colors, Benetton's magazine which talks about the rest of the world, also has a new editor, Kurt Andersen, previously editorin-chief of New York Magazine.

Supplementary information

Financial management. The Group has also paid a great deal of attention to financial risk management by constantly monitoring its exposures and managing them by means of derivatives.

Exposure to exchange risk is mainly concentrated in the US dollar, Japanese yen, British pound and Swiss franc. At the end of the year the Group's exchange risk was substantially neutral thanks to outrights, currency swaps and collars ["zero cost"] for:

	Currency to sell		Currency to buy	
[in millions]	Currency	Euro	Currency	Euro
US Dollar	146	125	74	62
Japanese yen	40,500	317	24,000	186
British pound	40	57	4	6
Swiss franc	71	46	36	23

During 2003, the Group did not use any derivatives that involved collecting or paying premiums.

Under the Group's guidelines, its exposure to exchange risk is split into:

- _ exposure to economic exchange risk: represented by the sum of monetary flows [receipts and payments in the same currency are netted] in all currencies other than the "functional currency". Risk exposure arises as soon as the price lists of collections are defined [each year being divided into two main collections], which takes place approximately 15 months prior to the time when such prices will actually be collected: the prices in foreign currency applied to the budget volumes for each item are converted at an exchange rate [known as the "target rate"] to calculate a budgeted result that the hedging policy has to ensure;
- _ exposure to exchange translation risk: on the net investment made by Benetton Group S.p.A. in foreign Group companies. Each variation in the exchange rate generates a new value for the net amount that the Parent Company has invested in Group companies located outside of the euro-zone. The "translation differences" that arise in such cases represent gains or losses that have a cash impact when there is a distribution of dividends or if the foreign subsidiary is liquidated or sold off; these differences do not flow into the statement of income, but are a direct adjustment to Group Shareholders' equity.

In the same way as the exposure to exchange risk, exposure to interest risk is also monitored on an ongoing basis and managed by way of derivatives. At the end of the year, the risk exposure on the liabilities side [essentially a floating-rate bond loan with maturity 2005 for 300 million euro and a floating-rate syndicated loan with maturity 2007 for 500 million euro] is partially hedged by interest rate swaps for a notional value of 340 million euro taken out mostly in previous years.

In July 2003, the Parent Company's Board of Directors approved a policy of investing surplus cash in order to limit and manage issuer credit risk [i.e. the risk of issuers failing to comply with their obligations]. This policy permits investment in bank deposits, bonds [at fixed and floating rates] with a duration of less than three years, as well as in short-term bond or monetary funds.

These instruments have to have an issuer rating of not less than "A-" from S&P or Fitch or "A3" from Moody's. Moreover, in order to avoid an excessive concentration of risk in a single issuer in the case of issuers with a rating of less than "AA" [or equivalent], the maximum amount that can be invested must not exceed 10% of the Group's total investment of liquid funds up to a maximum of 20 million euro.

Treasury shares. During the period, Benetton Group S.p.A. neither bought nor sold any shares or quotas in parent companies, either directly or indirectly or through subsidiaries, trustees or other intermediaries.

Performance of Benetton shares. The performance of Benetton shares in 2003 was positive overall, with an increase of 7.2% compared with December 31, 2002. The Benetton ADRs [American Depositary Receipts] on the US market went up by 28.9% on constant trading during the period.

In 2003, the Investor Relations department maintained constant contact with the market, even more so with the arrival of the new management team. In addition to organizing meetings and conference calls, this activity also included the roadshow to present the 2004-2007 Guidelines which visited the main financial marketplaces in December 2003.

The main national and international brokers published ongoing research on the Benetton stock during the year.

In July 2003, the Benetton Investor Relations website [www.benetton.com/investors] was enriched by new functions which give constant stock quotes on the Milan, Frankfurt and New York markets, investment calculator and benchmark table information.

Share and market data	2003	2002	2001	2000	1999
Earnings/[Loss] per share [euro] [1]	0.59	[0.05]	0.82	1.35	0.92
Shareholders' equity per share [euro] [1]	6.47	6.29	6.86	6.50	6.15
Dividend per share [euro] [1]	0.38	0.35	0.41	0.46	1.03
Pay out ratio [%]	64	n.a.	50	37	112
Dividend yield	3.8	4.8	3.6	4.8	6.2
Share price: December 31 [euro]	9.11	8.50	12.72	22.01	22.77
Screen-based market: high [euro]	11.30	15.90	22.44	24.20	23.22
Screen-based market: low [euro]	5.90	8.50	9.75	18.71	13.54
Price/earnings ratio [P/E]	15.4	n.a.	15.5	16.5	24.8
Share price/Shareholders' equity per share	1.4	1.4	1.9	3.4	3.7
Market capitalization [thousands of euro]	1,654,001	1,543,068	2,309,428	3,996,109	4,134,094
Average no. of shares outstanding [2]	181,558,811	181,341,018	180,720,969	180,505,910	181,473,602
Number of shares outstanding	181,558,811	181,558,811	181,558,811	181,558,811	181,558,811

^[1] Restated after a reverse split of the shares approved by Shareholders' Meeting on May 8, 2001.

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

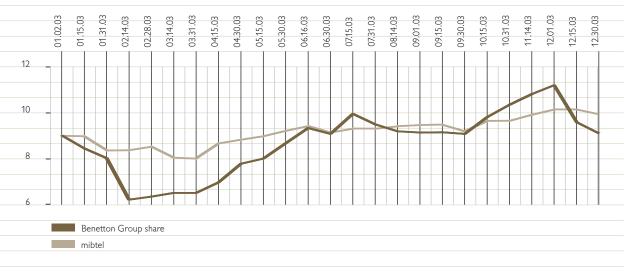
Ownership of the Company. Edizione Holding S.p.A. [registered office in Treviso, Italy] a holding company, wholly owned by the Benetton family, holds 121,905,639 ordinary shares, equivalent to 67.144% of the total share capital of Benetton Group S.p.A. The parent company of Edizione Holding S.p.A. is Ragione S.A.p.A. di Gilberto Benetton e C., which holds 4,000,000 ordinary shares in Benetton Group S.p.A. [2.203% of the share capital].

Shareholders by class	%
Edizione Holding S.p.A. and Ragione S.A.p.A. di Gilberto Benetton e C.	69.347
Institutional investors and banks	23.830
Individuals and others	6.823

By size of holding [1]	No. of Shareholders	No. of shares
Less than 5,000 shares	30,345	11,158,976
From 5,000 to 9,999 shares	233	1,576,973
Over 10,000 shares	386	170,339,627
Holdings not classified		[1,516,765]
Total	30,964	181,558,811

^[1] As last Spafid survey as of February 20, 2004.

It should be remembered that in July 1998, via its Luxembourg-based subsidiary Edizione Participations S.A. [formerly Edizione Finance S.A.] Edizione Holding S.p.A. issued a five-year bond worth 600 billion lire [around 310 million euro]. It was convertible [between July 2000 and July 2003] into Benetton shares via Edizione Participations S.A. A total of 11,214,953 shares, equivalent to approximately 6.177% shares in Benetton Group S.p.A.'s share capital, have been made available to service this bond. Conversion from bonds to shares could be exercised if stock price exceed 27.63 euro.



② 2003 Benetton share performance [euro]

Relations with the Parent Company and its subsidiaries. The Benetton Group had limited trading dealings with other subsidiaries of Edizione Holding S.p.A. [the Parent Company] and with other parties which, directly or indirectly, are linked by common interests with the majority Shareholder. Trading relations with such parties are conducted on an arm's-length basis and using the utmost transparency.

Other costs mainly refer to services.

The relevant totals appear below:

[thousands of euro]	2003	2002
Accounts receivable	1,198	1,614
Accounts payable	11,049	867
Purchases of raw materials	3,432	3,725
Other costs and services	13,863	13,031
Sales of products	76	76
Revenue from services and other income	776	773

The Group has undertaken some transactions, mainly relating to manufacturing activities, with companies directly or indirectly controlled by, or in any case under the influence of, managers serving within the Group. The Company's management believes that such transactions were completed at going market rates. The total value of such transactions was not, in any case, significant in relation to the Group's total production value. No Director, Manager, or Shareholder is a debtor of the Group.

Corporate Governance. The Benetton Group paid particular attention to the question of corporate governance also during 2003, updating decision-making and management systems to the standards required by the Code of Conduct for Listed Companies, as well as to national and international best practice.

The system of corporate governance, as outlined below, is based on the principles of proper management and information, achieved by means of a continuous process of verification of their efficiency and effectiveness.

Ownership of the Company. As described in greater detail in the section of the Directors' report entitled "Ownership of the Company", and based on the latest available report, the Shareholders Edizione Holding S.p.A. and its parent, Ragione S.A.p.A. di Gilberto Benetton e C., control the Company with interests of 67.144% and 2.203% respectively.

Board of Directors. Directors. Executive Committee. Related Party Transactions.

Board of Directors. During 2003, the Board of Directors held nine meetings during which they reviewed and approved the guidelines for the Group's operations, proposed changes to the organization and general policies regarding the management of human resources, proposals for the reorganization of the corporate structure, the trend of business, extraordinary operations, and the quarterly and half-year results. During these meetings, the Executive Directors also provided adequate information to the Board of Directors and to the Board of Statutory Auditors concerning any atypical or unusual transactions or transactions with related parties. The Board of Directors also paid particular attention to the periodic reports prepared by the Internal Audit Committee regarding its activities including, among other things, an evaluation of the adequacy of the internal audit system. Directors are provided a reasonable time prior to Board meetings with the documentation and information that they need for the Board to make decisions with adequate background knowledge of the matters in question.

The current system of powers granted by the Board of Directors and the information procedures adopted by the Company ensure that all transactions of major economic and financial importance are submitted for Board approval.

Directors. In compliance with the Company's by-laws the current Board of Directors, which remains in office until the Shareholders' meeting to approve the financial statements as of December 31, 2003, is made up of 11 Directors.

The Chairman, Luciano Benetton, has power to represent the Company and to carry out all acts that are pertinent to the Company's activities, with limits on certain categories of acts.

The Managing Director, Silvano Cassano, has power to carry out acts relating to ordinary administration, as well as certain acts of extraordinary administration, subject to limits.

None of the other Directors have executive powers.

There are seven Non-Executive Directors [namely Carlo Benetton, Gilberto Benetton, Giuliana Benetton, Reginald Bartholomew, Luigi Arturo Bianchi, Sergio De Simoi and Ulrich Weiss] and of these, three [namely Reginald Bartholomew, Luigi Arturo Bianchi and Ulrich Weiss] are "independent" from the owners and from corporate management, as prescribed by the Code of Conduct for Listed Companies, while all are assiduous participants in the Board's activities.

The Managing Director Silvano Cassano and the Director Sergio De Simoi joined the Board of Directors on May 12, 2003. Luigi de Puppi de Puppi and Angelo Tantazzi were members of the Board of Directors up until May 12, 2003.

The following table lists Directors who also hold offices in other non-group companies, also indicating the offices held.

Director	Office	Company
Luciano Benetton	_ Director	Prada Holding N.V., 21 Investimenti S.p.A.,
		Edizione Holding S.p.A.
Carlo Benetton	_ Deputy Chairman	Edizione Holding S.p.A.
	_ Director	Tecnica S.p.A.
Gilberto Benetton	_ Chairman	Autogrill S.p.A., Edizione Holding S.p.A.
	_ Deputy Chairman	Telecom Italia S.p.A.
	_ Director	Banca Antoniana Popolare Veneta S.p.A.,
		Mediobanca S.p.A., HMS Host Corp., Lloyd Adriatico S.p.A.
		Autostrade S.p.A., Beni Stabili S.p.A.,
		Abertis Infraestructuras S.A., Pirelli & C. S.p.A.
Giuliana Benetton	_ Director	Edizione Holding S.p.A.
Alessandro Benetton	_ Chairman and Managing Director	21 Investimenti S.p.A., 21 Investimenti Partners S.p.A.
	_ Chairman	21 Partners S.G.R. S.p.A.
	_ Director	Edizione Holding S.p.A., Autogrill S.p.A., Sirti S.p.A.,
		Permasteelisa S.p.A., B.P.VI. Fondi S.G.R. S.p.A.,
		21 Centrale Partners S.A.
Reginald Bartholomew	_ Director	Pirelli & C. Real Estate S.p.A.
Luigi Arturo Bianchi	_ Director	Anima S.G.R. S.p.A., Assicurazioni Generali S.p.A.
Luigi de Puppi de Puppi	_ Chairman	Veneta Factoring S.p.A.
[in office till May 12, 2003]	_ Director	Ferriere Nord S.p.A., Società Editoriale FVG S.p.A.,
<u> </u>		Banca Friuladria S.p.A., S.I.P.A. S.p.A.
Gianni Mion	_ Deputy Chairman	Tim S.p.A.
	_ Managing Director	Edizione Holding S.p.A., Schemaventotto S.p.A.
	_ Director	21 Investimenti S.p.A., Autogrill S.p.A., Autostrade S.p.A.,
		Banca Antoniana Popolare Veneta S.p.A., Olimpia S.p.A.,
		Telecom Italia Media S.p.A., Telecom Italia S.p.A.,
		Fondazione Cassa di Risparmio di Venezia
Sergio De Simoi	_ Statutory Auditor	Olimpia S.p.A.
[in office till May 12, 2003]	_ Director	Autostrade S.p.A., Schemaventotto S.p.A.,
<u> </u>		21 Investimenti Partners S.p.A., 21 Investimenti S.p.A.
Angelo Tantazzi	_ Chairman	Borsa Italiana S.p.A., Monte Titoli S.p.A.,
[in office till May 12, 2003]		Fondazione Cassa di Risparmio di Carrara
	_ Deputy Chairman	Casa Editrice il Mulino
	_ Director	Banca Popolare dell'Emilia Romagna
Ulrich Weiss _ Di	_ Director	Ducati Holding S.p.A., HeidelbergCement A.G.
		[Heidelberg], Continental A.G. [Hannover],
		Bego Medical A.G. [Bremen].



Executive Committee. An Executive Committee was set up in September 2003, chaired by the Chairman of the Board of Directors and with the Managing Director Silvano Cassano and Directors Alessandro Benetton and Gianni Mion as members.

Executive Committee meetings are also attended by the Board of Statutory Auditors and the Chairman of the Internal Audit Committee, neither with the right to vote.

One of the Executive Committee's tasks is to define, upon proposal by the Managing Director, company and group industrial and financial plans, strategies, the annual budget and interim adjustments for subsequent submittal to the Board of Directors.

The Executive Committee also reviews and approves investment and divestiture plans of particular importance, the granting of loans and the giving of guarantees, and analyzes the more important problems relating to the Company's performance, which in turn enables the Board of Directors to comply more effectively with its legal obligations.

The Executive Committee met twice during 2003.

Related Party Transactions. During 2003, as in previous years, the Board of Directors complied with the rules on Related Party Transactions. Moreover, in 2004, the Board of Directors formally adopted the Rules of Conduct that Benetton Group S.p.A. will have to comply with in matters regarding Related Party Transactions and other significant transactions. These Rules reiterate the central role of the Board of Directors in the Company's system of corporate governance and aims to ensure that the transactions being regulated are carried out according to criteria of substantial and procedural fairness.

Related Party Transactions, including those outside the Group, as well as atypical and unusual transactions, i.e. those concluded at non-standard conditions, which would not otherwise require Board approval, still have to be submitted for advance Board approval.

Advance Board approval is also required for transactions that could have a significant economic or financial impact on the Company or the Group and which in terms of value, counterparty quality, object, methods or timing could jeopardize the Company's assets.

For both of these types of transactions, the Board of Directors has to decide on the basis, among other things, of detailed information acquired with suitable advance notice.

Board of Statutory Auditors. The Board of Statutory Auditors is made up of:

- _ Angelo Casò . Chairman;
- _ Filippo Duodo . Auditor;
- _ Dino Sesani . Auditor;
- _ Antonio Cortellazzo . Alternate Auditor;
- _ Marco Leotta . Alternate Auditor.

All members of the Board of Statutory Auditors were appointed on May 14, 2002 and will remain in office up to the Shareholders' Meeting that approves the 2004 financial statements.

The Statutory Auditors are appointed in accordance with the criteria laid down in art. 148 of the D.Lgs. 58/1998, which are reflected in art. 19 of the articles of association. They are appointed on the basis of voting lists that are presented to the Company's head office prior to the Shareholders' Meeting, accompanied by an adequate description of each candidate's personal and professional characteristics.

There is not an Auditor representing the minority Shareholders, as they did not present alternative voting lists. The Board of Statutory Auditors met eight times during 2003.

Direction and coordination function in accordance with arts. 2497 et seq. of the Italian Civil Code. In January 2004, all of the Italian subsidiaries wholly owned, directly or indirectly, by Benetton Group S.p.A. made the announcements required by art. 2497-bis of the Civil Code, recognizing the direction and coordination function performed by the Parent Company Benetton Group S.p.A.

Compensation Committee and Committee for Proposed Appointments of Directors. For fiscal year 2003, compensation for individual Directors was established by the Board of Directors, as indicated in the Note to the consolidated financial statement of the Benetton Group, following the determination of the aggregate compensation for the Board of Directors' by the Shareholders at the General Meeting in accordance with the By-laws.

In implementation of the Code of Conduct for Listed Companies and with the duties mentioned therein, the Board of Directors reconfirmed as members of the Compensation Committee for 2003 the Directors Reginald Bartholomew, Ulrich Weiss and Gianni Mion.

During 2003, the Compensation Committee evaluated the request made by the Board of Directors that the Company ought to make fuller use of the considerable experience gained by the Directors Giuliana Benetton and Carlo Benetton in the many years that they have worked for the Company and the Group, concluding that they ought to be given a special task within their respective areas of competence.

The Board of Directors does not consider it necessary to set up a Committee for proposed appointments of Directors, given the current composition of the Company's Shareholders.

Directors are nominated on the basis of a single voting list which is deposited at the Company's head office prior to the Shareholders' Meeting, accompanied by an adequate description of the candidates' personal and professional characteristics.

Internal Audit Committee. Internal Audit. The Internal Audit Committee is made up of three Non-Executive Directors, two of whom independent. From May 12, 2003 it consists of the Directors Ulrich Weiss, Luigi Arturo Bianchi and Sergio De Simoi. The Internal Audit Committee has the following tasks:

- make proposals for the establishment of an internal audit department responsible for the internal audit and to determine the duties of this department;
- review periodic reports from, and the executive plan of, the persons responsible for the internal audit, as well as to promote
 actions for the improvement of the internal audit system;
- _ report to the Board of Directors, at least every 6 months, in connection with its approval of year-end financial statements and the interim report, on the activities carried out and on the adequacy of the internal audit;
- _ monitor compliance with, and periodic revision of, corporate governance rules;
- _ verify, together with the head of the administrative function and the independent auditor, the adequacy of accounting principles;
- assess, together with the head of the administrative function and the internal auditor, proposals submitted by independent auditing firms for assignment of the independent audit, making a recommendation for assignment of the task that the Board of Directors has to submit to the Shareholders' Meeting;
- _ evaluate the results presented in the independent auditor's report.

The Committee performed its functions during 2003, meeting four times under the chairmanship of Ulrich Weiss and with the participation of the entire Board of Statutory Auditors, in conformity with the regulations adopted by the Company. The functionality and adequacy of the internal audit system were guaranteed by the Board of Directors, with the help of the specific corporate function coordinated by the Head of Internal Audit Roberto Taiariol.

Organization and information systems were found to be able to assure, also as regards subsidiaries, monitoring of the administrative and accounting system and of the central and decentralized organizational structure. Work continued on mapping of risks concerning all Group companies' businesses, as did operational and budget control of individual businesses and auditing of internal auditing systems by outside auditors. Non-Executive Directors, the Board of Statutory Auditors, and the independent auditing firm all received adequate information in this respect.

During 2003, the Internal Audit function prepared the "Organizational and Operational Model" required by D.Lgs. 231/2001 [administrative responsibility of companies].

On September 11, 2003, the Board of Directors formally adopted this Model, which consists of:

- _ a Code of Ethics [in line with the new rules];
- _ operating procedures and reporting systems;
- _ internal supervisory and monitoring body;
- _ a disciplinary system.

The Organizational and Operational Model foresees its gradual adoption by all Group companies.

Handling of confidential information. All confidential information is managed by the Managing Director, upon consultation with the Chairman. Together, the Managing Director and the Chairman also ensure that controls are carried out with regard to the classification of confidential information in accordance with current legislation.

The Managing Director supervises legal compliance with respect to proper disclosure of information relating to the Company and, to this end, arranges and co-ordinates all suitable action by the various internal structures.

The Board of Directors approves all press releases relating to resolutions on the year's financial statements, the interim report, and the quarterly report, as well as extraordinary decisions that are subject to the approval of the Board of Directors.

All communications to and relations with the press, institutional investors and individual Shareholders are conducted by the Media and Communications Department and the Investor Relations Department, respectively.

Implementing the "Regulation for Markets Organized and Managed by Borsa Italiana S.p.A." [Regolamento dei Mercati Organizzati e Gestiti da Borsa Italiana S.p.A.], the Board of Directors officially adopted since fiscal year 2002 the "Code of Conduct for Internal Dealing". This is designed to regulate obligations of notification and disclosure concerning transactions undertaken in financial instruments issued by Benetton Group S.p.A. by those persons defined by the Code as "important persons".

The notification obligations imposed by the Code on the "important persons" envisage tighter timing and involve wider categories of subjects and securities than does the Regulation of Borsa Italiana S.p.A. Since Benetton shares are also listed on the Frankfurt stock exchange, the Code of Conduct also implements the obligations of notification and disclosure envisaged by the

Wertpapierhandelsgesetz - WpHG law [Securities Trading Act], Section 15a, introduced by the 4th Finanzmarktförderungs [Fourth Financial Markets Promotion Act].

Relations with Institutional Investors and with other Shareholders. The Investor Relations Department ensures correct management of relations with financial analysts, institutional investors and individual Italian and foreign Shareholders. Among other things, this department co-ordinates activities with members of the financial community.

This function complies with the criteria of fairness, clarity and equal access to information contained in the "Market Information Guide" drafted by Borsa Italiana S.p.A., making available at the Investor Relations section of the Company's website [www.benetton.com] ample documentation and information concerning the Company, with particular reference to price sensitive information.

The following documents are available on the site, among others: the Articles of Association, the Code of Conduct for Internal Dealing, the Organizational and Operational Model, the Rules of Conduct in Related Party Transactions, press releases, quarterly and half-year reports, etc.

This document is available in the Investor Relations section of the website www.benetton.com

Privacy and the protection of personal data. As early as 2000, the Company adopted the Security Planning Document [SPD] envisaged by the legislation then in force. This concerned the processing by IT systems of information considered "sensitive" or "judicial".

D. Lgs. 196 of June 30, 2003 partly amended the previous rules, introducing new minimum security measures for these kinds of information.

The Company updated its SPD as of 2003 and will again update it in compliance with the new rules by June 30, 2004. All Group companies have brought themselves into line with the data security model adopted by the Parent Company.

Directors. Company Directors as of December 31, 2003 are as follows:

Name and surname	Date of birth	Appointed	Position
Luciano Benetton	05.13.1935	1978	Chairman
Carlo Benetton	12.26.1943	1978	Deputy Chairman
Silvano Cassano	12.18.1956	2003	Managing Director
Giuliana Benetton	07.08.1937	1978	Director
Gilberto Benetton	06.19.1941	1978	Director
Alessandro Benetton	03.02.1964	1998	Director
Gianni Mion	09.06.1943	1990	Director
Ulrich Weiss	06.03.1936	1997	Director
Reginald Bartholomew	02.17.1936	1999	Director
Luigi Arturo Bianchi	06.03.1958	2000	Director
Sergio De Simoi	05.23.1945	2003	Director

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

Directors' fees due to members of the Board of Benetton Group S.p.A. totaled 4,365 thousand euro in 2003.



Shares held by Directors and Statutory Auditors. The Directors Luciano, Gilberto, Giuliana and Carlo Benetton directly and indirectly, hold equal interests in the entire share capital of Edizione Holding S.p.A., the parent company of Benetton Group S.p.A. and joint owner with Ragione S.A.p.A. di Gilberto Benetton e C. of 69.347% of its share capital.

The Directors - Luciano, Gilberto, Giuliana and 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 under-mentioned, referring to Gilberto Benetton and Alessandro Benetton.

As indicated in the statements received, during 2003 no other equity investments in the Company have been held by its other Directors and Statutory Auditors, except those indicated in the table below:

	Number of	Company	Shares	Shares	Number of	
	shares held as of	in which	acquired	sold	shares held as of	Basis of
Name and surname	12.31.2002	shares are held	during 2003	during 2003	12.31.2003	ownership
Gilberto Benetton	45,000	Benetton Group S.p.A.	-	-	45,000	property
Alessandro Benetton	400	Benetton Group S.p.A.	3,600	-	4,000	property
Ulrich Weiss	3,500	Benetton Group S.p.A.	-	-	3,500	property
Dino Sesani	436	Benetton Group S.p.A.	-	436	-	property

There are currently no stock-option plans involving the Company's shares.

Principal organizational and corporate changes. In January 2003 the Benetton Group reached an agreement with the Tecnica group for the sale of the business relating to the Nordica brand. The sale took effect from February 1, 2003. The overall price for the transaction was determined from a valuation of all the components comprising the business. The value of intellectual property alone, including the Nordica trademark, was fixed at 38 million euro. Collection will take place in six-monthly installments over five years, starting in 2004.

From June 2004 a further payment of 1% of the revenues earned by the Nordica brand is expected to be received from the Tecnica group, which will continue to make such payments for the next five years. Under this deal, Benetton Group S.p.A. in turn acquires 10% of the share capital of Tecnica S.p.A. for a value of 15 million euro, with a guaranteed put [sale] option which can be exercised from February 1, 2008 and a call [repurchase] option on the part of Tecnica S.p.A. which can be exercised between February 1, 2006 and January 31, 2008. The price cannot be lower than the amount effectively paid by Benetton Group S.p.A. [15 million euro] with interest at 3-month Euribor plus a spread of 0.5%.

At the end of March, the Group also formalized the sale of the Prince and Ektelon brands to Lincolnshire Management Inc., a US private equity fund. The consideration for the sale of these brands and the associated intangible fixed assets amounts to 36.5 million euro, of which 10 million euro was received on April 30, the sale's completion date; the remaining 26.5 million euro was received in January 2004.

Again during March 2003, the Benetton Group signed a binding preliminary agreement for the sale of the Rollerblade trademark to Prime Newco, a company within the Tecnica group. This transaction was formalized at the end of June with the receipt, collected in full on the contract date, of 20 million euro just for the Rollerblade trademark. Other components of the business and the entire interest in the Swiss subsidiary, Benetton Sportsystem Schweiz A.G., were also transferred at the same time. As additional consideration for the transfer of know-how, the Group will also receive 1.5% of Rollerblade's sales for the next five years, with a minimum guaranteed payment of 5 million euro; the results of operations during the first six months of 2003 have been attributed to the Group.

With regard to manufacturing activities, in March 2003 a new company has been formed in Tunisia under the name of Benetton Manufacturing Tunisia S.à r.l.

The liquidation of Benest Ltd., a dormant company previously based in Moscow, was completed during the first half of 2003.

As part of the reorganization of the Group structure in France, the company Veuve Auguste Dewas et Cie S.A. was merged with Benetton Retail France S.A.S. The latter also acquired the assets and liabilities of Novanantes S.A.S. following its liquidation. A Russian company. Benetton Realty Russia O.O.O., was set up in October with a view to becoming the owner of the Group's

A Russian company, Benetton Realty Russia O.O.O., was set up in October with a view to becoming the owner of the Group's real estate assets in that country.

Benetton Gesfin S.p.A. was merged with Benetton Group S.p.A. for statutory purposes from November 1, 2003.

As part of a Group reorganization plan, with effect from December 20, 2003, Benetton Group S.p.A. transferred brand ownership, brand management and all sales and marketing activities to Bencom S.r.l. [formerly Gescom S.r.l.], all manufacturing and logistics activities to Benind S.p.A. [formerly Benlog S.p.A.], and all IT systems and services to Bentec S.p.A. [formerly United Web S.p.A.], all companies wholly-owned by the Parent Company Benetton Group S.p.A. This project entailed changing from a multidivisional structure to one where these various activities are carried on by individual operating companies. At the same time, a review was performed of the stratification of various operating activities that had been added over the years to the original mission of Benetton Group S.p.A. as a holding company designed essentially to supervise the Group's equity investments. From an organizational point of view, this structure creates the bases for a further decentralization of manufacturing and commercial activities, nationally and internationally, thus bringing the corporate and management structure into line with the Group's new lines of strategy. It should also improve the efficiency of the various activities performed by the operating companies, stimulating, among other things, constructive discussions and competitive relationships within the Group. Bencom S.r.l. has set up permanent establishments in France, Great Britain and Spain, which have been operational from January 1, 2004, handling all of the Group's retailing activities in those countries.

In December, Bencom S.r.l. bought the other 50% of I.M.I. - Italian Marketing International S.r.l. from third parties for 3.12 million euro. This company owns various stores that sell Benetton products in Palermo and is now wholly-owned by the Group.

Significant events since year-end. On February 17, 2004 Benfin S.p.A. bought the remaining 15% of Olimpias S.p.A. from third parties for 15 million euro, so that it now owns the entire company. Olimpias S.p.A. is the company that produces textiles [fabrics, knitted fabrics, yarn, woven and printed fabrics, as well as acting as a dyehouse and laundry] mainly on behalf of Group companies. In 2003 Olimpias S.p.A. had a turnover of 336 million euro.

Outlook for 2004. Faced with widespread caution on the part of consumers, especially in the textile and clothing sector, and in line with the expectations expressed at the presentation of the 2004-2007 Guidelines in December, the outlook for 2004 is for gross operating and operating margins substantially in line with those of 2003 on Group sales, no longer including sports equipment, which should come to around 1,800 million euro; net income should be around 7% of sales. Revenues in the casual clothing sector are expected to see moderate growth, with a target of around 1,580 million euro.

Self-financing by the end of 2004 is expected to be in line with what was seen at the end of 2003, and the same for financial position, despite having to pay the substitute tax on the corporate reorganization; investments should amount to around 100 million euro, focused mainly on expansion of the sales network.

Group results

Consolidated statement of income. The highlights of the Group's statement of income are presented below. They are based on the reclassified statement of income adopted for internal reporting purposes.

[millions of euro]	2003	%	2002	%	Change	%
Revenues	1,859	100.0	1,992	100.0	[133]	[6.7]
Cost of sales	[1,049]	[56.4]	[1,124]	[56.4]	75	[6.7]
Gross operating income	810	43.6	868	43.6	[58]	[6.6]
Variable selling costs	[114]	[6.2]	[124]	[6.2]	10	[8.1]
Contribution margin	696	37.4	744	37.4	[48]	[6.5]
General and administrative expenses	[464]	[24.9]	[501]	[25.2]	37	[7.4]
Income from operations	232	12.5	243	12.2	[11]	[4.6]
Gain on foreign exchange	10	0.5	8	0.4	2	12.1
Financial charges, net	[32]	[1.7]	[40]	[2.0]	8	[22.3]
Ordinary income	210	11.3	211	10.6	[1]	[0.5]
Other expenses	[7]	[0.4]	-	-	[7]	n.s.
Non recurring items	[38]	[2.0]	[162]	[8.1]	124	[76.5]
Income before taxes	165	8.9	49	2.5	116	n.s.
Income taxes	[56]	[3.0]	[57]	[2.9]	1	[1.5]
Minority interests income	[1]	[0.1]	[2]	[0.1]	1	[50.0]
Net income/[loss]	108	5.8	[10]	[0.5]	118	n.s.
Normalized net income	139	7.5	128	6.4	11	8.0

In 2003, the Group earned revenues of 1,859 million euro compared with 1,992 million the previous year, an overall decrease of 6.7%. This is the joint result of two main factors: an unfavourable currency trend during the entire year, especially on the part of the dollar and the yen, and the sale of the sports equipment business which was concluded at the end of the first half. The exchange effect on total consolidated sales comes to around 54 million euro; without this impact and excluding the sports equipment business, Group sales would have increased by 1.2% on 2002.

The casual sector closed the year with an increase in garments sold of almost 3.6 million items; the main effect, however, came from the trend in foreign currencies, without which sales would have been more than 41 million euro higher, an increase of 2.1% on the previous year.

The revenues earned by the directly owned stores have gone up to 149 million euro, an increase of 16 million euro before taking the exchange effect into account.

As explained earlier, the sports segment was affected by the disposal of the equipment business, so it is impossible to make a straight comparison with the previous year. This segment was also penalized by the unfavourable trend in exchange rates. The slight decline in Killer Loop and Playlife sportswear sales is due to the fact that priority was given to year-end deliveries of casualwear. Sales by the manufacturing sector dipped slightly, mainly because of the exchange effect.

Cost of sales decreased in absolute terms by 75 million euro, benefiting from an exchange effect of 28 million euro, but above all because of the elimination of the sports equipment costs.

The higher volumes of casualwear produced raised cost of sales by some 28 million euro.

Gross operating income comes to 810 million euro compared with 868 in 2002, which is 43.6% of sales, the same as the previous year; in addition to the effects just described, gross operating income was also conditioned by the policy of enriching the product-mix, which mainly involved the casual sector.

Variable selling costs went down considerably in absolute terms, remaining in line with the previous year in terms of percentage

of sales; the incidence of the casual sector remains substantially unchanged, while that of the sports equipment business decreased in absolute terms.

General and administrative expenses are down significantly, going from 501 million euro to 464 million euro, an absolute variance of 37 million. This represents 24.9% of sales, compared with 25.2% in 2002.

Advertising and sponsorship costs show a substantial decrease of 33 million euro, mainly in the casualwear and sports equipment sectors.

A contribution to this reduction also came from a 14.6% reduction in payroll costs and a 20.7% decrease in depreciation and amortization; these decreases are mainly due to the sports equipment sector, where payroll costs of 18 million and depreciation and amortization of 24 million have been eliminated.

Careful and prudent analysis of credit risk in the casual sector led to sizeable provisions to cover a limited number of potentially doubtful balances due from certain specific customers. Based on available information, it is reasonable to foresee that annual provisions will come back into line with those of previous years.

Provisions were also made to the reserve for legal risks and for agents' indemnities for 9 million euro.

Income from operations comes to 232 million euro compared with 243 in 2002, improving from 12.2% to 12.5% of sales; the sports equipment business closed 2002 with an operating loss of 36 million euro before being sold in 2003.

The fact that income from operations in the casual sector is lower than last year is due to the trend in exchange rates and higher provisions.

The overall result of foreign exchange management improved because of the trend in exchange rates mentioned above.

Net financial charges of 32 million euro are down considerably because of a reduction in the average level of debt during the year of around 120 million euro, helped, albeit to a lesser extent, by the decline in interest rates.

Ordinary income is in line with the previous year, though it improves as a percentage of sales from 10.6% to 11.3% in 2003.

Net other charges in 2003 mainly include net writedowns and losses on the disposal of tangible and intangible fixed assets net for 4 million euro, out-of-period and other expenses for 3 million euro; in 2002, this balance was zero, as the income items completely offset the expense items.

Non-recurring expenses include:

- _ acceptance of the tax amnesty by the Italian companies for 14 million euro;
- _ adjustment to current values of certain assets involved in the sales network for 24 million euro.

These items had a considerable impact on net income for the period which comes to 108 million euro with an incidence of 5.8%. Last year closed with a loss of 10 million euro.

Normalized net income, without the effects of the non-recurring expenses mentioned above, comes to 139 million euro compared with 128 million the previous year, an incidence of 7.5% versus 6.4% in 2002.

Revenues by geographical area are as follows:

[millions of euro]	2003	%	2002	%	Change	%
Euro area	1,363	73.3	1,372	68.9	[9]	[0.7]
The Americas	113	6.1	192	9.6	[79]	[40.9]
Asia	159	8.6	177	8.9	[18]	[10.2]
Other areas	224	12.0	251	12.6	[27]	[10.8]
Total	1,859	100.0	1,992	100.0	[133]	[6.7]

The euro-zone continues to be the Group's main market of reference. The two years are not directly comparable because of the sale of the sports equipment business and the exchange rate impact of the US dollar and the Japanese yen.

Performance by activity. The Group's activities are traditionally divided into three sectors to provide the basis for effective administration and adequate decision-making by company management, and to supply accurate and relevant information about company performance to financial investors.

The business sectors are as follows:

- _ the casual sector, representing the Benetton brands [United Colors of Benetton, Undercolors and Sisley], which also incorporates complementary products, such as accessories and footwear, as well as figures for the retail business;
- _ the sportswear and equipment sector, with the Playlife, Nordica, Prince, Rollerblade and Killer Loop brands; the contribution made in this area by the various brands was not consistent during period, since Nordica, Prince and Rollerblade contributed for one, four and six months, respectively, to the Group's results;
- _ the manufacturing and others sector, including sales of raw materials, semi-finished products, industrial services and revenues and expenses from real estate activity.

Information regarding the "casual" and "manufacturing and others" sectors for 2002 has been appropriately reclassified to eliminate intercompany effects, in order to reflect the real contribution made by each sector to the consolidated results.

Results of the Casual sector

[millions of euro]	2003	%	2002	%	Change	%
Sector total revenues	1,579	100.0	1,586	100.0	[7]	[0.5]
Cost of sales	[841]	[53.3]	[838]	[52.8]	[3]	0.4
Gross operating income	738	46.7	748	47.2	[10]	[1.4]
Selling, general and administrative expenses	[511]	[32.3]	[484]	[30.6]	[27]	5.3
Income from operations	227	14.4	264	16.6	[37]	[13.8]

The casual sector includes 149 million euro of sales made through the directly owned stores [141 million euro in 2002]. Even though sales volumes have increased since last year, the sector's net revenues are down slightly [-0.5%]. Without the heavy exchange effect explained in the previous section, revenues would have increased by 2.1%. Cost of sales went up slightly [+0.4%] due to the policy of enriching the product-mix. Gross operating income went from 47.2% to 46.7% of sales; the main factors that brought about this decline are the exchange effect and the product enrichment policy.

Variable selling costs are lower, though not significantly, while general and administrative expenses reflect substantial provisions to cover a limited number of receivable balances that may be at risk.

The exchange effect and these higher provisions lowered income from operations from 16.6% to 14.4% of sales.

Results of the Sportswear and equipment sector

[millions of euro]	2003	%	2002	%	Change	%
Sector total revenues	159	100.0	283	100.0	[124]	[43.8]
Cost of sales	[111]	[69.7]	[186]	[65.6]	75	[40.3]
Gross operating income	48	30.3	97	34.4	[49]	[50.3]
Selling, general and administrative expenses	[50]	[32.1]	[125]	[44.2]	75	[59.1]
Income from operations	[2]	[1.8]	[28]	[9.8]	26	[89.9]

The sports sector was significantly influenced by the disposal of the sports equipment business. The period under review reflects the discontinuance of sales once contracts had been signed, which took place during the first half of the year; revenues include 40 million euro of sportswear sales. This sector was also heavily affected by the performance of the dollar and yen, with a 6.4% impact on net sales. Gross operating income benefits from the reduction in costs for restructuring the business that has now been sold. General and administrative expenses are also significantly affected by the elimination of depreciation and amortization of the assets sold and by the transfer of part of the personnel to the companies that bought the business. As a result, the operating loss has fallen considerably, going from 28 to 2 million euro, with a negative incidence of 1.8% of sales compared with 9.8% last year. The net book values of the assets sold were brought into line with their realizable values in 2002. All other restructuring expenses expected to be incurred in connection with the disposal of the sports equipment business were provided for in specific reserves set up at the end of 2002. The sale, which took place during the first half of 2003, did not therefore have any impact on this year's statement of income; the net cash flow generated during the year amounted to 81 million euro, as detailed in the statement of cash flows.

Results of the Manufacturing and others sectors

[millions of euro]	2003	%	2002	%	Change	%
Sector total revenues	121	100.0	123	100.0	[2]	[1.3]
Cost of sales	[97]	[80.2]	[100]	[82.0]	3	[3.4]
Gross operating income	24	19.8	23	18.0	1	8.5
Selling, general and administrative expenses	[17]	[14.0]	[16]	[12.6]	[1]	10.0
Income from operations	7	5.8	7	5.4	-	5.2

Despite the decrease in revenues due to a slight exchange effect, the manufacturing sector managed to implement a cost containment policy which enabled it to improve the incidence of cost of sales from 82% to 80.2%. Gross operating income remains the same in absolute terms, improving as a percentage of sales from 18% to 19.8%. There has been a slight increase in selling, general and administrative expenses. However, these expenses do not affect the sector's income from operations which comes to 7 million euro, substantially in line with 2002.

Financial situation - highlights. The more important elements of the balance sheet, with comparative figures as of December 31, 2002, are as follows:

[millions of euro]	12.31.2003	12.31.2002	Change
Working capital	729	798	[69]
Asset due to be sold	8	114	[106]
Total capital employed	1,655	1,768	[113]
Net financial position	468	613	[145]
Shareholders' equity	1,174	1,141	33
Minority interests	13	14	[1]

Compared with the previous year, working capital is showing a decrease of 69 million euro, mainly due to a decline in trade receivables and inventories. The effect of restructuring the sports sector, namely 8 million euro which represents the residual amount of the assets due to be sold at their realizable value, is shown separately from working capital; in particular, the balance as of December 31, 2003 represents the amount agreed for the sale of a building owned by a foreign subsidiary which is used in the business sold. The decrease in these assets compared with the previous year relates to the sale of the assets used in the Nordica, Prince and Rollerblade businesses in accordance with the sale contracts which were implemented during 2003. Apart from what has already been said, the change in net invested capital was also due to the combined effect of the following factors:

- _ additions to tangible and intangible fixed assets as a result of investments totaling 151 million euro;
- _ depreciation/amortization, writedowns and disposals of 103, 13 and 42 million euro respectively;
- _ decrease in operational reserves of 32 million euro.

The net financial position comes to 468 million euro, a decrease of 145 million euro compared with the previous year, broken down as follows:

[millions of euro]	12.31.2003	12.31.2002	Change
Current financial assets:			
Italian government securities and monetary and bond funds	27	26	1
bank deposits	207	106	101
cash and ordinary current accounts	118	147	[29]
other short-term financial receivables	17	18	[1]
Total current financial assets	369	297	72
Medium-term financial receivables	31	16	15
Total financial assets	400	313	87
Current financial liabilities:			
short-term financial payables	[35]	[37]	2
current portion of medium-term debt	[2]	[55]	53
current portion of amounts due to leasing companies	[5]	[5]	-
Total current financial liabilities	[42]	[97]	55
Medium-term financial payables:			
bond loan	[300]	[300]	-
syndicated loan	[500]	[500]	-
other medium-term loans	[4]	[4]	-
due to leasing companies	[22]	[25]	3
Total medium-term financial payables	[826]	[829]	3
Total financial liabilities	[868]	[926]	58
Net financial position	[468]	[613]	145
Net short-term financial position	327	200	127
Net medium-term financial position	[795]	[813]	18
Net financial position	[468]	[613]	145

The bond loan of 300 million euro, with maturity July 2005, provides for limitations on the granting of real guarantees for new loans; it does not provide for compliance with any financial index ["financial covenants"].

The syndicated loan of 500 million euro, with maturity July 2007, provides for compliance with two financial indices that have to be calculated every six months on the consolidated figures, namely:

- $_minimum\ ratio\ between\ EBITD\ [earnings\ before\ interest, tax\ and\ depreciation]\ and\ net\ financial\ charges\ of\ 2.5\ times;$
- $_$ minimum ratio between the net financial position and Shareholders' equity of 1.

 $Moreover, there \ are \ limits \ on \ large \ disposals \ of \ assets \ and \ on \ the \ granting \ of \ real \ guarantees \ for \ new \ loans.$

Management believes that having to repay these loans will not affect the Group's ability to sustain the investments envisaged in the 2004-2007 Guidelines.

Summary statement of cash flows

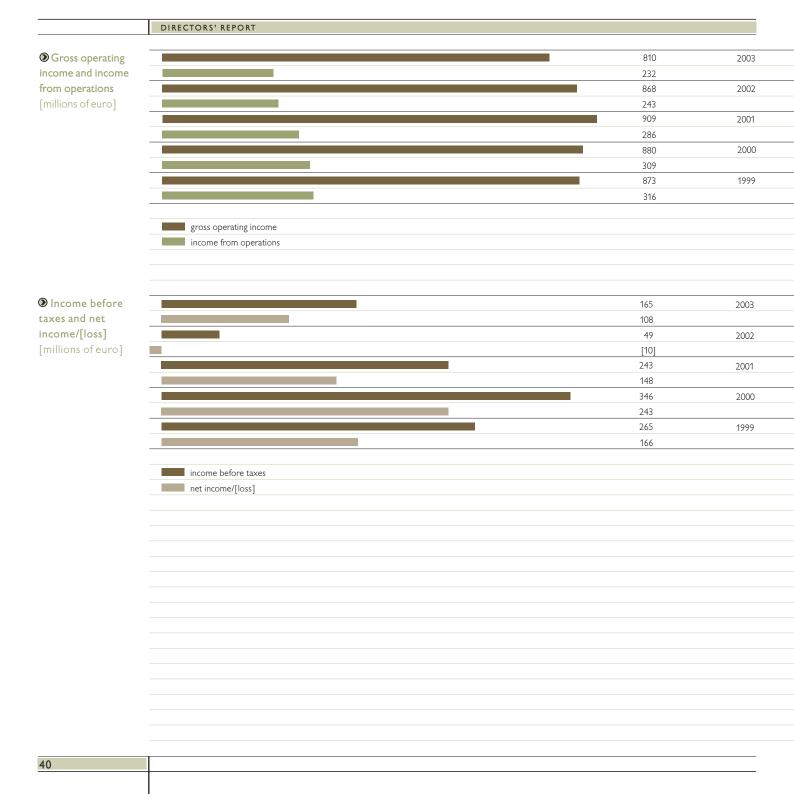
[millions of euro]	2003	2002
Self-financing	327	349
Change in working capital	[4]	8
Net operating investments	[126]	[156]
Disposal of the sports equipment sector	81	-
Purchase and sale of financial fixed assets, net	[4]	[4]
Payment of dividends	[64]	[75]
Payment of taxes	[71]	[112]
Net financial surplus	139	10

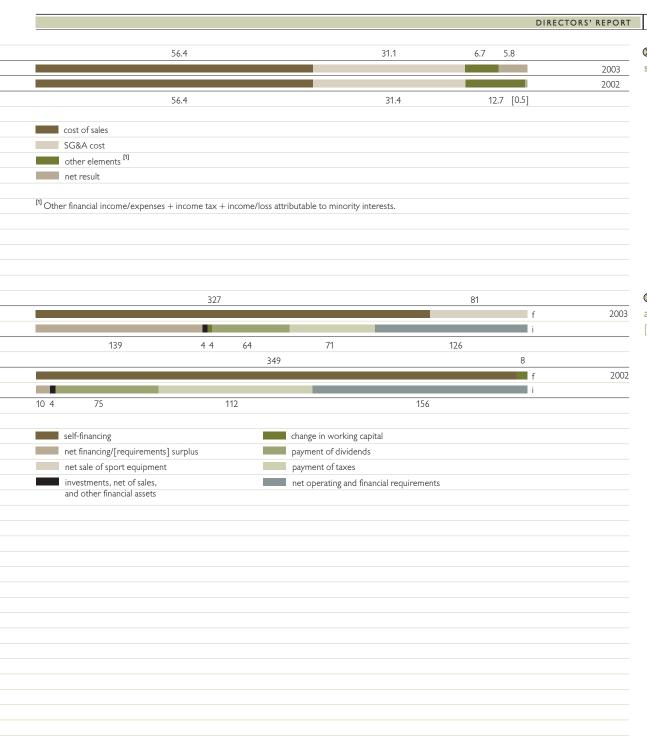
Self-financing [which includes net income, depreciation and provisions net of releases and capital gains/losses] generated by the Group comes to 327 million euro, compared with 349 million euro in 2002. Disposal of the sports equipment business during the year made it possible to reduce the Group's financing requirement considerably.

The net proceeds from the sale of the sports equipment business are made up as follows:

- _ sales of tangible and intangible fixed assets for 119 million euro;
- _ acquisition of a 10% interest in Tecnica S.p.A. for 15 million euro;
- _ a restricted deposit [in an escrow account] of 26.5 million euro relating to the sale of the Prince business, which was collected at the end of January 2004;
- _ sale of the investment in Benetton Sportsystem Schweiz A.G. for 3.8 million euro.

For further information of an economic and financial nature, see the financial statements and explanatory notes.





Reclassified income statement [%]

Source and application of funds [millions of euro]



 Benetton Group 2003 consolidated financial statements and related notes

Balance sheets reclassified according to financial criteria [thousands of euro]

Assets	12.31.2003	12.31.2002	notes
Current assets			
Cash and banks	32 4 ,835	190,728	8
Marketable securities	27,289	26,291	7
Differentials on forward transactions	10,000	8,740	7
Financial receivables	7,298	71,213	
	369,422	296,972	
Accounts receivable			5
Trade receivables	848,508	866,803	
Other receivables	297,220	125,012	
less - Allowance for doubtful accounts	[95,870]	[72,474]	
	1,049,858	919,341	
Assets due to be sold	8,088	113,886	6
Inventories	233,736	284,425	4
Accrued income and prepaid expenses	15,842	22,009	9
	257,666	420,320	
Total current assets	1,676,946	1,636,633	
Investments and other non-current assets			3
Equity investments	20,514	2,095	
Securities held as fixed assets	9	10	
Guarantee deposits	15,832	16,233	
Financial receivables	30,615	16,497	
Other non-current receivables	8,662	10,740	
Total investments and other non-current assets	75,632	45,575	
Tangible fixed assets			2
Real estate	641,966	594,941	
Plant, machinery and equipment	327,409	352,907	
Office furniture, furnishings and electronic equipment	100,269	104,105	
Vehicles and aircraft	22,817	37,605	
Construction in progress and advances for tangible fixed assets	17,019	17,033	
Finance leases	13,913	15,057	
less - Accumulated depreciation	[409,553]	[415,708]	
Total tangible fixed assets	713,840	705,940	
Intangible fixed assets			1
Licenses, trademarks and industrial patents	28,225	28,897	
Deferred charges	202,800	226,099	
Total intangible fixed assets	231,025	254,996	
Total assets	2,697,443	2,643,144	

Liabilities and Shareholders' equity	12.31.2003	12.31.2002	notes
Current liabilities			
Bank loans	33,879	32,322	15
Short-term loans	1,339	4,668	15
Current portion of long-term loans	1,567	55,718	15, 16
Current portion of lease financing	4,977	4,608	16
Accounts payable	331,563	339,804	17
Other payables, accrued expenses and deferred income	91,364	96,643	18-21
Reserve for income taxes	126,514	12,248	18
Total current liabilities	591,203	546,011	
Long-term liabilities			
Bonds	300,000	300,000	14
Long-term loans, net of current portion	502,269	503,992	15, 16
Other long-term liabilities	3,330	2,217	
Lease financing	21,834	25,274	16
Reserve for employee termination indemnities	49,774	53,430	13
Other reserves	42,373	56,867	12
Total long-term liabilities	919,580	941,780	
Minority interests in consolidated subsidiaries	12,799	14,780	
Shareholders' equity			
Share capital	236,026	236,026	10
Additional paid-in capital	56,574	56,574	
Surplus from monetary revaluation of assets	22,058	22,058	
Other reserves and retained earnings	762,986	836,393	11
Translation differences	[11,657]	[617]	
Net income/[loss] for the year	107,874	[9,861]	
Total Shareholders' equity	1,173,861	1,140,573	
Total liabilities and Shareholders' equity	2,697,443	2,643,144	

⋑ Statements of income reclassified to cost of sales [thousands of euro]

	2003	2002	notes
Revenues	1,858,983	1,991,823	23
Cost of sales			
Material and net change in inventories	528,315	595,686	26
Payroll and related costs	90,786	101,045	29
Subcontract work	364,291	350,840	27
Industrial depreciation	24,075	33,053	30
Other manufacturing costs	41,731	43,817	
	1,049,198	1,124,441	
Gross operating income	809,785	867,382	
Selling, general and administrative expenses			
Payroll and related cost	121,424	142,126	29
Distribution and transport	31,687	31,544	27
Sales commissions	82,622	92,112	27
Advertising and promotion	69,477	101,926	27
Depreciation and amortization	79,178	99,812	30
Other expenses	193,818	157,215	26-28, 32
	578,206	624,735	
Income from operations	231,579	242,647	
Other income/[expenses]			30,31,33-37
Foreign currency gain/[loss], net	9,652	8,607	
Interest income	28,780	32,807	
Interest expenses	[60,213]	[73,241]	
Other income/[expenses], net	[44,480]	[161,829]	
	[66,261]	[193,656]	
Income before taxes and minority interests	165,318	48,991	
Income taxes	56,399	57,243	38
Income/[Loss] before minority interests	108,919	[8,252]	
Minority interests income	[1,045]	[1,609]	
Net income/[loss]	107,874	[9,861]	



Balance sheetAssets

[thousands of euro]

		12.31.2003	12.31.2002	notes
В	Fixed assets			
I	Intangible fixed assets			1
1	start-up expenses	7,361	10,835	
3	industrial patents and intellectual property rights	1,491	2,276	
4	concessions, licenses, trademarks and similar rights	26,734	26,621	
5	goodwill and consolidation differences	90,078	99,093	
6	assets under construction	206	5,396	
7	other intangible fixed assets	105,155	110,775	
	Total intangible fixed assets	231,025	254,996	
II	Tangible fixed assets			2
1	real estate	540,099	503,718	
2	plant and machinery	87,343	101,020	
3	industrial and commercial equipment	1,206	3,832	
4	other assets	68,173	80,337	
5	assets under construction and advances to suppliers	17,019	17,033	
	Total tangible fixed assets	713,840	705,940	
III	Financial fixed assets			3
1	equity investments in:			
	a. subsidiary companies	3,549	1	
	b. associated companies	5	5	
	d. other companies	16,960	2,089	
	Total equity investments	20,514	2,095	
2	accounts receivable due from:			
	d. third parties:			
	_ within 12 months	34,742	6,485	
	_ beyond 12 months	46,447	32,730	
	Total accounts receivable due from third parties	81,189	39,215	
3	other securities	9	10	
	Total financial fixed assets	101,712	41,320	
	Total fixed assets	1,046,577	1,002,256	

		12.31.2003	12.31.2002	notes
С	Current assets			
I	Inventories			4
1	raw materials, other materials and consumables	101,734	109,449	
2	work in progress and semi-manufactured products	53,147	61,729	
4	finished goods and goods for resale	78,422	113,069	
5	advance payments to suppliers	433	178	
	Total inventories	233,736	284,425	
II	Accounts receivable			5
1	trade receivables:			
	_ within 12 months	752,153	793,861	
	_ beyond 12 months	3,581	3,523	
	Total trade receivables	755,734	797,384	
2	subsidiary companies	101	-	
3	associated companies	364	340	
4	parent company	447	496	
5	other receivables:			
	_ within 12 months	269,315	122,387	
	_ beyond 12 months	5,081	7,217	
	Total other receivables	274,396	129,604	
6	assets due to be sold	8,088	113,886	6
	Total accounts receivable	1,039,130	1,041,710	
III	Financial assets not held as fixed assets			7
6	other securities	27,289	26,291	
7	other financial receivables	34	66,985	
8	differentials on forward transactions			
	within 12 months	10,000	8,740	
	Total financial assets not held as fixed assets	37,323	102,016	
IV	Liquid funds			8
1	bank and post office deposits	265,024	132,149	
2	checks	59,503	58,230	
3	cash in hand	308	349	
	Total liquid funds	324,835	190,728	
	Total current assets	1,635,024	1,618,879	
D	Accrued income and prepaid expenses	15,842	22,009	9
Total a		2,697,443	2,643,144	

Balance sheetLiabilities andShareholders' equity[thousands of euro]

		12.31.2003	12.31.2002	notes
Α	Shareholders' equity			
I	Share capital	236,026	236,026	10
Ш	Additional paid-in capital	56,574	56,574	
Ш	Revaluation reserves	22,058	22,058	
IV	Legal reserve	32,240	32,240	
VII	Other reserves	719,089	803,536	11
IX	Net income/[loss] for the year	107,874	[9,861]	
	Group interest in Shareholders' equity	1,173,861	1,140,573	
	Minority interests	12,799	14,780	
	Total Shareholders' equity	1,186,660	1,155,353	
В	Reserves for risks and charges			12
2	taxation	3,039	8,085	
3	other	39,334	48,782	
	Total reserves for risks and charges	42,373	56,867	
С	Reserves for employee termination indemnities	49,774	53,430	13
	reserves for employee termination indeminates	17,771	33,130	
D	Accounts payable			
1	bonds beyond 12 months	300,000	300,000	14
3	due to banks:			15
	_ within 12 months	35,388	87,627	
	_ beyond 12 months	501,739	503,401	
	Total due to banks	537,127	591,028	
4	due to other financial companies:			16
	_ within 12 months	5,835	5,963	
	_ beyond 12 months	22,364	25,865	
	Total due to other financial companies	28,199	31,828	
5	advances from customers	2,715	2,587	
6	trade payables:			17
	_ within 12 months	317,292	336,543	
	_ beyond 12 months	101	168	
	Total due to trade payables	317,393	336,711	
7	securities issued within 12 months	1,080	1,077	
8	due to subsidiary companies	2,630	-	
9	due to associated companies	5	-	
10	due to parent company	11,005	8	

	12.31.2003	12.31.2002	notes	
11 due to tax authorities:			18	
_ within 12 months	149,440	30,138		
_ beyond 12 months	-	101		
Total due to tax authorities	149,440	30,239		
12 due to social security and welfare institutions	8,931	9,250	19	
13 other payables:			20	
_ within 12 months	40,427	43,758		
_ beyond 12 months	604	1,948		
Total other payables	41,031	45,706		
Total accounts payable	1,399,556	1,348,434		
E Accrued expenses and deferred income			21	
1 accrued expenses and deferred income	19,080	29,060		
Total accrued expenses and deferred income	19,080	29,060		
Total liabilities and Shareholders' equity	2,697,443	2,643,144		
	12.31.2003	12.31.2002	22	Memorandum
Fiduciary guarantees granted				accounts
Guarantees	2,786	8,276		_ [thousands of euro]
Commitments				
Sale commitments	1,950	2,558		
Purchase commitments	6,895	40,460		
Other				
Currency to be sold forward	581,088	622,191		
Currency to be purchased forward	278,267	250,038		
Notes presented for discount	1,725	7,486		

Statements of income [thousands of euro]

_		Walter of any displace	2003	2002	notes
Α	1	Value of production Revenues from sales and services	1 050 002	1,991,823	23
			1,858,983		24
		Change in work in progress, semi-manufactured products and finished goods	[35,603] 750	[9,872] 865	24
		Own work capitalized Other income and revenues	55,868		25
	Э			44,540	25
		Total value of production	1,879,998	2,027,356	
В		Production costs			
	6	Raw materials, other materials, consumables and goods for resale	487,048	557,222	26
	7	External services	657,767	709,530	27
	8	Leases and rentals	90,870	86,932	28
	9	Payroll and related costs:			29
		a. wages and salaries	157,289	182,991	
		b. social security contributions	45,715	49,565	
		c. employee termination indemnities	8,858	9,706	
		e. other costs	1,531	909	
		Total payroll and related costs	213,393	243,171	
1	0	Amortization, depreciation and writedowns:			30
		a. amortization of intangible fixed assets	42,916	66,434	
		b. depreciation of tangible fixed assets	60,741	66,431	
		c. other writedowns of fixed assets	16,129	15,877	
		d. writedowns of current receivables and of liquid funds	48,430	23,061	
		Total amortization, depreciation and writedowns	168,216	171,803	
1	1	Change in stock of raw materials, other materials,			
		consumables and goods for resale	6,828	[2,245]	
1	2	Provisions to risk reserves	11,888	16,502	31
1	3	Other provisions	11,085	25,681	31
		Other operating costs	28,709	38,911	32
		Total production costs	1,675,804	1,847,507	
		Difference between production value and costs	204,194	179,849	
		· · · · · · · · · · · · · · · · · · ·	, ,		
С	_	Financial income and expenses			
		Income from equity investments	4,042	842	33
1	6	Other financial income:			34
		a. from receivables held as financial fixed assets other companies	1,945	692	
		b. from securities held as financial fixed assets not representing equity investm	ents -	1,961	
		c. from securities included among current assets			
		not representing equity investments	795	1,988	
		d. financial income other than the above:			
		_ subsidiary companies	81	130	
		_ other companies	167,456	147,229	
		Total financial income other than the above	167,537	147,359	
		Total other financial income	170,277	152,000	

		2003	2002	notes
17	Interest and other financial expenses:			35
	_ from subsidiary companies	49	-	
	_ from other companies	196,469	188,416	
	Total interest and other financial expenses	196,518	188,416	
	Total financial income and expenses	[22,199]	[35,574]	
)	Changes in value of financial assets			
	Revaluations:			
10	c. of securities included among current assets			
	not representing equity investments	_	26	
19	Writedowns:		20	
17	a. of equity investments	261	11	
	c. of securities included among current assets	201	11	
	not representing equity investments	53	11	
	Total writedowns	314	22	
	Total changes in value of financial assets	[314]	4	
	Total Changes III value of Illiancial assets	[314]	<u> </u>	
	Extraordinary income and expenses			
20	Income:			36
	_ gains on disposals	2,870	1,095	
	_ other	10,369	9,583	
	Total income	13,239	10,678	
21	Expenses:			37
	_ losses on disposals	1,902	1,555	
	_ taxes relating to prior years	10,916	1,736	
	_ other	16,784	102,675	
	Total expenses	29,602	105,966	
	Total extraordinary income and expenses	[16,363]	[95,288]	
	Results before income taxes	165,318	48,991	
		100,010	. 3,771	
22	Income taxes	56,399	57,243	38
	Income/[Loss] before minority interests	108,919	[8,252]	
	Income attributable to minority interests	[1,045]	[1,609]	
		[.,]	[.,]	

● Statements of changes in Shareholders' equity [thousands of euro]

			Surplus from monetary	Other		Net income/	
	Share	Additional		and retained	Translation	[loss] for	
	Capital	paid-in capital	of assets	earnings	differences	the year	Total
Balance as of	- Capital	para in capital	0. 00000			5.10 / 54.1	
December 31, 2001	236,026	56,574	22,058	762,755	15,213	148,077	1,240,703
Allocation of 2001							
net income to reserves	-	-	-	148,077	-	[148,077]	-
Dividends distributed, as appr	roved						
at the ordinary Shareholders' r	neeting						
on May 14, 2002	-	-	-	[74,439]	-	-	[74,439
Translation differences							
arising from foreign							
financial statements	-	-	-	-	[15,830]	-	[15,830
Net income/[loss] for the year	ır -	-	-	-	-	[9,861]	[9,861
Balance as of							
December 31, 2002	236,026	56,574	22,058	836,393	[617]	[9,861]	1,140,573
Allocation of 2002							
net loss to reserves	-	-	-	[9,861]	-	9,861	
Dividends distributed, as appr	roved						
at the ordinary Shareholders'	meeting						
on May 12, 2003	-	-	-	[63,546]	-	-	[63,546
Translation differences							
arising from foreign							
financial statements	-	-	-	-	[11,040]	-	[11,040
Net income/[loss] for the year	ır -	-	-	-	-	107,874	107,874
Balance as of							
December 31, 2003	236,026	56,574	22,058	762,986	[11,657]		1,173,861

	Capital and	Net	
	reserves	income	Total
Balance as of December 31, 2001	12,908	2,245	15,153
Allocation of 2001 net income	2,245	[2,245]	-
Acquisition of investments/Share capital increase	569	-	569
Deconsolidation of companies	[1,646]	-	[1,646]
Dividends distributed	[412]	-	[412]
Translation differences	[493]	-	[493]
Net income for the year	-	1,609	1,609
Balance as of December 31, 2002	13,171	1,609	14,780
Allocation of 2002 net income	1,609	[1,609]	-
Acquisition of investments/Share capital increase	[1,337]	-	[1,337]
Dividends distributed	[761]	-	[761]
Translation differences	[928]	-	[928]
Net income for the year	-	1,045	1,045
Balance as of December 31, 2003	11,754	1,045	12,799

Statements of cash flow [thousands of euro]

	2003	2002
Cash flow from operating activities		
Income/[Loss] before minority interests	108,919	[8,252]
Depreciation and amortization	103,657	132,865
Amortization of deferred charges on long-term loans	363	345
Provision for doubtful accounts and other non-monetary charges	76,517	74,045
Provision for income taxes	56,399	57,243
Losses/[Gains] on disposal of assets, investments, net	26,493	105,041
Payment of termination indemnities and use of other reserves	[45,275]	[12,680]
Self-financing	327,073	348,607
Payment of taxes	[71,442]	[112,021]
Change in accounts receivable	[5,078]	[297]
Change in other operating receivables	[22,885]	17,693
Change in inventories	42,683	10,201
Change in accounts payable	[16,001]	[40,521]
Change in other operating payables and accruals	[2,532]	21,387
Change in working capital	[3,813]	8,463
Net cash flow from operating activities	251,818	245,049
Cash flow from investing activities		
Purchase of new subsidiaries	-	[627]
Purchase of tangible fixed assets	[104,447]	[94,322]
Investment in intangible fixed assets	[46,091]	[74,244]
Sales of tangible fixed assets	38,378	11,930
Disposal of intangible fixed assets	103,065	7,830
Net change in investment-related receivables and payables	2,511	[7,187]
Net cash flow from investing activities	[6,584]	[156,620]
Cash flow from other investing activities		
Purchase of equity investments	[18,526]	-
Sale of investments	3,854	2,535
[Increase]/Decrease in guarantee deposits and treasury shares	[27,232]	[6,119]
Net cash used in other investing activities	[41,904]	[3,584]
Payment of dividends	[64,307]	[74,852]
1 ayınıcını on dividends		

	2003	2002
Cash flow from financing activities		
Change in Shareholders' equity	245	563
Change in short-term borrowing	66,868	[158,562]
Proceeds from issuance of long-term debt	-	350,000
Repayment of long-term debt	[55,710]	[315,762]
Change in securities held as fixed assets	-	70,222
Change in long-term debt/financial receivables due to Group companies	1,304	-
Increase in long-term financial receivables	[25,248]	[20,255]
Decrease in long-term financial receivables	7,128	12,621
Change in lease financing	[3,070]	6,013
	[8,483]	[55,160]
Change of liquidity	[145,468]	32,049
Effect of translation adjustments	14,928	13,118
Net cash used by financing activities	[139,023]	[9,993]

© Companies and groups included within the consolidation area as of December 31, 2003

			Share	Group
Name of the company	Location	Currency	Capital	interest
Companies and groups consolidated				
on a line-by-line basis:				
Parent Company				
Benetton Group S.p.A.	Ponzano Veneto [Tv]	2	236,026,454.30	
Italian subsidiaries				
Benfin S.p.A.	Ponzano Veneto [Tv]	Eur	47,988,000	100.000%
_ Olimpias group	Ponzano Veneto [Tv]	Eur	10,000,000	85.000%
_ Benair S.p.A.	Ponzano Veneto [Tv]	Eur	1,548,000	100.000%
Bencom S.r.l.	Ponzano Veneto [Tv]	Eur	150,000,000	100.000%
_ I.M.I. Italian Marketing International S.r.I.	Ponzano Veneto [Tv]	Eur	90,000	100.000%
Società Investimenti	. ,			
e Gestioni Immobiliari [S.I.G.I.] S.r.I.	Ponzano Veneto [Tv]	Eur	36,150,000	100.000%
_ Buenos Aires 2000 S.r.l.	Ponzano Veneto [Tv]	Eur	10,516,456	100.000%
Fabrica S.p.A.	Ponzano Veneto [Tv]	Eur	4,128,000	100.000%
_ Colors Magazine S.r.l.	Ponzano Veneto [Tv]	Eur	1,549,370.69	100.000%
Benind S.p.A.	Ponzano Veneto [Tv]	Eur	26,000,000	100.000%
Benetton Retail Italia S.r.I.	Ponzano Veneto [Tv]	Eur	5,100,000	100.000%
Bentec S.p.A.	Ponzano Veneto [Tv]	Eur	12,900,000	100.000%
Foreign subsidiaries				
Benetton USA Corp.	Wilmington	Usd	73,654,000	100.000%
Benetton Retail International S.A.	Luxembourg	Eur	10,000,000	100.000%
Benetton Retail Belgique S.A.	Bruxelles	Eur	9,500,000	100.000%
Benetton Retail Deutschland GmbH	München	Eur	2,000,000	100.000%
_ New Ben GmbH	Frankfurt	Eur	1,000,000	51.000%
Benetton Retail [1988] Ltd.	London	Gbp	56,800,000	100.000%
Benetton Retail Ungheria Kft.	Budapest	Huf	50,000,000	100.000%
Benetton Asia Pacific Ltd.	Hong Kong	Hkd	41,400,000	100.000%
Benetton Retail Spain S.L.	Castellbisbal	Eur	10,180,300	100.000%
Benetton 2 Retail Comércio		_4,	, ,	
de Produtos Têxteis S.A.	Maia	Eur	500,000	100.000%
Benetton Retail France S.A.S.	Paris	Eur	12,213,336	100.000%
Benetton Deutschland GmbH	München	Eur	2,812,200	100.000%
Benetton International N.V. S.A.	Amsterdam	Eur	92,759,000	100.000%
Benetton Japan Co. Ltd.	Tokyo	Јру	400,000,000	100.000%
Benetton Retailing Japan Co. Ltd.	Tokyo	Jру	160,000,000	100.000%
Benetton Korea Inc.	Seoul	Krw	2,500,000,000	50.000%

			Share	Group
Name of the company	Location	Currency	Capital	interest
Benetton Manufacturing Holding N.V.	Amsterdam	Eur	225,000	100.000%
_ Benetton Croatia d.o.o.	Osijek	Hrk	2,000,000	100.000%
 Benetton Sportsystem Taiwan Ltd. 	Taichung	Twd	10,000,000	100.000%
_ Benetton Manufacturing Tunisia S.à r.l.	Sahline	Tnd	350,000	100.000%
_ DCM Benetton India Ltd.	New Delhi	Inr	109,241,000	50.000%
_ Benetton [Far East] Ltd.	Hong Kong	Hkd	51,000,000	100.000%
_ United Colors of Benetton do Brasil Ltda.	Curitiba	Brl	74,981,578	100.000%
_ Benetton Austria GmbH	Salzburg	Eur	3,270,277.54	100.000%
_ Benetton Trading USA Inc.	Bordentown	Usd	379,148,000	100.000%
_ Benetton Finance S.A.	Luxembourg	Eur	181,905,390	100.000%
_ Lairb Property Ltd.	Dublin	Eur	260,000	100.000%
_ Benetton Società di Servizi S.A.	Lugano	Chf	80,000,000	100.000%
_ Benetton Textil Spain S.L.	Castellbisbal	Eur	150,250	100.000%
_ Benetton Textil - Confeccao de Texteis S.A	. Maia	Eur	100,000	100.000%
United Colors Communication S.A.	Lugano	Chf	1,000,000	100.000%
_ Benetton Tunisia S.à r.l.	Sahline	Tnd	303,900	100.000%
_ Benetton Trading S.à r.l.	Sahline	Tnd	20,000	100.000%
_ Benetton Ungheria Kft.	Nagykallo	Eur	89,190	100.000%
Benetton International Property N.V. S.A.	Amsterdam	Eur	17,608,000	100.000%
_ Benetton Real Estate International S.A.	Luxembourg	Eur	116,600,000	100.000%
_ Benetton Real Estate Austria GmbH	Wien	Eur	2,500,000	100.000%
_ Benetton France Trading S.à r.l.	Paris	Eur	99,495,711.60	100.000%
_ Benetton Realty France S.A.	Paris	Eur	94,900,125	100.000%
_ Benetton Realty Spain S.L.	Castellbisbal	Eur	15,270,450	100.000%
_ Benetton Realty Portugal Imobiliaria S.A.	Maia	Eur	100,000	100.000%
Investments in subsidiaries				
companies carried at equity				
– Benetton Slovakia s.r.o.	Dolny Kubin	Svk	135,000,000	100.000%
– Benetton Argentina S.A.	Buenos Aires	Arp	500,000	100.000%
Investments in subsidiaries				
and associated companies carried at cost				
 Consorzio Generazione Forme - Co.Ge.F. 	S. Mauro Torinese [To]	Eur	15,492	33.333%
– ACN 073 106 966 Pty.	Sydney	Aud	1,000	100.000%
– L'Apollinaire S.n.c.	Paris	Eur	38,112.50	100.000%
– Benetton Australia Pty. Ltd.	Sydney	Aud	500,000	100.000%
– Benetton Realty Russia O.O.O.				

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 thousands of euro.

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 casualwear. 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 content of the consolidated financial statements

The consolidated financial statements of the Group include the financial statements as of December 31, 2003 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 Shareholders' 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 Shareholders' equity and net income as reported in the statutory financial statements of the Parent Company, Benetton Group S.p.A., and the consolidated Shareholders' equity and net income of the Group is presented in the note on Shareholders' 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 Shareholders' 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 Shareholders' equity.
 Goodwill is amortized over its estimated useful life.
- **c.** Intercompany receivables and payables, costs and revenues, 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 Shareholders' 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 are translated into euro 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 euro of foreign currency financial statements are reflected directly in consolidated Shareholders' equity.

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 Board [IASB].

Intangible fixed assets. These are recorded at purchase or production 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 fifteen and twentyfive years, while patents are amortized over three years. Goodwill and consolidation differences are amortized over ten 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 production 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	2% - 3%
Plant and machinery	8% - 25%
Industrial and commercial equipment	10% - 25%
Other tangible fixed assets:	
office and shops furniture, furnishing, electronic machines	10% - 25%
vehicles	20% - 25%
aircraft	6%

Accelerated depreciation calculated in the financial statements of Group companies is reversed and the related accumulated depreciation is adjusted as a result.

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.

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 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 accruals 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.

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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 results 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.

Deferred tax assets are evaluated on a prudent basis and adjusted to consider any reasonable assurance that they will be realised.

Supplementary information

Accounting treatment of the business transfers in the consolidated financial statements. As explained in the "Principal organizational and corporate changes" section of the Directors' report, the transfer of the various businesses from the Parent Company to three Italian companies involved transferring assets and liabilities on the basis of a valuation carried out by expert appraisers in accordance with art. 2343 of the Italian Civil Code.

The assets transferred mainly consist of trademarks and patents, licenses and software, land and buildings, plant and machinery and IT equipment.

The expert appraisal recalculated the residual useful life of the assets and gave each of them a value, which resulted in a significant capital gain for the transferor. Reassessed for tax purposes, this gain was then subjected to the 19% flat-rate substitute tax as per arts. 1 and 4.2 of D. Lgs. 358/1997.

The accounting treatment of this operation had the following impact on the consolidated financial statements:

- _ elimination of the intercompany gain on transfer and reallocation of the pre-contribution values to the various assets and related reserves:
- _ elimination of the depreciation and amortization charged on the new higher values in the transferee companies;
- _ recalculation of depreciation and amortization on the basis of the assets' historical costs and adjusting their residual useful life to that established for the financial statements of the transferee companies.

The substitute tax will make it possible to deduct the depreciation and amortization on these capital gains for tax purposes in future years. According to Accounting Principle no. 25 issued by the Italian Accounting Profession, elimination of the intercompany gains on consolidation will give rise to timing differences between the post-elimination asset values in the consolidated financial statements and the corresponding values shown in the statutory financial statements of the transferee companies, on which deferred tax assets have been booked.

These deferred tax assets have been calculated by applying the current tax rate to the said timing differences, given that it is reasonably certain that they will be recoverable in future years by earning sufficient taxable income, as reflected in the Company's forecasts.

The Killer Loop brand, on the other hand, was transferred at an appraisal value that was below book value. The expert appraisers chose the "market royalty rate" as their main method of valuation as this was considered the most prudent, even if it does not necessarily represent the value that could be obtained by selling the brand [market value]. As pointed out in this appraisal, different methods of valuation can lead to quite different values; in fact, the appraisers used "enterprise value" as a control method to assess the economic sustainability of the values indicated by the main valuation method. Under this method, the value of the Killer Loop brand and related goodwill as shown in the financial statements were confirmed and the expected cash flows were not at risk of impairment.

Impact of introducing IAS

1. Timetable for the introduction of IFRS

Art. 25 of Law 306/2003, going for a wider application than originally provided for in Reg. no. 1606/2002/CE, obliges companies to adopt IFRS [International Financial Reporting Standards] for each financial year commencing from January 1, 2005. This includes the statutory and consolidated financial statements of all listed companies.

The first financial statements of the Benetton Group that will be prepared in accordance with IFRS will therefore be those for the year ending December 31, 2005.

The document IFRS 1 provides that the so-called "date of transition to IFRS" is the opening date of the year immediately prior to the one when IFRS will be adopted for the first time. In the case of the Benetton Group, the "date of transition" is therefore January 1, 2004, the date on which we will have to prepare a balance sheet in accordance with international accounting principles for the first time.

2. How the transition will be managed

To deal with this epoch-making change, the Benetton Group set up a task force together with external consultants which drew up a document that analyzed the impact of the transition. This involved identifying the main consequences on the financial statements [valuations and reclassifications between various balance sheet items], the explanatory notes [in terms of additional disclosures], internal organization [redrafting of existing rules and procedures and the designing of new interfunctional information flows], and IT systems [changes to respond to new lines of reasoning and data requirements].

Once this analysis phase was over, the task force began planning and implementing the steps needed to adjust the IT and reporting systems and structures. At present, there is no reason to believe that there will be any problem in implementing the rules as they currently stand.

3. Main areas affected

During the course of the analysis phase, it emerged that the areas that would be most affected by introduction of IFRS would be the following:

- a. Financial statements: in value terms, the captions likely to change the most are those relating to tangible fixed assets [reversal of revaluation reserves on land, buildings, plant and machinery], intangible fixed assets [reversal of start-up and expansion costs], financial instruments [if IAS 32 and 39 are approved in their current form], employee termination indemnities [obligation to discount the liability as per IAS 19] and, obviously, Shareholders' equity. Certain reclassifications will also be necessary: for example, "Leasehold improvements", which are currently shown under "Intangible fixed assets" will in future be shown under "Tangible fixed assets". Lastly, changes will have to be made to the format of the balance sheet, statement of income, statement
- of cash flows and reconciliation of Shareholders' equity. The Group has already made a proposal in this regard. **b.** Explanatory notes: there do not appear to be any particular problems in collecting the information that needs to be disclosed in the notes. Marginal changes may have to be made in the sector information that has to be given.
- c. Internal organization: new information flows will have to be established, above all for "cash generating units" [see IAS 36] and their corollaries [management of internal and external indicators regarding an asset's possible loss of value, the so-called "impairment test", etc.]. Moreover, the Administration and Management Accounting departments will have to adapt their internal and external reporting systems [which will also have to converge] to the new standards.
- d. IT systems: significant changes are not expected to IT systems, except for the modules relating to fixed assets and derivatives. The consolidation software is currently being replaced.

Lastly, it is worth emphasising that the impact on organization and systems can only be evaluated in detail once it is clearer what relationship there will be between the introduction of IFRS, the new reform of company law and the latest reform of the tax system.

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 flows provides information by type of flow and activity. Cash and banks items and
readily marketable securities are treated as cash equivalents.



● Comments on the principal asset items

Fixed assets

[1] Intangible fixed assets

	12.31	.2003	12.31	.2002	
[thousands of euro]	Gross	Net	Gross	Net	
Start-up and expansion expenses	18,367	7,361	21,299	10,835	
Industrial patents and intellectual property rights	3,355	1,491	13,153	2,276	
Licenses, trademarks and similar rights	64,851	26,734	54,136	26,621	
Goodwill	110,464	83,236	107,469	91,465	
Consolidation differences	17,542	6,842	17,882	7,628	
Total goodwill and consolidation differences	128,006	90,078	125,351	99,093	
Assets under construction and advance payments	206	206	5,396	5,396	
Expenses related to bond issues and loans	1,722	876	2,678	1,240	
Costs for the purchase and development of software and others	58,087	25,798	56,995	29,545	
Leasehold improvements	103,187	78,481	103,327	79,990	
Total other intangible fixed assets	162,996	105,155	163,000	110,775	
Total	377,781	231,025	382,335	254,996	

[&]quot;Start-up and expansion expenses" include 6,622 thousand euro in start-up expenses for retail projects.

[&]quot;Licenses, trademarks and similar rights" include the net book value of the following brands:

[thousands of euro]	12.31.2003	12.31.2002
United Colors of Benetton	2,964	1,595
Sisley	426	271
Killer Loop	16,058	17,598
Others	1,206	1,881
Total	20,654	21,345

"Goodwill" will have to change for various reasons: from additions during the year, mainly by a French subsidiary, to amortization for the year [the principal factor]. The balance is made up essentially of the value of the retailing companies bought in Italy's main cities with a view to developing the network of clothes stores.

"Consolidation differences" of 6,842 thousand euro reflect the residual goodwill emerging from consolidation of the companies acquired, with 2,168 thousand euro attributable to the business represented by Killer Loop trademark and the remainder to other European 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 mainly refer to the cost of restructuring and modernizing stores belonging to third parties.

"Costs relating to the purchase and development of software and others" include costs incurred for the study, diagnosis and implementation, as well as the purchase, of IT programs and applications. They also include costs incurred for the early vacation of third party premises, which are amortized over the life of the lease, as well as expenses related to the acquisition of retail activities.

Movements in the principal intangible fixed asset items during 2003 were as follows:

		Licenses,	Goodwill and		Other	
		trademarks and	consolidation	Leasehold	intangible	
[thousands of euro]	Patents	similar rights	differences	improvements	fixed assets	Total
Net opening balance	2,276	26,621	99,093	79,990	47,016	254,996
Change in the scope of consolidation	-	-	-	-	[5]	[5]
Additions	103	3,456	8,069	25,583	8,880	46,091
Disposals	[226]	[4,123]	[2,555]	[1,380]	[778]	[9,062]
Amortization	[766]	[5,043]	[11,883]	[11,495]	[14,091]	[43,278]
Translation differences and other movements	104	5,823	[2,646]	[14,217]	[6,781]	[17,717]
Net closing balance	1,491	26,734	90,078	78,481	34,241	231,025

[2] Tangible fixed assets

Tangible fixed assets are stated net of accumulated depreciation of 409,553 thousand euro.

Additions during 2003 mainly concerned:

- _ investments in real estate for commercial use and the related modernization and upgrading of premises;
- _ plant, machinery and equipment purchased to improve the efficiency of production processes, particularly in the manufacturing companies.

The depreciation charge for the period was 60,741 thousand euro.

Movements in the principal tangible fixed asset items during 2003 were as follows:

					Assets under	
			Industrial and		construction	
	Real	Plant and	commercial	Other	and advances	
[thousands of euro]	estate	machinery	equipment	assets	to suppliers	Total
Net opening balance	503,718	101,020	3,832	80,337	17,033	705,940
Change in the scope of consolidation	[362]	[8]	[31]	[139]	-	[540]
Additions	67,466	13,861	263	16,206	6,651	104,447
Disposals	[13,928]	[5,954]	[1,897]	[8,737]	[142]	[30,658]
Depreciation	[17,829]	[22,426]	[875]	[19,611]	-	[60,741]
Translation differences and other movements	1,034	850	[86]	117	[6,523]	[4,608]
Net closing balance	540,099	87,343	1,206	68,173	17,019	713,840

Some of the Group's tangible fixed assets are pledged as security for long-term loans from banks and other financial companies. The outstanding balance of such loans is 2,146 thousand euro.

Other assets include the following assets acquired under finance leases:

[thousands of euro]	12.31.2003	12.31.2002
Real estate	13,790	14,200
Other assets	123	857
less - Accumulated depreciation	[1,577]	[1,919]
Total	12,336	13,138

Outstanding capital payments due to lessors as of December 31, 2003, classified as amounts due to leasing companies, are reported in the note "Due to other financial companies".

[3] Financial fixed assets

Equity investments. Equity investments in subsidiaries companies mainly relate to foreign trading and manufacturing 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 retail companies and in a Swiss company. Additions during the year refer to the purchase of the interest in Tecnica S.p.A. for 15 million euro. At the time this investment was acquired, sale and purchase commitments were signed by both parties, as explained in the Directors' report.

Accounts receivable

	Maturities [in years]				
[thousands of euro]	Within 1 Fr	om 1 to 5	Beyond 5	12.31.2003	12.31.2002
Other receivables:					
due within 12 months	34,742	-	-	34,742	6,485
due beyond 12 months	-	24,146	6,469	30,615	16,497
Guarantee deposits	-	-	15,832	15,832	16,233
Total	34,742	24,146	22,301	81,189	39,215

The total as of December 31, 2003 includes 47,000 thousand euro receivable relating to disposal of the businesses represented by the Nordica and Prince trademarks. Accounts receivable due beyond 12 months include a loan granted to third parties by the Japanese company to support local retail operations. The residual amount refers to financial receivables earning interest at market rates.

Accounts receivable due from others within 12 months include 1,079 thousand euro in tax credits on advance taxes paid by the Italian companies in relation to employee termination indemnities, under Law 140 of May 28, 1997.

Guarantee deposits outstanding as of December 31 mainly relate to lease contracts stipulated by the Japanese subsidiary.

Other securities held as financial fixed assets

[thousands of euro]	12.31.2003	12.31.2002
Others	9	10

The balance refers to foreign securities held by the Austrian subsidiary.

Current assets

[4] Inventories

Inventories, 233,736 thousand euro [284,425 thousand euro as of December 31, 2002], recorded net of the related writedown reserve, consist of the following:

[thousands of euro]	12.31.2003	12.31.2002
Raw materials, other materials and consumables	348	3,400
Work in progress and semi-manufactured products	590	1,000
Finished goods	7,546	13,575
Total	8,484	17,975

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

[5] Accounts receivable

Trade receivables. As of December 31, 2003, trade receivables, net of the allowance for doubtful accounts, amount to 755,734 thousand euro [797,384 thousand euro as of December 31, 2002].

The allowance for doubtful accounts amounts to 95,870 thousand euro [72,474 thousand euro as of December 31, 2002]. 23,771 thousand euro of this reserve was used during the period. A prudent assessment of the specific and generic collection risks associated with receivables outstanding at year-end has resulted in an additional provision of 48,430 thousand euro, as already explained in the Directors' report.

Due from subsidiaries, associated companies and the Parent Company. Accounts receivable from subsidiary companies, amounting to 101 thousand euro, refer to financial receivables, while those from associated companies, amounting to 364 thousand euro, and those from the Parent Company, 447 thousand euro, are trade and other receivables.

Other receivables. Other receivables mainly include:

- VAT recoverable from the tax authorities, 18,481 thousand euro [15,974 thousand euro as of December 31, 2002], of which
 1,799 thousand euro due beyond 12 months;
- _ tax credits, 5,553 thousand euro [9,360 thousand euro as of December 31, 2002], of which 287 thousand euro due beyond 12 months;
- other amounts due from tax authorities, 206,699 thousand euro [71,296 thousand euro as of December 31, 2002], of which 394 thousand euro due beyond 12 months. The item includes 202,250 thousand euro resulting from the net balance between deferred tax assets [charges with deferred tax deductibility and carry-forward tax losses] and deferred tax liabilities [primarily the reversal of accelerated depreciation];
- _ accounts receivable from disposals, 4,092 thousand euro [8,115 thousand euro as of December 31, 2002], of which 431 thousand euro due beyond 12 months.

The following table shows total deferred taxes, net:

[4]	42.24.2002	12 24 2002
[thousands of euro]	12.31.2003	12.31.2002
Tax effect of eliminating intercompany profits	5,955	6,842
Tax effect of provisions and costs that will		
become deductible in future accounting periods	79,828	71,698
Deferred taxes arising on the reversal of accelerated depreciation		
and the application of finance lease accounting	[17,685]	[20,524]
Deferred taxes on gains taxable over a number of accounting periods	[2,267]	[3,808]
Different basis for the depreciation/amortization of		
tangible/intangible fixed assets	128,500	-
Tax benefits on accumulated losses	135,153	143,590
Others	-	[38]
Total before writedown	329,484	197,760
Writedown	[127,234]	[127,958]
Total	202,250	69,802

Tax assets deriving from tax losses carry forward of the Group subsidiaries are recognized for the total amount of 135,153 thousand euro and at the same time a writedown of 127,234 thousand euro is determined on a prudent basis.

For information on the booking of deferred tax assets, see the section entitled "Supplementary information".

Other receivables due from deferred taxes are as follows:

[thousands of euro]	12.31.2003	12.31.2002
Italian companies	179,282	43,350
Foreign companies	22,968	26,452
Total	202,250	69,802

[6] Assets due to be sold. This item, amounting to 8,088 thousand euro, relates to the reclassification under current assets of the realizable value of the residual tangible and intangible fixed assets due to be sold as part of the project to restructure the sport sector. In particular, the balance represents the amount agreed for the sale of a building owned by a subsidiary which is no longer used for business purposes. The decrease in these activities compared with the previous year represents the disposal value of the assets sold in connection with the Nordica, Prince and Rollerblade businesses by means of the sale contracts signed in 2003. For a more detailed description of these operations, please refer to the section "Principal organizational and corporate changes" in the Directors' report.

[7] Financial assets not held as fixed assets

Treasury shares. The Company was not holding any treasury shares at the close of the year.

Other securities

[thousands of euro]	12.31.2003	12.31.2002
Government bonds [BTP] maturing through 2006 and 2008		
at interest rate between 1.65% and 2.75%	7,201	3,159
Treasury Certificates [CCT] maturing through 2008 and 2010		
at interest rate between 2.2% and 2.3%	14,866	13,279
Amex European Short Term Euro	822	-
Gestielle Bt Euro	605	-
Sinopia Alternactiv Euro	-	593
Treasury Certificates [CTZ] maturing through 2003 and 2004	-	4,723
PFIF Euro Cash Plus	-	1,541
Morgan Fund-Short Maturity Euro	1,514	1,417
SCH Euro Short Term A Euro	2,282	1,579
Total	27,290	26,291

The following operations were carried out during the year:

- government bonds bought [BTP and CCT] for 14,468 thousand euro and sold [BTP, CCT and CTZ] for 13,561 thousand euro, of which 13,546 thousand euro relating to securities bought in previous years;
- _ mutual funds bought for 2,262 thousand euro and sold [those bought in previous years] for 2,234 thousand euro.

At the end of the year, the financial statements show a reduction in the value of government bonds of 17 thousand euro and in mutual funds for 35 thousand euro [having been written down in 2002 by 8 thousand euro].

Differentials on forward transactions

[thousands of euro]	12.31.2003	12.31.2002
Differentials on forward transactions	10.000	8.740

The amount refers principally to the adjustment of hedging transactions outstanding at the end of the year to the year-end exchange rate.

In 2003, as in prior years, the proceeds of future sales were sold forward in order to optimize exchange risk management associated with the retail activities of the Group. Part of these contracts, totaling 16,125 thousand euro, was subsequently renegotiated, and the related positive differentials amounting to 552 thousand euro included in other financial income, will be collected in 2004.

[8] Liquid funds

[thousands of euro]	12.31.2003	12.31.2002
Current account deposits [euro]	26,058	54,354
Current account deposits [foreign currency]	31,756	34,553
Time deposits [euro]	204,281	40,737
Time deposits [foreign currency]	2,929	2,505
Checks	59,503	58,230
Cash in hand	308	349
Total	324,835	190,728

The time deposits in euro are liquid funds belonging to the finance companies. It also includes a bank deposit of 50,500 thousand euro made by the Parent Company with due date January 5, 2004.

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

The balance of cash and banks as of December 31, 2003 reflects the receipts from customers at the year end.

[9] Accrued income and prepaid expenses

[thousands of euro]	12.31.2003	12.31.2002
Accrued income:		
financial income	3,810	5,448
other income	159	229
Total accrued income	3,969	5,677
Prepaid expenses:		
financial charges	27	185
rentals and leasing charges	8,871	9,778
advertising and sponsorships	278	506
taxes	847	3,689
other expenses	1,625	1,807
discount of bond	225	367
Total prepaid expenses	11,873	16,332
Total	15,842	22,009

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

In previous years the Group's merger differences were released from further taxation via payment of a substitute tax at 27%. This substitute tax has been classified under current income taxes with a matching balance in "Due to tax authorities". In accordance with the accruals concept, some 671 thousand euro of this tax has been recorded as a prepayment because the cost of freeing up merger differences from tax is related to the benefit deriving from future tax savings linked to the possibility of deduct amortization and depreciation. Given the various periods of amortization of the assets involved and taking account of the prudence principle, the amortization period fixed was 10 years.



Comments on the principal liability and equity items

Shareholders' equity

[10] Share Capital

The share capital of Benetton Group S.p.A. amounts to 236,026,454.30 euro as of December 31, 2003 and consists of 181,558,811 shares with a par value of 1.30 euro each. 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

This balance is unchanged with respect to the prior year.

Revaluation reserves

The item exclusively reflects the residual amounts of revaluation reserves established in accordance with the provisions of Law 72 of March 19, 1983 and Law 413 of December 30, 1991, and the monetary revaluation of tangible fixed assets by a Spanish subsidiary [Royal Decree 2607/96].

Legal reserve

This balance is unchanged with respect to the prior year.

[11] Other reserves

As of December 31, 2003, this item amounts to 719,089 thousand euro [803,536 thousand euro as of December 31, 2002], and includes:

- _ 60,722 thousand euro relating to other reserves of the Parent Company [109,210 thousand euro as of December 31, 2002];
- _ [11,657] thousand euro relating to the cumulative translation adjustment generated by translating the foreign-currency financial statements of companies consolidated on a line-by-line basis;
- _ 670,024 thousand euro 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 Shareholders' 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 Shareholders.

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

	12.31.2003		12.	31.2002
	Shareholders'	Net	Shareholders'	Net
[thousands of euro]	equity	income/[loss]	equity	income/[loss]
Per Benetton Group S.p.A.				
financial statements	977,969	574,241	449,391	[2,825]
Net income and Shareholders' equity				
of consolidated subsidiaries,				
net of their carrying value	698,113	45,836	681,882	[40,635]
Reversal of gains on transfer of businesses,				
net of deferred tax assets	[539,138]	[539,138]	-	-
Reversal of writedown				
of equity investments	-	113,342	-	99,009
Elimination of dividends paid by				
consolidated subsidiaries	-	[92,990]	-	-
Reversal of merger differences				
and related amortization				
in Benetton Group S.p.A.	[17,961]	2,245	[56,206]	11,395
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	33,595	916	46,067	[84,275]
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	25,727	2,521	23,206	[1,128]
Application of finance lease accounting,				
taking account of the related tax effect	7,213	1,639	5,574	58
Elimination of intercompany profits				
included in the inventory of				
consolidated subsidiaries, net of the				
related tax effect	[11,172]	844	[12,016]	4,298
Adjustment to reflect the equity				
value of associated companies	99	[279]	-	-
Net effect of other		_		
consolidation entries	[584]	[1,303]	2,675	4,242
Per Group's consolidated financial statements	1,173,861	107,874	1,140,573	[9,861]

Minority interests

As of December 31, 2003 and 2002, minority interests in fully consolidated subsidiaries were as follows:

[%]	12.31.2003	12.31.2002
Italian subsidiaries:		
Olimpias group	15	15
I.M.I. Italian Marketing International S.r.I.	-	50
Foreign subsidiaries:		
New Ben GmbH	49	49
DCM Benetton India Ltd.	50	50
Benetton Korea Inc.	50	50

[12] Reserves for risks and charges

Taxation reserve

[thousands of euro]	01.01.2003	Provisions	Uses	12.31.2003
Taxation reserve	8,085	3,024	8,070	3,039

The Parent Company does not have any outstanding tax disputes with the fiscal authorities for years prior to 1988.

Almost all of the disputes outstanding for the years from 1988 to 1993 were covered by the tax amnesty governed by art. 16 of Law no. 289 of December 27, 2002 and subsequent amendments at a total cost of 3,615 thousand euro.

of Law no. 269 of December 27, 2002 and subsequent amendments at a total cost of 3,613 thousand euro.

After the amnesty, there remain certain disputes relating to tax years 1988, 1989 and 1992 involving financial lease transactions, the valuation of equity investments and beneficial interest in shares which Benetton Group S.p.A. decided not to include in the amnesty application on the basis of specific sentences already issued by the courts, and supported by current doctrine and jurisprudence. The Company also took advantage of the amnesty provided for under art. 15 of Law no. 289 of December 27, 2002 and subsequent amendments for a potential dispute resulting from a tax audit on 1999 and 2000. This cost 5,236 thousand euro.

Lastly, it was decided to take advantage of the amnesty provided under art. 9 of the said Law 289 - the so-called "tombstone amnesty" - for direct taxes, incurring an overall cost of 9,426 thousand euro.

The Company also applied for the amnesty relating to tax year 2002 under Law no. 350 of December 24, 2003. 3,000 thousand euro were set aside for this purpose.

Other reserves

[thousands of euro]	12.31.2003	12.31.2002
Reserve for contingencies	9,235	13,909
Agents' leaving indemnity reserve	12,745	9,192
Reserve for other provisions	17,354	25,681
Total	39,334	48,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The reserve for contingencies covers various kinds of risk, the amount or timing of which is not known at the close of the year, but which may result in liabilities in future years; it refers mainly to liabilities for other minor disputes and possible costs for guarantees and returns.

The agents' leaving indemnity reserve prudently reflects contingencies associated with the interruption of agency contracts in circumstances allowed by Italian law. During the course of 2003, this reserve was credited with an additional 4,800 thousand euro in provisions.

The reserve for other provisions is for charges that may be incurred for the closure of certain stores owned directly by the UK and US companies. The reserve also includes residual provisions set aside in 2002 by certain Group companies for implementation of the restructuring and reorganization plan in connection with the sale of the sports equipment business.

[13] Reserve for employee termination indemnities

Movements in the reserve during the year were as follows:

[thousands of euro]	
Balance as of January 1, 2003	53,430
Provision for the year	8,858
Indemnities paid during the year	[12,363]
Other movements	[151]
Balance as of December 31, 2003	49,774

The indemnities paid during the year refer principally to Benetton Group S.p.A. and the Olimpias group.

Accounts payable

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

[14] Bonds

In July 2002, Benetton Group S.p.A. issued a 300,000 thousand euro bond, repayable on July 26, 2005, bearing floating-rate interest, which was 2.65% at year-end. The bonds are listed on the Luxembourg Bourse.

This loan provides for limitations on the granting of real guarantees for new loans; it does not provide for compliance with any financial index ["financial covenants"].

[15] Due to banks

[thousands of euro]	12.31.2003	12.31.2002
Current account overdrafts	8,700	9,589
Advances on receivables and other short-term loans	25,179	22,733
Long-term loans:		
due within 12 month	1,509	55,305
due beyond 12 months	501,739	503,401
Total	537,127	591,028

Part of medium and long-term loans due beyond 12 months, 2,146 thousand euro, is secured by mortgages on tangible fixed assets.

Long-term loans from banks outstanding as of December 31, 2003 are as follows:

[thousands of euro]	12.31.2003	12.31.2002
Syndicated loan of 500 million euro maturing in 2007, granted by		
a pool of banks and made up of a revolving credit line for the first two years		
and a loan for the subsequent 5 years repayable on maturity. The annual		
interest rate was 2.395% at the balance-sheet date [1]	500,000	500,000
Loans from Efibanca [Ente Finanziario Interbancario S.p.A.]		
at an annual interest rate of 2.81% at the balance-sheet date		
repayable in half-yearly instalments in arrears through 2005	710	1,065
Loan from Istituto Mobiliare Italiano, at an annual interest rate of 2.55%,		
repayable in half-yearly instalments in arrears through 2004,		
secured by mortgages on real estate	516	3,202
Loan granted by Medio Credito del Friuli repayable in half-yearly		
instalments through January 1, 2007 at an annual interest rate of 2.5%		
secured by mortgages on real estate	1,616	2,053
Loan from CARI [Gorizia] dated April 20, 2001		
repayable in 2005 at an annual interest rate of 4%	392	907
Other foreign currency loans obtained by foreign consolidated companies,		
secured by mortgages on real estate	14	187
Syndicated loan of 50 million euro matured on July 25, 2003		
granted by Sanpaolo IMI and made up of a revolving credit line	-	50,000
Loan from Efibanca [Ente Finanziario Interbancario S.p.A.]		
secured by mortgages on real estate matured on March 15, 2003	-	1,291
Total long-term loans	503,248	558,705
less - Current portion	[1,509]	[55,304]
Long-term loans, net of current portion	501,739	503,401

 $^{^{[1]}}$ This loan provides for compliance with two financial indices calculated every six months on the consolidated figures, namely:

The non-current portion of these loans as of December 31, 2003 falls due as follows [thousands of euro]:

Year	12.31.2003	
2005	1,016	
2006	470	
2007	500,239	
2008	-	
2009 and beyond	14	
Total	501,739	

minimum ratio between Ebitd [earnings before interest, tax and depreciation] and net financial charges of 2.5 times;

_ minimum ratio between the net financial position and Shareholders' equity of 1.

Moreover, there are limits on large disposals of assets and on the granting of real guarantees for new loans.

[16] Due to other financial companies

[thousands of euro]	12.31.2003	12.31.2002
Other short-term loans	800	942
Long-term loans:		
due within 12 months	58	413
due beyond 12 months	530	591
Due to leasing companies:		
due within 12 months	4,977	4,608
due beyond 12 months	21,834	25,274
Total	28,199	31,828

Long-term loans obtained from other financial companies outstanding at the balance sheet date are as follows:

[thousands of euro]	12.31.2003	12.31.2002
Other euro loans	588	1,004
less - Current portion	[58]	[413]
Long-term loans, net of current portion	530	591

The non-current portion of these loans as of December 31, 2003 falls due as follows [thousands of euro]:

Year	12.31.2003	
2005	60	
2006 2007	114	
2007	66	
2008	68	
2009 and beyond	222	
Total	530	

The non-current portion of amounts due to leasing companies as of December 31, 2003 falls due as follows [thousands of euro]:

Year	12.31.2003
2005	5,229
2006	5,161
2007	5,329
2008	3,780
2009 and beyond	2,335
Total	21,834

[17] Trade payables

This item, amounting to 317,393 thousand euro, reports a decrease of 19,318 thousand euro.

[18] Due to tax authorities

[thousands of euro]	12.31.2003	12.31.2002
Income taxes payable:		
Italian companies	116,785	3,628
foreign companies	9,729	8,620
Total income taxes payable	126,514	12,248
VAT payable	7,642	9,391
Other amounts due to tax authorities	15,284	8,600
Total	149,440	30,239

Income taxes payable are stated net of taxes paid in advance and all tax credits and withholdings. In particular, the amount includes the flat-rate substitute tax due to the business transfer made by the Parent Company as laid down in D. Lgs. no. 358/1997 for 123,650 thousand euro.

[19] Due to social security and welfare institutions

This balance totals 8,931 thousand euro [9,250 thousand euro as of December 31, 2002] and reflects both the Group and employee contributions payable to these institutions at year-end.

[20] Other payables

Other payables, totaling 41,031 thousand euro, include:

- _ 15,561 thousand euro due to employees [18,603 thousand euro as of December 31, 2002];
- _ other non-trading payables of 13,186 thousand euro [10,071 thousand euro as of December 31, 2002];
- _ other amounts due for the purchase of fixed assets, 12,183 thousand euro [13,696 thousand euro as of December 31, 2002];
- _ 102 thousand euro of differentials on forward transactions [3,336 thousand euro as of December 31, 2002].

[21] Accrued expenses and deferred income

Other income includes deferred rental income of 1,703 thousand euro.

[&]quot;Other amounts due to tax authorities" consist mainly of the liabilities under the tax amnesty. See the comments on the "Taxation reserve".

[&]quot;Other payables" include 603 thousand euro due beyond 12 months.

③ [22] Memorandum accounts

These mainly include currency to be sold or purchased forward. This is the countervalue in euro at the forward exchange rate of commitments deriving from contracts signed during the year for various hedging transactions in particular for hedge receivables, firm orders and future sales. Those covering future sales were subsequently partially renegotiated by carrying out reverse transactions. Other transactions were entered into to hedge the exchange risk on capital invested in Group companies.

As of December 31, 2003, there were outstanding interest rate swaps for a figurative value of 340,000 thousand euro and 1 billion yen.

"Guarantees" include guarantees given as security for the payment of lease instalments to a customer by Bencom S.r.l. in connection with the use of assets of a retailer located in Foggia. At the end of the year, the Parent Company issued a guarantee on behalf of Benetton Retail [1988] Ltd. for any damages that might occur during the refurbishing of a building in London.

"Sales commitments" refer principally to an option to sell a business located in Cesena. The option can be exercised up until June 30, 2004.

Purchase commitments relate to:

- _ commitments to refurbish stores in France for a total of 3 million euro;
- $\,\,$ $\,$ $\,$ commitments to buy plant and machinery and construction works at a plant in Tunisia.

● Comments on the principal statement of income items

Value of production

[23] Revenues from sales and services

[thousands of euro]	2003	2002
Sales of core products	1,773,260	1,923,860
Miscellaneous sales	50,725	31,745
Royalty income	12,862	17,598
Miscellaneous revenues	22,136	18,620
Total	1,858,983	1,991,823

Sales of core products are stated net of unconditional discounts.

Miscellaneous revenues mainly reflect services provided to third parties, such as processing on behalf of third parties, advertising revenues, expense reimbursements, etc.

Revenues by geographical area and business category

	Euro		The				Other			
[thousands of euro]	area	%	Americas	%	Asia	%	areas	%	Total	
Casualwear	1,179,472	86.6	77,422	68.4	138,382	87.0	183,389	82.0	1,578,665	
Sportswear and equipment	88,854	6.5	35,002	30.9	16,748	10.5	18,350	8.2	158,954	
Manufacturing and others	94,499	6.9	842	0.7	4,000	2.5	22,023	9.8	121,364	
Total revenues 2003	1,362,825	100.0	113,266	100.0	159,130	100.0	223,762	100.0	1,858,983	
Total revenues 2002	1,371,956	-	191,788	-	177,237	-	250,842	-	1,991,823	

Group revenues show a decrease of 6.7%, mainly attributable to the "Americas". This trend has already been analyzed in the Directors' report.

Net sales of core products, by product category

[thousands of euro]	2003	2002
Casualwear, accessories and casual footwear	1,533,651	1,541,223
Sportswear	39,749	53,220
In-line skates and skateboards	58,323	68,822
Racquets	20,664	62,489
Ski boots	4,967	55,582
Sports footwear	4,480	13,848
Skis and snowboards	1,429	17,734
Fabrics and yarns	109,997	110,942
Total	1,773,260	1,923,860

As for the trend in sales by product category, please refer to the breakdown provided in the Directors' report.

Net sales of core products, by brand

[thousands of euro]	2003	2002
United Colors of Benetton	1,196,890	1,227,124
Sisley	336,761	303,170
Nordica	6,287	73,790
Rollerblade	57,903	66,984
Prince ed Ektelon	26,078	77,027
Killer Loop	13,776	23,632
Playlife	25,568	30,262
Others	109,997	121,871
Total	1,773,260	1,923,860

The item "United Colors of Benetton" includes the amount of 9,219 thousand euro relating to the label "The Hip Site". In 2002, this brand was included in the item "Others" for 10,929 thousand euro.

[24] Change in inventories

The change in this item is principally due to the elimination of the finished products inventory relating to the sports equipment business sold during the year.

[25] Other revenues and income

[thousands of euro]	2003	2002
Reimbursements and compensation payments	4,251	4,861
Rentals	42,734	31,410
Gains on disposals of fixed assets	2,753	3,687
Other operating income	6,130	4,582
Total	55,868	44,540

The item "Rentals" mainly refers to income from premises to be used for the sale of Benetton-label products.

Production costs

[26] Raw materials, other materials, consumables and goods for resale

[thousands of euro]	2003	2002
Raw materials, semi-manufactured and finished goods	468,313	533,195
Other materials	4,485	4,820
Sundry purchases advertising and promotion	1,036	1,698
Other purchases	13,285	17,598
[Discounts and rebates]	[71]	[89]
Total	487,048	557,222

[27] External services

[thousands of euro]	2003	2002
Subcontract work	373,685	395,191
Distribution and transport	31,485	31,271
Sales commission	82,523	92,075
Advertising and promotion	62,701	75,498
Other services	99,918	107,751
Emoluments to directors and statutory auditors	7,455	7,744
Total	657,767	709,530

[&]quot;Subcontract work" has gone down partly as a result of the cost reduction policy implemented by the Group.

Transport and distribution are substantially in line with the previous year, whereas there has been a considerable decline in commission, advertising and promotion expenses mainly because they related to the sports equipment business which has now been sold.

Other services include power costs, 23,911 thousand euro, maintenance costs, 11,900 thousand euro, consultancy and other fees, 49,995 thousand euro, insurance premiums 4,917 thousand euro and personnel travel expenses, 9,195 thousand euro.

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

Position covered	Duration of office [1]	Gross remuneration [*]
Chairman	Year 2003	1,600
Deputy Chairman	Year 2003	1,600
Managing Director	Year 2003	777 [2]
Managing Director	05.12.2003	2,268 [3]
Director	Year 2003	200
Director	Year 2003	1,600
Director	Year 2003	35
Director	Year 2003	87
Director	Year 2003	87
Director	Year 2003	42
Director	Year 2003	42
Director	Year 2003	94
of Statutory Auditors	Year 2004	62
Auditor	Year 2004	42
Auditor	Year 2004	54
	Chairman Deputy Chairman Managing Director Managing Director Director Director Director Director Director Director Director Chairman of the Board of Statutory Auditors Auditor	Chairman Year 2003 Deputy Chairman Year 2003 Managing Director Year 2003 Managing Director 05.12.2003 Director Year 2003 Chairman of the Board of Statutory Auditors Year 2004 Auditor Year 2004

^[1] Up to the approval of these financial statements.

^[2] Includes employment salary.

^[3] Includes employment salary and termination indemnity.

^[*] Thousands of euro.

[28] Leases and rentals

Leases and rentals, 90,870 thousand euro, mainly relate to rental paid of 83,255 thousand euro.

[29] Payroll and related costs

These costs are already analyzed in the statement of income. Personnel are analyzed below, by category:

	2003	2002	Average of the year
Managers	109	119	114
White collars	3,315	3,579	3,447
Workers	2,654	2,941	2,798
Part-time	871	645	758
Total	6,949	7,284	7,117

[30] Amortization, depreciation and writedowns

Amortization of intangible fixed assets

[thousands of euro]	2003	2002
Amortization of start-up and expansion expenses	3,507	3,987
Amortization of industrial patents		
and intellectual property rights	766	1,386
Amortization of licenses, trademarks and similar rights	5,043	23,673
Amortization of goodwill	9,972	11,867
Amortization of consolidation differences	1,911	4,437
Amortization of costs for the purchase		
and development of software	5,337	5,072
Amortization of leasehold improvements	11,495	10,632
Amortization of other charges	4,885	5,380
Total	42,916	66,434

"Amortization of licenses, trademarks and similar rights" has fallen as a result of the sale of the sports equipment business, essentially the Nordica, Rollerblade and Prince brands. This operation interrupted amortization of the gains related to the acquisition of Benetton Sportsystem S.p.A.

This higher value, represented by the difference between the price paid and Shareholders' equity, as well as existing differences connected to prior purchases by the Benetton Sportsystem group, were allocated to trademarks and consolidation differences.

 $The \ remainder \ of \ these \ gains, \ which \ continue \ to \ be \ amortized, \ relate \ to \ the \ Killer \ Loop \ brand.$

Depreciation of tangible fixed assets

[thousands of euro]	2003	2002
Depreciation of real estate	17,828	15,227
Depreciation of plant and machinery	22,426	25,423
Depreciation of equipment	876	6,192
Depreciation of other assets	19,171	19,142
Depreciation of assets acquired under finance leases	440	447
Total	60,741	66,431

Changes in depreciation are mainly to do with disposals during the year. The main additions relate to commercial development projects which entail an increase in depreciation on buildings.

Other writedowns of fixed assets

This balance, amounting to 16,129 thousand euro, mainly includes the adjustment to current market value of certain intangible fixed assets.

Writedowns of current accounts receivable and cash and banks

This item, for 48,430 thousand euro, relates to a careful and prudent analysis of credit risk which led to sizeable provisions to cover a limited number of potentially doubtful balances due from certain specific customers.

[31] Provisions to risks reserves and other provisions

This item, totaling 11,888 thousand euro, includes 7,058 thousand euro in provisions for future risks and 4,806 thousand euro in provisions to the agents' leaving indemnity reserve.

"Other provisions" amount to 11,085 thousand euro. For further details, refer to the comment under "Reserves for risks and charges" in the liabilities section of the explanatory notes.

[32] Other operating costs

[thousands of euro]	2003	2002
Indirect taxation	6,786	7,518
Losses on disposal of fixed assets	3,634	4,864
Losses on receivables	4,425	9,648
Other general expenses	13,864	16,881
Total	28,709	38,911

Other general expenses include charges of approximately 8,310 thousand euro incurred for returns and discounts on sales made in the previous year.

Financial income and expenses

[33] Income from equity investments

This balance, 4,042 thousand euro [842 thousand euro in 2002] includes 3,647 thousand euro of tax credits on dividends distributed by consolidated subsidiaries for the portion which could not be offset against taxes due.

[34] Other financial income

[thousands of euro]	2003	2002
From receivables held as financial fixed assets		
from other companies	1,945	692
From securities held as financial fixed assets		
not representing equity investments	-	1,961
From securities included among current assets		
not representing equity investments	795	1,988
Financial income other than the above:		
interest income from subsidiary companies	81	130
interest income from trade and other receivables	405	610
interest income from banks	2,291	1,812
miscellaneous financial income and income from derivatives	23,406	25,906
exchange gains and income from currency management	141,354	118,901
Total other than the above	167,537	147,359
Total	170,277	152,000

"Miscellaneous financial income and income from derivatives" includes:

- positive differentials on interest rate swaps and forward rate agreements for 12,212 thousand euro [15,214 thousand euro in 2002];
- $\scriptstyle -$ income from currency swaps and forward rate agreements, 10,547 thousand euro [8,951 thousand euro in 2002].

[35] Interest and other financial expenses

[thousands of euro]	2003	2002
Interest expenses on bonds	9,240	10,200
Interest expenses on bank current accounts	352	511
Interest expenses on import/export advances	-	30
Interest expenses on advances against receivables	645	739
Interest expenses on short-term loans	369	6,719
Interest expenses on long-term bank loans	14,965	20,586
Interest expenses on loans from other financial companies	939	1,363
Miscellaneous financial expenses and expenses on derivatives	38,257	37,973
Exchange losses and charges from currency management	131,702	110,295
Total	196,469	188,416

Miscellaneous financial and derivatives expense mainly includes:

- _ negative differentials on interest rate swaps and forward rate agreements, 23,297 thousand euro [22,911 thousand euro in 2002];
- _ charges on currency and cross-currency swaps and forward rate agreements, 2,326 thousand euro [1,679 thousand euro in 2002];
- _ discounts allowed on the early settlement of trade receivables, 4,618 thousand euro [5,091 thousand euro in 2002];
- _ bank charges and commission of 1,454 thousand euro [1,830 thousand euro in 2002].

Extraordinary income and expenses

[36] Extraordinary income

[thousands of euro]	2003	2002
Gains on disposal of fixed assets	2,870	1,095
Other income:		
out-of-period income	4,086	4,270
other extraordinary income	6,283	5,313
Total	13,239	10,678

The gains on disposal of fixed assets derive mainly from the sale of an aeroplane by Benair S.p.A.

Out-of-period income refers essentially to credit notes from suppliers for returns and bonuses on supplies, as well as a reversal of agents' commissions provided for in previous years.

Other income mainly contains reimbursements from transport companies and insurance recoveries.

[37] Extraordinary expenses

[thousands of euro]	2003	2002
Losses on disposal of fixed assets	1,902	1,555
Taxes relating to prior years	10,916	1,736
Other expenses:		
donations	2,890	3,184
out-of-period expenses	2,517	3,200
other extraordinary expenses	11,377	96,291
Total	29,602	105,966

The taxes relating to prior years refer to the cost of taking advantage of the tax amnesty as per art. 15 of Law no. 289 of December 27, 2002 and subsequent amendments.

[&]quot;Other extraordinary expenses" mainly includes the cost of severance incentives and agents' indemnities.

[38] Income taxes

[thousands of euro]	2003	2002
Income taxes:		
Italian companies	180,625	86,562
foreign companies	11,790	10,826
Total income taxes	192,415	97,388
Deferred taxes:		
Italian companies	[136,199]	[41,188]
foreign companies	183	1,043
Total deferred taxes	[136,016]	[40,145]
Total	56,399	57,243

Income taxes for the year include 123,650 thousand euro for the substitute tax on the capital gain for tax purposes made by the Parent Company as a result of the business transfer.

The deferred taxes of the Italian companies refer for 128,500 thousand euro to this operation.

For the accounting details of this operation, please refer to the section entitled "Supplementary information".

Reconciliation of the tax charge is as follows:

[%]	2003	2002
Italian statutory tax rate	38.25	40.25
Aggregate effect of different taxation of subsidiaries' income	[7.01]	[8.60]
Effect of writing down of the cost of consolidated investments	[17.45]	[16.10]
Net effect deriving from the business transfer	[5.37]	-
Effect of losses from consolidated subsidiaries	21.93	21.60
Amortization and write off of excess cost		
deriving from investments acquired	[0.10]	3.30
Effects of non recurring items		
relating to the sale of the sports equipment business	-	67.00
Effect on deferred taxes of the change in rate	1.03	4.30
Higher incidence of IRAP	2.68	3.22
Other, net	0.16	1.87
Effective tax rate	34.12	116.84

Deferred taxes have been adjusted to reflect the change in the corporate income tax rate from 34% to 33% in 2004.



Dindependent Auditors' report in accordance with article 156 of Legislative Decree of February 24, 1998, no. 58

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

We have audited the consolidated financial statements of Benetton Group S.p.A. as of December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards recommended by Consob, the Italian Stock Exchange Commission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditors' report issued by Deloitte & Touche S.p.A. [now DT S.p.A.] on April 1, 2003.

In our opinion, the consolidated financial statements present fairly the financial position of Benetton Group S.p.A. as of December 31, 2003, and the results of its operations for the year then ended in accordance with the Italian regulations governing financial statements.

DELOITTE & TOUCHE S.p.A.

Fausto Zanon - Partner

Treviso, Italy

March 31, 2004

This report has been translated into the English language solely for the convenience of international readers

◆ Corporate information

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