

Benetton Group  
2008 half-year financial report

UNITED COLORS  
OF BENETTON.

Benetton Group S.p.A.  
Villa Minelli  
Ponzano Veneto (Treviso) - Italy  
Share capital: Euro 237,482,715.60 fully paid-in  
Tax ID/Treviso Company register: 00193320264

## Index

### **3 The Benetton Group**

Directors and other officers

#### **4 Disclaimer**

Key financial data - highlights

### **6 Directors' report**

Results in first half 2008

#### **7 Brands**

Markets

#### **8 Investments**

Supplementary information

- Dividend distribution

- Stock option plan

#### **9 - Treasury shares**

- Relations with the holding company, its subsidiaries and other related parties

- Directors

- Principal organizational and corporate changes

#### **10 - Significant events after June 30, 2008**

- Outlook for the full year

#### **11 Consolidated Group results**

- Consolidated statement of income

#### **14 - Business segments**

#### **17 - Balance sheet and financial position highlights**

### **20 Consolidated financial statements**

#### **21 Consolidated statement of income**

#### **22 Consolidated balance sheet - Assets**

#### **23 Consolidated balance sheet - Shareholders' equity and liabilities**

#### **24 Shareholders' equity - Statement of changes**

#### **25 Statement of gains/(losses) recognized directly in shareholders' equity**

#### **26 Consolidated cash flow statement**

### **27 Explanatory notes**

Summary of main accounting standards and policies

#### **30 Comments on the principal items in the statement of income**

#### **35 Comments on the principal asset items**

#### **39 Comments on the principal items in shareholders' equity and liabilities**

#### **42 Commentary on the cash flow statement**

#### **43 Supplementary information**

- Financial position

#### **45 - Segment information**

#### **47 - Other information**

### **52 Certification pursuant to art. 154-bis Italian Legislative Decree 58/98**

### **53 Auditors' report**

### **54 Supplementary schedules**

**The Benetton Group****Directors and other officers****Board of Directors**

Luciano Benetton

**Chairman**

Carlo Benetton

**Deputy Chairman**

Alessandro Benetton

**Executive Deputy Chairman**

Gerolamo Caccia Dominioni

**Chief Executive Officer**

Gilberto Benetton

**Directors**

Giuliana Benetton

Luigi Arturo Bianchi

Giorgio Brunetti

Alfredo Malguzzi

Gianni Mion

Robert Singer

Andrea Pezzangora

**Secretary to the Board****Board of Statutory Auditors**

Angelo Casò

**Chairman**

Antonio Cortellazzo

**Auditors**

Filippo Duodo

Piermauro Carabellese

**Alternate Auditors**

Marco Leotta

**Independent Auditors**

PricewaterhouseCoopers S.p.A.

**Disclaimer**

*This document contains forward-looking statements, specifically in the paragraph entitled "Outlook for the full year", relating to future events and operating, economic and financial results of the Benetton Group. By their nature such forecasts contain an element of risk and uncertainty because they depend on the occurrence of future events and developments. The actual results may differ, even significantly, from those announced for a number of reasons.*

**Key financial data - highlights**

The Group's financial statements for the first half 2008 and comparative periods have been drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union which are in force at the date of preparing this report. These standards do not differ, in any material respect, from those issued by the International Accounting Standards Board (IASB), meaning that any application of the latter would not have any significant effect on the Group's financial statements. Details of the accounting policies and consolidation methods used for preparing the half-year financial report can be found in the section containing the Explanatory notes.

On April 1, 2008 the Group sold its sports equipment manufacturing business to third parties, meaning that the income and expenses of the discontinued operations have been reclassified and reported in a single line in the statement of income "Net income from discontinued operations". The related figures for the corresponding period in 2007 have also been reclassified to make them comparable with 2008; the Explanatory notes to this half-year financial report contain a reconciliation between the actual and reclassified statements of income for 2007. As a result of this sale, the other and unallocated segment is no longer material, meaning that the segment information has also been reclassified by including the residual amounts from this segment in the apparel segment. In addition, management has decided to present working capital in the strict sense of the term, meaning that direct taxation has now been excluded, also in keeping with requests from the financial community. As a result, the following items have been reclassified from "Other operating receivables/(payables)" to "Other assets/(liabilities)": deferred tax assets and liabilities, receivables due from the tax authorities for direct taxes and receivables and payables from/to holding companies in relation to the group tax election.

Key operating data (millions of Euro)	1st half 2008		1st half 2007 pro-forma		Change		Full year 2007 pro-forma	
		%		%		%		%
Revenues	996	100.0	968	100.0	28	2.9	2,048	100.0
Gross operating profit	462	46.4	423	43.7	39	9.3	908	44.3
Contribution margin	390	39.1	355	36.7	35	9.8	762	37.2
EBITDA <sup>(A)</sup>	158	15.9	151	15.6	7	4.8	340	16.6
Ordinary EBITDA <sup>(A)</sup>	156	15.7	144	14.9	12	8.4	336	16.4
Operating profit	116	11.7	107	11.1	9	8.5	243	11.9
Net income for the period attributable to the Group	72	7.2	70	7.3	2	2.5	145	7.1

Key financial data (millions of Euro)	06.30.2008	12.31.2007	06.30.2007
Working capital	618	631	613
Net assets held for sale	16	6	4
Net capital employed	1,943	1,889	1,801
Net financial indebtedness	555	475	459
Total shareholders' equity	1,388	1,414	1,342
Free cash flow	6	(34)	(22)
Net operating investments/Capex	102	225	89

Share and market data	06.30.2008	12.31.2007	06.30.2007
Basic earnings per share (Euro)	0.39	0.80	0.38
Shareholders' equity per share (Euro)	7.47	7.59	7.23
Price at period end (Euro)	7.43	12.29	12.94
Screen traded price: period high (Euro)	11.88	14.82	14.82
Screen traded price: period low (Euro)	7.40	10.77	11.59
Market capitalization (thousands of Euro)	1,347,415	2,245,082	2,363,821
Average no. of shares outstanding	182,517,836	182,675,492	182,675,492
No. of shares outstanding	182,679,012	182,675,492	182,675,492

Number of personnel	06.30.2008	12.31.2007	06.30.2007
Total employees	9,206	8,896	8,781

<sup>(A)</sup> In addition to the standard financial indicators required by IFRS, this document also contains a number of alternative performance indicators for the purposes of allowing a better appreciation of the Group's financial and economic results. These indicators must not, however, be treated as replacing the standard ones required by IFRS.  
 The following table shows how EBITDA and ordinary EBITDA are made up.

Key operating data (millions of Euro)	Ist half 2008	Ist half 2007 pro-forma	Change	Full year 2007 pro-forma
A Operating profit	116	107	9	243
B - of which non-recurring expenses/(income)	(8)	(7)	(1)	3
C Depreciation and amortization	48	44	4	90
D Other non-monetary costs (net impairment/(reversals))	(6)	-	(6)	7
E - of which non-recurring	(6)	-	(6)	7
F = A+C+D EBITDA	158	151	7	340
G = F+B-E Ordinary EBITDA	156	144	12	336

## Directors' report

### Results in first half 2008

The Group's revenues increased by 2.9% to 996 million in first half 2008, in line with the annual revenue forecast previously announced; assuming constant exchange rates and on a like for like basis, the increase was 5.1%. The apparel segment reported 948 million in revenues, +5.8% at constant exchange rates. Growth in half-year revenues was affected by:

- the positive mix contribution, following enrichment of the offer with higher value product categories, and development actions in countries with high growth potential;
- the effect of a temporary delay in shipping and invoicing garments at the end of the second quarter;
- the appreciation of the Euro against major foreign currencies, particularly the Korean won, the US dollar and GB pound.

Gross operating profit improved by 39 million, reporting a margin of 46.4% on revenues, compared with 43.7% in first half 2007, benefiting from the combined effect of the mix and ever more efficient management of the supply chain and sourcing, in a context of constant attention to product quality.

Contribution margin increased by 35 million to 390 million, improving from 36.7% of revenues to 39.1% this year, and absorbing a slight rise in variable costs (including in commissions due to revenue growth and in transport costs due to higher oil prices).

The most significant factors affecting general and operating expenses (+26 million) in the half year were:

- consolidation of direct control of the business, particularly on the US market;
- costs associated with projects to improve the supply chain, to simplify collection structure and to analyze the development of competitive structure in strategic markets;
- higher depreciation and amortization charges after IT projects, involving significant past expenditure, went live, particularly those relating to the development of SAP.

Operating profit was 9 million higher at 116 million, representing a margin of 11.7% on revenues compared with 11.1% in first half 2007.

Ordinary EBITDA increased by 12 million to 156 million, corresponding to 15.7% of revenues compared with 14.9% in the comparative half year.

Following the rise in interest rates, in average indebtedness in the period and the appreciation of the Euro against other major currencies, net financial expenses and foreign currency hedging losses increased by 7 million.

Net income rose by 2.5% to 72 million.

Capital employed was 54 million higher than at December 31, 2007, mainly as a result of the increase in operating investments and the reinstatement of the value of assets held for sale, net of the decrease of working capital since the end of the prior year. Working capital, which follows a cyclical pattern over the year, was just 5 million higher than at June 30, 2007.

Net financial indebtedness was 555 million compared with 475 million at December 31, 2007 and 459 million at June 30, 2007, confirmed in line with full year objectives.

## Brands

Benetton Adult confirmed the benefits of projects started in previous periods to enrich product categories, with shirts in particular enjoying an increase of some 40% in the past two years.

Benetton Man saw the opening of 30 new stores. Benetton Children presented its new System store-fittings concept in its first temporary children's store, opened in Milan for around 3 months. The System concept, which serves to diversify products by age band, is also being used by the new Benetton Baby stores, targeting the newborn to 5 years category and new mothers and which saw the opening of 35 dedicated stores.

Sisley Young, the line for fashion-conscious youngsters, opened 15 stores in Italy and abroad.

The accessories sector continued its strategy of opening dedicated stores under the Benetton or Sisley brand, with 10 new openings. Accessories have reported around 50% sales growth in the past two years.

Particular attention was devoted to the underwear business in the first six months of this year. The Baby Under line has been launched for the fall/winter 2008 season, completing the Undercolors collections: garments for baby boys and girls and unisex garments which, drawing on adult nightwear themes, are a departure from traditional newborn babywear.

This product line will be distributed in specific corners within around 500 stores in the Undercolors network.

The brand new Sisley Underwear line has been created and will be for sale for the first time after a special launch for the Christmas Season: men's and women's underwear and accessories offering an elegant, sensual style, with a heavy emphasis on fashion. The collection will have its own identity in a number of monobrand new-concept stores.

## Markets

The results by geographical area were affected by strong exchange rate fluctuations during the half year. Emerging markets identified by the Group for priority growth (Russia and former Soviet Union countries, Turkey, India, Great China and Latin America) continued to produce results in line with expectations (+25%), bringing their contribution to 11% of total revenues. The positive performance in mature markets, taking account of the temporary block on shipments at the end of the half year, confirmed the effectiveness of steps taken and the Group's ability to take advantage of the various opportunities in local markets.

In Mexico, an agreement was signed in May 2008 with Sears, a leading distribution company owned by the multinational Grupo Carso (Slim family), for the development of United Colors of Benetton in that country. The agreement provides for the opening of points of sale which will offer the quality and fashion identity of the UCB man, woman and children collections within Sears department stores throughout Mexico.

The number of stores and corners opened to date in the main Mexican cities is on target with the development program which aims to have around 250 points of sale in just three years. Following this initial agreement, the Group's development plans for the American continent involve strengthening its presence in other Latin American countries.

As part of this project and the redefinition of strategies in individual regional areas, the Benetton offices in Miami, Florida have become operative, managing all USA retail activities which were previously based in Washington. The Miami offices, strategically located between North and South America, control commercial and sourcing activities in this area.

In India, the first Benetton Man store opened in New Delhi's Connaught Place, with over 300 square meters of floor space dedicated to casual and formal wear. A new United Colors of Benetton store - man, woman and children - opened in Kolkata, in one of the city's leading shopping locations, with around 300 square meters in floor space and over 24 meters in store frontage.

In Russia, after the recent inauguration of the commercial agency's new offices in Moscow, the Group has initiated activities for the direct management of services, logistics, transport and imports. This step further strengthens our presence in this area, with the objective of offering a more efficient and timely service to customers in the Russian market.

## Investments

Net operating investments came to 102 million in first half 2008 compared with 89 million in the corresponding period of 2007.

Most of the expenditure related to the commercial network, with 82 million spent on purchasing and refitting stores, particularly in Italy, France, the United States and Switzerland as well as in priority growth markets like India, Russia, the former Soviet Union, Mexico and Turkey. Investments in production amounted to 24 million and mainly involved increasing the capacity of the production center in Tunisia and of the logistics hub in Castrette di Villorba (Italy).

Other investments amounted to 13 million, most of which in Information Technology; among the more important were those in the integrated management of directly operated points of sale and in the improvement of SAP software at certain foreign subsidiaries.

The divestments of 18 million in the period mostly related to the disposal of the sports equipment manufacturing business and the textile segment's sale of the property in Cassano Magnago and related manufacturing plant and machinery.

## Supplementary information

**Dividend distribution.** The Shareholders' Meeting of Benetton Group S.p.A. resolved on April 24, 2008 to pay a dividend per share of Euro 0.40 (pre-tax), totaling Euro 73 million. The shares went ex-div on May 5, 2008 and were paid on May 8, 2008.

**Stock option plan.** The first vesting period envisaged by the stock option plan, approved in September 2004 by the Board of Directors of Benetton Group S.p.A., came to an end in September 2006. As a result, a total of 1,337,519 options became exercisable, meaning that their beneficiaries could subscribe to an equal number of the Company's shares at a price of Euro 8.984 each up until the plan's end date in September 2013. Further to a review of the overall structure, scope and principles of the system of incentives, in September 2006 management agreed with the Company to cancel the second "tranche" of the 2004 plan.

A total of 3,520 options were exercised on February 28, 2008, causing the share capital of Benetton Group S.p.A. to increase to Euro 237,482,715.60, representing 182,679,012 shares. A total of 117,318 options were cancelled at the end of February 2008. This means that at June 30, 2008 there were still 100,000 unexercised options left.

Details of this stock option plan can be found under "Stock Option Plan" in "Regulations & Codes" in the Governance section of the website [www.benettongroup.com/investors](http://www.benettongroup.com/investors).

- 2004 stock option plan

	Options outstanding as of 01.01.2008	New options granted in the period	Options exercised in the period	Options expired and not exercised or lost in the period	Options cancelled in the period due to termination of employment	Options outstanding as of 06.30.2008	of which exercisable as of 06.30.2008
No. of options	220,838	-	3,520	-	117,318	100,000	100,000
Allocation ratio (%)	0.121		0.002		0.064	0.055	0.055
Weighted average exercise price (Euro)	8.984		8.984			8.984	8.984
Market price (Euro)	11.88		8.74			7.43	

**Treasury shares.** The Shareholders' Meeting of April 24, 2008 granted the Board of Directors the authority to buy back and dispose of up to 18,000,000 Benetton ordinary shares, provided these are no more than 10% of share capital. This authority was granted for a period of 18 months commencing May 6, 2008. The minimum purchase price may not be 30% below the official share price reported in the trading session prior to each individual transaction, while the maximum purchase price may not be 20% above such official share price; the disposal price may not be less than 90% of the official share price reported in the trading session prior to each individual transaction.

Between the date the buy-back program commenced on May 14, 2008, under a resolution adopted by the Board of Directors, and June 30, 2008, Benetton Group S.p.A. bought 1,355,450 treasury shares, corresponding to 0.742% of share capital, for around Euro 11.05 million.

Between the half-year closing date and August 22, 2008, Benetton Group S.p.A. bought another 3,041,595 treasury shares, thereby taking its total holding to 2.407% of share capital valued at some Euro 32.84 million.

**Relations with the holding company, its subsidiaries and other related parties.** The Group's relations with related parties are discussed more fully in the Explanatory notes.

**Directors.** Parent Company Directors as of June 30, 2008 were as follows:

Name and surname	Date of birth	Appointed	Office
Luciano Benetton	05.13.1935	1978	Chairman
Carlo Benetton	12.26.1943	1978	Deputy Chairman
Alessandro Benetton	03.02.1964	1998	Executive Deputy Chairman
Gerolamo Caccia Dominioni	01.09.1955	2007	Chief Executive Officer
Giuliana Benetton	07.08.1937	1978	Director
Gilberto Benetton	06.19.1941	1978	Director
Gianni Mion	09.06.1943	1990	Director
Luigi Arturo Bianchi	06.03.1958	2000	Director
Giorgio Brunetti	01.14.1937	2005	Director
Robert Singer	01.30.1952	2006	Director
Alfredo Malguzzi	08.31.1962	2007	Director

Luciano Benetton, Gilberto Benetton, Carlo Benetton and Giuliana Benetton are siblings; Alessandro Benetton is the son of Luciano Benetton.

Luciano Benetton, Chairman of the Board of Directors, and Gerolamo Caccia Dominioni, Chief Executive Officer, purchased 330,000 and 50,000 shares respectively in Benetton Group S.p.A. on January 16 and 17, 2008.

**Principal organizational and corporate changes.** The delisting/deregistering of the Benetton stock from the New York Stock Exchange became effective from January 21, 2008. As a result, Benetton Group S.p.A. no longer has to comply with the reporting requirements relating to the NYSE and SEC established by US law. All the documentation will continue to be published in English on the Company's website.

An agreement was made in New York on February 29, 2008 which redefines the Group's relationship with its principal customer in the United States and Canada. Under this agreement the management of 54 stores previously operated by this customer was transferred to Benetton USA Corp. and to the newly-formed company of Benetton Canada Inc.

In May Bencom S.r.l. subscribed to 10% of the initial share capital in Ben-Mode A.G., a company set up to manage a megastore in Zurich; this forms part of a plan whereby Bencom S.r.l. will acquire total control of this company over a defined period of time.

The processes of winding up Benetton Austria GmbH, an Austrian registered company, and La Crémère S.A., a Swiss registered company, were completed in the period.

At the end of May Benetton Mexicana S.A. de C.V., a recently formed group company, made commercial agreements with the Axo group and with Sears (of the Carso group) for developing Benetton brands in Mexico. In particular: (a) a service agreement was made with Axo, specialized in the distribution and sale of international brands through management of points of sale, whereby Axo will manage the import and wholesale of Benetton products in Mexico, as

well as the operation of Benetton points of sale in this country; (b) a supply agreement relating to Benetton products was signed with Sears, the leading retailer in Mexico, as part of plans to open around 250 points of sale by 2010.

In June the subsidiary Olimpiaz S.p.A. subscribed to 60% of the share capital in Fynlab S.r.l., a company based in Ponzano Veneto formed to manage the finishing of fabrics for third-party sale. The other 40% of share capital is held by a third-party shareholder.

**Significant events after June 30, 2008.** The process of delisting the Benetton stock from the Deutsche Börse in Frankfurt, started on February 21, 2008, was finalized on July 18, 2008.

In July Bencom S.r.l. reached an agreement to buy all of the shares in My Market S.r.l., a company which manages a business comprising 45 stores selling Benetton Group products mainly in the regions of Tuscany and Emilia Romagna. From July 30, 2008 Benetton's ADRs (certificates representing two Benetton shares) began trading on the US over-the-counter market known as OTCQX (Over the Counter Quality Extra).

**Outlook for the full year.** In view of the half-year results, the Group confirms its objectives for 2008, although recognizing the uncertainty of the current unfavorable economic situation and the risks associated with rising raw material prices and the growth in inflation in Asian countries. These circumstances affected first-half consumer spending in the fashion sector which is sensitive to changes in income and its disposability. Such reactions are expected to continue influencing sector performance in the rest of 2008 except for in Asia and the Middle East where the economic situation is favorable and sales are expected to perform well both in 2008 and 2009.

In view of measures already taken by management to limit and offset the negative impact of these factors, the Group reaffirms its commitment to achieving its objectives, with revenues expected to grow by 6% and EBITDA and operating profit by at least 7% on 2007.

Investment of around 250 million should be made throughout the year, focusing on:

- the completion of the doubling of logistics hub in Castrette (Italy) and of the production center in Tunisia;
- new store openings, in strategic markets;
- the continuation of roll-out of Information Technology to enhance the evolution of the business.

Net financial indebtedness is expected to be confirmed around 650 million at the end of the current year.

## Consolidated Group results

**Consolidated statement of income.** Highlights from the Group's statements of income for first half 2008 and 2007 and for full year 2007 are presented below; they are based on a reclassification according to the function of expenses. The percentage changes are calculated with reference to the absolute amounts. As stated previously, after the amounts relating to the discontinued sports equipment operations were reclassified, the figures for 2007 have been restated to make them consistent with those in 2008. Details of these reclassifications are summarized in "Other information" contained in the Explanatory notes to this half-year financial report.

(millions of Euro)	Ist half 2008	%	Ist half 2007 pro-forma	%	Change	%	Full year 2007 pro-forma	%
<b>Revenues</b>	<b>996</b>	<b>100.0</b>	<b>968</b>	<b>100.0</b>	<b>28</b>	<b>2.9</b>	<b>2,048</b>	<b>100.0</b>
Materials and subcontracted work	459	46.1	472	48.8	(13)	(2.9)	1,000	48.8
Payroll and related costs	45	4.5	42	4.4	3	7.3	82	4.0
Industrial depreciation and amortization	8	0.8	9	0.9	(1)	(4.3)	16	0.8
Other manufacturing costs	22	2.2	22	2.2	-	(2.7)	42	2.1
<b>Cost of sales</b>	<b>534</b>	<b>53.6</b>	<b>545</b>	<b>56.3</b>	<b>(11)</b>	<b>(2.1)</b>	<b>1,140</b>	<b>55.7</b>
<b>Gross operating profit</b>	<b>462</b>	<b>46.4</b>	<b>423</b>	<b>43.7</b>	<b>39</b>	<b>9.3</b>	<b>908</b>	<b>44.3</b>
Distribution and transport	30	3.0	29	3.0	1	5.4	60	2.9
Sales commissions	42	4.3	39	4.0	3	8.0	86	4.2
<b>Contribution margin</b>	<b>390</b>	<b>39.1</b>	<b>355</b>	<b>36.7</b>	<b>35</b>	<b>9.8</b>	<b>762</b>	<b>37.2</b>
Payroll and related costs	84	8.4	80	8.2	4	5.5	156	7.6
Advertising and promotion	33	3.3	34	3.5	(1)	(3.8)	61	3.0
Depreciation and amortization	40	4.0	35	3.6	5	13.4	74	3.6
Other expenses and income	117	11.7	99	10.3	18	18.1	228	11.1
- of which non-recurring expenses/(income)	(8)	(0.8)	(7)	(0.7)	(1)	18.7	3	0.2
<b>General and operating expenses</b>	<b>274</b>	<b>27.4</b>	<b>248</b>	<b>25.6</b>	<b>26</b>	<b>10.4</b>	<b>519</b>	<b>25.3</b>
- of which non-recurring expenses/(income)	(8)	(0.8)	(7)	(0.7)	(1)	18.7	3	0.2
<b>Operating profit <sup>(A)</sup></b>	<b>116</b>	<b>11.7</b>	<b>107</b>	<b>11.1</b>	<b>9</b>	<b>8.5</b>	<b>243</b>	<b>11.9</b>
Financial (expenses)/income	(17)	(1.7)	(13)	(1.3)	(4)	31.7	(30)	(1.5)
Net foreign currency hedging (losses)/gains and exchange differences	(7)	(0.8)	(4)	(0.5)	(3)	58.7	(10)	(0.5)
<b>Income before taxes</b>	<b>92</b>	<b>9.2</b>	<b>90</b>	<b>9.3</b>	<b>2</b>	<b>2.6</b>	<b>203</b>	<b>9.9</b>
Income taxes	21	2.1	21	2.2	-	3.7	53	2.6
<b>Net income from continuing operations</b>	<b>71</b>	<b>7.1</b>	<b>69</b>	<b>7.1</b>	<b>2</b>	<b>2.2</b>	<b>150</b>	<b>7.3</b>
Net income from discontinued operations	1	0.1	-	-	1	n.s.	-	-
Net income for the period attributable to:	72	7.2	69	7.1	3	3.6	150	7.3
- <b>shareholders of the Parent Company</b>	<b>72</b>	<b>7.2</b>	<b>70</b>	<b>7.3</b>	<b>2</b>	<b>2.5</b>	<b>145</b>	<b>7.1</b>
- minority interests	-	-	(1)	(0.2)	1	(63.2)	5	0.2

<sup>(A)</sup> Operating profit before non-recurring items was 108 million, representing 10.9% of revenues (100 million in first half 2007, representing 10.4% of revenues, and 246 million in 2007 representing 12.1% of revenues).

The Group's revenues increased by 2.9% to 996 million in first half 2008, in line with the annual revenue forecast previously announced; assuming constant exchange rates and on a like for like basis, the increase was 5.1%. The apparel segment reported 948 million in revenues, +5.8% at constant exchange rates.

Growth in half-year revenues was affected by:

- the positive mix contribution, following enrichment of the offer with higher value product categories, and development actions in countries with high growth potential;
- the effect of a temporary delay in shipping and invoicing garments at the end of the second quarter;
- the appreciation of the Euro against major foreign currencies, particularly the Korean won, the US dollar and GB pound.

The textile segment reported 48 million in revenues from third parties, down 8,7% confirming the growing demand for yarn and textiles from markets with cheaper labor costs.

Cost of sales decreased by 11 million to 534 million, representing 53.6% of revenues compared with 56.3% in the comparative period. The individual segments reported the following trends in the cost of sales:

- apparel: cost of sales amounted to 497 million compared with 509 million in first half 2007, with improved production efficiency and exchange rate trends helping bring down the cost of sales margin to 52.4% from 55.4% in the corresponding period of 2007;
- textile: cost of sales decreased by 7 million, with the margin rising to 89.9% from 88.2% in first half 2007.

Gross operating profit confirmed its recovery by reporting a margin of 46.4% compared with 43.7% in the corresponding period of 2007. Trends in the individual segments were as follows:

- apparel: gross operating profit amounted to 452 million, reporting a margin of 47.6% on revenues compared with 44.6% in first half 2007, benefiting from the combined effect of the mix and ever more efficient management of the supply chain and sourcing, in a context of constant attention to product quality;
- textile: gross operating profit was 13 million, representing 10.1% of revenues compared with 11.8% in first half 2007.

Selling costs (distribution, transport and sales commissions) increased by 4 million to 72 million, representing 7.3% of revenues, up from 7% in the prior year. In particular, sales commissions were up because of higher sales in the apparel segment, while distribution and transport costs were affected by oil prices.

Contribution margin was 35 million higher at 390 million, representing 39.1% of revenues, up from 36.7% in the prior year. The individual segments reported the following trends in contribution margin:

- apparel: contribution margin came to 383 million compared with 344 million in the corresponding period of 2007, and improved from 37.6% to 40.3% of revenues;
- textile: contribution margin was 8 million, representing 6.4% of revenues, down from 8.5% in the prior year.

General and operating expenses amounted to 274 million, up from 248 million in first half 2007, and accounted for 27.4% of revenues compared with 25.6% in the corresponding prior year period. The individual segments reported the following trends in general and operating expenses:

- apparel: these expenses rose by 28 million to 271 million, also reflecting establishment of direct control over the business particularly in the US market; they accounted for 28.5% of revenues compared with 26.5% the year before;
- textile: these expenses amounted to 3 million, representing 2.5% of revenues.

General and operating expenses are discussed in more detail below:

- Non-industrial payroll and related costs increased by 4 million to 84 million, accounting for 8.4% of revenues compared with 8.2% in first half 2007. Analysis of these costs by individual segment shows that the increase was mainly attributable to the apparel segment, also as a result of expanding the direct commercial network.
- Advertising and promotion costs were slightly lower than in first half 2007 at 33 million, while also decreasing from 3.5% to 3.3% of revenues; the goal in this area continues to focus on developing campaigns to fit brand positioning.
- Non-industrial depreciation and amortization increased by 5 million on the corresponding period of 2007 to 40 million mainly because of major IT investments made in prior years that went live during the period, particularly in projects relating to the development of SAP.
- Other expenses and income amounted to 117 million, corresponding to 11.7% of revenues compared with 10.3% in first half 2007. This line item includes non-industrial general costs, additions to provisions, net operating expenses and other expenses and income, details of which are as follows:
  - non-industrial general costs amounted to 59 million, having increased by 9 million on first half 2007 due to a rise in costs associated with projects to improve the supply chain, to simplify collection structure and to analyze the development of competitive structure in strategic markets; rental and hire costs and other services represented 5.9% of revenues, up from 5.1% in the prior year;
  - additions to provisions increased from 9 million in first half 2007 to 11 million this year, of which 8 million for doubtful accounts; the provision for doubtful accounts covers 7.8% of total trade receivables;
  - net operating and other expenses increased from 40 million in first half 2007 to 47 million this year, representing 4.7% of revenues compared with 4.2% in the prior year. The largest item included in the first half 2008 figure refers to 43 million in net rental expense (net of rental income), which reported an increase of 5 million attributable to the apparel segment. Other income includes over 6 million in reversals of impairment losses booked in 2005 against a property owned by the Group, due to be sold in the third quarter after entering a preliminary sale agreement on March 31, 2008; other income also includes 2 million in capital gains realized on the disposal of the textile factory in Cassano Magnago.

Operating profit was 116 million compared with 107 million in first half 2007, with an increase in margin from 11.1% to 11.7%; operating profit in the individual segments was as follows:

- the apparel segment reported 112 million in operating profit compared with 101 million in first half 2007, with the margin rising from 11.1% to 11.8%;
- the textile segment reported 5 million in operating profit, with a margin of 3.9% compared with 4.5% in first half 2007.

The increase of 4 million in net financial expenses was largely due to the rise in interest rates and average indebtedness over the period, in turn mostly because of the growth in business and higher investments. Net foreign currency hedging losses and exchange differences amounted to 7 million as a result of the higher Euro exchange rate relative to existing currency hedges, particularly those against US dollar purchases invoiced in first half 2008.

Income taxes amounted to 21 million, staying largely the same in terms of amount and tax rate relative to the corresponding period of 2007.

Net income from continuing operations amounted to 71 million compared with 69 million in first half 2007, continuing to represent 7.1% of revenues.

Net income from discontinued operations relates to the sports equipment manufacturing business sold to the Tecnica group on April 1, 2008 and includes 1 million in capital gains realized on this sale.

Net income for the period attributable to the Group was 72 million compared with 70 million in first half 2007, representing 7.2% of revenues compared with 7.3% in the corresponding period of 2007.

The average number of employees in each segment during the period was as follows:

- apparel: 7,779 (of whom 3,854 in the retail channel), compared with 7,496 (of whom 3,668 in the retail channel) in first half 2007;
- textile: 1,273 compared with 1,342 in first half 2007.

**Business segments.** As already described, after a Hungarian subsidiary sold its sports equipment business, the other and unallocated segment was no longer material. This is why the segment information has been reclassified by including the residual amounts from this segment in the apparel segment.

The Group's activities are now divided into two segments in order to provide management with an effective basis for administration and decision-making, and to supply financial investors with representative and meaningful information about company performance.

The business segments are as follows:

- apparel, represented by the brands of United Colors of Benetton Adult and Children, Undercolors, Sisley, Sisley Young, Playlife and Killer Loop. This segment also includes the results of the Group's real estate companies;
- textile, consisting of production and sales activities for raw materials (fabrics, yarns and labels), semi-finished products and industrial services.

Segment results for first half 2008 and 2007 and for full year 2007 are shown below, adopting the classification criteria described above.

- Segment results – first half 2008

(millions of Euro)	Apparel	Textile	Eliminations	Consolidated
Revenues from third parties	948	48	-	996
Inter-segment revenues	1	76	(77)	-
Total revenues	949	124	(77)	996
Cost of sales	497	111	(74)	534
Gross operating profit	452	13	(3)	462
Selling costs	69	5	(2)	72
Contribution margin	383	8	(1)	390
General and operating expenses	271	3	-	274
- of which non-recurring income	(6)	(2)	-	(8)
Operating profit	112	5	(1)	116
Depreciation and amortization	43	5	-	48
Other non-monetary costs (net impairment reversal)	(6)	-	-	(6)
EBITDA	149	10	(1)	158

- Segment results – first half 2007 pro-forma

(millions of Euro)	Apparel	Textile	Eliminations	Consolidated
Revenues from third parties	916	52	-	968
Inter-segment revenues	1	82	(83)	-
Total revenues	917	134	(83)	968
Cost of sales	509	118	(82)	545
Gross operating profit	408	16	(1)	423
Selling costs	64	5	(1)	68
Contribution margin	344	11	-	355
General and operating expenses	243	5	-	248
- of which non-recurring income	(7)	-	-	(7)
Operating profit	101	6	-	107
Depreciation and amortization	38	6	-	44
Other non-monetary costs (net impairment)	-	-	-	-
EBITDA	139	12	-	151

- Segment results – full year 2007 (pro-forma)

(millions of Euro)	Apparel	Textile	Eliminations	Consolidated
Revenues from third parties	1,960	88	-	2,048
Inter-segment revenues	2	137	(139)	-
Total revenues	1,962	225	(139)	2,048
Cost of sales	1,075	203	(138)	1,140
Gross operating profit	887	22	(1)	908
Selling costs	140	8	(2)	146
Contribution margin	747	14	1	762
General and operating expenses	511	8	-	519
- of which non-recurring expenses	3	-	-	3
Operating profit	236	6	1	243
Depreciation and amortization	78	12	-	90
Other non-monetary costs (net impairment)	7	-	-	7
EBITDA	321	18	1	340

- Apparel segment results

(millions of Euro)	Ist half 2008	%	Ist half 2007 pro-forma	%	Change	%	Full year 2007 pro-forma	%
Revenues from third parties	948		916		32	3.5	1,960	
Inter-segment revenues	1		1		-	42.6	2	
Total revenues	949	100.0	917	100.0	32	3.6	1,962	100.0
Cost of sales	497	52.4	509	55.4	(12)	(2.1)	1,075	54.8
Gross operating profit	452	47.6	408	44.6	44	10.6	887	45.2
Selling costs	69	7.3	64	7.0	5	7.2	140	7.1
Contribution margin	383	40.3	344	37.6	39	11.2	747	38.1
General and operating expenses	271	28.5	243	26.5	28	11.6	511	26.1
- of which non-recurring expenses/(income)	(6)	(0.6)	(7)	(0.7)	1	(17.1)	3	0.2
Operating profit	112	11.8	101	11.1	11	10.4	236	12.0
EBITDA	149	15.7	139	15.2	10	6.9	321	16.4

- Textile segment results

(millions of Euro)	Ist half 2008	%	Ist half 2007	%	Change	%	Full year 2007	%
Revenues from third parties	48		52		(4)	(8.7)	88	
Inter-segment revenues	76		82		(6)	(7.1)	137	
Total revenues	124	100.0	134	100.0	(10)	(7.7)	225	100.0
Cost of sales	111	89.9	118	88.2	(7)	(5.9)	203	90.1
Gross operating profit	13	10.1	16	11.8	(3)	(21.1)	22	9.9
Selling costs	5	3.7	5	3.3	-	4.5	8	3.7
Contribution margin	8	6.4	11	8.5	(3)	(31.0)	14	6.2
General and operating expenses	3	2.5	5	4.0	(2)	(43.2)	8	3.7
- of which non-recurring income	(2)	(1.9)	-	-	(2)	n.s.	-	-
Operating profit	5	3.9	6	4.5	(1)	(20.0)	6	2.5
EBITDA	10	8.1	12	9.1	(2)	(17.8)	18	7.7

**Balance sheet and financial position highlights.** The most significant elements of the balance sheet and financial position, compared with those at December 31, 2007 and June 30, 2007, are presented in the following table. Management has decided to present working capital in the strict sense of the term, meaning that direct taxation has now been excluded, also in keeping with requests from the financial community. As a result, the following items have been reclassified from "Other receivables/(payables)" to "Other assets/(liabilities)": deferred tax assets and liabilities, receivables due from the tax authorities for direct taxes and receivables and payables from/to holding companies in relation to the group tax election.

(millions of Euro)	06.30.2008	12.31.2007	Change	06.30.2007
Working capital	618	631	(13)	613
- trade receivables	724	686	38	665
- inventories	377	336	41	396
- trade payables	(443)	(385)	(58)	(455)
- other receivables/(payables) <sup>(A)</sup>	(40)	(6)	(34)	7
Assets/(liabilities) held for sale	16	6	10	4
Property, plant and equipment and intangible assets <sup>(B)</sup>	1,239	1,171	68	1,075
Non-current financial assets <sup>(C)</sup>	26	23	3	23
Other assets/(liabilities) <sup>(D)</sup>	44	58	(14)	86
<b>Net capital employed</b>	<b>1,943</b>	<b>1,889</b>	<b>54</b>	<b>1,801</b>
Net financial indebtedness <sup>(E)</sup>	555	475	80	459
<b>Total shareholders' equity</b>	<b>1,388</b>	<b>1,414</b>	<b>(26)</b>	<b>1,342</b>

<sup>(A)</sup> Other receivables/(payables) include VAT receivables and payables, sundry receivables and payables, trade receivables and payables from/to Group companies, accruals and deferrals, payables to social security institutions and employees, receivables and payables for fixed asset purchase etc.

<sup>(B)</sup> Property, plant and equipment and intangible assets include all categories of assets net of the related accumulated depreciation, amortization, and impairment losses.

<sup>(C)</sup> Non-current financial assets include unconsolidated investments and guarantee deposits paid and received.

<sup>(D)</sup> Other assets/(liabilities) include retirement benefit obligations, provisions for legal and tax risks, the provision for sales agent indemnities, other provisions, current income tax liabilities, receivables and payables from/to holding companies in relation to the group tax election, receivables from the tax authorities for direct taxes, deferred tax assets also in relation to the company reorganization carried out in 2003 and deferred tax liabilities.

<sup>(E)</sup> Net financial indebtedness includes cash and cash equivalents and all short and medium/long-term financial assets and liabilities, as reported in the detailed statement discussed in the Explanatory notes.

Working capital was 5 million higher than at June 30, 2007 reflecting the combined effect of:

- an increase of 59 million in net trade receivables, associated with the growth in revenues;
- a reduction of 19 million in inventories and of 12 million in trade payables, partly affected by the new timing of collections and the related production schedules;
- a net change of 47 million in other receivables and payables, arising from:
  - an increase of 18 million in other payables due to receipt of the deposit against a preliminary property sale agreement and to higher payables for the Group's operating investments;
  - a decrease of 29 million in other receivables, mainly after reclassifying to assets under construction the advances associated with the Group's commercial development in Iran and Kosovo.

Apart from the changes in working capital discussed above, capital employed increased by an additional 137 million, mainly reflecting a net increase in property, plant and equipment and intangible assets.

Capital employed was 54 million higher than at December 31, 2007, mainly as a result of a net increase in property, plant and equipment and intangible assets, reflecting 119 million in gross operating investments during the period, 15 million in divestments at net book value, and 48 million in depreciation and amortization; over 6 million was reinstated to the value of assets held for sale during the period.

The Group's net financial indebtedness of 555 million is discussed in detail in the Explanatory notes.

Cash flows during first half 2008 are summarized below with comparative figures for the same period of last year:

(millions of Euro)	1st half 2008	1st half 2007
Cash flow from operating activities before changes in working capital	163	149
Cash flow used by changes in working capital	(19)	(57)
Net interest paid - exchange differences	(24)	(17)
Payment of taxes	(9)	(6)
<b>Cash flow provided by operating activities</b>	<b>111</b>	<b>69</b>
Net operating investments/Capex	(102)	(89)
Non-current financial assets	(3)	(2)
<b>Cash flow used by investing activities</b>	<b>(105)</b>	<b>(91)</b>
<b>Free cash flow</b>	<b>6</b>	<b>(22)</b>
Cash flow used by financing activities of which:		
- payment of dividends	(75)	(68)
- purchase of treasury shares	(11)	-
- net change in other sources of finance	54	3
<b>Cash flow used by financing activities</b>	<b>(32)</b>	<b>(65)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(26)</b>	<b>(87)</b>

Cash flow from operating activities before changes in working capital amounted to 163 million in the period compared with 149 million in first half 2007, partly reflecting the improvement in EBITDA.

Changes in working capital used 19 million in cash flow (57 million in first half 2007) and mostly reflect:

- an increase in trade receivables and inventories, associated with the growth in revenues;
- offset by an increase in trade payables due to the cyclical nature of purchases of outsourced products and to higher transport costs.

Operating activities provided 111 million in cash flow compared with 69 million in the comparative period, benefiting from the smaller amount of cash absorbed by working capital. Cash flow used by investing activities increased from 91 million in first half 2007 to 105 million this year, mainly due to 82 million in investments in the commercial network, particularly in markets such as Italy, France, the United States and Switzerland, as well as the priority growth markets of India, Russia, the former Soviet Union, Mexico and Turkey. Investments in production, amounting to 24 million, mostly referred to the production center in Tunisia and to the logistics hub in Castrette di Villorba (Italy). Other investments amounted to 13 million, most of which in Information Technology; among the more important were those in the integrated management of directly operated points of sale and in the improvement of SAP software at certain foreign subsidiaries.

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



**Consolidated financial statements**

**Consolidated statement  
of income**

(thousands of Euro)	Ist half 2008 <sup>(A)</sup>	Ist half 2007 pro-forma <sup>(A)</sup>	Full year 2007 pro-forma <sup>(A)</sup>	Notes
<b>Revenues</b>	<b>995,521</b>	<b>967,637</b>	<b>2,048,632</b>	<b>1</b>
Materials and subcontracted work	458,533	472,205	1,000,321	2
Payroll and related costs	45,161	42,098	81,567	3
Industrial depreciation and amortization	8,036	8,399	16,583	5
Other manufacturing costs	21,653	22,253	41,701	
<b>Cost of sales</b>	<b>533,383</b>	<b>544,955</b>	<b>1,140,172</b>	
<b>Gross operating profit</b>	<b>462,138</b>	<b>422,682</b>	<b>908,460</b>	
Distribution and transport	30,159	28,612	60,031	
Sales commissions	42,292	39,174	86,237	
<b>Contribution margin</b>	<b>389,687</b>	<b>354,896</b>	<b>762,192</b>	
Payroll and related costs	84,054	79,687	155,907	3
Advertising and promotion	32,515	33,807	61,019	4
Depreciation and amortization	40,041	35,309	73,634	5
Other expenses and income	117,085	99,145	228,835	6
- of which non-recurring expenses/(income)	(7,919)	(6,670)	3,096	
<b>General and operating expenses</b>	<b>273,695</b>	<b>247,948</b>	<b>519,395</b>	
- of which non-recurring expenses/(income)	(7,919)	(6,670)	3,096	
<b>Operating profit</b>	<b>115,992</b>	<b>106,948</b>	<b>242,797</b>	
Share of income/(losses) of associated companies	22	40	43	
Financial (expenses)/income	(16,904)	(12,838)	(29,735)	7
Net foreign currency hedging (losses)/gains and exchange differences	(7,188)	(4,529)	(10,333)	8
<b>Income before taxes</b>	<b>91,922</b>	<b>89,621</b>	<b>202,772</b>	
Income taxes	21,475	20,710	52,578	9
<b>Net income from continuing operations</b>	<b>70,447</b>	<b>68,911</b>	<b>150,194</b>	
Net income from discontinued operations	1,063	106	195	10
Net income for the period attributable to:	71,510	69,017	150,389	
- shareholders of the Parent Company	<b>71,947</b>	<b>70,204</b>	<b>145,330</b>	
- minority interests	(437)	(1,187)	5,059	
Basic earnings per share (Euro)	0.39	0.38	0.80	
Diluted earnings per share (Euro)	0.39	0.38	0.80	

<sup>(A)</sup> On April 1, 2008 the Group sold its sports equipment manufacturing business to third parties, meaning that the income and expenses of the discontinued operations have been reclassified and reported in a single line in the statement of income "Net income from discontinued operations". The related figures for the corresponding period in 2007 have also been reclassified to make them comparable with 2008 (the Explanatory notes to this half-year financial report contain a reconciliation between the actual and reclassified statements of income for 2007).

**Consolidated balance sheet**  
**- Assets**

(thousands of Euro)	06.30.2008	12.31.2007	06.30.2007	Notes
<b>Non-current assets</b>				
<b>Property, plant and equipment</b>				<i>11</i>
Land and buildings	660,640	656,439	630,161	
Plant, machinery and equipment	71,974	75,541	65,081	
Furniture, fittings and electronic devices	61,172	61,295	57,467	
Vehicles and aircraft	24,202	24,648	10,609	
Assets under construction and advances	111,745	61,795	32,114	
Leased assets	5,060	5,285	5,534	
Leasehold improvements	46,675	44,921	42,768	
	<b>981,468</b>	<b>929,924</b>	<b>843,734</b>	
<b>Intangible assets</b>				<i>12</i>
Goodwill and other intangible assets of indefinite useful life	33,045	28,458	28,458	
Intangible assets of finite useful life	224,418	212,273	202,920	
	<b>257,463</b>	<b>240,731</b>	<b>231,378</b>	
<b>Other non-current assets</b>				
Investments	1,931	2,066	2,638	<i>13</i>
Guarantee deposits	26,912	25,157	23,909	
Medium/long-term financial receivables	4,560	5,147	2,750	<i>14</i>
Other medium/long-term receivables	36,098	33,996	52,291	<i>15</i>
Deferred tax assets	163,173	163,050	170,509	<i>16</i>
	<b>232,674</b>	<b>229,416</b>	<b>252,097</b>	
<b>Total non-current assets</b>	<b>1,471,605</b>	<b>1,400,071</b>	<b>1,327,209</b>	
<b>Current assets</b>				
Inventories	377,269	336,063	396,051	<i>17</i>
Trade receivables	719,635	680,741	651,823	<i>18</i>
Tax receivables	27,484	27,586	28,420	<i>19</i>
Other receivables, accrued income and prepaid expenses	64,347	88,051	95,821	<i>20</i>
Financial receivables	12,236	19,288	23,348	<i>21</i>
Cash and banks	118,558	133,841	97,119	<i>22</i>
<b>Total current assets</b>	<b>1,319,529</b>	<b>1,285,570</b>	<b>1,292,582</b>	
Assets held for sale	16,456	5,771	4,500	<i>23</i>
<b>TOTAL ASSETS</b>	<b>2,807,590</b>	<b>2,691,412</b>	<b>2,624,291</b>	

**Consolidated balance sheet -  
Shareholders' equity  
and liabilities**

(thousands of Euro)	06.30.2008	12.31.2007	06.30.2007	Notes
<b>Shareholders' equity</b>				
<b>Shareholders' equity attributable to the Group</b>				<b>24</b>
Share capital	237,483	237,478	237,478	
Treasury shares	(11,052)	-	-	
Additional paid-in capital	65,182	65,155	65,155	
Fair value and hedging reserve	(2,763)	(2,672)	(1,804)	
Other reserves and retained earnings	1,002,975	941,780	950,528	
Net income for the period	71,947	145,330	70,204	
	<b>1,363,772</b>	<b>1,387,071</b>	<b>1,321,561</b>	
<b>Minority interests</b>	<b>23,533</b>	<b>27,613</b>	<b>20,174</b>	
<b>Total shareholders' equity</b>	<b>1,387,305</b>	<b>1,414,684</b>	<b>1,341,735</b>	
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Medium/long-term loans	400,253	399,553	341	25
Other medium/long-term payables	35,757	58,248	43,484	26
Lease financing	1,388	2,292	3,584	
Retirement benefit obligations	49,474	50,784	51,634	27
Other medium/long-term provisions and liabilities	26,827	26,380	28,619	28
	<b>513,699</b>	<b>537,257</b>	<b>127,662</b>	
<b>Current liabilities</b>				
Trade payables	443,184	385,401	454,732	29
Other payables, accrued expenses and deferred income	161,769	111,171	108,860	30
Current income tax liabilities	9,451	8,622	9,551	31
Other current provisions and liabilities	3,220	3,291	3,324	32
Current portion of lease financing	2,197	2,952	3,677	
Current portion of medium/long-term loans	68	68	500,054	
Financial payables and bank loans	286,697	227,966	74,696	33
	<b>906,586</b>	<b>739,471</b>	<b>1,154,894</b>	
<b>Total liabilities</b>	<b>1,420,285</b>	<b>1,276,728</b>	<b>1,282,556</b>	
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,807,590</b>	<b>2,691,412</b>	<b>2,624,291</b>	

## Shareholders' equity - Statement of changes

(thousands of Euro)	Share capital	Treasury shares	Additional paid-in capital	Fair value and hedging reserve	Other reserves and retained earnings	Currency translation reserve	Net income/(loss)	Minority interests	Total
<b>Balances as of 01.01.2007</b>	<b>237,478</b>	-	<b>65,155</b>	<b>(2,396)</b>	<b>889,258</b>	<b>4,312</b>	<b>124,914</b>	<b>22,288</b>	<b>1,341,009</b>
Carryforward of 2006 net income	-	-	-	-	124,914	-	(124,914)	-	-
Changes in the period (IAS 39)	-	-	-	592	-	-	-	-	592
Dividends distributed as approved by Ordinary Shareholders' Meeting of 04.26.2007	-	-	-	-	(67,590)	-	-	-	(67,590)
Dividends distributed to minority interests	-	-	-	-	-	-	-	(886)	(886)
Differences arising on Euro translation of financial statements of foreign consolidated companies	-	-	-	-	-	(366)	-	(41)	(407)
Net income for the period	-	-	-	-	-	-	70,204	(1,187)	69,017
<b>Balances as of 06.30.2007</b>	<b>237,478</b>	-	<b>65,155</b>	<b>(1,804)</b>	<b>946,582</b>	<b>3,946</b>	<b>70,204</b>	<b>20,174</b>	<b>1,341,735</b>
Changes in the period (IAS 39)	-	-	-	(868)	-	-	-	-	(868)
Formation of new subsidiaries	-	-	-	-	-	-	-	638	638
Dividends distributed to minority interests	-	-	-	-	-	-	-	(82)	(82)
Increase in share capital	-	-	-	-	-	-	-	1,500	1,500
Differences arising on Euro translation of financial statements of foreign consolidated companies	-	-	-	-	-	(8,748)	-	(863)	(9,611)
Net income for the period	-	-	-	-	-	-	75,126	6,246	81,372
<b>Balances as of 12.31.2007</b>	<b>237,478</b>	-	<b>65,155</b>	<b>(2,672)</b>	<b>946,582</b>	<b>(4,802)</b>	<b>145,330</b>	<b>27,613</b>	<b>1,414,684</b>
Carryforward of 2007 net income	-	-	-	-	145,330	-	(145,330)	-	-
Exercise of stock options	5	-	27	-	-	-	-	-	32
Changes in the period (IAS 39)	-	-	-	(91)	-	-	-	-	(91)
Dividends distributed as approved by Ordinary Shareholders' Meeting of 04.24.2008	-	-	-	-	(73,072)	-	-	-	(73,072)
Purchase of treasury shares	-	(11,052)	-	-	-	-	-	-	(11,052)
Formation of new subsidiaries	-	-	-	-	-	-	-	41	41
Dividends distributed to minority interests	-	-	-	-	-	-	-	(1,849)	(1,849)
Differences arising on Euro translation of financial statements of foreign consolidated companies	-	-	-	-	-	(11,063)	-	(1,835)	(12,898)
Net income for the period	-	-	-	-	-	-	71,947	(437)	71,510
<b>Balances as of 06.30.2008</b>	<b>237,483</b>	<b>(11,052)</b>	<b>65,182</b>	<b>(2,763)</b>	<b>1,018,840</b>	<b>(15,865)</b>	<b>71,947</b>	<b>23,533</b>	<b>1,387,305</b>

**Statement of gains/(losses)  
recognized directly in  
shareholders' equity**

(thousands of Euro)	06.30.2008	12.31.2007
Gains/(losses) recognized directly in cash flow hedge reserve	(843)	(2,662)
Gains/(losses) recognized directly in fair value reserve	-	-
Gains/(losses) recognized directly in translation reserve	(12,898)	(10,319)
<b>Gains/(losses) recognized directly in shareholders' equity</b>	<b>(13,741)</b>	<b>(12,981)</b>
Transfers from cash flow hedge reserve	752	2,386
Transfers from fair value reserve	-	-
Transfers from translation reserve	-	301
Net income for the year	71,510	150,389
<b>Net income recognized in the year</b>	<b>58,521</b>	<b>140,095</b>
Attributable to:		
- shareholders of the Parent Company	60,792	135,940
- minority interests	(2,271)	4,155

**Consolidated  
cash flow statement**

(thousands of Euro)	1st half 2008	1st half 2007
<b>Operating activities</b>		
Net income for the period attributable to the Group and minority interests	70,447	68,911
Net income from discontinued operations	1,063	106
Income taxes expense	21,475	20,710
<b>Income before taxes</b>	<b>92,985</b>	<b>89,727</b>
Adjustments for:		
- depreciation and amortization	48,077	43,708
- net capital (gains)/losses and non-monetary items	(8,858)	(6,573)
- net provisions charged to statement of income	11,199	9,554
- use of provisions	(4,536)	(4,996)
- exchange differences	7,188	4,529
- share of (income)/losses of associated companies	(22)	(40)
- net financial expenses/(income)	16,904	12,838
<b>Cash flow from operating activities before changes in working capital</b>	<b>162,937</b>	<b>148,747</b>
Cash flow used by changes in working capital	(18,692)	(57,076)
Payment of taxes	(9,163)	(6,361)
Net interest paid/received	(16,672)	(11,920)
Exchange differences	(7,188)	(4,529)
<b>Cash flow provided by operating activities</b>	<b>111,222</b>	<b>68,861</b>
<b>Investing activities</b>		
Operating investments	(118,750)	(103,407)
Operating divestments	16,893	14,869
Business combinations	-	(214)
Disposal of investments	30	-
Operations in non-current financial assets	(2,994)	(2,136)
<b>Cash flow used by investing activities</b>	<b>(104,821)</b>	<b>(90,888)</b>
<b>Financing activities</b>		
Payment of dividends	(74,921)	(68,476)
Purchase of treasury shares	(11,052)	-
Change in shareholders' equity	75	-
Net change in other sources of finance	54,001	3,316
<b>Cash flow used by financing activities</b>	<b>(31,897)</b>	<b>(65,160)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(25,496)</b>	<b>(87,187)</b>
Cash and cash equivalents at the beginning of the period	130,784	179,219
Translation differences and other movements	(748)	(407)
Cash and cash equivalents at the end of the period <sup>(A)</sup>	104,540	91,625

<sup>(A)</sup> Includes Euro 14,018 thousand in current account overdrafts (5,495 in first half 2007).

The Explanatory notes (pages 27 through 51) are to be considered an integral part of this report.

**Explanatory notes****Group activities**

Benetton Group S.p.A. (the "Parent Company") and its subsidiary companies (hereinafter also referred to as the "Group") primarily manufacture and market fashion apparel in wool, cotton and woven fabrics, as well as leisurewear. The manufacture of finished articles from raw materials is undertaken partly within the Group and partly using subcontractors, whereas selling is carried out through an extensive commercial network both in Italy and abroad, consisting mainly of stores operated and owned by third parties.

The legal headquarters and other such information are shown on the last page of this document. The Parent Company is listed on the Milan stock exchange.

The process of delisting the Benetton stock from the Deutsche Börse in Frankfurt, started on February 21, 2008, was finalized on July 18, 2008.

**Form and content of the consolidated financial statements**

The statement of income format used for the consolidated financial statements and interim financial reports of the Benetton Group differs from the one used by Benetton Group S.p.A. for its individual annual financial statements. This is because this Company principally acts as a financial holding company and provider of services to its subsidiaries.

The consolidated financial statements of the Group include the financial statements as of June 30 of Benetton Group S.p.A. and all Italian and foreign companies in which the Parent Company holds, directly or indirectly, the majority of the voting rights. The consolidated financial statements also include the accounts of certain companies in which the Group's interest is 50%, or less, and over which it exercises a significant influence such that it has control over their financial and operating policies. In particular, the following companies have been consolidated:

- a. Benetton Korea Inc., since the effective voting rights held by Benetton total 51% of all voting rights;
- b. Benetton Giyim Sanayi ve Ticaret A.S. (a Turkish company), since the licensing and distribution agreements grant Benetton a dominant influence over the company, as well as the majority of risks and rewards linked to its business activities;
- c. Milano Report S.p.A., a company which manages stores, mainly in Lombardy, selling Benetton-branded products, insofar as most of the risks and rewards of the business are attributable to Benetton itself by virtue, amongst others, of the margins earned on sales;
- d. New Ben GmbH, a German company, which manages stores selling Benetton-branded products, insofar as the shareholder agreement gives Benetton the right to appoint the majority of the company's Directors. In addition, most of the risks and rewards of the business are attributable to Benetton;
- e. Benlim Ltd., a company based in Hong Kong 50% controlled by Benetton Asia Pacific Ltd. set up for the purpose of manufacturing Sisley products under license in China and marketing and distributing them in this country through Shanghai Sisley Trading Co. Ltd., a Chinese company wholly-owned by Benlim Ltd. Benlim Ltd. has been consolidated because most of the risks and rewards of its business and that of its subsidiary are attributable to Benetton. In particular, the licensing and distribution agreements between the parties give the Group a dominant influence over these companies;
- f. Shanghai Sisley Trading Co. Ltd., 50% controlled by the Group by virtue of the arrangements described in the previous point;
- g. Ben-Mode A.G., because the Group has the majority of directors as well as a majority of voting rights at Shareholders' Meetings. In addition, most of the risks and rewards of the business are attributable to Benetton itself by virtue of the margins earned on sales.

Financial statements of 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 reference international accounting and financial reporting standards.

These financial statements have been prepared on a "going concern" basis, matching costs and revenues to the accounting periods to which they relate. The reporting currency is the Euro and all values have been rounded to thousands of Euro, unless otherwise specified.

### Consolidation criteria

The method of consolidation adopted for the preparation of the consolidated financial statements is as follows:

- a. Consolidation of subsidiary companies' financial statements according to the line-by-line method, with elimination of the carrying value of the shareholdings held by the Parent Company and other consolidated companies against the relevant shareholders' equity.
- 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 and liabilities of the subsidiary. The excess of the cost of acquisition over the net assets is recorded as "Goodwill and other intangible assets of indefinite useful life". Negative differences are recorded in the statement of income as income.
- 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. Minority interests in shareholders' equity and the result for the period of consolidated subsidiaries are classified separately as "Minority interests" under shareholders' equity and as "Income attributable to minority interests" in the consolidated statement of income.
- e. The financial statements of foreign subsidiaries are translated into Euro using period-end exchange rates for assets and liabilities and average exchange rates for the period for the statement of income. Differences arising from the translation into Euro of foreign currency financial statements are reflected directly in consolidated shareholders' equity as a separate component.

### Accounting standards and policies

**Application of IFRS.** The Group's financial statements for first half 2008 and comparative periods have been drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, which are in force at the date of preparing this report; more specifically, as required by IAS 34 (Interim Financial Reporting) a condensed reporting format has been adopted.

The Group's consolidated half-year financial statements have been prepared using the same accounting policies and methods as those used for the last annual financial statements; no new material IFRSs or amendments thereto have come into effect from 2008.

On April 1, 2008 the Group sold its sports equipment manufacturing business to third parties, meaning that the income and expenses of the discontinued operations have been reclassified and reported in a single line in the statement of income called "Net income from discontinued operations". The related figures for the corresponding period in 2007 have also been reclassified to make them comparable with 2008; the Explanatory notes to this half-year financial report contain a reconciliation between the actual and reclassified statements of income for 2007. As a result of this sale, the other and unallocated segment is no longer material, meaning that the segment information has also been reclassified by including the residual amounts from this segment in the apparel segment.

The Group carries out activities that as a whole do not involve significant seasonal or cyclical variations in total sales during the year. When preparing the interim financial report, the Group must nonetheless make estimates and assumptions that affect the amount of revenues, costs, assets and liabilities and the disclosures relating to contingent assets and liabilities at the interim balance sheet date. If in the future such estimates and assumptions, which are based on the Group's best judgment, should differ from the actual circumstances, they will be amended as appropriate in the period in which such circumstances have changed.

In addition, some of these estimation processes, particularly the more complex ones such as determining any impairment losses on non-current assets, are usually carried out completely only at the time of drawing up the annual financial statements, when all the necessary information is available, unless there is evidence of impairment requiring an immediate evaluation of the related losses.

Income taxes have been recognized in the half-year financial report using the best estimate of the weighted average rate expected for the entire year.

**Business segments.** As already described, after a Hungarian subsidiary sold its sports equipment business, the other and unallocated segment was no longer material. This is why the segment information has been reclassified by including the residual amounts from this segment in the apparel segment.

The Group's activities are now divided into two segments in order to provide management with an effective basis for administration and decision-making, and to supply financial investors with representative and meaningful information about company performance.

The business segments are as follows:

- apparel, represented by the brands of United Colors of Benetton Adult and Children, Undercolors, Sisley, Sisley Young, Playlife and Killer Loop. This segment also includes the results of the Group's real estate companies;
- textile, consisting of production and sales activities for raw materials (fabrics, yarns and labels), semi-finished products and industrial services.

## Comments on the principal items in the statement of income

### [1] Revenues

(thousands of Euro)	Ist half 2008	Ist half 2007 pro-forma
Sales of core products	963,076	936,082
Miscellaneous sales	20,060	19,086
Royalty income	5,315	5,920
Other revenues	7,070	6,549
<b>Total</b>	<b>995,521</b>	<b>967,637</b>

Sales of core products are stated net of discounts.

Miscellaneous sales relate mainly to the sale of semi-finished products and sample items.

Other revenues refer mainly to the provision of services such as processing, to cost recharges and miscellaneous services.

Information on the individual segments can be found in the paragraph entitled "Supplementary information - Segment information".

### Sales of core products, by brand

(thousands of Euro)	Ist half 2008	Ist half 2007 pro-forma
United Colors of Benetton	444,112	442,307
United Colors of Benetton Children and Sisley Young	270,192	270,571
Sisley	185,608	159,704
Playlife	17,422	11,554
Killer Loop	2,373	5,538
Other sales	43,369	46,408
<b>Total</b>	<b>963,076</b>	<b>936,082</b>

The United Colors of Benetton brand also includes Euro 43,387 thousand in sales by the Undercolors brand (Euro 34,275 thousand in first half 2007). "Other sales" refer to the sale of fabrics and yarns.

### Cost of sales

- [2] Materials and subcontracted work**

These include Euro 375,509 thousand (359,971 thousand in first half 2007 pro-forma) in costs for the purchase of raw materials, semi-finished products, finished products and related materials and Euro 83,024 thousand (112,234 thousand in first half 2007 pro-forma) in costs for subcontracted work.

## General and operating expenses

### • [3] Payroll and related costs

An analysis of the Group's payroll and related costs is presented below, including industrial ones classified as part of the cost of sales, and those relating to directly operated stores classified as part of general and operating expenses.

#### First half 2008

(thousands of Euro)	Industrial wages, salaries and related costs	Non-industrial salaries and related costs	Advertising division salaries and related costs	Total
Wages and salaries	32,144	64,455	564	97,163
Social security contributions	11,566	17,130	168	28,864
Provision for retirement benefit obligations	620	867	34	1,521
Other payroll and related costs	831	1,602	-	2,433
<b>Total</b>	<b>45,161</b>	<b>84,054</b>	<b>766</b>	<b>129,981</b>

#### First half 2007 pro-forma

(thousands of Euro)	Industrial wages, salaries and related costs	Non-industrial salaries and related costs	Advertising division salaries and related costs	Total
Wages and salaries	30,666	61,315	593	92,574
Social security contributions	10,971	15,781	169	26,921
Provision for retirement benefit obligations <sup>(1)</sup>	(78)	816	34	772
Other payroll and related costs	539	1,775	-	2,314
<b>Total</b>	<b>42,098</b>	<b>79,687</b>	<b>796</b>	<b>122,581</b>

<sup>(1)</sup> This includes the impact of changes in the rules on employee termination indemnities made by Italian Law no. 296 of December 27, 2006.

Payroll and related costs have increased partly as a result of growth in the number of directly operated stores. The number of employees is analyzed by category below:

	06.30.2008	06.30.2007	Period average
Management	99	105	102
White collar	5,267	4,766	5,017
Workers	2,241	2,476	2,359
Part-timers	1,599	1,434	1,516
<b>Total</b>	<b>9,206</b>	<b>8,781</b>	<b>8,994</b>

### • [4] Advertising and promotion

Advertising and promotion costs amount to Euro 32,515 thousand (Euro 33,807 thousand in first half 2007) and reflect the costs incurred for developing advertising campaigns most suited to each brand's positioning.

- **[5] Depreciation and amortization**

The Group's depreciation and amortization charges for the period, including the industrial ones reported in the cost of sales, are analyzed as follows:

#### First half 2008

(thousands of Euro)	Industrial depreciation/ amortization	Non-industrial depreciation/ amortization	Total
Depreciation of property, plant and equipment	7,943	24,528	32,471
Amortization of intangible assets	93	15,513	15,606
<b>Total</b>	<b>8,036</b>	<b>40,041</b>	<b>48,077</b>

#### First half 2007 pro-forma

(thousands of Euro)	Industrial depreciation/ amortization	Non-industrial depreciation/ amortization	Total
Depreciation of property, plant and equipment	8,327	22,643	30,970
Amortization of intangible assets	72	12,666	12,738
<b>Total</b>	<b>8,399</b>	<b>35,309</b>	<b>43,708</b>

- **[6] Other expenses and income**

(thousands of Euro)	Ist half 2008	Ist half 2007 pro-forma
Non-industrial general costs	59,201	49,817
Other operating expenses/(income)	53,500	46,475
Additions to provisions	10,747	8,916
Other expenses/(income)	(6,363)	(6,063)
<b>Total</b>	<b>117,085</b>	<b>99,145</b>

Details of these amounts are provided in the following tables.

#### Non-industrial general costs

(thousands of Euro)	Ist half 2008	Ist half 2007 pro-forma
Other services	11,476	9,449
Consulting and advisory fees	9,114	6,349
Rental and hire costs	7,153	5,605
Travel and entertainment costs	5,463	4,766
Electricity and gas	4,928	4,198
Maintenance and cleaning	4,672	4,001
Directors and Statutory Auditors	3,811	3,254
Sundry purchases	3,383	3,189
Telephone and postage expenses	2,892	2,795
Insurance	2,209	2,163
Banking services	1,354	1,452
Surveillance and security	1,146	1,106
Other	1,600	1,490
<b>Total</b>	<b>59,201</b>	<b>49,817</b>

## Other operating expenses/(income)

(thousands of Euro)	1st half 2008	1st half 2007 pro-forma
Operating expenses:		
- rental expense	75,727	67,741
- indirect taxes and duties	5,801	4,927
- other operating expenses	12,276	10,009
<b>Total operating expenses</b>	<b>93,804</b>	<b>82,677</b>
Operating income:		
- rental income	(32,763)	(29,912)
- reimbursements and compensation payments	(1,926)	(1,448)
- other operating income	(5,615)	(4,842)
<b>Total operating income</b>	<b>(40,304)</b>	<b>(36,202)</b>
<b>Total</b>	<b>53,500</b>	<b>46,475</b>

## Additions to provisions

(thousands of Euro)	1st half 2008	1st half 2007
Addition to provision for doubtful accounts	7,812	6,658
Addition to provision for legal and tax risks	1,835	1,258
Addition to provision for sales agent indemnities	1,100	1,000
<b>Total</b>	<b>10,747</b>	<b>8,916</b>

## Other expenses/(income)

(thousands of Euro)	1st half 2008	1st half 2007
Other expenses:		
- donations	1,591	1,596
- out-of-period expenses	955	1,329
- impairment of property, plant and equipment and intangible assets	499	189
- losses on disposal	447	630
- costs for expected obligations	-	226
- other sundry expenses	2,851	1,130
<b>Total other expenses</b>	<b>6,343</b>	<b>5,100</b>
Other income:		
- reversal of impairment of property, plant and equipment and intangible assets	(6,549)	-
- gains on disposals of property, plant and equipment and intangible assets	(3,638)	(8,523)
- out-of-period income	(1,099)	(1,893)
- release of provisions	(1,068)	(361)
- other sundry income	(352)	(386)
<b>Total other income</b>	<b>(12,706)</b>	<b>(11,163)</b>
<b>Total</b>	<b>(6,363)</b>	<b>(6,063)</b>

The non-recurring income and expenses included in this heading are detailed in the paragraph entitled "Supplementary information – Non-recurring events and significant transactions".

**[7] Financial (expenses)/income**

Net financial expenses amount to Euro 16,904 thousand in first half 2008; the increase on the corresponding period of 2007 is largely due to the rise in interest rates and average indebtedness over the period, mainly resulting from the growth in business and higher investments.

**[8] Net foreign currency hedging (losses)/gains and exchange differences**

Net foreign currency hedging and exchange losses amount to Euro 7,188 thousand; the net amount reflects the higher Euro exchange rate relative to existing currency hedges, particularly those against US dollar purchases invoiced in first half 2008.

**[9] Income taxes**

The tax charge amounts to Euro 21,475 thousand compared with Euro 20,710 thousand in the corresponding period of 2007 (on a pro-forma basis); the tax rate of 23.4% is largely consistent with that in first half 2007.

**[10] Net income from discontinued operations**

This line item summarizes the post-tax income of the sports equipment manufacturing business sold to the Tecnica group on April 1, 2008 by the subsidiary Benetton Ungheria Kft. The Benetton Group continued this manufacturing activity throughout first half 2008 in order to complete orders in progress at the date of sale. The statement of income figures relating to this discontinued operation (which was classified in the "other and unallocated" segment up until December 31, 2007) are presented in the following table:

(thousands of Euro)	Ist half 2008	Ist half 2007	Full year 2007
Revenues	11,960	22,212	36,640
Cost of sales	11,552	21,756	35,772
Gross operating profit	408	456	868
Contribution margin	408	456	868
General and operating expenses	(970)	239	489
Operating profit	1,378	217	379
Income before taxes	1,378	217	379
Income taxes	315	111	184
<b>Net income from discontinued operations</b>	<b>1,063</b>	<b>106</b>	<b>195</b>

Net income from discontinued operations mostly refers to the capital gain of Euro 1,108 thousand realized on the disposal of the sports equipment factory along with the business.

The discontinued operation had an immaterial amount of cash flow in first half 2008, except for that from the disposal of the assets mentioned above.

## Comments on the principal asset items

### Non-current assets

#### • [11] Property, plant and equipment

The net book value of the Group's property, plant and equipment is analyzed below:

(thousands of Euro)	06.30.2008	12.31.2007
Land and buildings	660,640	656,439
Plant, machinery and equipment	71,974	75,541
Furniture, fittings and electronic devices	61,172	61,295
Vehicles and aircraft	24,202	24,648
Assets under construction and advances	111,745	61,795
Leased assets	5,060	5,285
Leasehold improvements	46,675	44,921
<b>Total</b>	<b>981,468</b>	<b>929,924</b>

Investments in property, plant and equipment in the period, totaling Euro 87,578 thousand, mainly related to:

- acquisitions of properties for commercial use and the modernization and refurbishment of points of sale for the purposes of expanding the commercial network, particularly in India, Italy, Russia and the former Soviet Union;
- investments for increasing capacity of the production center in Tunisia and of the logistics hub in Castrette di Villorba (Italy);
- the purchase and renewal of furniture and fittings at points of sale, particularly in Italy, Mexico, Turkey, the United States and France.

Leasehold improvements mainly refer to the cost of restructuring and modernizing stores belonging to third parties.

Disposals in the period mainly referred to the sale of the sports equipment manufacturing business (more details on which can be found in the note on "Net income from discontinued operations") and to the disposal of the textile factory in Cassano Magnago and of manufacturing plant and machinery.

During the period Euro 6,549 thousand was reinstated to the value of a property owned by the Group, recognized as impaired in 2005, after entering a preliminary sale agreement on March 31, 2008 under which this property will be sold in the third quarter and whose terms mean that the previous impairment loss is no longer relevant. In addition, Euro 499 thousand in impairment has been recognized to adjust certain commercial assets to their recoverable amount.

Except as specified above, no other signs were reported during the half year that property, plant and equipment might be impaired; this is why, in compliance with IAS 36, no impairment testing has been carried out at June 30, 2008.

- **[12] Intangible assets**

The net book value of the Group's intangible assets is analyzed below:

(thousands of Euro)	06.30.2008	12.31.2007
<b>Goodwill and other intangible assets of indefinite useful life</b>	<b>33,045</b>	<b>28,458</b>
Intangible assets of finite useful life:		
- industrial patents and intellectual property rights	2,963	3,333
- concessions, licenses, trademarks and similar rights	18,792	18,123
- deferred charges	163,409	149,797
- other	39,254	41,020
<b>Total intangible assets of finite useful life</b>	<b>224,418</b>	<b>212,273</b>
<b>Total</b>	<b>257,463</b>	<b>240,731</b>

A total of Euro 31,789 thousand was invested in intangible assets during the period, most of which relating to:

- the acquisition of commercial operations in the United States, Canada and Switzerland, details of which can be found in the section "Other information - Business combinations";
- the acquisition of commercial operations in Italy and France;
- the development and implementation of the integrated management system for directly operated points of sale as well as the improvement of SAP software at certain foreign subsidiaries.

"Goodwill and other intangible assets of indefinite useful life" consist of consolidation differences and residual amounts of goodwill arising on the consolidation of acquired companies.

"Intangible assets of finite useful life" include:

- "Concessions, licenses, trademarks and similar rights", which include the net book value of the following brands: United Colors of Benetton, Sisley and Killer Loop;
- "Deferred charges", mainly consisting of costs associated with the acquisition of commercial activities, which are amortized over the term of the related lease agreements (with the exception of "fonds de commerce" which are amortized over 20 years). This line item also includes costs incurred for the early vacation of third party premises, as well as expenses for taking over property and business leases, which are amortized over the term of the related lease contracts;
- "Other", mainly consisting of costs relating to the purchase and development of software for implementation, the purchase of computer programs and applications and the value of assets under development and advances.

There have been no signs in the half year indicating any potential impairment of intangible assets; this is why, in compliance with IAS 36, no impairment testing has been carried out at June 30, 2008.

- **Other non-current assets**

**[13] Investments.** Investments in subsidiary and associated companies relate mainly to commercial companies not included in the consolidation because they were not yet operational or were in liquidation at the balance sheet date. Investments in other companies are stated at cost and refer to minority stakes in a number of companies in Italy, Japan, Korea and Switzerland.

**[14] Medium/long-term financial receivables.** This line item refers to the long-term portion of financial receivables, which earn interest at market rates.

**[15] Other medium/long-term receivables.** This line item, totaling Euro 36,098 thousand, includes Euro 23,569 thousand in receivables due from Ragione S.A.p.A. di Gilberto Benetton e C. for current taxes, calculated on taxable losses, as allowed in the rules governing participation in the group tax election for Italian companies.

This line item also includes Euro 4,177 thousand in customer trade receivables (stated net of Euro 4,542 thousand in provisions for doubtful accounts), Euro 5,311 thousand in receivables due for fixed asset disposals and Euro 2,615 thousand in recoverable VAT, while the remainder relates to other sundry receivables.

**[16] Deferred tax assets.** The Group offsets deferred tax assets against deferred tax liabilities for Italian companies that have made the group tax election and for foreign subsidiaries to the extent legally allowed in their country of origin. This balance is mostly attributable to taxes paid in advance as a result of differences in calculating the depreciable/amortizable base of assets. The associated deferred tax assets have been recognized on the basis of the Group's future expected profitability following its reorganization in 2003. The balance also includes deferred tax assets recognized on provisions and costs already reported in the financial statements that will become deductible for tax in future periods.

### Current assets

**[17] Inventories.** Inventories, totaling Euro 377,269 thousand (Euro 336,063 thousand at December 31, 2007), are shown net of the related write-down provision.

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

### [18] Trade receivables

(thousands of Euro)	06.30.2008	12.31.2007
Current trade receivables	776,687	740,876
(Provision for current doubtful accounts)	(57,052)	(60,135)
<b>Current trade receivables</b>	<b>719,635</b>	<b>680,741</b>
Non-current trade receivables	8,719	13,726
(Provision for non-current doubtful accounts)	(4,542)	(8,248)
<b>Non-current trade receivables</b>	<b>4,177</b>	<b>5,478</b>
<b>Total</b>	<b>723,812</b>	<b>686,219</b>

Trade receivables also include Euro 183 thousand in amounts due from holding, associated and related companies. A total of Euro 11,350 thousand in receivables not yet due had been factored without recourse at June 30, 2008 (Euro 23,435 thousand at December 31, 2007).

The provision for doubtful accounts has been determined on the basis of a prudent assessment of the risks associated with outstanding receivables at period end and provides coverage against 7.8% of receivables. Movements in this provision during the period are summarized below:

(thousands of Euro)	12.31.2007	Additions	Uses	Releases to income	Exchange differences and other changes	06.30.2008
Provision for doubtful accounts	68,383	7,812	(12,412)	(453)	(1,736)	61,594

**[19] Tax receivables.** This balance includes:

(thousands of Euro)	06.30.2008	12.31.2007
VAT recoverable	20,286	20,370
Tax credits	5,209	6,273
Other tax receivables	1,989	943
<b>Total</b>	<b>27,484</b>	<b>27,586</b>

**[20] Other receivables, accrued income and prepaid expenses.** This balance includes:

(thousands of Euro)	06.30.2008	12.31.2007
Other receivables:		
- other	25,733	52,033
- receivables from holding and related companies	21,579	22,024
<b>Total other receivables</b>	<b>47,312</b>	<b>74,057</b>
Accrued income and prepaid expenses:		
- accrued income and prepaid expenses on operating leasing	8,129	9,593
- other accrued income and prepaid expenses	8,906	4,401
<b>Total accrued income and prepaid expenses</b>	<b>17,035</b>	<b>13,994</b>
<b>Total</b>	<b>64,347</b>	<b>88,051</b>

Other receivables, which total Euro 47,312 thousand (Euro 74,057 thousand at December 31, 2007), include Euro 21,483 thousand in amounts owed by Edizione Holding S.p.A. in relation to the group tax election for Italian companies; the rest of this balance mostly refers to advances given to various suppliers and employees, receivables from social security institutions as well as receivables for fixed asset disposals and other sundry items. The decrease since December 31, 2007 includes the reclassification of Euro 21,695 thousand in advances for the Group's commercial development in Iran and Kosovo from this line item to "Assets under construction and advances" forming part of property, plant and equipment.

**[21] Financial receivables.** This line item mostly refers to:

- short-term loans as well as the current portion of long-term loans to third parties;
- positive differentials on forward exchange contracts, mainly relating to the adjustment to period-end rates of outstanding hedges against economic, transaction and translation exchange risks;
- interest on loans and derivatives, particularly those relating to interest rate risk.

**[22] Cash and banks**

(thousands of Euro)	06.30.2008	12.31.2007
Checks	50,653	75,790
Bank and post office current accounts in Euro	31,531	37,914
Bank current accounts in other currencies	24,622	18,729
Time deposits	11,023	-
Cash in hand	729	1,408
<b>Total</b>	<b>118,558</b>	<b>133,841</b>

The time deposits are liquid funds belonging to the finance companies and the Parent Company. Average interest rates reflect market returns for the various currencies concerned. The amount of checks is the result of customer payments, received in the last few days of the reporting period.

**[23] Assets held for sale.** This balance includes the following amounts, reported at the lower of net book value and fair value less costs to sell:

- Euro 14,936 thousand for a property owned by the Group, for which a preliminary sale agreement was entered on March 31, 2008 and which will complete in the third quarter. The value of this property was increased by Euro 6,549 thousand in the period after reversing the former impairment loss recognized in 2005, no longer relevant in view of the sale transaction;
- Euro 1,520 thousand in relation to the factory in Piedimonte that is no longer operating after commencing plans to restructure the textile sector at the end of 2005.

## Comments on the principal items in shareholders' equity and liabilities

### Shareholders' equity

#### • [24] Shareholders' equity attributable to the Group

The Shareholders' Meeting of Benetton Group S.p.A. resolved on April 24, 2008 to pay a dividend of Euro 0.40 per share, totaling Euro 73,072 thousand; this dividend was paid on May 8, 2008.

Changes in shareholders' equity during the period are detailed in the statement of changes contained in the "Consolidated financial statements" section.

**Share capital.** The share capital of Benetton Group S.p.A. amounts to Euro 237,482,715.60 at June 30, 2008 and consists of 182,679,012 shares with a par value of Euro 1.30 each. This amount has increased by Euro 4,576 since December 31, 2007 after 3,520 options were exercised under the 2004 stock option plan.

**Treasury shares.** The Shareholders' Meeting of April 24, 2008 granted the Board of Directors the authority to buy back and dispose of up to 18,000,000 Benetton ordinary shares, provided these are no more than 10% of share capital. This authority was granted for a period of 18 months commencing May 6, 2008. The minimum purchase price may not be 30% below the official share price reported in the trading session prior to each individual transaction, while the maximum purchase price may not be 20% above such official share price; the disposal price may not be less than 90% of the official share price reported in the trading session prior to each individual transaction.

Between the date the buy-back program commenced on May 14, 2008, under a resolution adopted by the Board of Directors, and June 30, 2008, Benetton Group S.p.A. bought 1,355,450 treasury shares, corresponding to 0.742% of share capital, for around Euro 11,052 thousand.

### Liabilities

#### • Non-current liabilities

**[25] Medium/long-term loans.** This balance mostly refers to three loans repayable by 2012 totaling Euro 400 million, of which Euro 150 million from Intesa Sanpaolo S.p.A., Euro 150 million from UniCredit Banca d'Impresa S.p.A. and Euro 100 million from BNL S.p.A. (BNP Paribas group). These loans carry interest of one, two, three or six-month Euribor plus a spread ranging between 20 and 50 basis points depending on the ratio between net financial position and EBITDA, and call for compliance with two financial covenants, observance of which is verified every six months on the basis of the consolidated financial statements, namely:

- a ratio of 4 or above between EBITDA and net financial expenses;
- a ratio of 3.5 or less between net financial position and EBITDA.

#### [26] Other medium/long-term payables

(thousands of Euro)	06.30.2008	12.31.2007
Other payables due to holding and related companies	19,482	46,026
Other payables due to third parties	12,081	7,552
Guarantee deposits received	3,331	3,802
Non-current liabilities for the purchase of fixed assets	863	868
<b>Total</b>	<b>35,757</b>	<b>58,248</b>

"Other payables due to holding and related companies" at June 30, 2008 all refer to amounts owed to Ragione S.A.p.A. di Gilberto Benetton e C. for current taxes calculated on taxable income, as required under the Rules governing relationships between companies participating in the group tax election.

"Other payables due to third parties" include the value attributed to the put options held by minority shareholders in subsidiary companies.

**[27] Retirement benefit obligations.** These refer to provisions for post-employment benefit plans relating to Group employees, of which Euro 46,671 thousand relates to provisions for employee termination indemnities (TFR) reported by the Group's Italian companies.

**[28] Other medium/long-term provisions and liabilities.** This line item includes the provision for sales agent indemnities, the provision for legal and tax risks and provisions made in previous years for the closure of a number of directly operated stores.

(thousands of Euro)	Provision for legal and tax risks	Provision for sales agent indemnities	Other provisions	Total
<b>Balance at 01.01.2008</b>	<b>6,425</b>	<b>18,553</b>	<b>1,402</b>	<b>26,380</b>
Additions to provisions	1,440	1,100	-	2,540
Releases to income	(371)	-	(28)	(399)
Uses and other changes	(1,411)	(6)	(277)	(1,694)
<b>Balance at 06.30.2008</b>	<b>6,083</b>	<b>19,647</b>	<b>1,097</b>	<b>26,827</b>

#### • Current liabilities

**[29] Trade payables.** These represent the Group's liabilities for the purchase of goods and services amounting to Euro 443,184 thousand (Euro 385,401 thousand at December 31, 2007).

#### **[30] Other payables, accrued expenses and deferred income**

(thousands of Euro)	06.30.2008	12.31.2007
Other payables:		
- other payables due to holding and related companies	61,074	15,819
- payables for the purchase of fixed assets	32,786	36,301
- other payables due to employees	23,990	19,103
- other payables due to third parties	16,301	11,210
- payables due to social security and welfare institutions	7,316	9,773
- VAT	5,625	2,319
- other payables due to tax authorities	5,038	7,120
<b>Total other payables</b>	<b>152,130</b>	<b>101,645</b>
Accrued expenses and deferred income:		
- accrued expenses and deferred income on operating leasing	5,959	7,867
- other accrued expenses and deferred income	3,680	1,659
<b>Total accrued expenses and deferred income</b>	<b>9,639</b>	<b>9,526</b>
<b>Total</b>	<b>161,769</b>	<b>111,171</b>

"Other payables due to holding and related companies" entirely refer to amounts owed to Edizione Holding S.p.A. and Ragione S.A.p.A. di Gilberto Benetton e C. under the group tax election.

Payables for the purchase of fixed assets mostly refer to the commercial network, the manufacturing division and Information Technology.

Other payables due to employees refer to amounts accruing and not paid at the end of June.

"Other payables due to third parties" include non-trade related payables, amongst which: remuneration owed to directors, payables due to insurance companies, current guarantee deposits received and the liability representing the valuation of put options held by minority shareholders in Group subsidiaries.

Payables due to social security and welfare institutions relate to amounts owed to these institutions by Group companies and their employees.

**[31] Current income tax liabilities.** These represent the amount payable by the Group for current income tax, stated net of taxes paid in advance, tax credits and withholding taxes.

**[32] Other current provisions and liabilities**

(thousands of Euro)	Provision for legal and tax risks	Other provisions	Total
<b>Balance at 01.01.2008</b>	<b>2,987</b>	<b>304</b>	<b>3,291</b>
Additions to provisions	395	-	395
Releases to income	(192)	(25)	(217)
Uses and other changes	(154)	(95)	(249)
<b>Balance at 06.30.2008</b>	<b>3,036</b>	<b>184</b>	<b>3,220</b>

This line item relates to the Group's provisions against legal and tax disputes or liabilities that it expects to be resolved or settled within one year.

The provision for legal and tax risks mostly refers to legal disputes likely to be settled in the short term.

Other provisions mostly refer to the costs foreseen to be incurred by the Group for the closure of certain stores.

**[33] Financial payables and bank loans.** These mainly refer to:

- short-term loans from third parties;
- negative differentials on forward exchange contracts, mainly relating to the adjustment to period-end rates of outstanding hedges against economic, transaction and translation exchange risks;
- interest on loans and derivatives, particularly those relating to interest rate risk;
- bank loans and overdrafts.

## Commentary on the cash flow statement

Cash flow from operating activities before changes in working capital amounted to Euro 162,937 thousand in the period, compared with Euro 148,747 thousand in first half 2007, partly reflecting the improvement in EBITDA. Changes in working capital used Euro 18,692 thousand in cash flow (Euro 57,076 thousand in the comparative period), mostly reflecting:

- the increase in trade receivables and inventories, associated with the growth in revenues;
- offset by an increase in trade payables due to the cyclical nature of purchases of outsourced products and to higher transport costs.

Operating activities provided Euro 111,222 thousand in cash flow compared with Euro 68,861 thousand in the comparative period, benefiting from the smaller amount of cash absorbed by working capital.

Cash flow used by investing activities increased to Euro 104,821 thousand (Euro 90,888 thousand in the comparative period) mainly due to the higher amount of operating investments in the first half 2008. These investments mainly related to:

- the commercial network, particularly in markets such as Italy, France, the United States and Switzerland, as well as in the priority growth countries of India, Russia, the former Soviet Union, Mexico and Turkey;
- development of the production center in Tunisia and the logistics hub in Castrette di Villorba (Italy);
- Information Technology (Oracle/Retail for the integrated management of direct points of sale and improvement of SAP software at certain foreign subsidiaries).

Divestments in the period mostly related to the disposal of the sport equipment manufacturing business, the textile factory in Cassano Magnago and manufacturing plant and machinery.

Cash flow used by financing activities included the payment of Euro 73,072 thousand in dividends to the Parent Company's shareholders, Euro 1,849 thousand in dividends to minority shareholders and the net change in other sources of finance of Euro 43,024 thousand.

## Supplementary information

### Financial position

Net financial indebtedness increased by Euro 80,694 thousand since December 31, 2007 to Euro 555,249 thousand at the end of June 2008, compared with Euro 459,135 thousand a year earlier. It is analyzed as follows:

(thousands of Euro)	06.30.2008	12.31.2007	Change	06.30.2007
Cash and banks	118,558	133,841	(15,283)	97,119
<b>A Liquid assets</b>	<b>118,558</b>	<b>133,841</b>	<b>(15,283)</b>	<b>97,119</b>
<b>B Current financial receivables</b>	<b>12,236</b>	<b>19,288</b>	<b>(7,052)</b>	<b>23,348</b>
Current portion of medium/long-term loans	(68)	(68)	-	(500,054)
Financial payables, bank loans and lease financing	(288,894)	(230,918)	(57,976)	(78,373)
<b>C Current financial payables</b>	<b>(288,962)</b>	<b>(230,986)</b>	<b>(57,976)</b>	<b>(578,427)</b>
<b>D = A+B+C Current financial indebtedness</b>	<b>(158,168)</b>	<b>(77,857)</b>	<b>(80,311)</b>	<b>(457,960)</b>
<b>E Non-current financial receivables</b>	<b>4,560</b>	<b>5,147</b>	<b>(587)</b>	<b>2,750</b>
Medium/long-term loans	(400,253)	(399,553)	(700)	(341)
Lease financing	(1,388)	(2,292)	904	(3,584)
<b>F Non-current financial payables</b>	<b>(401,641)</b>	<b>(401,845)</b>	<b>204</b>	<b>(3,925)</b>
<b>G = E+F Non-current financial indebtedness</b>	<b>(397,081)</b>	<b>(396,698)</b>	<b>(383)</b>	<b>(1,175)</b>
<b>H = D+G Net financial indebtedness</b>	<b>(555,249)</b>	<b>(474,555)</b>	<b>(80,694)</b>	<b>(459,135)</b>

Most of the balance reported in "Cash and banks" refers to ordinary current accounts and short-term or overnight bank deposits, with Euro 50,653 thousand relating to checks received from customers at the end of June 2008.

Financial payables, bank loans and lease financing mostly consist of short-term payables due to the banking system: of which Euro 83 million drawn down against uncommitted credit lines and Euro 170 million drawn down against the committed credit line of Euro 500 million maturing in June 2010. This facility carries interest of one, two, three or six-month Euribor plus a spread ranging between 27.5 and 60 basis points depending on the ratio between net financial position and EBITDA, and calls for compliance with three financial covenants, observance of which is verified every six months on the basis of the consolidated financial statements, namely:

- a ratio of 4 or above between EBITDA and net financial expenses;
- a ratio of 3.5 or less between net financial position and EBITDA;
- a ratio of 1 or less between net financial position and equity.

Medium/long-term loans mostly refer to three five-year loans totaling Euro 400 million, of which Euro 150 million from Intesa Sanpaolo S.p.A., Euro 150 million from UniCredit Banca d'Impresa S.p.A. and Euro 100 million from BNL S.p.A. (BNP Paribas group). These loans carry interest of one, two, three or six-month Euribor plus a spread ranging between 20 and 50 basis points depending on the ratio between net financial position and EBITDA, and call for compliance with two financial covenants, observance of which is verified every six months on the basis of the consolidated financial statements, namely:

- a ratio of 4 or above between EBITDA and net financial expenses;
- a ratio of 3.5 or less between net financial position and EBITDA.

Both the committed credit facility of Euro 500 million and the three loans totaling Euro 400 million also carry other covenants by Benetton Group S.p.A. and, in some cases, by other Group companies, that are typically used in international finance, amongst which:

- a. negative pledge clauses, which require any existing or future secured guarantees over assets in relation to lending transactions, bonds and other instruments of credit to be extended to the above transactions on an equal footing;
- b. pari passu clauses, under which no obligations may be taken on that are senior to those assumed in the two transactions described above;
- c. periodic reporting obligations;
- d. cross default clauses, which entitle the lender to demand immediate repayment of the sums lent in the event of certain types of default by other financial instruments issued by the Group;
- e. restrictions on major asset disposals;
- f. other clauses generally found in transactions of this kind.

These covenants are nevertheless subject to several exceptions and restrictions.

There are no relationships of a financial nature with the tax group consolidating companies Edizione Holding S.p.A. and Ragione S.A.p.A. di Gilberto Benetton e C.

### Segment information

As already described, after a Hungarian subsidiary of the Group sold its sports equipment business, the other and unallocated segment was no longer material. This is why the segment information has been reclassified by including the residual amounts from the "other" segment in the apparel segment.

#### • Segment results – first half 2008

(millions of Euro)	Apparel	Textile	Eliminations	Consolidated
Revenues from third parties	948	48	-	996
Inter-segment revenues	1	76	(77)	-
Total revenues	949	124	(77)	996
Cost of sales	497	111	(74)	534
Gross operating profit	452	13	(3)	462
Selling costs	69	5	(2)	72
Contribution margin	383	8	(1)	390
General and operating expenses	271	3	-	274
- of which non-recurring income	(6)	(2)	-	(8)
Operating profit	112	5	(1)	116

#### • Segment results – first half 2007 pro-forma

(millions of Euro)	Apparel	Textile	Eliminations	Consolidated
Revenues from third parties	916	52	-	968
Inter-segment revenues	1	82	(83)	-
Total revenues	917	134	(83)	968
Cost of sales	509	118	(82)	545
Gross operating profit	408	16	(1)	423
Selling costs	64	5	(1)	68
Contribution margin	344	11	-	355
General and operating expenses	243	5	-	248
- of which non-recurring income	(7)	-	-	(7)
Operating profit	101	6	-	107

#### • Apparel segment results

(millions of Euro)	Ist half 2008	%	Ist half 2007 pro-forma	%	Change	%	Full year 2007 pro-forma	%
Revenues from third parties	948		916		32	3.5	1,960	
Inter-segment revenues	1		1		-	42.6	2	
Total revenues	949	100.0	917	100.0	32	3.6	1,962	100.0
Cost of sales	497	52.4	509	55.4	(12)	(2.1)	1,075	54.8
Gross operating profit	452	47.6	408	44.6	44	10.6	887	45.2
Selling costs	69	7.3	64	7.0	5	7.2	140	7.1
Contribution margin	383	40.3	344	37.6	39	11.2	747	38.1
General and operating expenses	271	28.5	243	26.5	28	11.6	511	26.1
- of which non-recurring expenses/(income)	(6)	(0.6)	(7)	(0.7)	1	(17.1)	3	0.2
Operating profit	112	11.8	101	11.1	11	10.4	236	12.0

- Textile segment results

(millions of Euro)	1st half 2008		1st half 2007		Change		Full year 2007	
		%		%		%		%
Revenues from third parties	48		52		(4)	(8.7)	88	
Inter-segment revenues	76		82		(6)	(7.1)	137	
Total revenues	124	100.0	134	100.0	(10)	(7.7)	225	100.0
Cost of sales	111	89.9	118	88.2	(7)	(5.9)	203	90.1
Gross operating profit	13	10.1	16	11.8	(3)	(21.1)	22	9.9
Selling costs	5	3.7	5	3.3	-	4.5	8	3.7
Contribution margin	8	6.4	11	8.5	(3)	(31.0)	14	6.2
General and operating expenses	3	2.5	5	4.0	(2)	(43.2)	8	3.7
- of which non-recurring income	(2)	(1.9)	-	-	(2)	n.s.	-	-
Operating profit	5	3.9	6	4.5	(1)	(20.0)	6	2.5

The number of employees in each segment is detailed below:

	06.30.2008	12.31.2007	Period average
Apparel	7,929	7,628	7,779
Textile	1,277	1,268	1,273
<b>Total</b>	<b>9,206</b>	<b>8,896</b>	<b>9,052</b>

#### Information by geographical area

- Revenues by geographical area and business segment

(thousands of Euro)	Italy	%	Rest of Europe	%	The Americas	%	Asia	%	Rest of the world	%	Total
Apparel	438,559	94.0	348,216	96.8	28,570	99.5	128,114	95.8	4,658	71.7	948,117
Textile	28,220	6.0	11,615	3.2	139	0.5	5,590	4.2	1,840	28.3	47,404
<b>Total revenues</b>											
1st half 2008	<b>466,779</b>	<b>100.0</b>	<b>359,831</b>	<b>100.0</b>	<b>28,709</b>	<b>100.0</b>	<b>133,704</b>	<b>100.0</b>	<b>6,498</b>	<b>100.0</b>	<b>995,521</b>
<b>Total revenues</b>											
1st half 2007											
pro-forma	<b>460,941</b>		<b>346,659</b>		<b>27,712</b>		<b>126,716</b>		<b>5,609</b>		<b>967,637</b>
Change	5,838		13,172		997		6,988		889		27,884

Revenues are allocated according to the geographical area in which customers are located.

### Other information

**Business combinations.** On February 29, 2008 the Group acquired, through its subsidiaries Benetton USA Corp. and Benetton Canada Inc., the control of 54 Benetton stores in the United States and Canada, previously operated by a commercial partner.

The figures relating to this transaction can be summarized as follows:

(thousands of Euro)	Pre-combination value	Adjustments to fair value	Fair value
Property, plant and equipment	1,246	-	1,246
Intangible assets	-	5,234	5,234
Guarantee deposits	104	-	104
Inventories	855	-	855
Other receivables	122	-	122
Cash	10	-	10
Other payables	(47)	-	(47)
<b>Fair value of assets acquired</b>			<b>7,524</b>
Goodwill			3,451
<b>Acquisition cost</b>			<b>10,975</b>

The goodwill arises from recognition of the acquired enterprise's commercial and organizational know-how.

In May 2008 Bencom S.r.l. subscribed to 10% of the share capital in Ben-Mode A.G., a company set up to manage a megastore in Zurich. This company has been consolidated at June 30, 2008 because Benetton has a dominant influence over it for the following reasons:

- the Group has the majority of directors, and of effective voting rights in Shareholders' Meetings; in addition, most of the risks and rewards of the business are attributable to Benetton itself by virtue of the margins earned on sales;
- there is a put-call option, maturing in 2013 with a present value of Euro 4,563 thousand, over 80% of the shares held by one of the third-party shareholders, which effectively gives the Group control over 90% of the investment.

The figures relating to this transaction can be summarized as follows:

(thousands of Euro)	Pre-combination value	Adjustments to fair value	Fair value
Intangible assets	1,308	4,314	5,622
Cash	561	-	560
Deferred tax liabilities	-	(1,078)	(1,078)
Financial payables	(1,557)	-	(1,557)
<b>Fair value of assets acquired</b>			<b>3,547</b>
<b>attributable to the Group</b>			<b>3,516</b>
Goodwill			1,112
<b>Acquisition cost</b>			<b>4,628</b>

**Relations with the holding company, its subsidiaries and other related parties.** The Benetton Group has trade dealings with Edizione Holding S.p.A. (the holding company), with subsidiary companies of the same 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, in compliance with the Group Procedure for related party transactions. The total value of such transactions was nonetheless not significant in relation to the total value of the Group's production. These transactions mostly relate to the purchase and sale of goods and services. The Group's Italian companies have elected to file for tax on a group basis as allowed by articles 117 et seq. of the Tax Consolidation Act DPR 917/86, based on a proposal by the consolidating company Ragione S.A.p.A. di Gilberto Benetton e C., which decided to opt for this type of tax treatment on June 15, 2007. The election lasts for three years, starting from the 2007 financial year and represents a renewal of the previous election for the 2004-2006 tax period under Edizione Holding S.p.A. The relationships arising from participation in the group tax election are governed by specific rules, approved and signed by all participating companies. Transactions have also taken place between companies directly or indirectly controlled by the Parent Company or between such companies and the Parent Company itself. The Parent Company's management considers that such transactions have been conducted on an arm's length basis.

In addition, Edizione Holding S.p.A., the majority shareholder, purchased a total of 634,351 shares in Benetton Group S.p.A. on January 17 and 18, 2008.

No Director, manager, or shareholder is a debtor of the Group.

(thousands of Euro)	06.30.2008	06.30.2007
Receivables	46,677	57,567
- of which for group tax election under Edizione Holding S.p.A.	21,483	45,797
- of which for group tax election under Ragione S.A.p.A di G. Benetton e C.	23,569	9,638
Payables	81,527	54,281
- of which for group tax election under Edizione Holding S.p.A.	61,074	31,185
- of which for group tax election under Ragione S.A.p.A di G. Benetton e C.	19,482	22,068
Purchases of raw materials	3,113	2,200
Other costs and services <sup>(1)</sup>	8,657	9,379
Product sales	-	15
Revenue from services and other income	673	805

<sup>(1)</sup> Of which Euro 5,384 thousand in advertising and promotion costs, corresponding to 16.6% of total advertising costs in first half 2008 (Euro 6,543 thousand in first half 2007).

**Non-recurring events and significant transactions.** The impact on the statement of income of the Group's non-recurring events and transactions has resulted in net income of Euro 7,919 thousand in first half 2008 (Euro 6,670 thousand in first half 2007), of which:

- Euro 6,549 thousand relates to the reversal of impairment losses previously recognized against a property; in fact, the reasons for the former impairment were no longer applicable after entering a preliminary sale agreement, which is due to complete in the third quarter;
- Euro 2,387 thousand relates to the capital gain realized on the sale of the textile factory in Cassano Magnago.

**Atypical and/or unusual transactions.** The Group has not undertaken any atypical and/or unusual transactions, meaning those whose significance/materiality, nature of the counterparties, purpose, method of determining the transfer price and timing, might give rise to doubts as to: the fairness/completeness of the information contained in the financial statements, conflicts of interest, the safekeeping of assets and interests of minority shareholders.

**Significant events after June 30, 2008.** The process of delisting the Benetton stock from the Deutsche Börse in Frankfurt, started on February 21, 2008, was finalized on July 18, 2008.

In July Bencom S.r.l. reached an agreement to buy all of the shares in My Market S.r.l., a company which manages a business comprising 45 stores selling Benetton Group products mainly in the regions of Tuscany and Emilia Romagna. From July 30, 2008 Benetton's ADRs (certificates representing two Benetton shares) began trading on the US over-the-counter market known as OTCQX (Over the Counter Quality Extra).

**Contingent liabilities.** The Group has an estimated Euro 38 million in contingent liabilities associated with ongoing legal disputes. The Group does not consider it necessary to make any provision against such liabilities because it believes the likelihood of any outlay to be remote.

The subsidiary Bencom S.r.l. has had a partial tax inspection at the end of 2007 by the Tax Police for tax years 2004-2005-2006 in relation to IRES (Italian corporate income tax), IRAP (Italian regional business tax) and VAT. The related report, received on October 18, 2007 raises issues regarding the alleged evasive nature of permanent establishments set up abroad upon the introduction of the "Tremonti" reform and the partial deductibility of sponsorship costs paid to amateur sports associations. These matters correspond to an estimated Euro 65 million in additional tax. The Company's Board of Directors considers the matters raised to be unsubstantiated and so has decided not to make any provision against tax contingencies, also on the strength of authoritative external professional advice.

In addition, the subsidiary Benind S.p.A. has been in dispute since April 2007 with the Italian customs authorities which could give rise to a liability of approximately Euro 6.5 million, plus as yet unquantified penalties.

The level-one ruling was filed on May 21, 2008 at the Treviso Provincial Tax Commission, which accepted the legal aspects and substance of the appeal presented by Benind S.p.A. Tax assessments totaling around Euro 4.2 million were cancelled as a result of this ruling. Similar appeals against around Euro 2.3 million in assessments are pending before the same Tax Commission.

The Board of Directors of Benind S.p.A. has made provision only against the related legal costs.

**Statement of income reconciliation.** As already described, on April 1, 2008 the Group sold its sports equipment manufacturing business to third parties, meaning that the income and expenses of the discontinued operations have been reclassified and reported in a single line in the statement of income. The related figures for the corresponding period in 2007 have also been reclassified to make them comparable with 2008; the related reconciliation is presented below.

**Reconciliation 1st half 2007**

(thousands of Euro)	1st half 2007	of which sports equipment	1st half 2007 pro-forma
<b>Revenues</b>	<b>989,849</b>	<b>22,212</b>	<b>967,637</b>
Materials and subcontracted work	491,922	19,717	472,205
Payroll and related costs	42,971	873	42,098
Industrial depreciation and amortization	8,793	394	8,399
Other manufacturing costs	23,025	772	22,253
<b>Cost of sales</b>	<b>566,711</b>	<b>21,756</b>	<b>544,955</b>
<b>Gross operating profit</b>	<b>423,138</b>	<b>456</b>	<b>422,682</b>
Distribution and transport	28,612	-	28,612
Sales commissions	39,174	-	39,174
<b>Contribution margin</b>	<b>355,352</b>	<b>456</b>	<b>354,896</b>
Payroll and related costs	79,746	59	79,687
Advertising and promotion	33,807	-	33,807
Depreciation and amortization	35,315	6	35,309
Other expenses and income	99,319	174	99,145
- of which non-recurring expenses/(income)	(6,670)	-	(6,670)
<b>General and operating expenses</b>	<b>248,187</b>	<b>239</b>	<b>247,948</b>
- of which non-recurring expenses/(income)	(6,670)	-	(6,670)
<b>Operating profit</b>	<b>107,165</b>	<b>217</b>	<b>106,948</b>
Share of income/(losses) of associated companies	40	-	40
Financial (expenses)/income	(12,838)	-	(12,838)
Net foreign currency hedging (losses)/gains and exchange differences	(4,529)	-	(4,529)
<b>Income before taxes</b>	<b>89,838</b>	<b>217</b>	<b>89,621</b>
Income taxes	20,821	111	20,710
<b>Net income from continuing operations</b>	<b>69,017</b>	<b>106</b>	<b>68,911</b>
Net income from discontinued operations	-	(106)	106
Net income for the period attributable to:	69,017	-	69,017
- shareholders of the Parent Company	<b>70,204</b>	-	<b>70,204</b>
- minority interests	(1,187)	-	(1,187)

**Reconciliation full year 2007**

(thousands of Euro)	Full year 2007	of which sports equipment	Full year 2007 pro-forma
<b>Revenues</b>	<b>2,085,272</b>	<b>36,640</b>	<b>2,048,632</b>
Materials and subcontracted work	1,032,103	31,782	1,000,321
Payroll and related costs	83,257	1,690	81,567
Industrial depreciation and amortization	17,388	805	16,583
Other manufacturing costs	43,196	1,495	41,701
<b>Cost of sales</b>	<b>1,175,944</b>	<b>35,772</b>	<b>1,140,172</b>
<b>Gross operating profit</b>	<b>909,328</b>	<b>868</b>	<b>908,460</b>
Distribution and transport	60,031	-	60,031
Sales commissions	86,237	-	86,237
<b>Contribution margin</b>	<b>763,060</b>	<b>868</b>	<b>762,192</b>
Payroll and related costs	156,035	128	155,907
Advertising and promotion	61,019	-	61,019
Depreciation and amortization	73,642	8	73,634
Other expenses and income	229,188	353	228,835
- of which non-recurring expenses/(income)	3,096	-	3,096
<b>General and operating expenses</b>	<b>519,884</b>	<b>489</b>	<b>519,395</b>
- of which non-recurring expenses/(income)	3,096	-	3,096
<b>Operating profit</b>	<b>243,176</b>	<b>379</b>	<b>242,797</b>
Share of income/(losses) of associated companies	43	-	43
Financial (expenses)/income	(29,735)	-	(29,735)
Net foreign currency hedging (losses)/gains and exchange differences	(10,333)	-	(10,333)
<b>Income before taxes</b>	<b>203,151</b>	<b>379</b>	<b>202,772</b>
Income taxes	52,762	184	52,578
<b>Net income from continuing operations</b>	<b>150,389</b>	<b>(195)</b>	<b>150,194</b>
Net income from discontinued operations	-	195	195
Net income for the period attributable to:	150,389	-	150,389
- shareholders of the Parent Company	<b>145,330</b>	-	<b>145,330</b>
- minority interests	5,059	-	5,059

**Certification pursuant to  
art. 154-bis Italian  
Legislative Decree 58/98**

The undersigned Gerolamo Caccia Dominioni as "Chief Executive Officer" and Emilio Foà as "Manager responsible for preparing the financial reports" of Benetton Group S.p.A. attest, also taking account of the provisions of paragraphs 3 and 4, art. 154-bis of Italian Legislative Decree no. 58 of February 24, 1998:

- that the accounting and administrative processes for preparing the half-year condensed financial statements during first half 2008
- have been adequate in relation to the enterprise's characteristics and
- have been effectively applied.

The adequacy of the accounting and administrative processes for preparing the half-year condensed financial statements at June 30, 2008 has been evaluated on the basis of the Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission which represents the internationally generally accepted standard model.

They also certify that

1. the half-year condensed financial statements:

- a) have been prepared in accordance with applicable international accounting standards recognized by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated July 19, 2002, and specifically with IAS 34 - Interim Financial Reporting;
- b) correspond to the underlying accounting records and books of account;
- c) are able to provide a true and fair view of the issuer's balance sheet, results of operations and financial position and of the group of companies included in the consolidation.

2. the interim directors' report contains references to important events that took place in the first six months of the year and their impact on the half-year condensed financial statements, together with a description of the principal risks and uncertainties in the remaining six months of the year. The interim directors' report also contains information on significant related party transactions.

August 29, 2008

Chief Executive Officer

Signed by Gerolamo Caccia Dominioni

Manager responsible for preparing the Company's financial reports

Signed by Emilio Foà

**Auditors' report on the review of condensed consolidated interim financial statements for the six months ended 30 June 2008**

To the Shareholders of  
Benetton Group SpA

- 1 We have reviewed the condensed consolidated interim financial statements of Benetton Group SpA and subsidiaries (Benetton Group) as of 30 June 2008 and the six months then ended, comprising the consolidated balance sheet, consolidated income statement, consolidated statements of changes in shareholders' equity and cash flows and related Explanatory notes. Benetton Group SpA's Directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with International Accounting Standard n° 34 (IAS 34), applicable to interim financial reporting, as adopted by the European Union. Our responsibility is to issue this report based on our review.
- 2 Our work was conducted in accordance with the criteria for a review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with Resolution n° 10867 of 31 July 1997. The review consisted principally of inquiries of company personnel about the information reported in the condensed consolidated interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the above mentioned consolidated financial statements. The review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statements, we do not express a professional audit opinion on the condensed consolidated interim financial statements.

Regarding the comparative amounts of the consolidated financial statements of the prior year and the consolidated interim financial statements of the prior year presented in the condensed consolidated interim financial statements, reference should be made to our reports dated 28 March 2008 and 14 September 2007, respectively.

- 3 Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Benetton Group as of 30 June 2008 have not been prepared, in all material respects, in accordance with IAS 34, applicable to interim financial reporting, as adopted by the European Union.

Treviso, 29 August 2008

PricewaterhouseCoopers SpA

Signed by

Roberto Adami  
(Partner)

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

**Supplementary schedules**

### Companies and groups included in the consolidation at June 30, 2008

Company name	Location	Currency	Share capital	Group interest
<b>Companies and groups consolidated on a line-by-line basis:</b>				
<b>Parent Company</b>				
Benetton Group S.p.A.	Ponzano Veneto (Tv)	Eur	237,482,715.60	
<b>Italian subsidiaries</b>				
Benetton Retail Italia S.r.l.	Ponzano Veneto (Tv)	Eur	5,100,000	100.000%
Olimpias S.p.A.	Ponzano Veneto (Tv)	Eur	47,988,000	100.000%
_ Benair S.p.A.	Ponzano Veneto (Tv)	Eur	1,548,000	100.000%
_ Fynlab S.r.l. <sup>(3)</sup>	Ponzano Veneto (Tv)	Eur	100,000	60.000%
_ Filatura di Vittorio Veneto S.r.l.	Vittorio Veneto (Tv)	Eur	110,288	50.000%
Benind S.p.A.	Ponzano Veneto (Tv)	Eur	26,000,000	100.000%
Fabrica S.p.A.	Ponzano Veneto (Tv)	Eur	4,128,000	100.000%
Società Investimenti e Gestioni Immobiliari (S.I.G.I.) S.r.l.	Ponzano Veneto (Tv)	Eur	36,150,000	100.000%
Bentec S.p.A.	Ponzano Veneto (Tv)	Eur	12,900,000	100.000%
Bencom S.r.l.	Ponzano Veneto (Tv)	Eur	150,000,000	100.000%
_ Ponzano Children S.r.l.	Ponzano Veneto (Tv)	Eur	110,000	100.000%
_ Milano Report S.p.A.	Bergamo	Eur	1,000,000	50.000%
<b>Foreign subsidiaries</b>				
_ Olimpias Tunisia S.à r.l.	Tunis	Tnd	100,000	100.000%
_ Benetton Realty Russia O.O.O.	Moscow	Rub	473,518,999	100.000%
_ Le Radar S.A. <sup>(1)</sup>	Genève	Chf	100,000	100.000%
_ Ben-Mode A.G. <sup>(3)</sup>	Zurigo	Chf	500,000	90.000%
Benetton Deutschland GmbH <sup>(1)</sup>	München	Eur	2,812,200	100.000%
Benetton Holding International N.V. S.A.	Amsterdam	Eur	92,759,000	100.000%
_ Benetton International S.A.	Luxembourg	Eur	133,538,470	100.000%
_ Benetton Ungheria Kft.	Nagykálló	Eur	89,190	100.000%
_ Benetton India Pvt. Ltd.	Gurgaon	Inr	1,753,000,000	100.000%
_ Benetton Tunisia S.à r.l.	Sahline	Tnd	303,900	100.000%
_ Benetton Canada Inc. <sup>(3)</sup>	Montréal	Cad	2,500,000	100.000%
_ Benetton Denmark A.p.S.	Copenhagen	Dkk	125,000	100.000%
_ United Colors Communication S.A.	Lugano	Chf	1,000,000	100.000%
_ Benetton International Emirates L.L.C.	Dubai	Aed	300,000	100.000%
_ Benetton Giyim Sanayi ve Ticaret A.S.	Istanbul	Try	7,000,000	50.000%
_ Benetton International Kish Co. Ltd.	Kish Island	Irr	100,000,000	100.000%
_ Lairb Property Ltd.	Dublin	Eur	260,000	100.000%
_ Benetton Manufacturing Holding N.V.	Amsterdam	Eur	225,000	100.000%
_ Benetton Retail Deutschland GmbH	Frankfurt am Main	Eur	2,000,000	100.000%
_ New Ben GmbH	Frankfurt am Main	Eur	5,000,000	50.000%
_ Benetton Trading Ungheria Kft.	Nagykálló	Huf	50,000,000	100.000%
_ Benetton Retail (1988) Ltd.	London	Gbp	58,200,000	100.000%
_ Benetton Retail Spain S.L.	Barcelona	Eur	10,180,300	100.000%
_ Benetton 2 Retail Comércio de Produtos Têxteis S.A.	Porto	Eur	500,000	100.000%
_ S.C. Benrom S.r.l.	Miercurea Sibiului	Ron	1,416,880	100.000%
_ Benetton Istria D.O.O.	Labin	Hrk	66,389,400	100.000%

Company name	Location	Currency	Share capital	Group interest
_ Benetton Manufacturing Tunisia S.à r.l.	Sahline	Tnd	350,000	100.000%
_ Benetton Commerciale Tunisie S.à r.l.	Sousse	Tnd	2,429,000	100.000%
_ Benetton Croatia D.O.O.	Osijek	Hrk	2,000,000	100.000%
_ Benetton Mexicana S.A. de C.V.	Mexico City	Mxn	1,080,000	100.000%
_ Benetton Trading Taiwan Ltd.	Taipei	Twd	115,000,000	100.000%
_ Benetton Trading USA Inc.	Lawrenceville	Usd	379,147,833	100.000%
_ United Colors of Benetton Do Brasil Ltda. <sup>(2)</sup>	Curitiba	Brl	78,634,578	100.000%
_ Benetton Japan Co., Ltd.	Tokyo	Jpy	400,000,000	100.000%
_ Benetton Korea Inc.	Seoul	Krw	2,500,000,000	50.000%
_ Benetton Retail Poland Sp. z o.o.	Warsaw	Pln	200,000	100.000%
_ Benetton Asia Pacific Ltd.	Hong Kong	Hkd	41,400,000	100.000%
_ Shanghai Benetton Trading Company Ltd.	Shanghai	Usd	1,500,000	100.000%
_ Benlim Ltd. <sup>(2)</sup>	Hong Kong	Hkd	11,700,000	50.000%
_ Shanghai Sisley Trading Co. Ltd.	Shanghai	Cny	10,000,000	50.000%
Benetton Realty France S.A.	Paris	Eur	94,900,125	100.000%
Benetton Australia Pty. Ltd.	Hawthorne	Aud	500,000	100.000%
Benetton USA Corp.	Wilmington	Usd	100,654,000	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%
_ Real Estate Russia Z.A.O.	St. Petersburg	Rub	10,000	100.000%
_ Benetton Real Estate Austria GmbH	Wien	Eur	2,500,000	100.000%
_ Benetton Realty Portugal Imobiliaria S.A.	Porto	Eur	100,000	100.000%
_ Real Estate Ukraine L.L.C.	Kiev	Usd	7,921	100.000%
_ Benetton France S.à r.l.	Paris	Eur	99,495,712	100.000%
_ Benetton France Commercial S.A.S.	Paris	Eur	10,000,000	100.000%
_ Property Russia Z.A.O.	Samara	Rub	10,000	100.000%
_ Benetton Real Estate Kazakhstan L.L.P.	Almaty	Kzt	62,920,000	100.000%
_ Real Estate Latvia L.L.C.	Riga	Lvl	130,000	100.000%
_ Benetton Real Estate Belgique S.A.	Bruxelles	Eur	14,500,000	100.000%
_ Kazan Real Estate Z.A.O.	Moscow	Rub	10,000	100.000%
_ Kaliningrad Real Estate Z.A.O.	Kaliningrad	Rub	10,000	100.000%
_ Benetton Istanbul Real Estate Emlak Yatirim ve Insaat Ticaret Limited Şirketi	Istanbul	Try	11,725,000	100.000%
_ Benetton Realty Spain S.L.	Barcelona	Eur	15,270,450	100.000%
_ Benetton Real Estate Spain S.L.	Barcelona	Eur	150,250	100.000%
<b>Investments in subsidiary companies carried at cost <sup>(5)</sup>:</b>				
_ Benetton Beograd D.O.O. <sup>(2)</sup>	Beograd	Eur	500	100.000%
_ Benetton Argentina S.A. <sup>(1)</sup>	Buenos Aires	Ars	150,000	100.000%
_ Benetton Realty Netherlands N.V. <sup>(2)</sup>	Amsterdam	Eur	45,000	100.000%
_ Benetton Real Estate Azerbaijan L.L.C.	Baku	Usd	130,000	100.000%
_ Benetton Real Estate CSH S.r.l.	Chisinau	Mdl	30,000	100.000%
<b>Investments in associated companies valued using the equity method:</b>				
Consorzio Generazione Forme - Co.Ge.F. <sup>(1)</sup>	S. Mauro Torinese (To)	Eur	15,492	33.333%

<sup>(1)</sup> In liquidation.<sup>(2)</sup> Non-operative.<sup>(3)</sup> Recently established company.<sup>(4)</sup> Newly-acquired company.<sup>(5)</sup> At cost since fair value cannot be determined (unlisted companies).

## Corporate information

### Headquarters

Benetton Group S.p.A.  
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31050 Ponzano Veneto (Treviso) - Italy  
Tel. +39 0422 519111

### Legal data

Share capital: Euro 237,482,715.60 fully paid-in  
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Tax ID/Treviso Company register: 00193320264

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