The Benetton Group
Annual Report 1997

Benetton Group S.p.A.
Villa Minelli
Ponzano (Treviso), Italy
Capital stock: Lire 90,779,405,500 fully-paid
Treviso Company Register 4424

Content

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Deloitte & Touche S.p.A.

Dear Shareholder,

in 1997, the Benetton Group became larger. With the acquisition of Sportsystem, world leader in sports equipment, we have initiated an integration of resources, capacity and markets which opens the door to extraordinary development opportunities in the sportswear sector and to ever greater international expression of our activities.

Today, Benetton is a single global Group but with a dual personality. Alongside the traditional personali-ty, focusing on casual clothing, which retains a privileged central role, there is now a second, which includes some of the most famous sports brands in the world such as Prince, Rollerblade, Nordica, Asolo, Kästle and Killer Loop. We have called it Playlife: to immediately establish a new, dynamic and creative way of conceiving sport and leisure time.

This new project represents not only a growth opportunity but also another challenge in the history of the Benetton Group, but this is a low risk challenge because the increased development possibilities concern an environment, that of clothing, with which we are very familiar and in which we have already shown that we know how to play a leading role. Moreover, neither is sport unknown territory, because it has traditionally always played an important role with us: with the basketball, rugby and volleyball teams, for example, and, in particular, with the commitment to Formula One, determining factors not only for communication but also for some important aspects of innovative technology.

In the second half of the year, our work and commitment were directed in particular towards rapid integration of the acquired sports brands with the design, production and commercial know-how of clothing textiles, in order to take advantage of every possible synergy, and to create a homogenous operating structure: larger and more international but also more flexible and competitive.

The reorganisation and development programme of Sportsystem activities has in particular concerned rationalisation of production activities and reduction of inventories, as well as relaunching the distribution through the adoption of new and more aggressive commercial policies. Special attention has been paid to research and development activities: in the Benetton sports industrial research centre, the various technological skills are combined in a common project, to study the most advanced process and product solutions in the sports equipment and new materials sectors. Although this demanding program has, together with the strong crisis in the sports equipment market, had an adverse effect on the Sportsystem income statement, which was consolidated only in the second half, the Benetton Group achieved record results in 1997, allowing an increase in the dividend distributed to shareholders. This growth, which in particular related to Europe and the Americas, was also assisted by the success of the multi-line megastores, truly international show cases for our image, whose openings continued during the year in a number of capitals and major world cities.

The financial market has rewarded the strategic choices made and the financial results achieved to date. In the last year in fact, Benetton share price registered substantial increases on the Milan, New York, Frankfurt and London stock exchanges. On the basis of these important results, we are ready to move ahead to make Playlife, whose activities will return to profit in 1999, one of the focal points for future development of our Group. This is an ambitious project, which we believe in strongly because we are convinced that sport will play an increasingly important role, not only in leisure time but also in every day life. And it will be the Playlife project in particular, assisted by the commitment and work of all, which will carry our Group and our business culture into the next century.

Luciano Benetton

The Benetton Group

The Benetton Group operates in the fabric and garment industry trading under its well-known brand names, United Colors of Benetton, Sisley and 012. Following the acquisition of Benetton Sportsystem, it is also active in the sports equipment sector with prestigious brands such as Prince, Rollerblade, Nordica, Asolo, Kästle and Killer Loop.

The Benetton Group is seeking to create a global reference point for the textile and garment industry by applying its unique and innovative manufacturing and distribution know-how to the Sportsystem brands to develop sportswear that is in step with the rhythms of life today and complementary to the traditional casual lines for men, women and children (that have made the Benetton trademark one of the best known worldwide).

Operating in tandem, the sports equipment sector, focusing on tennis, skiing, golf, skating, newly-emerging sports and strictly technical clothing, is being strengthened with a view to consolidating the world leader position of Sportsystem brands, already at the forefront in terms of innovation and image. A third sector covers fashion accessories, such as shoes and bags, as well as sports accessories.

The Benetton Group today has a more global appeal than ever, since by placing a new approach to sports and leisure activities at the center of its business philosophy, it provides the garments and gear that match a new way of living. All of this is reflected in increased equilibrium in its global presence and, in particular, in rising sales in the highly-competitive North American markets, for the most part due to the American Rollerblade and Prince brand names.

A major factor in the development of the Benetton system is the organization-wide focus on new ideas and concepts from communication to information systems, from the continuing search for new materials to integrated logistics and the manufacturing base with its heart in the Castrette (Treviso) complex. These are the most technologically-advanced clothing manufacturing facilities in the world, capable of dealing with the rise in production capacity from 80 to 100 million garments per year required for the new sportswear collections.

The Group's organizational structure is set on two parallel tracks. Benetton casual wear, Sisley and 012 products are sold through an international network of over 7,000 stores in 120 countries, constantly growing in size and quality, as demonstrated by the megastores opened in London (the world's largest Benetton store), New York, Riyadh and Bucharest. The sportswear collections and sports equipment ranges are being marketed through the traditional sports specialties distribution system, with particular emphasis on developing Benetton Sportsystem corners in large specialist sports stores. They will also be marketed through a new chain of megastores identified with the Playlife brand name.

Trademarks

Benetton’s principal international trademarks are described below. Benetton believes its trademarks have significant value in marketing its products, including those formerly marketed by Benetton Sportsystem.

Apparel

United Colors of Benetton

The Company believes this is one of the best known global labels in the world. Its international style depends on color, dynamism and practicality. Constant monitoring of design trends is combined with a commitment to research into innovative materials, such as the soft, smooth, crease-resistant 206 fabric, to make garments more comfortable and practical for everyday use. Each season's collections offer a total look for the lifestyles of today's men and women at work and at play, in the city and outdoors, always keeping the accent on the relation between quality and value for money. With its garment lines and advertising campaigns the United Colors of Benetton portrays everyday life with the force of imagination.

Sisley

This label was created in Paris in 1968 for a denim fabric line and entered the Benetton stable of products when the Group acquired the exclusive rights to the brand in 1974. With its independent creative and commercial staff, Sisley produces its own complete men's and women's collections with an accent on fashion that unites the sheer pleasure of fashionable dressing with the practicality demanded by today's lifestyles. Its garment lines are based on a careful choice of cloth, color and cut.

012 Benetton

This label was created in 1972 to meet the clothing needs of children under twelve-years old. Clothes marketed under the O12 brand name are designed for the international child “a world citizen”. The clear identity of this label has been developed and maintained since 1977 through single-brand stores reserved exclusively for sales of Benetton children's clothes. The 012 collections, designed for children experiencing their first taste of life in the family, at school and at play, are distinguished by their good taste, practicality and high quality.

Zerotondo

The Zerotondo label was created in 1988 to complete the 012 range by offering collections specifically designed for infants and toddlers from birth to 2 years. The clothes are practical and comfortable and take account of the needs of small children, both in their design and in materials crafted exclusively with natural fibers, non-allergic materials and accessories.

DiVarese

This brand name is distinguished by its high quality classic footwear sold through a sales network of approximately 80 stores, predominantly in Italy.

Sportswear and sports equipment

Nordica

Nordica, a division of Benetton Sportsystem, is the leading producer worldwide in the downhill ski boot sector with a 28% market share in 1997. Since its establishment in the 1930s, Nordica has played a leading role in major technological breakthroughs in the ski boot industry, such as the plastics injection process using Exopower technology. Nordica also has a history of sporting successes, from the early triumphs of Zeno Colò to the conquests of Pirmin Zurbriggen and the recent achievements of the Norwegian team with Kijus, Stiansen and Aamodt, as well as the successes of all the other athletes that currently race and win with Nordica.

Prince

Prince, which has a 35% market share in 1997, has been one of the most prestigious brands in the tennis racquet market for over 20 years. Established in 1970, in 1976 Prince introduced the first revolutionary innovation in the history of tennis: the oversized racquet. In 1995, it scored another first with the launch of its Long Body racquet, 2.5 cms longer than the traditional model. Champions such as Michael Chang, Thomas Enqvist, Alberto Costa, Renzo Furlan and Jana Novotna have chosen Prince racquets for their world-wide exploits on tennis courts. Over the years Prince has expanded its product range to include squash and badminton racquets, sports shoes and clothes, racquet strings and hand-grips, bags and accessories.

Prince is investing in the research and development of golf equipment, seeking to transfer to golf clubs the technological innovations developed for racquets. This project is at an advanced stage and the initial tests being carried out with the aid of golfing experts are producing positive results.

Rollerblade

Rollerblade created in-line skates, the sporting phenomenon of the 1990s. Invented as a device to train ice-hockey players in summer, it was rapidly adopted by skiers and other sport enthusiasts. Rollerblade in-line skates became popular so fast that the company's products were being widely distributed in a very short time. They were welcomed by athletes from many disciplines and by fitness enthusiasts, as well as by those who were simply looking for a healthy and entertaining hobby.

Rollerblade hockey, stunts and speed racing are rapidly gaining popularity and are turning in-line skating into a sport in its own right. The company has a 39% market share and in terms of both marketing and manufacturing. It continues to develop innovations including the launch of the ABT (Active Brake Technology) braking system and the new "Soft" models using the Blade Runner label. Rollerblade offers a full range of in-line skates thereby making the company competitive at every level of this market.

Killer Loop

Killer Loop is a young brand name that has become the symbol of a dynamic lifestyle, with its ranges of equipment and clothes dedicated to younger generation sports, such as the snowboard. Innovative snowboards have been created in fiberglass, along with technologically-advanced "soft" footwear, bindings, gear and accessories designed to suit a new approach to sporting activities as an integral part of life and leisure time.

There are also more international events dedicated to snowboard activities with increasing publicity, which the Company believes makes further growth likely.

The demand on the market, although still fragmented, has started to decline with increased competition due to the entry into the market of leading downhill ski manufacturers.

Kästle

Kästle is a classic downhill high-performance ski brandname with over 70 years of technological innovation and sporting successes. The integrated distribution system within the Group and project collaboration with Nordica have enabled Kästle to be used with success in 1997 Sestrière World Championships victories by Tom Stiansen in the slalom and Kjetil Andre Aamodt in the combined events.

The increasing number of "extreme sports" products such as "carving" skis has captured market interest to the detriment of traditional models which, however, the Company believes has not materially affected Kästle’s sales, although there can be no assurance that sales will not be affected in the future.

Asolo

Asolo is synonymous with safety and reliability for those who love the outdoor life. From its beginnings in 1975 to the present day it has become a highly successful technical brandname, in Europe and in the United States. The knowledge Asolo has developed in computer design and its innovative research has made it a market leader for alpine, rock-climbing and hiking footwear. Asolo's latest discovery is the revolutionary Synerjection technology that enables a skin to be attached to a plastic sole in a seamless join, providing greater waterproofing and comfort. As part of the transfer of technology and synergies between Group companies, this method has now been applied to Killer Loop's snowboard boots and the new Soft Rollerblade in-line skates.

Ektelon

Established in 1969, Ektelon is the leading racquetball accessories company. It has made a substantial contribution to the popularity of the game over the years, in tandem with its own expansion. Ektelon's experience was transferred to squash with the development of new product lines, including shoes, gloves and accessories specifically designed for racquetball and squash, along with fitness workout gloves and belts.

The sports equipment sector is subject to competition. Competition in this sector is characterized both by small and fragmented manufacturers of some products and large manufacturers (possessing substantial financial resources) of other products. See “Item 9: Management’s Discussion and Analysis of Financial Condition and Results of Operation”.

Products

Benetton's products are sold in more than 120 countries.

The Benetton Group's philosophy consists in offering global product lines, backed up by global communication campaigns designed to promote the Benetton name.

Benetton aims to offer a product range distinguished for its creative use of exclusive designs. The Group produces two collections each year for all its labels: spring/summer and fall/winter.

The Group also presents limited collections, known as "flash" ranges, at the start of each season. These comprise fresh designs aimed at satisfying a particular demand not included in the main collection. All Benetton's products are available in a wide variety of colors and some classic articles are available in as many as 30-35 colors.

Approximately, 78% of 1997 sales referred to the United Colors of Benetton brand name, which includes the 012 label. Another 13% of total sales related to Sisley, which offers products with a higher “fashion” content.

Revenues from sales of products marketed under other less important brand names amounted to about 9% of the 1997 total.

United Colors of Benetton products include underwear, accessories and footwear. This collection, which includes approximately 950 models, is aimed at an essentially young market.

The 012 Benetton line was created for children from birth to 12 years. In terms of production, color and sales policy, these products are comparable with those of the United Colors of Benetton line. The children's lines also include the Zerotondo brand, specifically created for infants and toddlers.

The Sisley line offers a large range of products and models, with around 800 garments in each collection. Sisley's prices are, on the whole, higher than those of the United Colors of Benetton line. A collection for children from 4 to 14 years is included in the Sisley line under the 999 label.

Benetton also designs and manufactures a vast range of high-quality footwear under the United Colors of Benetton, 012 Benetton, Sisley, DiVarese and Giuliana Benetton brand names. These are sold in 80 independent DiVarese stores, mainly in Italy, and via the Benetton sales network.

Benetton has concluded third party licensing agreements for using its brand names in the manufacture of articles other than clothing. These contracts cover perfumes, eyewear, watches, alarm clocks, stationery, household goods, toys, golfing equipment and disposable napkins and other products for babies. All these articles, which complement the various product lines, are compatible with the Group's image and business philosophy and are generally sold in Benetton stores.

As of December 31, 1997, Benetton had granted 56 licensing agreements. They are normally made with famous companies, well known for the quality of their products and distribution capability. Under these agreements, Benetton receives a percentage, determined on the basis of the licensee's net sales, that varies from product to product. Apart from being another source of income, Benetton considers that the marketing of products manufactured under license is a good promotion vehicle.

Research and development

Benetton's research activities occupy around 300 employees and are focused on both fashion design and new materials and on the search for innovative technological solutions in production processes. Constant monitoring of changing tastes enables the Group to forecast trends on world markets and respond with promptness and flexibility to market requirements with garment collections that have an international fashion content and reflect the Benetton style. The work is focused on the search for and selection of raw materials to present innovative fabrics that combine quality, practicality and costs in line with market requirements, alongside the classic, high quality natural fibers.

In the technical clothing and sports equipment sector, the continuous search for new solutions, also thanks to collaboration and exchange of know-how between the various brands, enables the Group to integrate production processes into a strongly innovative and high quality system. The know-how acquired by the best available technological workshop, that of the Benetton Formula One stable, is successfully transferred to the development and manufacture of sports gear.

The technological fall-out to the Prince, Rollerblade, Nordica, Asolo, Kästle and Killer Loop brands, linked to research into new composites, innovative designs and the application of original solutions, extends the process and product horizons for sports equipment and technical clothing. The Synerjection technology, for example, which was initially applied in the mountain boots sector (Asolo) to obtain seamless, waterproof joins of disparate materials, was rapidly taken up by the snowboard boots sector and by Rollerblade for their in-line skates.

During 1997, in particular, the Exopower technology was perfected and extended to the whole range of Nordica's ski boots. This technology improves performance and comfort by joining a rigid frame, that serves to maximize energy transmission, to a softer more comfortable part. This was made possible by a major technological breakthrough developed by Nordica: the dual-injection system that permitted the combination of techno-polymers of differing hardness, thus ensuring the frame's total rigidity, with a softer "skin" covering. Research applied to materials also led to the exclusive use in ski boot manufacture of Outlast, which was originally developed by NASA, and has superior thermodynamic regulation characteristics. Another innovative project concerned the improvement of the technical specifications of locking clips.

These patent-protected innovations concern lightness combined with reliability, thanks to the use of aluminum, a 50% reduction in opening effort and a substantial reduction in size via a new rack design and the use of micrometric clips which are easy to do up.

The dual-injection technology was also transferred to the Rollerblade skates and the related research also concerned modifications to the frame, both in terms of construction (Twin Technology) and performance, in order to increase lightness, shock resistance and vibration absorption. The Coyote, created on the basis of these studies, is a revolutionary skate suitable for use on uneven surfaces, thanks to pneumatic wheels and the ABT Extreme brake that acts directly on the wheels.

Research and development expenditure in regard to Asolo footwear was primarily focused on increased ankle support to guarantee additional comfort and safety in ascent.

For Prince tennis racquets, 1997 was the year in which titanium was introduced as well as the new Morph Beam and S4 technologies, which were applied with great sales success to the Thunder series models at the top end of the brand's range. Using Morph Beam technology, racquets were manufactured in differing thicknesses: the oversized head that guarantees increased power and handling ease is made with a frame in the traditional form to achieve lower torsion and increased capacity. The S4 technology (dynamic center suspension system) allows the strings, through a different configuration of the sealing rings, absolute freedom of movement and the consequent elimination of vibration.

Sales organization and markets

Sales results during 1997 showed a definite upturn, largely due to improvements in the quality and efficiency of the sales organization, determined by faster response of the merchandise mix to market trends, associated with accelerated inventory turnover and the almost total elimination of end-of-season stocks.

Sales growth was most marked in Europe, with an overall rise of 13%. The upturn particularly related to Germany, United Kingdom, Italy, Portugal and Spain, in contrast to weak global consumer demand. Among the various brand names, Sisley had the best growth performance (up 18%), while the 012 Benetton and Zerotondo collections for children and infants confirmed their continuing sales growth with an increase of 10%. In regard to particular products, sales of suits and jackets have continued to grow.

The 1997 sales growth also reflects improvements in the quality of customer services offered and the image and design of the Benetton stores, with particular emphasis of increasing floorspace.

The new megastores offer complete ranges of garments and accessories across all Group brands, thus consolidating their distinctive character and international image. They are now open in strategic areas in a number of the largest cities in the world, such as London (the world's largest Benetton store), Barcelona, Cascais (near Lisbon), New York, Paris, Berlin, Rome, Frankfurt, Vienna, Moscow, Prague, Sarajevo, Budapest, Bucharest and Riyadh. The megastores, which are distinguished by their innovative style, are designed to afford a clear display and logical choice of products. They are managed by entrepreneur Benetton partners.

Distribution

On the integrated logistics front, the Robostore 2000 system, enabling the automated matching of outward loads to vehicles, has proved its worth by optimizing shipment quantities and meeting challenging targets in terms of flexibility and efficiency. Achievements include the distribution of up to 10 million garments in just one month, thus ensuring timely response to market needs.

Automation of garment packing and loading has minimized the use of personnel in operations involving the heaviest work and greatest risk of human error, while focusing the attention of staff on administration and control. As a consequence, vehicle waiting times have been cut significantly.

The reduction in handling associated with the automated sorting of delivery batches has also helped to reduce distribution costs, especially with regard to handling and sorting in the loading bays.

Automatic, optimized packing has increased the number of garments per carton and considerably increased throughput capacity. This, in turn, has improved the ability to handle additional products and enhanced the effectiveness of the integrated logistics system.

Capital investment

New investments have primarily focused on improving the optical-fiber communications systems linking the Ponzano headquarters and the Castrette industrial complex, the global clothing industry's most techno-logically-advanced plant, with the aim of further integrating the order-processing, production, warehousing and shipping stages. The Group's central data-processing equipment has been boosted through the introduction of new-generation hardware. This investment has generated significant savings in systems-operating costs.

By the end of 1997, the Group's computerization level had reached a one-for-one ratio between works-tations and employees.

Investment in applications software focused on manufacturing activities and involved applying new technologies to all stages of the production cycle and to inventory management. The introduction of new EDI (Electronic Document Interchange) technologies also improved the degree of integration with the principal suppliers of fabrics and yarn. Improvement in the management of production activities carried out by the external supply network also continued. Programming for this sector now begins a good 10 months ahead of product shipment dates. The Benetton Group is now in a position to make 90% of the garments in each collection available in the stores worldwide at the beginning of each season. This has been made possible through process innovation and flexibility that have led to the rationalization of activities and infrastructure, while cutting operating times, stocks and inventories to the minimum.

Finance management

Attention continued to focus on optimizing treasury management and monitoring the Group's financial exposure. Particular attention was addressed to protecting the Group from exchange-rate exposures, in market conditions characterized by the movement towards the Euro and the continuing appreciation of the lira against other European currencies. The progressive reduction in interest rates has also positively affected the Group's accounts, since its financial structure is primarily exposed to floating rates.

As part of the continuing optimization of the Group's financial structure, aimed at reducing borrowing costs and diversifying sources of finance, a Lire 500 billion five-year bond loan was issued on July 16, 1997, at floating interest rates. These bonds, bearing quarterly interest at Libor plus 12.5, are quoted on the Luxembourg Bourse.

The process of centralizing Italian company financial risk management and Group treasury management in lire continued under Benetton Gesfin S.p.A., in order to optimize cash flows.

Special attention was also paid to the newly-acquired Benetton Sportsystem Group, with the restructuring of its financial resources via a Lire 200 billion capital stock increase and by substituting its residual borrowing positions through the banking system with intercompany loans.

Personnel and organization

The Benetton Group employed 7,400 people at the end of 1997, including nearly 1,500 belonging to Benetton Sportsystem. During 1997, human resources management focused on professional and managerial training with projects and workgroups that, in the context of the Group's world-wide expansion plans, involved a number of companies and corporate structures.

The financial part of the second biennium of the national collective labor contract signed in 1995 was due for renewal in 1997. This was also the final year of validity of the company agreement, under which payments linked to the achievement of objectives and business-efficiency parameters had been fixed. Once again, these negotiations were settled with across-the-board discussions. Thanks to this system, agreement was also reached on the adoption of regulations for women working night shifts, thus combining the company's needs with the requirements of the employees concerned.

Licensing

As regards the expansion of the Group's trademarks, the clothing sector was strengthened in 1997 with the renewal of existing contracts and by rising profits. The program to expand and extend the reach of the Group's brands led to the signing of new agreements both complementary to and outside the garment sector, thus confirming the Group’s dynamism. The new agreements cover highly diversified sectors, such as condoms, paint, wallpaper, terry-toweling articles, women's stockings and mineral water. In addition, the new "Hot & Cold" perfume line was successfully launched.

The year 1997 was notable for the spread of the Group's brands in the Far East and the identification of accessories as an emerging sector.

Communication

The Benetton Group's communication activities during 1997 continued to play a part in the international cultural debate with campaigns dedicated to social and universal themes. The spring/summer campaign proposed an image of great simplicity: a black hand displaying a few grains of rice, to recall, in the context of the continuing search for contrast between black and white, the fearful theme of hunger in the world. *Facce/Faces*, the campaign created for the fall/winter campaign used the clear and honest faces of boys and girls of all nationalities photographed by Oliviero Toscani (and shown in the Pitti Palace on the occasion of the "Immagine Uomo" exhibition in Florence) to identify, beyond the present-day fashionable stereotypes, the DNA of beauty in the year 2000.

In continuation of its collaboration, begun in 1991, with international agencies to combat and prevent aids, Benetton chose December 1, 1997, World Day for the fight against Aids, for the joint-launch with LILA, of the *Fiocco Rosso* campaign. This used three images signed Undercolors (the Benetton underwear brand name) to reiterate the need for prevention.

Playlife, the new brand name-slogan representing the Benetton sporting world, was presented at year-end via the pages of the 1998 calendar. Twenty-four Toscani photographs (two for each month of the year) were used to express Benetton's commitment to sportswear clothing and sports equipment in relation to the Formula One team, motorcycling, basketball, rugby and volleyball.

Benetton's quest to communicate is also reflected in the activities of the *Fabrica* center, housed in the Villa Pastega on the outskirts of Treviso, that hosts young people from all over the world. As part of this scenario, a meeting was held in October 1997 with the writer and American literature expert, Fernanda Pivano. Her fantastic library, consisting of around 35,000 books, first editions, periodicals, documents and correspondence representing an exceptional collection of twentieth-century American literature, has been reassembled, catalogued and arranged by the Benetton Foundation in appropriate surroundings in the Milan offices.

Signori Azionisti,

nel 1997 il Gruppo Benetton è diventato più grande. Con l'acquisizione di Sportsystem, leader a livello mondiale dell'equipaggiamento sportivo, abbiamo avviato un'integrazione di risorse, capacità e mercati che apre le porte a una straordinaria potenzialità di sviluppo nel settore dello sportswear e a una sempre maggiore proiezione internazionale della nostra attività.

Oggi Benetton è un Gruppo globale unico ma con una doppia anima. Accanto all'anima tradizionale, focalizzata sull'abbigliamento casual, che mantiene un ruolo privilegiato e centrale, ce n'è una seconda, in cui sono racchiusi alcuni dei marchi sportivi tra i più famosi al mondo quali Prince, Rollerblade, Nordica, Asolo, Kästle e Killer Loop. L'abbiamo chiamata Playlife: per definire immediatamente un modo nuovo, dinamico e creativo di concepire lo sport e il tempo libero.

Questo nuovo progetto rappresenta, oltre che un'opportunità di crescita, un'altra sfida nella storia del Gruppo Benetton, ma si tratta di una sfida dai rischi mitigati perché le maggiori possibilità di sviluppo riguardano un ambito, quello dell'abbigliamento, che conosciamo bene e nel quale abbiamo già dimostrato di poter giocare da protagonisti.

Anche lo sport, d'altra parte, non rappresenta un territorio sconosciuto, perché da noi, per tradizione, ha sempre avuto un ruolo importante: con le squadre di basket, rugby e volley, ad esempio, e, soprattutto, con l'impegno in Formula Uno, determinante non solo per la comunicazione ma per alcuni rilevanti aspetti dell'innovazione tecnologica.

Nella seconda parte dell'anno, il nostro lavoro e il nostro impegno sono stati indirizzati soprattutto alla veloce integrazione dell'identità dei marchi sportivi acquisiti con il know how progettuale, produttivo e commerciale del tessile abbigliamento, per avviare con decisione ogni possibile sinergia, e per dare vita a una struttura operativa omogenea: più grande e internazionale ma anche più flessibile e competitiva.

Il programma di riorganizzazione e sviluppo delle attività di Sportsystem ha riguardato soprattutto la razionalizzazione delle attività produttive, la riduzione dei magazzini e il rilancio della distribuzione, con l'adozione di nuove e più aggressive politiche commerciali. All'attività di ricerca e sviluppo abbiamo riservato un'attenzione particolare: nel centro di ricerca industriale sportivo di Benetton le varie competenze tecnologiche sono state riunite in un progetto comune, per studiare le più avanzate soluzioni di processo e di prodotto nel settore delle attrezzature sportive e dei nuovi materiali.

Nonostante questo impegnativo programma abbia finito per penalizzare, unitamente alla forte crisi del mercato dell'attrezzo sportivo, il conto economico di Sportsystem consolidato solo per il secondo semestre, il Gruppo Benetton ha ottenuto nel 1997 risultati record, che hanno consentito di aumentare il dividendo distribuito agli azionisti. Alla crescita, che ha riguardato in modo particolare i mercati dell'Europa e delle Americhe, ha contribuito anche il successo dei megastore polivalenti, vere e proprie vetrine internazionali della nostra immagine, la cui apertura è proseguita nel corso dell'anno in alcune delle capitali e delle maggiori città del mondo.

Il mercato finanziario ha premiato le scelte strategiche prese e i risultati di bilancio sin qui conseguiti. Nell’ultimo anno infatti il titolo Benetton ha registrato un sostanziale incremento di valore sulle piazze finanziarie di Milano, New York, Francoforte e Londra.

Sulla base di questi importanti risultati, siamo pronti ad andare avanti per fare di Playlife, che tornerà in attivo nel 1999, uno dei punti focali per lo sviluppo futuro del nostro Gruppo. Si tratta di un progetto ambizioso, in cui crediamo fermamente perché siamo convinti che lo sport possa avere un posto sempre più rilevante non solo nel tempo libero ma nella vita di ogni giorno. E sarà proprio il progetto Playlife, con il contributo dell'impegno e del lavoro di tutti, a traghettare il nostro Gruppo e la nostra cultura d'impresa nel prossimo secolo.

Luciano Benetton

Il Gruppo Benetton

Il Gruppo Benetton opera nel settore tessile e abbigliamento con i noti marchi United Colors of Benetton, Sisley e 012 e, in seguito all'acquisizione di Benetton Sportsystem, anche nel settore degli articoli sportivi con prestigiosi marchi quali Prince, Rollerblade, Nordica, Asolo, Kästle e Killer Loop.

Sulla base di un know how industriale e distributivo unico e innovativo come quello Benetton, applicato ai vari marchi Sportsystem, è stata sviluppata un'idea di abbigliamento sportswear al passo con i ritmi di vita attuali, e complementare alle tradizionali collezioni casual per donna, uomo e bambino (che hanno fatto di Benetton uno dei marchi internazionalmente più conosciuti), dando vita ad un polo del tessile-abbigliamento tra i maggiori al mondo.

In parallelo opera il comparto delle attrezzature sportive, per il tennis, lo sci, il golf, il pattinaggio, i nuovi sport emergenti e dell'abbigliamento strettamente tecnico, potenziato per consolidare la leadership mondiale dei marchi Sportsystem con prodotti all'avanguardia per innovazione e immagine. Un terzo polo si occupa di tutti i complementi di abbigliamento come scarpe, borse e accessori per lo sport.

Il Gruppo Benetton è oggi ancora più globale perché, ponendo al centro della sua filosofia un nuovo modo di vivere lo sport ed il tempo libero, copre a 360 gradi tutte le esigenze di abbigliamento, e perché raggiunge un sempre maggiore equilibrio della sua presenza mondiale, aumentando, in particolare, la quota delle vendite nei competitivi mercati del Nord America, grazie soprattutto ai marchi statunitensi Rollerblade e Prince. Protagonista dell'evoluzione del sistema Benetton è la costante tensione al nuovo, intesa come rilevante fattore di sviluppo che attraversa tutta l'organizzazione: dalla comunicazione ai sistemi informativi, dalla ricerca di nuovi materiali alla logistica integrata e alla struttura produttiva che ha il suo cuore avanzato nel complesso tecnologico di Castrette (Treviso), il centro industriale di abbigliamento più moderno al mondo, in grado di far fronte anche alla produzione delle nuove collezioni sportswear con un aumento della capacità annua da 80 a 100 milioni di capi.

L'assetto della struttura organizzativa del Gruppo segue due strade parallele: l'abbigliamento casual Benetton, Sisley e 012 è venduto dalla rete mondiale di oltre 7.000 punti vendita in 120 Paesi, in costante evoluzione verso una crescita dimensionale e qualitativa, come dimostrano i megastore, da Londra (il più grande negozio Benetton nel mondo) a New York, da Riyad a Bucarest. Le collezioni sportswear e gli attrezzi sportivi continuano a seguire la tradizionale distribuzione sportiva specializzata, con enfasi sullo sviluppo di "corner" Benetton Sportsystem nei grandi negozi di sport, e saranno inoltre commercializzati con una nuova specifica catena di megastore identificata dal marchio Playlife.

I marchi

Collezioni casual

United Colors of Benetton

È un marchio globale, uno dei più conosciuti al mondo, con uno stile internazionale fatto di colore, dinamismo e praticità. La costante attenzione all'evoluzione delle tendenze è coniugata con un particolare impegno nella ricerca di materiali innovativi che, come ad esempio il tessuto 206, morbido e ingualcibile, conferiscono ai capi un'ulteriore valenza in fatto di comodità e di utilizzo pratico nella vita quotidiana. Le collezioni per donna e uomo propongono ogni stagione un total look adatto alla vita di ogni giorno dal lavoro al tempo libero, in città e all'aria aperta. Il tutto con particolare enfasi a un ottimale rapporto tra qualità e prezzo dei prodotti. United Colors of Benetton con le sue linee di abbigliamento e le campagne di comunicazione, colora la realtà del mondo con la forza della fantasia.

Sisley

Nato nel 1968 a Parigi come produttore di una linea denim, il marchio Sisley incontra la realtà Benetton nel 1974, quando il Gruppo ne acquista i diritti per l'utilizzo esclusivo. Con uno staff creativo e commerciale autonomo, oggi Sisley propone collezioni complete per donna e uomo, caratterizzate da un fashion look che unisce il piacere del vestire alla moda con la praticità adatta ai ritmi della vita di oggi. Le sue linee di abbigliamento hanno un'immagine e un gusto ricercati nella scelta dei tessuti, nei colori e nelle forme.

Zerododici of Benetton

È un marchio nato nel 1972 per soddisfare le esigenze dei bambini fino ai 12 anni. L'età è l'unico limite del marchio perché 012 guarda a un bambino internazionale, cittadino del mondo, senza distinzioni di razza, classe sociale, lingua o religione. Il marchio ha sviluppato la sua forte identità grazie a negozi monomarca che, dal 1977, vendono esclusivamente abbigliamento Benetton per bambini. Le collezioni 012, studiate per bambini alle prese con le prime esperienze di vita in famiglia, a scuola e nel gioco, sono caratterizzate da gusto, praticità e qualità elevata.

Zerotondo

Il marchio Zerotondo è nato nel 1988 per completare la gamma della linea 012 con collezioni disegnate in modo specifico per neonati e piccoli da 0 a 2 anni. I capi sono pratici e comodi, concepiti tenendo conto delle esigenze dei più piccoli, sia per quanto riguarda il design, sia attraverso l'utilizzo di tessuti naturali e materiali e accessori anallergici.

DiVarese

Marchio che contraddistingue oltre che calzature in stile classico e di elevata qualità, anche una rete di vendita di circa 80 negozi.

Collezioni sportwear, abbigliamento tecnico e attrezzature sportive

Nordica

Nordica è l'azienda leader mondiale nel settore delle scarpe da sci con una quota di mercato pari al 28 per cento. Nata negli anni '30, Nordica è stata protagonista, nella sua storia, delle più importanti innovazioni tecnologiche, come l'iniezione di materiali plastici con la tecnologia Exopower. Ma la storia di Nordica è anche una storia di successi sportivi: dalle prime vittorie di Zeno Colò a quelle di Pirmin Zurbriggen, degli ultimi successi del team norvegese con Kijus, Stiansen e Aamodt, alle affermazioni di tutti quegli atleti che oggi corrono e vincono con Nordica.

Prince

È da più di 20 anni uno dei marchi più prestigiosi nel mercato delle racchette da tennis, con una quota del 35 per cento. Nata nel 1970, Prince ha introdotto nel 1976 un'innovazione che ha rappresentato la prima vera rivoluzione nella storia del tennis: la racchetta oversize. Nel 1995 ha raggiunto per prima un altro prestigioso traguardo, lanciando la Long Body, un modello di racchetta più lunga di 2,5 centimetri rispetto ai modelli tradizionali. Michael Chang, Thomas Enqvist, Alberto Costa, Renzo Furlan, Jana Novotna hanno scelto Prince per le loro sfide sui campi di tutto il mondo. Nel corso degli anni Prince ha ampliato la gamma dei suoi prodotti che comprende oggi, oltre alle racchette da tennis, quelle da squash e badminton, calzature e abbigliamento sportivo, corde, impugnature, borse e accessori.

La controllata Prince Sports Group Inc. sta, inoltre, investendo nel settore della ricerca e sviluppo del golf cercando di trasferire alle mazze da golf le innovazioni tecnologiche sviluppate sulle racchette. Il progetto è in fase avanzata ed i primi test, con i maestri di tale sport, stanno dando risultati positivi.

Rollerblade

La Rollerblade Inc. in Minneapolis è l'azienda che ha creato il fenomeno sportivo degli anni '90: il pattinaggio in linea. Nati come attrezzo per gli allenamenti estivi dei giocatori di Hockey e adottati presto anche dagli sciatori, i pattini in linea Rollerblade si sono affermati in breve come un prodotto a larga diffusione, che ha conquistato atleti di varie specialità e appassionati del fitness, così come quanti, più in generale, erano alla ricerca di un passatempo salutare e divertente.

Oggi gli sport, come il roller hockey, lo stunt e la velocità, stanno rapidamente guadagnando in popolarità, trasformando il pattinaggio in linea in un vero e proprio sport a sé stante. Rollerblade continua a dominare la crescita di questo fenomeno sia dal punto di vista commerciale, con una quota di mercato mondiale del 39 per cento, sia da quello produttivo, con l'introduzione dell'innovativo sistema di frenaggio ABT (Active Brake Technology) e dei nuovi modelli Soft con il marchio Blade Runner.

Killer Loop
Killer Loop è un marchio giovane che è diventato il simbolo di uno stile di vita dinamico, affermandosi con linee di attrezzi e abbigliamento dedicate agli sport più giovani come lo snowboard. Grazie alle sinergie interne, sono state create rivoluzionarie tavole da snowboard in fibra di vetro, calzature “soft” tecnologicamente innovative, attacchi, capi e complementi di abbigliamento concepiti per un nuovo modo di fare sport, inteso come parte integrante della vita e del tempo libero.
Si assiste anche alla diffusione di manifestazioni internazionali dedicate a questa pratica sportiva che vengono sempre più pubblicizzate. Ciò fa pensare ad un ulteriore sviluppo.
L'offerta, pur rimanendo frammentata, sta vivendo un processo di selezione iniziato con l'ingresso dei maggiori produttori dello sci alpino.

Kästle
Kästle è uno dei marchi storici dello sci alpino, con oltre 70 anni di innovazioni tecnologiche e successi sportivi. L’integrazione distributiva all’interno del Gruppo e la collaborazione progettuale con Nordica hanno consentito alla Kästle di raggiungere nuovi importanti traguardi, come le vittorie di Tom Stiansen e Kjetil Andre Aamodt, rispettivamente in slalom e combinata agli ultimi Campionati del Mondo di Sestrière.
Si assiste inoltre all'aumento di tipologie di prodotto "estreme" (gli sci cosiddetti "carving") che hanno vivacizzato il mercato a scapito dei modelli tradizionali.

Asolo
Il nome Asolo è ormai sinonimo di sicurezza e affidabilità per tutti coloro che amano e vivono la vita all’aria aperta. Nato nel 1975, è oggi un marchio tecnico di grande successo, molto conosciuto anche negli Stati Uniti. Il know-how acquisito nell’ambito della progettazione computerizzata e nella ricerca di soluzioni innovative ne ha fatto uno dei punti di riferimento nel mercato delle calzature da alpinismo, roccia e escursionismo. L’ultima innovazione riguarda la rivoluzionaria tecnologia Synerjection che, consentendo di abbinare la pelle alla suola in plastica senza cuciture, assicura una maggiore impermeabilità e un grande comfort. La stessa tecnologia è stata poi applicata nel quadro della collaborazione tecnologica tra le aziende del Gruppo, alle calzature da snowboard Killer Loop e ai nuovi pattini Soft Rollerblade.

Ektelon
Ektelon, nata nel 1969 e leader assoluto nel racquetball, ha contribuito notevolmente alla diffusione di questo sport, scandendo al contempo le principali tappe della sua evoluzione. Il successo di Ektelon non deriva solo dal racquetball, l’esperienza acquisita in questo campo è stata trasferita a quello dello squash e sono state inoltre sviluppate nuove linee di prodotti: calzature, guanti e accessori appositamente studiati per racquetball e squash, oltre a guanti e cinture per fitness.

I prodotti
I prodotti Benetton sono venduti in più di 120 Paesi.

La filosofia del Gruppo Benetton è quella di offrire linee di prodotto globali, enfatizzate attraverso campagne di comunicazione nel mondo intente a promuovere e far conoscere il nome della Benetton.
Benetton mira ad offrire una gamma di prodotti che si distingue per l’uso creativo del design unico. Ogni anno, la Benetton produce due collezioni, Primavera/Estate e Autunno/Inverno per tutti i marchi.

Benetton inoltre predispone delle collezioni ridotte nei quantitativi, cosiddette “flash”, le quali vengono proposte all’inizio di ogni stagione. Queste conglobano nuovi design atti a soddisfare particolari bisogni del mercato non inclusi nella collezione di base. Ogni articolo è disponibile con un’ampia varietà di colori e alcuni articoli classici sono disponibili in più di 30-35 colori.

Approssimativamente il 78% delle vendite del 1997 sono state realizzate con il marchio United Colors of Benetton, che include il marchio 012, mentre il 13% sono relative al marchio Sisley, con il quale vengono offerti prodotti con maggior contenuto “moda”.

Nel 1997 i ricavi derivanti dalle vendite dei prodotti commercializzati con altri marchi minori sono stati circa il 9%. I prodotti con il marchi United Colors of Benetton, includono abbigliamento intimo, accessori e calzature. Questa collezione, che approssimativamente comprende 950 modelli è rivolta ad un mercato prettamente giovanile.

La linea 012 Benetton è creata per bambini compresi in una fascia di età fino ai 12 anni. I prodotti di questa linea, nei termini di produzione, colori e filosofia di vendita, sono paragonabili a quelli del marchio United Colors of Benetton. La linea per bambini include anche lo Zerotondo creato appositamente per i neonati e bambini.

La linea Sisley include molti prodotti e modelli. Sisley offre circa 800 modelli per ogni collezione. La linea Sisley è venduta generalmente a prezzi più alti rispetto alla linea United Colors of Benetton. La linea Sisley include il marchio 999 che comprende una collezione per i bambini dai 4 ai 14 anni.

Benetton inoltre disegna e produce una vasta gamma di calzature d'alta qualità utilizzando i marchi: United Colors of Benetton, 012 Benetton, Sisley, DiVarese e Giuliana Benetton, che viene distribuita sia attraverso 80 indipendenti negozi DiVarese, principalmente in Italia, sia tramite la rete distributiva Benetton.

Benetton ha formalizzato dei contratti di licenza con i quali ha concesso l'uso a terzi dei propri marchi nella produzione di articoli extra abbigliamento, come per esempio articoli di profumeria, occhialeria, orologi, sveglie, cartoleria, articoli per la casa, giocattoli, equipaggiamento per il golf, pannolini e prodotti per bambini. Tutti questi articoli, che sono di complemento alle varie linee di prodotto, sono compatibili con l'immagine e la filosofia del Gruppo e sono generalmente venduti nei negozi Benetton.

Al 31 dicembre 1997, la Benetton ha 56 contratti di licenza. I contratti di licenza sono generalmente formalizzati con Società rinomate e conosciute sia in termini di qualità del prodotto che di capacità di distribuzione. Secondo quanto previsto da tali contratti di licenza, la Benetton riceve una percentuale, che varia a seconda del prodotto, calcolata sulle vendite nette realizzate dal licenziatario. Oltre ad essere una fonte di ricavo, Benetton ritiene che il marketing dei prodotti licenziati sia un valido veicolo promozionale.

La ricerca e sviluppo

L'attività di ricerca Benetton, che impegna circa 300 addetti, è orientata sia sul versante stilistico e dei nuovi materiali, sia su quello tecnologico per trovare innovative soluzioni tecnologiche nei processi produttivi. Il confronto costante con l'evoluzione del gusto e del costume consente di anticipare le tendenze di un mercato ormai globale e di proporre, con prontezza e flessibilità, collezioni di abbigliamento che abbiano al tempo stesso un aspetto fashion internazionale e l'identità dello stile Benetton. In questo ambito rientra anche il lavoro di ricerca e selezione delle materie prime per presentare, oltre alle classiche fibre naturali di alta qualità, tessuti innovativi in grado di coniugare qualità, praticità e costi aderenti alle esigenze del mercato. Nel comparto dell'abbigliamento tecnico e delle attrezzature sportive, la ricerca costante di nuove soluzioni, grazie anche alla collaborazione e allo scambio di know how tra i vari marchi, consente di integrare i processi produttivi in un sistema caratterizzato da una forte innovazione e da una elevata qualità. Le conoscenze raggiunte dal più avanzato laboratorio tecnologico disponibile, quello della scuderia Benetton di Formula 1, vengono trasferite con successo nello sviluppo e nella produzione degli articoli sportivi. La ricaduta tecnologica sui marchi Prince, Rollerblade, Nordica, Asolo, Kästle e Killer Loop, legata alla ricerca sui nuovi materiali compositi, al design innovativo e all'applicazione di soluzioni originali, permette di portare avanti la frontiera dell'innovazione di processo e di prodotto nell'attrezzo sportivo e quindi nell'abbigliamento tecnico. La tecnologia "Synerjection", ad esempio, è stata applicata inizialmente nel comparto calzature da montagna (Asolo) per ottenere l'unione senza cuciture di materiali diversi, garantendo l'assoluta impermeabilità, ed è stata poi rapidamente adottata nel settore delle scarpe da snowboard e nei pattini in linea Rollerblade. Nel corso del 1997, in particolare, è stata perfezionata ed estesa a tutta la gamma degli scarponi da sci Nordica la tecnologia Exopower, che permette di migliorare nello stesso tempo le prestazioni e il comfort, abbinando a un telaio rigido, che massimizza la trasmissione di energia, una parte più morbida e comoda. Questa grande novità è stata resa possibile da un'importante innovazione di processo sviluppata da Nordica: la tecnologia della bi-iniezione, che permette di utilizzare insieme tecnopolimen a durezza differenziata per garantire estrema rigidità nel telaio, e una "pelle" più morbida nelle parti di rivestimento. La ricerca applicata ai materiali ha portato anche all'utilizzo esclusivo nello scarpone da sci del tessuto Outlast, sviluppato originariamente dalla NASA, dotato di caratteristiche superiori nella regolazione termodinamica. Un altro progetto innovativo ha riguardato il miglioramento delle caratteristiche tecniche delle leve di chiusura.Le innovazioni, protette da brevetto, hanno riguardato la leggerezza abbinata all'affidabilità grazie all'utilizzo dell'alluminio, la riduzione del 50 per cento dello sforzo di apertura e una notevole diminuzione dell'ingombro, mediante un nuovo disegno delle rastrelliere e l'utilizzo di leve micrometriche di facile impugnatura e aggancio.

La tecnologia della bi-iniezione è stata trasferita anche ai pattini Rollerblade, la cui ricerca ha riguardato anche innovazioni sul telaio, sia dal punto di vista della costruzione (Twin Technology), sia da quello della performance, per ottenere maggior leggerezza, resistenza agli urti e assorbimento delle vibrazioni. Da questi studi è nato Coyote, un pattino rivoluzionario adatto ai terreni più impervi, grazie alle ruote pneumatiche e al freno ABT Extreme che agisce direttamente sulle ruote.

Gli investimenti in ricerca e sviluppo, nell'ambito delle scarpe Asolo, sono stati dedicati soprattutto all'individuazione di nuovo rinforzi, in particolare nell'area delle caviglie, per garantire maggiori comfort e sicurezza in salita.

Per le racchette da tennis Prince il 1997 è stato l'anno dell'introduzione del titanio e delle nuove tecnologie Morph Beam e S4, applicate con grande successo di vendita ai modelli della serie Thunder, l'alto di gamma del marchio. Con la tecnologia Morph Beam sono state realizzate racchette a spessori differenziati: la testa dal profilo maggiorato, che garantisce maggiori potenza e maneggevolezza, si fonde con un telaio di forma tradizionale per ottenere minore torsione e maggiore potenza di gioco. La tecnologia S4 (sistema di sospensione centro dinamico) permette alle corde, mediante una diversa configurazione degli anelli di tenuta, un'assoluta libertà di movimento, eliminando le vibrazioni del piatto.

L'organizzazione commerciale e i mercati

Nel corso del 1997 i risultati di vendita hanno registrato un deciso incremento, grazie anche a una migliore qualità ed efficienza dell'organizzazione commerciale, determinata da una maggiore rapidità di risposta nel riassortimento degli articoli di tendenza associata a un più marcato turnover dei magazzini e ad una pressoché totale riduzione del loro livello a fine stagione.

Gli sviluppi più importanti dell'attività sono stati registrati in Europa, con un incremento complessivo del 13 per cento. In particolare le vendite sono salite in Germania, Gran Bretagna, Italia, Portogallo e Spagna, in controtendenza rispetto a una scarsa dinamicità globale dei consumi. Tra i marchi la maggiore performance di crescita è stata registrata da Sisley (+18%), mentre Zerododici e Zerotondo, le collezioni di abbigliamento per bambini e neonati, hanno confermato, con un incremento del 10 per cento, il costante sviluppo delle loro vendite. Per quanto riguarda i prodotti, si è accentuato il trend di crescita delle vendite di confezioni e capispalla.

I risultati di crescita del 1997 sono stati ottenuti anche attraverso un miglioramento della qualità dei servizi, dell'immagine e del design dei negozi, puntando in particolare sull'aumento delle superfici di vendita. Oggi, nuovi megastore polivalenti, in grado di offrire la gamma completa di abbigliamento e accessori a marchi Benetton, e di consolidare la notorietà e l'immagine globale del Gruppo, sono aperti in aree commerciali strategiche in alcune delle maggiori città del mondo come Londra (il più grande negozio Benetton), Barcellona, Cascais (nei pressi di Lisbona), New York, Parigi, Berlino, Roma, Francoforte, Vienna, Mosca, Praga, Sarajevo, Budapest, Bucarest e Riyad. I negozi, caratterizzati da uno stile innovativo di design e progettati per permettere una chiara visione e una scelta ragionata dei prodotti, sono gestiti da imprenditori partner di Benetton.

La distribuzione

Sul fronte della logistica integrata, il sistema Robostore 2000, che predispone automaticamente la ripartizione dei carichi sui mezzi di trasporto, ha dimostrato la sua piena validità, ottimizzando i volumi di spedizione e raggiungendo elevati obiettivi di flessibilità ed efficienza; in particolare, ha consentito di distribuire sino a 10 milioni di capi in un solo mese, permettendo in tal modo di rispondere con prontezza alle richieste di mercato. L'automazione delle fasi di imballaggio e caricamento dei capi ha determinato una riduzione al minimo nell'utilizzo di addetti nelle operazioni più faticose e maggiormente esposte a errori umani, a favore di funzioni di controllo e gestione, riducendo nel contempo in modo sensibile i tempi di sosta degli automezzi.

La diminuzione delle movimentazioni, a fronte di un riordino automatizzato delle partite di prodotto, ha anche permesso di ridurre i costi del processo distributivo, in particolare quelli relativi alle attività di movimentazione necessarie per lo smistamento delle merci nelle piattaforme di carico.

L'automatica e ottimale composizione dei colli, con il conseguente aumento dei capi contenuti, ha reso possibile anche un notevole incremento della capacità di lavoro, aumentando la potenzialità del sistema, pronto a sostenere l'ulteriore inserimento di prodotti, e contribuendo a una sempre migliore gestione del sistema logistico integrato.

Gli investimenti

Gli investimenti in innovazione sono stati principalmente indirizzati al miglioramento dei sistemi di comunicazione a fibre ottiche tra la sede centrale di Ponzano e il complesso industriale di Castrette, il più avanzato al mondo nel settore del tessile-abbigliamento, per ottenere una maggiore integrazione nei processi di raccolta ed elaborazione degli ordini, nella produzione e nelle fasi di stoccaggio e spedizione. Il sistema di elaborazione dati del Gruppo è stato potenziato con l'introduzione di una nuova generazione di hardware, che ha portato anche importanti risparmi nella spesa per i sistemi operativi. Alla fine del 1997 il grado di informatizzazione del Gruppo ha raggiunto il rapporto di una stazione di lavoro per addetto.

Gli investimenti in sistemi applicativi sono stati concentrati nell'area produttiva, con l'applicazione di nuove tecnologie sia nelle varie fasi del processo sia nella gestione delle scorte. Grazie a nuove tecnologie EDI (Electronic Document Interchange) è stata ottenuta una migliore integrazione anche con i maggiori fornitori di tessuti e filati. È proseguito anche il miglioramento della gestione dell'attività produttiva della rete esterna di fornitori, la cui programmazione viene oggi avviata con ben 10 mesi di anticipo rispetto alla data di spedizione dei prodotti. Grazie all'innovazione e alla flessibilità dei processi che consente di razionalizzare l'insieme delle attività e delle infrastrutture, riducendo al minimo i tempi operativi, le scorte e i magazzini, il Gruppo Benetton è in grado di rendere disponibile all'inizio della stagione, presso i negozi di tutto il mondo, fino al 90 per cento dei capi di ogni collezione.

La gestione finanziaria

Nel corso dell'esercizio è continuata l'attività rivolta all'ottimizzazione della gestione della tesoreria e al monitoraggio dei rischi finanziari del Gruppo.

È proseguita con particolare attenzione la politica di protezione dei flussi in divisa in un mercato dei cambi che si sta progressivamente muovendo verso l'Euro e ha visto l'ulteriore rafforzamento della lira nei confronti delle altre divise europee. La progressiva riduzione dei tassi d'interesse, inoltre, si sta positivamente riflettendo sui conti del Gruppo grazie ad una struttura finanziaria sostanzialmente esposta ai tassi variabili.

L'ottimizzazione della struttura finanziaria, volta alla riduzione del costo del debito e alla diversificazione dei canali di raccolta ha portato alla emissione, in data 16 luglio 1997, di un prestito obbligazionario a tasso variabile, a 5 anni, per 500 miliardi di lire. Le obbligazioni, con cedola trimestrale di 12.5 punti base sopra il Libor sono quotate alla Borsa di Lussemburgo.

È proseguita l'attività di centralizzazione in Benetton Gesfin S.p.A. dei rischi finanziari delle società italiane e della tesoreria in lire per una migliore ottimizzazione dei flussi finanziari.

Particolare attenzione è stata rivolta al neoacquisito gruppo Benetton Sportsystem dove si è provveduto ad una ristrutturazione delle fonti di finanziamento attraverso l'aumento del capitale sociale di lire 200 miliardi e la sostituzione delle posizioni debitorie residuali verso il sistema bancario con finanziamenti intersocietari.

Il personale e l'organizzazione

La popolazione del Gruppo Benetton, a fine 1997, era di oltre 7.400 persone, compresi i quasi 1.500 addetti di Benetton Sportsystem. Nel corso dell'anno, l'attività di gestione delle risorse umane ha privilegiato la formazione professionale e manageriale, con progetti e gruppi di lavoro che, nel quadro di una sempre maggiore internazionalizzazione del Gruppo, hanno coinvolto diverse società e strutture.

Sul versante delle relazioni industriali il 1997 ha registrato il rinnovo della parte economica del secondo biennio del contratto nazionale collettivo, sottoscritto nel 1995, ed ha rappresentato l'ultimo anno di validità dell'accordo aziendale, per il quale sono stati concordati riconoscimenti economici collegati a obiettivi e parametri di efficienza. Protagonista di queste negoziazioni è stato ancora una volta il metodo della concertazione, grazie al quale è stato adottato e regolamentato anche il ricorso al lavoro notturno del personale femminile, coniugando le esigenze dell'impresa con le richieste degli addetti interessati.

Le licenze

Nell'ambito della diffusione dei marchi del Gruppo si rileva che il 1997 ha visto il rafforzamento nel settore dell'abbigliamento con la conferma degli accordi in essere ed il raggiungimento di risultati in crescita. Il progetto di espansione e di diffusione dei marchi ha permesso il perfezionamento di nuovi accordi in settori complementari o estranei all'abbigliamento a conferma della dinamicità del Gruppo. I nuovi accordi riguardano settori assai diversificati tra di loro come ad esempio i preservativi, le vernici, la carta da parati, la biancheria in spugna, le calze da donna e l'acqua minerale. Ha ottenuto un buon successo di mercato anche il lancio della nuova linea di profumi "Hot & Cold".

A livello territoriale il 1997 è caratterizzato da una forte espansione dei nostri marchi nell'Estremo Oriente e dalla individuazione degli accessori quale settore emergente.

La comunicazione

Nel 1997 l'attività di comunicazione del Gruppo Benetton ha continuato a proporsi come protagonista del dibattito culturale internazionale, grazie a campagne dedicate a temi di carattere sociale e universale.

La campagna primavera-estate ha proposto un'immagine di forte semplicità: una mano nera con alcuni chicchi di riso, per ricordare, proseguendo nella ricerca del contrasto tra bianco e nero, il grande tema della fame nel mondo.

Facce/Faces, la campagna ideata per l'autunno/inverno '97, ha presentato i ritratti limpidi e sinceri di ragazzi e ragazze di tutte le nazionalità, fotografati da Oliviero Toscani (ed esposti anche in una mostra a Firenze, in occasione di Pitti Immagine Uomo), per identificare, al di là degli stereotipi estetici dei nostri giorni, il DNA della bellezza del Duemila. Proseguendo nella collaborazione con gli enti internazionali per la lotta e la prevenzione anti-Aids, iniziata nel 1991, Benetton ha scelto il primo dicembre 1997, Giornata Mondiale per la Lotta contro l'Aids, per lanciare insieme con la LILA la campagna *Fiocco Rosso*: tre immagini firmate Undercolors (il marchio di abbigliamento intimo) per ribadire la necessità della prevenzione.

Playlife, il nuovo marchio-slogan che rappresenta tutto il mondo sportivo Benetton, è stato presentato alla fine dell'anno attraverso le pagine del calendario '98: 24 immagini di Toscani (due per ogni mese) per raccontare l'impegno nell'abbigliamento sportswear e negli attrezzi sportivi come nei team di Formula 1, motociclismo, basket, rugby e volley.

La ricerca Benetton nella comunicazione è testimoniata anche dall'attività di *Fabrica*, il centro che ospita a Villa Pastega, nei dintorni di Treviso, giovani provenienti da tutto il mondo. In questo quadro, nel mese di ottobre, si è tenuto un incontro con la scrittrice e americanista Fernanda Pivano, la cui preziosa *Biblioteca*, una raccolta di circa 35.000 volumi, prime edizioni, riviste, documenti e carteggi, che tracciano un affresco straordinario della letteratura americana del Novecento, è stata raccolta, catalogata e riordinata dalla Fondazione Benetton in un'apposita sede, presso gli uffici di Milano.

Consolidated financial statements as of December 31, 1997

Financial Highlights

Operating results

Amounts in accordance with Italian GAAP

in billions of Lire	1997(A)	%	1997	%	1996	%
Total Sales	3,636.8	100.0	3,089.5	100.0	2,871.1	100.0
Cost of Sales	2,105.5	57.9	1,748.3	56.6	1,716.6	59.8
Gross Margin	1,531.3	42.1	1,341.2	43.4	1,154.5	40.2
Income from Operations	499.6	13.7	530.7	17.2	401.7	14.0
Net income	290.1	8.0	326.8	10.6	245.7	8.6

Financial position and data per share

Amounts in accordance with Italian GAAP

in billions of Lire, except per share amount	1997(A)	1997	1996
Working Capital	2,055.6	2,057.0	1,512.3
Fixed Assets, net	700.5	581.9	592.3
Total Assets	5,465.9	4.974.7	3,864.3
Net Borrowing / (liquidity)	508.8	74.2	(133.0)
Stockholders' Equity	2,030.5	2,068.3	1,820.8

Approximate amounts in accordance with US GAAP

	1997(A)	1997	1996
Stockholders' Equity	1,823.8	2,056.0	1,949.6
Net Income	241.0	312.1	273.7
Earnings per Share (I)	1,353.0	1,751.0	1,568.0
Cash Dividend per Share paid in each year (I)	500.0	500.0	425.0

(A) It refers to the figures which include the second semester data of Benetton Sportsystem Group

(I) Since each ADS represents two Ordinary Shares, the ADS financial data may be computed by multiplying per share data by two.

The main event in 1997 was the July acquisition of Benetton Sportsystem. With the acquisition of Sportsystem, the leading group at world level in the sports equipment sector, Benetton has achieved a best-fit integration in terms of resources, capacities and markets, thus ensuring fresh and unprecedented potential for growth in the sportswear sector and a broader international profile.

A major diversification program continues to play a key role in the new group's strategies and operations. The aim is to transform Benetton into a multiform business, present in many sectors and interests, while at the same time not losing focus on both the traditional and sportswear elements of the garment industry. A challenge, indeed, but one in which the risks are mitigated by the greater opportunities in the clothing industry, with which the Benetton Group is more than familiar and in which it has already demonstrated its ability to play a leading role.

This acquisition has therefore permitted the launch of a program for integrating the design, manufacturing and marketing capabilities of the fabrics and clothing sectors with the strong image of some of the most famous sporting brands in the world, such as Nordica, Prince, Rollerblade, Kästle, Killer Loop and Asolo. The program also aims to develop significant synergies between the various business sectors and create a wide-ranging, harmonious and global operational structure that will be more flexible and competitive and therefore capable of rapid adjustments to the changing requirements of world markets.

The Benetton Group's consolidated net revenues, including those of Benetton Sportsystem for the second half of 1997, rose to Lire 3,637 billion, while consolidated net income amounted to Lire 290 billion.

Excluding Benetton Sportsystem, the Group's consolidated net revenues exceeded the Lire 3,000 billion mark to around Lire 3,100 billion, a rise of nearly 7% on last year. Net income reached Lire 327 billion against Lire 246 billion in 1996. The gross margin grew by 16.2% to over Lire 1,340 billion, while income from operations climbed by 32% to Lire 531 billion from Lire 402 billion in 1996.

Despite the investments for acquiring 57% of Benetton Sportsystem’s capital stock (Lire 318 billion) and subsequent capitalization (a further Lire 113 billion), the year closed with net borrowings of only Lire 74 billion after dividend and tax payments of Lire 90 billion and Lire 207 billion respectively.

Self-financing amounted to around Lire 800 billion, while operating capital, influenced by increased revenues, rose from Lire 1,137 billion to Lire 1,237 billion. Consolidated stockholders' equity at Lire 2,068 billion is around 14% higher than at the end of 1996.

With regard to market trends, the most significant business developments took place in the European market, with an overall rise of 13% during 1997. Sales in the Americas improved by 11%, while sales in the rest of the world, badly affected by the Japanese and Asiatic crises, declined by 11%.

The ongoing development and renewal of the retail network has continued with the opening of new megastores in a number of the world's largest cities. These stores offer complete ranges of clothing and accessories covering all Benetton brands, thereby consolidating public awareness and the Group’s young, open and international image.

Benetton Sportsystem's 1997 second semester results closed with revenues of Lire 552 billion, a gross margin of Lire 192 billion and a loss of Lire 29 billion. Results for the year were adversely affected by the serious crisis on the sports equipment market, particularly in the Far East. The Benetton Sportsystem Group's activities also felt the effect of the radical reorganization and development process. This was targeted at integrating the technological and research capacities for sporting brands, rationalizing manufacturing activities, reducing inventories and introducing new and more aggressive commercial policies, including opening a network of Playlife stores, mainly with a view to marketing sportswear and accessories.

The Benetton Group has undertaken this far-reaching and demanding program as a means to making sports one of the focal points of its activities, but positive results are not forecast before 1999.

The accent is on research, development and quality control for sports equipment. These will carried out in Benetton's industrial center for sports research, where various technological capacities are united in a common research project into the most advanced processes and products in the sports equipment sector. In this context, investments will be made for creating a new model of Kästle skis, in the same way that the integrated studies on plastics composites resulted in the patenting of Exopower and Triforce technologies for Nordica ski boots and Rollerblade skates.

The acquisition of the residual 43% of Benetton Sportsystem S.p.A. was completed in March 1998. The purchase price of the investment was revised from Lire 248 billion to Lire 198 billion due to the unforeseeable consequences of the Far Eastern financial crisis on the company.

Turning to the parent company, Benetton Group S.p.A., net income amounted to Lire 164 billion, representing 6.8% of revenues.

Revenues grew by 13.8% with respect to 1996, favorably influenced by the increase in volumes sold, but adversely influenced by the appreciation of the lira against other foreign currencies used for exports.

The cost of sales grew by Lire 139 billion due to the increase in the volume of articles produced, together with normal price rises. The gross margin rose by 2.3% to over 36% of revenues.

The rise in selling, general and administrative expenses mainly reflects prudent provisions against business risks, notably credit collection, and an increase in commission paid to agents under a policy designed to enhance the effectiveness of distribution arrangements while expanding the sales network.

Income from operations, Lire 363 billion, was 15% of revenues.

Careful management of exchange exposures, specifically associated with the Company's commercial activities, resulted in net gains of Lire 56 billion.

The self-financing generated during the year, Lire 464 billion, was particularly significant to the treasury position.

Management's discussion and analysis of financial condition and results of operations

Results of Operations

In 1997 the most significant event to affect results of operations was the acquisition by Benetton Group S.p.A. of 56.767% of the capital stock of Benetton Sportsystem S.p.A. This company heads an extensive group which includes some of the most important companies in the sports sector. In accordance with Italian generally accepted accounting principles ("Italian GAAP") the results of Benetton Sportsystem Group were consolidated into Benetton's Financial Statement on a line-by-line basis for the six month period ended December 31, 1997. Beginning in the year ending December 31, 1998, the results of Benetton Sportsystem Group will be consolidated for the full twelve month period.

The following table sets forth certain items in billions of Lire and their respective percentages of total revenue for the years indicated. Comparisons in this table and in the following sections are based upon amounts derived under Italian GAAP and the international format of financial information presented in the Selected Financial Data and in Appendix 3 of the Consolidated Financial Statements. The table below presents Benetton Group S.p.A. 1997 data both on a comparative basis with 1996 data and on a basis which also includes the second semester figures of Benetton Sportsystem Group (noted as data (A)).

Year Ended December 31,	1995	%	1996	%	1997	%	1997(A)	%
Total revenue	2,939	100	2,871	100	3,089	100	3,637	100
Gross margin	1,218	41.4	1,155	40.2	1,341	43.4	1,531	42.1
Selling, general and administrative expenses	774	26.3	753	26.2	810	26.2	1,031	28.4
Income from operations	444	15.1	402	14.0	531	17.2	500	13.7
Net income	220	7.5	246	8.6	327	10.6	290	8.0

Benetton's results are seasonal, with revenues in the apparel sector from the Fall/Winter season sales higher than those from the Spring/Summer season. In the sports equipment sector the vast majority of sales occur in the second semester of each calendar year. During the 1995 to 1997 period, approximately 50% of Benetton's orders related to Fall/Winter collections, 45% to Spring/Summer collections and 5% to "flash" collections.

1997 compared to 1996

The Group's results compared with the prior year are discussed below and hence exclude the second half results of the Benetton Sportsystem Group. Revenues increased by 7.6% with respect to 1996, reflecting an increase in volume and in price mix of items sold. Fluctuation of currency exchange rates affected revenues' increase only by approximately 1%.

With regard to market trends, the most significant business developments took place in the European market, with an overall rise of 13% during 1997. Sales in the Americas improved by 11%, while sales in the rest of the world, negatively affected by the Japanese and Asia crises, declined by 11%. Other revenues in 1997 were Lire 190 billion against Lire 168.4 billion in 1996. The increase of 12.8% mainly derived from an increase in sponsorship agreements related to the Formula 1 Championship and manufacturing sales and services provided to third parties.

Cost of sales increased by only Lire 31.7 billion, reflecting a further reduction in production costs, obtained through efficiencies of capital investment and production processes; its ratio to revenues decreased by 3.2%. Management believes the successful reduction in cost of sales as a percentage of total revenues, down from 59.8% in 1996 to 56.6% in 1997, is partly a direct consequence of action taken to reorganize production by containing costs and optimizing the use of available resources. Gross margin of Lire 1,341 billion increased by 16% from Lire 1,155 billion in 1996, representing 43.4% of total revenues for 1997 and 40.2% in 1996, primarily due to the containment of cost of sales explained above.

Selling, general and administrative expenses remained stable at 26.2% of net revenues in both 1997 and 1996. Selling expenses (distribution and transport and sales commission) increased by around Lire 13 billion, with the ratio to revenues staying at 6.2%, while transportation costs increased by Lire 3.5 billion due to the increase in volumes shipped and a related increase in commission to sales agents which remained stable at 4.6% of revenues. Advertising and promotion expenditure remained consistent with the prior year at 3.5% of revenues. General and administrative expenses (consisting of payroll and related costs, depreciation and amortization and other expenses) increased by around Lire 33 billion compared with 1996, mainly due to a Lire 12 billion rise in payroll costs and additional costs incurred by Benetton Formula Ltd. Other expenses increased in absolute terms by around Lire 16 billion, partly due to over Lire 5 billion paid to free up reserves in compliance with recent tax legislation and an increase in rental expense and maintenance costs. Amortization and depreciation charges are consistent with prior years. Provisions increased by around Lire 5 billion, mainly due to prudent additions to the allowance for doubtful accounts and the reserve to indemnify agents who are terminated.

Income from operations increased from approximately Lire 400 billion to approximately Lire 530 billion, up almost Lire 130 billion compared with 1996 and rising from 14% to 17.2% of revenues.

Gains in net income from currency hedging and exchange differences reflect gains from currency management of hedges, collections and payments in foreign currencies which decreased from approximately Lire 117 billion in 1996 to approximately Lire 73 billion in 1997.

The substantial reduction in the Group's average borrowings over the first half of 1997, combined with the decrease in the borrowing rate applied by the banking system, resulted in net financial income of Lire 7.7 billion in 1997, substantially in line with the prior year. The rise in absolute terms was over Lire 20 billion with a 0.7% improvement in terms of its ratio to revenues compared with the prior year.

In 1997 other expenses, net decreased by around Lire 21 billion compared to 1996, when the Group incurred significant expenses for reimbursements and compensation to third parties, as well as extraordinary provisions to the reserve for contingencies related to legal disputes.

The effective tax rate, based on income before income taxes and income attributable to minority interests, amounted to 42.3% in 1997, compared to 45.2% in 1996.

As a result of the above changes, net income, amounting to Lire 327 billion, improved by 33% from 8.6% of revenues in 1996 to 10.6% in 1997.

The following discussion relates to the financial data of Benetton Sportsystem Group only. As previously indicated in conformity with Italian accounting policies, the financial data of the Benetton Sportsystem Group has been consolidated only for the second half of 1997.

The general market contraction in the sports equipment sector continued to affect negatively the Benetton Sportsystem Group during the second half of 1997, leading to a reorganization of its distribution and marketing policies. This was targeted at integrating the technological and research capacities for sporting brands, rationalizing manufacturing activities, reducing inventories and introducing new commercial policies. The restructuring costs had a negative impact on Benetton Sportsystem Group’s operating results.

In the second half of 1997, revenues of Benetton Sportsystem were primarily affected by the general contraction in the sports equipment sector and to a lesser extent by the sale of inventory at discounted prices in order to decrease inventory. Accordingly there was a decline in the gross margin and revenues in the second half of 1997 were Lire 550 billion.

The following discussion relates to the operating results of Benetton Group on a consolidated basis including Benetton Sportsystem Group. As a result of such acquisition this data is not comparable with prior periods. The Benetton Group's consolidated revenues amounted to Lire 3,637 billion in 1997. The gross margin represented 42% of revenues. Selling and general expenses, significantly influenced by the restructuring process of Benetton Sportsystem Group, represented 28% of revenues. Income from operations represented Lire 500 billion or 13.7% of revenues in 1997.

The difference emerging from the consolidation of the Benetton Sportsystem Group, with respect to the Group’s share of its stockholders’ equity (56.767%) at the acquisition date, was allocated to trademarks and goodwill, which resulted in additional amortization costs of lire 8.6 billion in 1997.

Higher average borrowing levels relating to the Benetton Sportsystem Group resulted in net interest expense of around Lire 8 billion.

Other expenses, net, amounting to around Lire 42 billion, were negatively affected by the reorganization program principally involving the U.S. and Japanese subsidiaries of the Benetton Sportsystem Group. Net income of the Benetton Group equalled Lire 290 billion in 1997, representing 8% of revenues.

Consolidated Financial Statements as of December 31, 1996 and 1997

Consolidated balance sheet
as of December 31, 1996 and 1997
Assets

			12.31.96	in millions of Lire 12.31.97	Thousands of US $ (1) 12.31.97
B		Fixed Assets			
I		Intangible fixed assets			
	1	start-up and expansion expenses	11,458	6,746	3,814
	2	research, development and advertising expenses	819	866	490
	3	industrial patents and intellectual property rights	1,408	4,803	2,715
	4	concessions, licenses, trademarks and similar rights	10,417	452,335	255,701
	5	goodwill and consolidation differences	21,516	78,355	44,293
	6	assets in course of formation and advance payments	3,101	4,255	2,405
	7	other intangible fixed assets	31,789	45,853	25,920
		Total intangible fixed assets	80,508	593,213	335,338
II		Tangible fixed assets			
	1	real estate	340,414	372,647	210,654
	2	plant and machinery	179,251	171,791	97,112
	3	industrial and commercial equipment	5,931	36,445	20,602
	4	other assets	60,912	76,776	43,401
	5	assets under construction and advances to suppliers	5,758	42,795	24,192
		Total tangible fixed assets	592,266	700,454	395,961
III		Financial fixed assets			
	1	equity investments in:			
		a) subsidiary companies	39,098	49,187	27,805
		b) associated companies	1,653	708	400
		d) other companies	2,490	2,652	1,499
		Total equity investments	43,241	52,547	29,704
	2	financial receivables due from:			
		d) third parties			
		- within 12 months	5,223	6,569	3,713
		- beyond 12 months	14,976	33,108	18,716
		Total financial receivables due from third parties	20,199	39,677	22,429
		Total financial receivables	20,199	39,677	22,429
	3	other securities	71,042	53,201	30,074
		Total financial fixed assets	134,482	145,425	82,207
		Total fixed assets	807,256	1,439,092	813,506

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.

			12.31.96	in millions of Lire 12.31.97	Thousands of US $ (1) 12.31.97
C		Current assets			
I		Inventories			
	1	raw materials, other materials and consumables	181,207	212,522	120,137
	2	work in progress and semimanufactured products	122,500	138,934	78,538
	4	finished goods and goods for resale	106,500	350,847	198,330
	5	advance payments to suppliers	1,085	1,029	582
		Total inventories	411,292	703,332	397,587
II		Accounts receivable			
	1	trade receivables			
		- within 12 months	1,245,928	1,707,347	965,148
		- beyond 12 months	10,708	7,903	4,467
		Total trade receivables	1,256,636	1,715,250	969,615
	2	subsidiary companies	3,604	8,174	4,621
	3	associated companies	1,501	980	554
	4	parent company	-	6	3
	5	other receivables			
		- within 12 months	81,071	116,318	65,754
		- beyond 12 months	920	12,808	7,240
		Total other receivables	81,991	129,126	72,994
		Total accounts receivable	1,343,732	1,853,536	1,047,787
III		Financial assets not held as fixed assets			
	5	treasury shares	719	-	-
	6	other securities	659,300	496,855	280,868
	7	other financial receivables	4,399	358,873	202,868
	8	differentials on forward transactions:			
		- within 12 months	71,735	19,113	10,804
		- beyond 12 months	3,268	-	-
		Total differentials on forward transactions	75,003	19,113	10,804
		Total financial assets not held as fixed assets	739,421	874,841	494,540
IV		Liquid funds			
	1	bank and post office deposits	485,070	495,847	280,298
	2	checks	13,148	29,497	16,675
	3	banknotes and coins	694	1,260	712
		Total liquid funds	498,912	526,604	297,685
		Total currend assets	2,993,357	3,958,313	2,237,599
D		Accrued income and prepaid expenses	63,649	68,440	38,689
		Total assets	3,864,262	5,465,845	3,089,794

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.
The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Consolidated balance sheet
as of December 31, 1996 and 1997
Liabilities and stockholders' equity

			12.31.96	in millions of Lire 12.31.97	Thousands of US $ (1) 12.31.97
A		Stockholder's equity			
	I	Capital stock	87,277	90,779	51,317
	II	Additional paid-in capital	472,661	472,661	267,191
	III	Revaluation reserves	46,202	42,711	24,144
	IV	Legal reserve	17,455	17,455	9,867
	V	Reserves for treasury shares held	719	-	-
	VII	Other reserves	950,880	1,116,723	631,274
	IX	Net income for the year	245,642	290,140	164,014
		Group interest in stockholders' equity	1,820,836	2,030,469	1,147,807
		Minority interests	24,603	202,223	114,315
		Total Stockholders' equity	1,845,439	2,232,692	1,262,122
B		Reserves for risks and charges			
	2	taxation	7,926	8,459	4,782
	3	other	55,529	94,309	53,312
		Total reserves for risks and charges	63,455	102,768	58,094
C		Reserves for employee Termnination indemnities	62,521	83,711	47,321
D		Accounts payable			
	1	bonds			
		- within 12 months	34,986	200,000	113,058
		- beyond 12 months	235,775	535,690	302,821
		Total bonds	270,761	735,690	415,879
	2	convertible bonds repayable beyond 12 months	300	-	-
	3	due to banks			
		- within 12 months	804,787	638,922	361,176
		- beyond 12 months	80,543	460,553	260,347
		Total due to banks	885,330	1,099,475	621,523
	4	due to other providers of finance			
		- within 12 months	13,369	43,553	24,620
		- beyond 12 months	15,262	15,190	8,587
		Total due to other providers of finance	28,631	58,743	33,207
	5	advances from customers	2,975	15,164	8,572
	6	trade payables	540,043	760,576	429,947
	7	securities issued			
		- within 12 months	6,055	102,289	57,823
		- beyond 12 months	708	59	33
		Total securities issued	6,763	102,348	57,856
	8	due to subsidiary companies	2,523	4,743	2,681
	9	due to associated companies	205	95	54
	11	due to the tax authorities:			
		- within 12 months	48,982	112,335	63,502
		- beyond 12 months	-	14,312	8,090
		Total due to the tax authorities	48,982	126,647	71,592
	12	due to social security and welfare institutions	16,675	21,385	12,089
	13	other payables			
		- within 12 months	28,567	61,759	34,912
		- beyond 12 months	1,909	13,695	7,741
		Total other payables	30,476	75,454	42,653
		Total accounts payable	1,833,664	3,000,320	1,696,053

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.
The accompanying notes to consolidated financial statements are an integral part. of these consolidated statements

			12.31.96	in millions of Lire 12.31.97	Thousands of US $ (1) 12.31.97
E		Accrued expenses and deferred income			
	1	accrued expenses and deferred income	58,793	45,334	25,627
	2	premiums on bond issues	390	1,020	577
		Total accrued expenses and defferred income	59,183	46,354	26,204
		Total liabilities and stockholders' equity	3,864,262	5,465,845	3,089,794
		Disclosure of: Commitments, contingencies and memorandum accounts			
		Guarantees given			
		Guarantees	10,560	-	-
		Other	1,144	-	-
		Secured guarantees given			
		To secure recorded payables - mortgages	91,171	-	-
		Purchase commitments	1,418	285,396	161,332
		Sale commitments	7,130	-	-
		Guarantees received			
		Notes lodged by third parties	20	20	11
		Guarantees given by third parties	7,845	-	-
		Other			
		Currency to be sold forward	3,744,604	2,864,689	1,619,383
		Currency to be purchased forward	2,050,226	1,512,208	854,838
		Restricted receivables	25,474	20,166	11,400
		Notes presented for discount	8,893	2,759	1,559
		Total commitments, contingencies and memorandum accounts	5,948,485	4,685,238	2,648,523

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.
The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Consolidated statements of income for the years ended December 31, 1996 and 1997

			in millions of Lire	Thousands of US $ (1)
		1996	1997	1997
A	Value of production			
1	Revenues from sales and services	2,871,108	3,636,785	2,055,842
2	Changes in work in progress, semi-manufactured products and finished goods	(81,220)	(22,650)	(12,804)
4	Capitalization of internal work	3,608	1,070	605
5	Other income and revenues	18,669	20,115	11,371
	Total value of production	2,812,165	3,635,320	2,055,014
B	Production costs			
6	Raw material, other materials, consumables and goods for resale	790,437	1,100,294	621,986
7	Services received	1,035,382	1,275,262	720,894
8	Leases and rentals	37,561	47,440	26,817
9	Payroll and related costs:			
a	wages and salaries	229,049	291,960	165,042
b	social security contributions	77,474	93,596	52,909
c	employee termination indemnities	13,752	14,896	8,421
d	pension and similar	-	12	7
e	other costs	1,353	3,481	1,968
	Total payroll and related costs	321,628	403,945	228,347
10	Amortization, depreciation and writedowns:			
a	amortization of intangible fixed assets	18,461	43,134	24,383
b	depreciation of tangible fixed assets	76,451	94,234	53,270
c	other writedown of fixed assets	-	1,437	812
d	writedown of current receivables and of liquid funds	78,304	95,762	54,134
	Total amortization, depreciation and writedowns	173,216	234,567	132,599
11	Changes in raw materials, other materials, consumables and goods for resale	(2,825)	986	557
12	Provisions to risk reserves	13,638	18,509	10,463
14	Other operating costs	49,162	64,379	36,393
	Total production costs	2,418,199	3,145,382	1,778,056
	Difference between value and cost of production	393,966	489,938	276,958
C	Financial income and expense			
15	Income from equity investments	6,223	3,674	2,077
16	Other financial income:			
a	from receivables held as financial fixed assets			
	- subsidiary companies	75	-	-
	- other companies	506	246	139
		581	246	139
b	from securities held as financial fixed assets not representing equity investments	15,821	5,520	3,120
c	from securities included among current assets not representing equity investments	24,635	54,428	30,768
d	Financial income other than the above			
	- subsidiary companies	227	392	222
	- associated companies	6	-	-
	- other companies	504,835	368,224	208,154
		505,068	368,616	208,376
	Total other financial income	546,105	428,810	242,403
17	Interest and other financial expense	448,435	354,033	200,132
	Total financial income and expense	103,893	78,451	44,348

			1996	in millions of Lire 1997	Thousands of US $ (1) 1997
D		Adjustments to financial assets			
18		Revaluations:			
	a	of equity investments	171	1,446	817
	c	of securities included among current assets not representing equity investments	155	143	81
		Total revaluations	326	1,589	898
19		Writedowns:			
	a	of equity investments	1,406	3,560	2,012
	c	of securities included among current assets not representing equity investments	417	2,789	1,577
		Total writedowns	1,823	6,349	3,589
		Total adjustments to financial assets	(1,497)	(4,760)	(2,691)
E		Extraordinary income and expense			
20		Income:			
		- gains on disposals	7,318	4,694	2,653
		- other	9,216	16,274	9,200
		Total income	16,534	20,968	11,853
21		Expense:			
		- losses on disposals	2,030	8,034	4,542
		- taxes relating to prior years	61	1,372	776
		- other	53,638	38,432	21,725
		Total expense	55,729	47,838	27,043
		Total extraordinary income and expense	(39,195)	(26,870)	(15,190)
		Results before income taxes	457,167	536,759	303,425
22		Income taxes	206,638	236,378	133,622
		Income before minority interests	250,529	300,381	169,803
		Income attributable to minority interests	(4,887)	(10,241)	(5,789)
26		Net income for the year	245,642	290,140	164,014

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.
The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Statement of changes in consolidated stockholders' equity for the years ended December 31, 1995, 1996 and 1997

in millions of Lire	Capital stock	Additional paid-in capital	Surplus from monetary revaluation of assets	Other reserves and retained earnings	Translation differences	Net income for the year	Total
Balance as of December 31, 1994	87,277	472,661	45,116	675,550	13,332	210,220	1,504,156
Allocation of 1994 net income to reserves	-	-	-	210,220	-	(210,220)	-
Dividends distributed, as approved at the ordinary stockholders' meeting on April 27, 1995	-	-	-	(69,821)	-	-	(69,821)
Transfer to extraordinary reserve of a part of surplus following the monetary revaluation of assets	-	-	(88)	88	-	-	-
Differences arising from the translation of foreign currency financial statements	-	-	-	-	2,368	-	2,368
Net income for the year	-	-	-	-	-	220,255	220,255
Balances as of December 31, 1995	87,277	472,661	45,028	816,037	15,700	220,255	1,656,958
Allocation of 1995 net income to reserves	-	-	-	220,255	-	(220,255)	-
Dividends distributed, as approved at the ordinary stockholders' meeting on April 30, 1996	-	-	-	(74,185)	-	-	(74,185)
Monetary revaluation of fixed assets carried out by a Spanish subsidiary in accordance with lacal legislation	-	-	1,174	-	-	-	1,174
Differences arising from the translation of foreign currency financial statements	-	-	-	-	(8,753)	-	(8,753)
Net income for the year	-	-	-	-	-	245,642	245,642
Balances as of December 31, 1996	87,277	472,661	46,202	962,107	6,947	245,642	1,820,836
Allocation of 1996 net income to reserves	-	-	-	245,642	-	(245,642)	-
Increase of capital stock via release of reserves, as resolved at the extraordinary stockholders' meeting on April 29, 1997	3,491	-	(3,491)	-	-	-	-
Dividends distributed, as approved at the ordinary stockholders' meeting on April 29, 1997	-	-	-	(87,277)	-	-	(87,277)
Increase of capital stock and reserves due to the merger of Calzaturificio di Varese S.p.A. with and into the parent	11	-	-	325	-	-	336
Differences arising from the translation of foreign currency financial statements	-	-	-	-	6,434	-	6,434
Net income for the year	-	-	-	-	-	290,140	290,140
Balances as of December 31, 1997	90,779	472,661	42,711	1,120,797	13,381	290,140	2,030,469
Balances as of December 31, 1997 (thousands of US $) (1)	51,317	267,191	24,144	633,577	7,564	164,014	1,147,807

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997
The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Statement of changes in minority interests
for the year ended December 31, 1997

in millions of Lire	Capital and reserves	Net income	Total
Balances as of December 31, 1996	19,716	4,887	24,603
Allocation of 1996 net income	4,887	(4,887)	-
Capital stock increase	86,968	-	86,968
Change in consolidation area	79,434	-	79,434
Disposal of equity investments and companies in liquidation	4,230	-	4,230
Deconsolidation of companies	(490)	-	(490)
Dividends distributed	(3,189)	-	(3,189)
Translation differences	426	-	426
Net income for the year	-	10,241	10,241
Balances as of December 31, 1997	191,982	10,241	202,223

Statements of consolidated cash flows for the years ended December 31, 1995, 1996 and 1997

	1995	1996	1997	in millions of Lire 1997 (A)	Thousands of US $ (1) 1997
Cash flows from operating activities					
Income before minority interests	222,436	250,529	336,290	300,381	169,803
Depreciation and amortization	100,989	94,912	95,266	137,368	77,653
Amortization of deferred charges on long-term loans	2,033	4,596	1,642	1,642	928
Provision for collection losses and other non-cash charges	84,615	103,616	108,936	123,356	69,732
Provision/(utilization) of exchange fluctuations reserve	(4,139)	9,137	7,413	7,930	4,483
Provision for contingencies	25,398	19,236	3,927	3,927	2,220
Provision for income taxes	188,659	206,638	246,493	236,378	133,622
Losses (gains) on disposal of assets, investments, net	13,877	7,695	(1,379)	5,714	3,230
Payment of termination indemnities and use of other reserves	(19,547)	(28,523)	(8,943)	(12,491)	(7,061)
Self-financing	614,321	667,836	789,645	804,205	454,610
Payment of taxes	(149,553)	(175,755)	(207,348)	(213,589)	(120,740)
Increase in accounts receivable	(106,688)	(112,045)	(177,717)	(229,490)	(129,729)
(Increase) decrease in other operating receivables	28,301	(9,450)	14,387	34,894	19,725
(Increase) decrease in inventories	(17,202)	79,169	(61,575)	23,831	13,471
(Decrease) increase in accounts payable	13,670	22,286	43,725	34,343	19,414
(Decrease) increase in other operating payables and accruals	(14,006)	(12,908)	16,774	12,246	6,923
Increase in operating capital	(95,925)	(32,948)	(164,406)	(124,176)	(70,196)
Net cash flows from operating activities	368,843	459,133	417,891	466,440	263,674
Cash flows from investing activities					
Purchase of new consolidated subsidiaries	(17,994)	(16,926)	(439,804)	(326,272)	(184,439)
Purchase of tangible fixed assets	(120,605)	(81,061)	(88,094)	(96,444)	(54,519)
Investment in intangible fixed assets	(16,068)	(29,788)	(20,726)	(23,492)	(13,280)
Sales of tangible fixed assets	26,381	30,191	24,137	27,843	15,739
Disposal of intangible fixed assets	650	4,530	3,047	3,047	1,723
Net change in investment-related receivables and payables	660	1,842	(3,114)	(2,840)	(1,605)
Net cash used in investing activities	(126,976)	(91,212)	(524,554)	(418,158)	(236,381)
Cash flows from other investing activities					
Purchase of investments	(8,318)	(3,429)	(7)	(7)	(4)
Purchase of investments to be consolidated	(11,269)	(18,781)	(2,607)	(2,607)	(1,474)
Sales of investments	7,793	3,987	733	321	182
(Increase) decrease in other financial assets	(1,464)	19,610	1,283	1,197	677
Net cash used in other investing activities	(13,258)	1,387	(598)	(1,096)	(619)
Payment of dividends	(75,719)	(78,997)	(90,466)	(90,466)	(51,140)
Net financing (requirement) surplus	152,890	290,311	(197,727)	(43,280)	(24,466)

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997

Cash flows from financing activities
Change in stockholders' equity
Change in short-term borrowing
Proceeds from issuance of long-term debt
Repayment of long-term debt
Change in securities held as fixed assets
Increase in other financial assets
Decrease in other financial assets
Assets leased to third parties
Decrease in lease financing
Net cash provided (used) by financing activities
Effect of translation adjustments
Net increase (decrease) in cash and cash equivalents (2)
Cash and cash equivalents of newly acquired and disposed of subsidiaries, net
Effect of translation adjustment on cash and cash equivalents
Cash and cash equivalents at the beginning of the year
Cash and cash equivalents at the end of the year

Supplemental disclusures of cash flow information:
Cash paid during the year for interest expense

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997
(2) Cash and cash equivalents include liquid funds, other securities and other financial receivables considered financial assets not held as fixed assets.
The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Notes to the consolidated financial statements as of december 31, 1996 and 1997

The consolidated financial statements have been prepared in conformity with chapter III of Decree 127 of April 9, 1991, which implements the EC VII Directive.

The notes to the consolidated financial statements explain, analyze and, in some cases, supplement the data reported on the face of the financial statements and include information required by article 38 and other provisions of Decree 127/1991. Additional information is also provided in order to present a true and fair view of the financial and operating position of the Group, even where this is not required by specific legislation.

In order to assist the reader of the financial statements in understanding the Group's financial performance during the three year period ended December 31, 1997, the Group has presented in appendix 3 the consolidated statements of income for each of the three years in the period ended December 31, 1997 and in appendix 2 the consolidated balance sheets as of December 31, 1996 and 1997 in a format consistent with an international format.

These appendixs present Benetton Group 1997 data on a consistent comparative basis with 1996 data, while 1997 data (A) also includes the second semester figures for the Benetton Sportsystem Group. Unless otherwise specified, amounts indicated in these notes are expressed in millions of Italian Lire.

1. Activities of the Group

Benetton Group S.p.A., the parent company, and its subsidiary companies (collectively the "Group") primarily manufacture and market fashion apparel in wool, cotton and woven fabrics, as well as sports equipment, sportswear and casual wear.

The manufacture of finished articles from raw materials is primarily undertaken in Italy, partly within the Group and partly using subcontractors, whereas marketing is carried out through an extensive sales network both in Italy and abroad. This network consists of sales representatives and speciality stores that are almost exclusively independently owned.

2. Form and content of the consolidated financial statements

The consolidated financial statements and related notes have been translated into English from the original version in Italian. They have been prepared in accordance with the accounting principles established by the Italian Accounting Profession, which may differ in certain respects from the principles generally accepted in other countries.

The consolidated financial statements of the Group include the financial statements as of December 31, 1997 of Benetton Group S.p.A., the parent company, and all the Italian and foreign companies in which the parent company holds, directly or indirectly, the majority of the voting rights. They also include the accounts of some 50%-owned companies over which the Group exercises a dominant influence.

The companies included within the scope of consolidation are listed in an attachment. (Appendix 1)

The financial statements utilized for the consolidation are those prepared for approval at the stockholders' meetings. The financial statements of foreign subsidiaries have been reclassified, where necessary, for consistentcy with the format adopted by the parent company.

The consolidated financial statements have been adjusted to comply with the accounting policies laid down by Decree 127/1991, those recommended by the Italian Accounting Profession and, in the absence thereof, by those established by the International Accounting Standards Committee (I.A.S.C.), consistently applied throughout the Group.

In addition, the financial statements of minor subsidiaries located in highly-inflationary countries are adjusted to reflect changes in the purchasing power of local currencies.

The significant differences between the Group's policies and accounting principles generally accepted in the United States, along with the related adjustments to consolidated net income and equity, are described in Note 32.

A reconciliation between stockholders' equity and net income as reported in the statutory financial statements of the parent company, Benetton Group S.p.A., and the consolidated stockholders' equity and net income of the Group is presented in the note on stockholders' equity. (Note 19).

3. Principles of consolidation

The most significant consolidation principles adopted for the preparation of the consolidated financial statements are as follows:

a The assets and liabilities of subsidiary companies are consolidated on a line-by-line basis and the carrying value of investments held by the parent company and other consolidated subsidiaries is eliminated against the related stockholders' equity accounts.

b When a company is consolidated for the first time, any positive difference emerging from the elimination of its carrying value on the basis indicated in (a) above, is allocated, where applicable, to the assets of the subsidiary. Any excess arising upon consolidation is accounted for as a consolidation adjustment and is classified as "Goodwill and consolidation differences". Negative differences are classified within the "Reserve for risks and charges arising on consolidation" if they reflect estimated future losses, otherwise, they are classified as part of the "Consolidation reserve" within stockholders' equity.

Goodwill is amortized over its estimated useful life.

c Intercompany receivables and payables, costs and expenses, and all significant transactions between consolidated companies, including the intragroup payment of dividends, are eliminated.

Unrealized intercompany profits and gains and losses arising from transactions between Group companies are also eliminated.

d The minority stockholders' interests in the net assets and results for the year of consolidated subsidiaries are classified separately as "Minority interests" in the consolidated balance sheet and as “Income attributable to minority interests” in the consolidated statement of income.

e The financial statements of foreign subsidiaries, including those operating in countries with hyper-inflationary economies, are translated into Italian Lire using year-end exchange rates for balance sheet items and average exchange rates for the year for statement of income items.

Differences arising from the translation into Lire of foreign currency financial statements are reflected directly in consolidated stockholders' equity.

The value of the stockholders' equity of foreign subsidiaries is hedged against exchange risks, mainly through the forward sale of currency. Any exchange differences arising from such capital hedging operations are classified as "Translation differences" and therefore adjust consolidated equity.

The difference between the spot and forward exchange rates relating to these capital hedges is recorded as part of "Other financial income" within the statement of income. (see note 27)

4. Accounting policies

The accounting policies adopted for the preparation of the consolidated financial statements are summarized below:

Intangible fixed assets

These are recorded at purchase cost, including related charges.

Trademarks are stated at registration or purchase cost, as revalued as of December 31, 1983, in accordance with the provisions of Law 72 of March 19, 1983. The related revaluation surplus was credited to a specific stockholders' equity reserve. The amount is stated net of accumulated amortization, which is provided over the period it is expected to benefit, generally between ten and twenty years.

Part of the excess price paid for the Benetton Sportsystem Group was allocated on consolidation to the Group's brandnames on the basis of an independent appraisal.

Intangible fixed assets are written down in cases where, regardless of the amortization accumulated, there is a permanent loss in value. The value of such assets is reinstated in future accounting periods should the reasons for such writedowns no longer apply.

Costs deferred in connection with expansion projects and other deferred charges are amortized on a straight-line basis over the period they are expected to benefit, which is generally five years. Patents are amortized over three years. Goodwill and consolidation differences are amortized over ten years.

Tangible fixed assets

These are recorded at purchase or construction cost, as adjusted in certain circumstances through the application of specific monetary revaluation laws. Cost includes related charges and direct or indirect expenses reasonably attributable to the individual assets. Tangible fixed assets transferred in relation to spinoffs of business segments within the Group as of December 31, 1980, were recorded at appraised values.

The principal Italian Group companies restated the majority of their assets in a monetary revaluation in accordance with the provisions of Law 72 of March 19, 1983. These companies were also obliged by Law 413 of December 30, 1991 to revalue their real estate holdings.

In 1996, a Spanish subsidiary restated its tangible fixed assets in a monetary revaluation in accordance with local legislation (Royal Decree 2607/96).

Depreciation is computed on a straight-line basis using rates considered to reflect the estimated useful lives of tangible fixed assets. Half the annual depreciation rates are charged in the year the assets enter service. Tangible fixed assets are written down in cases where, regardless of the depreciation accumulated, there is a permanent loss in value. The value of such assets is reinstated in future accounting periods should the reasons for such writedowns no longer apply.

The principal depreciation rates applied by consolidated companies are as follows:

Buildings	3%
Plant and machinery	8% - 17.5%
Industrial and commercial equipment	20% - 25%
Molds and dies	25%
Other tangible fixed assets:	
– Furniture, furnishings and electronic machines	12% - 20%
– Vehicles	20% - 25%
– Aircraft	5%

Ordinary maintenance costs are fully expensed as incurred. Improvement expenditure is allocated to the related assets and depreciated over their residual useful lives.

Assets acquired under finance leases are stated at their fair value at the start of the lease and the capital portion of the lease instalments is recorded as a liability.
Such assets are depreciated over their economic useful lives on the same basis as other tangible fixed assets.

Impairment of Long Lived Assets

The recoverability of goodwill, trademarks and all other long lived assets is evaluated by an analysis of operating results and consideration of other significant events or changes in the business environment. If management believes an impairment exists, the carrying amount of these assets would be reduced to their fair value as defined in Statement of Financial Accounting Standards No. 121.

Financial fixed assets

Investments in subsidiaries not consolidated on a line-by-line basis, together with those in associated companies, are accounted for on an equity basis, eliminating the Group's share of any unrealized intercompany profits, where significant.

The difference between the cost and the net equity of investments at the time they were acquired is allocated on the basis described in paragraph (b) of the consolidation principles. Equity investments of less than 20% in other companies are stated at cost, as written down where there is a permanent loss in value. The original value of these investments is reinstated in future accounting periods should the reasons for such writedowns no longer apply.

Assets leased to third parties are recorded using lease accounting methodology. This involves eliminating the related fixed asset and accumulated depreciation accounts and recording the outstanding capital element of lease contracts as an asset.

The excess of lease charges and end-of-lease payments over the cost of the related asset is recognized as interest income on an accruals basis. Receivables included among financial fixed assets are stated at their estimated realizable value.

Other securities held as financial fixed assets are stated at cost, as written down where there is a permanent loss in value, taking into account any accrued issue premiums and discounts.

Inventories

Inventories are stated at the lower of purchase or manufacturing cost, generally determined on a weighted average cost basis, and their market or net realizable value.

Manufacturing cost includes raw materials and all direct or indirect production-related expenses. The calculation of estimated realizable value includes any manufacturing costs to be incurred and direct selling expenses. Obsolete and slow-moving inventories are written down to their useful or net realizable value.

Accounts receivable and payable

Accounts receivable and payable are stated at face value. Receivables are recorded at their estimated realizable value, net of appropriate allowances for doubtful accounts determined on a prudent basis.

Other securities not held as fixed assets

Such securities are stated at the lower of purchase cost and market value at the balance sheet date. The original value of these investments is reinstated in future accounting periods should the reasons for such writedowns no longer apply.

Securities acquired subject to resale commitments represent the temporary investment of funds and are classified among other financial receivables and recorded at cost, which includes accrued interest. The difference between the spot and forward prices of such securities is recognized as interest income on an accruals basis.

Accruals and deferrals

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

Reserves for risks and charges

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

Reserve for employee termination indemnities

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

Transactions in foreign currencies

Transactions in foreign currencies are recorded using the exchange rates in effect at the transaction dates. Exchange gains or losses realized during the year are included in the consolidated statement of income. Foreign currency receivables and payables not hedged are reviewed using year-end exchange rates. A resulting net loss is credited to the exchange fluctuation reserve, which is classified among “reserves for risks and charges”, and debited to other financial expense in the consolidated statement of income. No adjustment is recorded for resulting net gains. Hedged receivables are not restated if no further exchange gains or losses would arise on collection.

Income and expense relating to forward exchange contracts that hedge identifiable foreign currency assets, liabilities or contractual obligations are reflected in the consolidated statement of income upon expiration.

Income relating to forward exchange contracts that were subsequently renegotiated are recorded in the consolidated statement of income in the year in which the renegotiation occured (Note 11).

The value of forward contracts, other than those hedging specific foreign currency assets, liabilities or contractual commitments, is redetermined at year-end with reference to the differential between the forward exchange rates applicable to the various types of contract at the balance sheet date and the contracted forward exchange rates. Any net losses emerging are charged to the statement of income.

Refer to Note 27 for income and expense amounts recorded in the consolidated statement of income related to the above transactions.

Fair value of financial instruments

Financial instruments consist primarily of investments in cash, marketable securities, accounts receivable, accounts payable, debt obligations, forward exchange contracts, interest rate swap agreements and forward rate agreements.

The fair value of debt obligations was estimated by discounting cash flows using interest rates currently available. The carrying amounts and estimated fair value of these obligations at December 31, 1997 were Lire 1,259,783 million and Lire 1,263,331 million, respectively.

Fair value of forward exchange contracts are discussed in Note 24 The interest rate swap agreements and forward rate agreements expire within three months and therefore their carrying value approximates fair value. The carrying value of remaining financial instruments approximates fair value due to the short-term and/or variable rate nature of these instruments.

Concentrations of credit risk

Financial instruments which potentially subject the Company to credit risk are trade accounts receivable and foreign exchange contracts. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers comprising the Company's customer base and their break-down among many different geographical locations. The Company is exposed to credit risk with respect to foreign exchange contracts in the event of non-performance by the counterparties to these financial instruments, which are major financial institutions. Managements believes the risk of incurring material losses related to this credit risk is remote.

Revenue recognition

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

Expense recognition

Expenses are recorded in accordance with the matching principle. Advertising costs are charged to income in the year in which they are incurred.

Income taxes

Current income taxes are provided by each consolidated company on the basis of a reasonable estimate of their tax liability for the year, in accordance with applicable local regulations.

The consolidated financial statements also include a provision for deferred taxes principally arising from the reversal of excess depreciation, from lease accounting adjustments and from gains on the disposal of tangible and intangible fixed assets.

Deferred taxes are provided net of tax assets deriving from tax payments that will be recoverable when timing differences reverse and from consolidation adjustments.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings Per Share

The Company has adopted Financial Accounting Standards No. 128 “Earnings per Share” which requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are based on the weighted average number of shares of common stock equivalents (options and warrants) outstanding during the period. As the Company does not have dilution securities outstanding for such periods, basic and diluted earnings per share are the same.

Cash flows

The statement of consolidated cash flows provides information by type of flow and activity. Readily marketable securities are treated as cash equivalents.

This statement has been prepared in accordance with the accounting principles discussed in Note 2. The Group does not believe any material differences exist between this format and a format in accordance with United States Generally Accepted Accounting Principles.

Financial statements and information expressed in US dollars

The financial statements are presented in Italian Lire and, for 1997, are also presented in US dollars solely for the convenience of the reader, at the year end exchange rate of US $ 1 = Lire 1,769, which was the noon buying rate of the US Federal Reserve Bank as of December 31, 1997, the last business day of the year.

No representation is made that Lire amounts have been, could have been, or could be converted into US dollars at that or any other rate.

Other information

5. Purchase of subsidiary companies and disposal of associated companies

1995

In pursuit of increasing efficiency among the manufacturing subsidiaries of the Group, Manifatture Stefani S.p.A. acquired from Texcontrol S.p.A. 100% of Finitex S.p.A. and 100% of Tessuti di Pordenone S.p.A.

Maglificio Fontane S.p.A., now 75% owned by Benetton Group, acquired a 81% controlling interest in Maglifici Re.Mo. S.p.A. and took over this company's activities in the processing of woolen knitwear. Maglifici Re.Mo. S.p.A. has since ceased operating.

Benetton Group increased its 75% holding in Azimut S.p.A. to 100%, via the purchase from third parties of the remaining shares, and started direct production and distribution of shirts and blouses.

Galli Filati S.p.A., completed the acquisition of 100% of the capital stock of Filma S.p.A., based in Valdagno (Vicenza), thereby adding the manufacture and processing of worsted woolen yarns to its range of activities. In the context of the program to strengthen and diversify the wool sector production cycle, Galli Filati S.p.A. also purchased a 50%-interest in the capital stock of Spiller S.p.A., based in Schio (Vicenza), which is active in raw materials and in wool and mixed-fiber fabrics.

The Group's international development plans have also targeted new geographic areas, particularly Tunisia, where Benetton Tunisia S.a.r.l., a wholly-owned subsidiary, has begun the production of an initially limited range of products, and Oporto (Portugal), where Benetton Lda., another wholly-owned subsidiary, has been formed for manufacturing and distribution purposes.

An additional 50% of the capital stock of United Colors of Benetton do Brasil S.A. was acquired in December 1995 with a view to strengthen management control of the Group's production and marketing structure in Brazil.

Benetton International N.V. has sold its holdings in Benetton Bosphorus Casual Wear A.S. (50%-interest) and in Benetton Sweden A.B.

The Group also sold its interests in Benetton Chu-Shikoku Co. Ltd., Kyushu Benetton Co. Ltd., Tohoku Benetton Co. Ltd. and Benetton Chubu Co. Ltd., all marketing companies, as part of the corporate restructuring taking place in Japan.

1996

In early 1996 the Group increased from 90% to 100% its investment in Benetton Group Japan K.K.

Developments in the continuing process of reorganizing the Group structure included transferring the interest in Calzaturificio di Varese S.p.A., a company quoted on the over-the-counter market, to Benfin S.p.A., a wholly-owned subsidiary of Benetton Group S.p.A. This interest was increased during the first semester of 1996 from 63.08% to 85.92%, through the purchase of a (22.84%) holding from Edizione Holding S.p.A. Following receipt of the necessary official approvals, Benfin S.p.A. launched a Public Offer to purchase the remaining 14.08% of the subsidiary's capital stock. The Company increased its interest to 96.988%, giving rise to an obligatory "residual" Public Offer in 1997, after which, the interest has been increased to 98.539%. As a result Calzaturificio di Varese S.p.A. will be cancelled from stock's official quotation.

Azimut S.p.A., in 1996 has been merged into the Parent Company.

In addition, attention is drawn to the following:

- start of operations by Benetton Gesfin S.p.A., as part of the reorganization of financial services provided to Group companies;
- sale to third parties by Benetton Group Japan K.K. of 50% and 60% interests in, respectively, K.K. Via Veneto (formerly Benetton Kanto K.K.) and Benetton Kansai K.K.;
- sale to third parties by United Colors of Benetton do Brasil S.A. of its entire, 100% investment in Unirio Comercio De Roupas Ltda.;
- liquidation of United Agency K.K. and Benetton (Hong Kong) Ltd.

Benetton International N.V. entered into an agreement to sell Benetton Engineering Ltd. in December 1996. The sale is subject to receipt by the company, from the buyer, of the purchase price.

1997

On July 22, 1997, Benetton Group S.p.A. acquired from Edizione Ventures N.V., a subsidiary of Edizione Holding S.p.A., 56.767% of the capital stock in Benetton Sportsystem S.p.A. for a consideration of Lire 318 billion. This company heads an extensive group which includes some of the most important companies in the sports sector, trading under leading brand names such as Nordica, Prince, Rollerblade, Kästle, Killer Loop and Asolo. Benetton Group S.p.A. also made a binding purchase offer to Edizione Holding S.p.A., valid through March 31, 1998, for the remaining 43.233% of Benetton Sportsystem's capital stock.

Prior to this transaction, the parent company conducted an in-depth analysis involving an evaluation of the industrial project as a whole and the identification of the possibilities for substantially boosting the sportswear sector, through a far-reaching review and reorganization of the Sportsystem group's production and distribution organization. Throughout this feasibility study the parent company was advised by professional consultants from the investment banks, Morgan Stanley & Co. Ltd. and IMI SIGECO SIM S.p.A., while Salomon Brothers and SBC Warburg gave a specific assessment of the adequacy of the price agreed in the form of a “fairness opinion”.

In regard to the newly-acquired investment in Benetton Sportsystem S.p.A., it should be noted that following the purchase transaction and consistent with a reorganization program aimed at simplifying and rationalizing the group's structure, Benetton Sportsystem S.p.A. absorbed its wholly-owned subsidiaries, Benetton Sportsystem Active S.p.A. and Kästle Bikes S.r.l.

The equity situation of the Benetton Sportsystem Group as of June 30, 1997 is summarized below:

in billions of Lire

Operating capital	421.7
Tangible fixed assets, net	133.7
Intangible fixed assets, net	314.8
Financial fixed assets	2.7
Tax, operating and other provisions	(60.4)
Capital employed	812.5
Net borrowings	627.1
Stockholders' equity	185.4

Benetton Sportsystem's 1997 second semester results closed with revenues of Lire 552 billion, a gross margin of Lire 192 billion and a loss of Lire 28 billion. Results for the year were adversely affected by the serious crisis on the sports equipment market, particularly in the Far East. The Benetton Sportsystem Group's activities also felt the effect of the radical reorganization and development process. This was targeted at integrating the technological and research capacities for sporting brands, rationalizing manufacturing activities, reducing inventories and introducing new commercial policies, including opening a network of Playlife stores, mainly with a view to marketing sportswear and accessories.

The Benetton Group has undertaken this far-reaching and demanding program as a means to making sports one of the focal points of its activities, but positive results are not forecast before 1999.

The accent is on research, development and quality control for sports equipment. These will carried out in Benetton's industrial center for sports research, where various technological capacities are united in a common research project into the most advanced processes and products in the sports equipment sector. In this context, investments will be made for creating a new model of Kästle skis, in the same way that the integrated studies on plastics composites resulted in the patenting of Exopower and Triforce technologies for Nordica ski boots and Rollerblade skates.

The acquisition of Benetton Sportsystem S.p.A. was accounted for by the purchase method, and accordingly, the purchase price was allocated to the assets acquired assumed based on their fair values at the date of acquisition. The excess of purchase price over the fair value of net assets acquired (Lire 218,329 million) was recorded in the accompanying consolidated balance sheet (see Note 6).

In addition, the wholly-owned company, Benetton Ungheria Kft, was formed in order to establish a manufacturing base in Eastern Europe.

Finally, rationalization of the Japanese subsidiaries resulted in the merger of Benetton Group Japan K.K. and Benetton Japan K.K. on December 1, 1997.

Comments on the principal asset captions

In the tables below, 12-31-1997(A) data refer to the figures which include Benetton Sportsystem Group. Some other tables present Benetton Group 1997 data on a consistent and comparative basis with 1996 data.

Fixed assets

6. Intangible fixed assets

in millions of Lire	Gross	12.31.1996 Net	Gross	12.31.1997(A) Net
Start-up and expansion expenses	27,940	11,458	30,039	6,746
Research and development expenses	1,333	819	1,536	866
Industrial patents and intellectual property rights	2,615	1,408	24,330	4,803
Licenses, trademarks and similar rights	22,486	10,417	604,142	452,335
Goodwill	2,435	1,875	4,150	3,673
Consolidation differences	24,505	19,641	85,193	74,682
Total goodwill and consolidation differences	26,940	21,516	89,343	78,355
Assets in course of formation and advance payments	3,101	3,101	4,255	4,255
Expenses related to bond issues and loans	7,322	2,751	9,454	3,928
Costs for the purchase and development of software	13,023	7,018	28,004	13,392
Other	29,058	22,020	49,062	28,533
Total other intangible fixed assets	49,403	31,789	86,520	45,853
Total	133,818	80,508	840,165	593,213

Start-up and expansion expenses include capital stock increase costs of around Lire 4,400 million (Lire 10,000 million as of December 31, 1996). The residual balance principally relates to corporate reorganization costs.

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

As indicated above, the parent company revalued the original cost of a trademark during 1983, as allowed by Law 72 of March 19, 1983. The monetary revaluation, Lire 4,430 million, was allocated to the Group's principal brandname.

The difference emerging from the consolidation of the Sportsystem group, with respect to the Group's share of its stockholders' equity (56.767%) at the acquisition date, has been allocated to Sportsystem's trademarks, Lire 158,353 million, and to consolidation differences, Lire 59,976 million, on the basis of an independent appraisal.

As of December 31, 1997, trademarks amount to lire 443,348 millions and are detailed below:

in millions of Lire

Benetton	1,641
Sisley	176
012, Zerotondo, 999	108
DiVarese	147
Nordica	89,058
Rollerblade	208,766
Prince	90,057
Asolo	19,546
Kästle	4,051
Other	29,798

Consolidation differences amounting to Lire 74,682 million reflect the residual goodwill emerging from the consolidation of the investments in Benetton Sportsystem S.p.A., Filma S.p.A. (owned by Olimpias S.p.A.), Spiller S.p.A. (owned by Olimpias S.p.A.), Benetton Group Japan K.K., Benetton Engineering Ltd., Benetton Retail (1988) Ltd., United Colors of Benetton do Brasil S.A. and of the merged companies Calzaturificio di Varese S.p.A. and Azimut S.p.A. Such consolidation differences are amortized over ten years, which is considered appropriate since it is consistent with the accounting policies currently applied in the sector in which Group companies operate. "Other" mainly comprises leasehold improvements.

Movements in the principal intangible fixed asset captions during 1997 were as follows:

in millions of Lire	Start-up and expansion expenses	Licenses, trademarks and similar rights	Goodwill and consolidation differences	Other intangible fixed assets	Total
Net opening balance	11,458	10,417	21,516	37,117	80,508
Change in scope of consolidation	392	456,759	60,743	15,743	533,637
Increases	816	4,244	2,455	15,979	23,494
Decreases	-	(1,961)	(337)	(970)	(3,268)
Amortization	(5,863)	(18,893)	(6,165)	(12,213)	(43,134)
Translation differences and other movements	(57)	1,769	143	121	1,976
Net closing balance	6,746	452,335	78,355	55,777	593,213

7. Tangible fixed assets

Tangible fixed assets, amounting to Lire 700,454 million, are stated net of accumulated depreciation totaling Lire 761,162 million.

Additions mainly concern:

- plant, machinery and equipment purchased by Benetton Group S.p.A. and the Italian manufacturing companies to improve the efficiency of their production processes;
- adaptation of the Benetton Sportsystem Group's plant and machinery for the creation of, and substantial modifications to, existing molds and dies.

The depreciation charge for the year was Lire 94,234 million.

Movements in the principal tangible fixed asset captions during 1997 were as follows:

in millions of Lire	Real estate	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances to suppliers	Total
Net opening balance	340,414	179,251	5,931	60,912	5,758	592,266
Change in scope of consolidation	61,064	16,583	27,965	20,582	4,220	130,414
Additions	6,762	28,184	16,510	16,738	28,250	96,444
Disposals	(19,032)	(5,323)	(2,048)	(2,732)	(418)	(29,553)
Depreciation	(14,102)	(49,572)	(12,046)	(18,514)	-	(94,234)
Translation differences and other movements	(2,459)	2,668	133	(210)	4,985	5,117
Net closing balance	372,647	171,791	36,445	76,776	42,795	700,454

The unamortized revaluations of tangible fixed assets still held as of December 31, 1997, recorded in accordance with Laws 72 of March 19, 1983, and 413 of December 30, 1991, net of retirements and disposals, amount to Lire 27,589 million. In 1996, a Spanish subsidiary restated its tangible fixed assets by Lire 1,083 million in a monetary revaluation in accordance with local legislation (Royal Decree 2607/96).

Certain of the Group's tangible fixed assets are pledged as security for long-term loans from banks and other providers of finance. The outstanding balance of such loans is Lire 88,905 million as of December 31, 1997. Other tangible fixed assets are subject to reservation of title clauses that secure residual loans totaling Lire 300 million.

Assets under construction totaling Lire 42,795 million mainly concern:

- costs for acquisition and conversion works on a stage-of-completion basis of the Villa Spineda-Loredan at Volpago del Montello, Lire 25,259 million;
- the new "Plussort" packaging plant under construction for the Castrette cotton division, Lire 2,000 million.

Other assets include the following acquired under finance leases:

in millions of Lire	12.31.1996	12.31.1997(A)
Real estate	13,341	14,809
Plant and machinery	12,590	11,757
Other assets	314	360
Less: accumulated depreciation	(4,180)	(5,210)
Total	22,065	21,716

Outstanding capital payments due to lessors as of December 31, 1997, classified as amounts due to leasing companies, are reported in the note "Due to other providers of finance".

The Group has no significant operating leases.

8. Financial fixed assets

Equity investments

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

in millions of Lire	% Group ownership	12.31.1996 Book value	% Group ownership	12.31.1997(A) Book value
Subsidiary companies:				
– T.W.R. Group Ltd.	50%	38,260	50%	43,133
– Other minor investments	-	838	-	6,054
– Associated companies	-	1,653	-	708
– Other companies	-	2,490	-	2,652
Total		43,241		52,547

Investments in subsidiary companies, amounting to Lire 49,187 million, include Lire 43,133 million relating to T.W.R. Group Ltd., which is carried on an equity basis since it operates in a sector dissimilar to that of the rest of the Group. The inclusion of this company within the scope of consolidation would have distorted the consolidated financial statements to the point where they would not have provided a true and fair view of the financial and operating position of the Group.

Benetton International N.V. entered into an agreement to sell Benetton Engineering Ltd. in December 1996. The sale is subject to receipt of the purchase price, by the company, from the buyer by the end of 2001. This subsidiary, which owns 50% of T.W.R. Group Ltd., is wholly owned by Benetton International N.V. The agreed sale price, £stg. 16,000,000, will generate a gain of £stg. 858,000 with respect to the original cost incurred, plus related interest at market rates.

The balance, Lire 6,054 million, relates to other minor subsidiary companies, mainly foreign trading companies, that are carried at cost or at equity, since they are either not yet operating or are in liquidation at the balance sheet date.

Other investments primarily represent minority interests in Japanese retail companies.

Equity investments are analyzed in detail in an attachment.

Financial receivables

in millions of Lire	Balance 12.31.1996	Within 1	Maturities (in years) 1 to 5	Beyond 5	Balance (A) 12.31.1997
Financial receivables:					
– due within 12 months	4,170	6,569	-	-	6,569
– due beyond 12 months	1,644	-	16,709	1,643	18,352
Assets leased to third parties:					
– due within 12 months	1,053	-	-	-	-
– due beyond 12 months	-	-	-	-	-
Guarantee deposits	13,332	-	-	14,756	14,756
Total	20,199	6,569	16,709	16,399	39,677

Financial receivables earn interest at market rates

An industrial building leased to the associated company, United Optical S.p.A., was bought back on expiration of the lease contract.

Guarantee deposits

Guarantee deposits, Lire 14,756 million, include Lire 10,767 million in connection with the lease of real estate used by Japanese subsidiaries.

Other securities held as financial fixed assets

in millions of Lire	Book value	12.31.1996 Face value	Book value	12.31.1997(A) Face value
Long-term Government bonds (BTP)				
maturing in 1998 at 10.5% p.a.	50,490	50,000	50,171	50,000
Treasury Certificates cum Option (CTO)				
maturing in 1997 at 12.5% p.a.	20,000	20,000	-	-
Other securities	552	552	3,030	3,056
Total	71,042	71,042	53,201	53,056

These securities mainly represent the investment of liquidity by Benetton International N.V.
They are stated at purchase cost, as adjusted by the accrued issue discount. Treasury Certificates (CTO) held as of December 31, 1996 were repaid on maturity.
Since these securities will be held until maturity, they are classified among financial fixed assets. Their carrying value substantially approximates their market value.

Current assets

9. Inventories

Inventories, Lire 703,332 million (Lire 411,292 million as of December 31, 1996), recorded net of the related inventory writedown reserve, consist of the following:

in millions of Lire	12.31.1996	12.31.1997	12.31.1997(A)
Raw materials, other materials and consumables	5,292	6,594	8,549
Work in progress and semi-manufactured products	1,950	2,400	2,417
Finished goods	5,738	3,083	29,195
Total	12,980	12,077	40,161

Benetton Sportsystem Group net inventories as of December 31, 1997 amount to Lire 223,158 million.
The valuation of closing inventories at average cost is not considerably different from their valuation at current purchase cost.

10. Accounts receivable

Trade receivables

As of December 31, 1997, trade receivables amount to Lire 1,715,250 million, of which approximately Lire 1,119,500 million are denominated in foreign currencies (approximately Lire 788,000 million as of December 31, 1996).

Benetton Sportsystem Group trade receivables as of December 31, 1997 amount to Lire 364,253 million. Open forward exchange contracts as of December 31, 1997 are used to hedge receivables totaling Lire 500,081 million and firm orders worth Lire 546,504 million at year-end exchange rates.

Trade receivables also include Lire 264,380 million (Lire 139,733 million as of December 31, 1996) of bank receipts and notes deposited with financial institutions for collection.

Additionally, this account includes approximately Lire 486 billion relating to sales for the spring/summer season. In accordance with normal conditions of sale, the payment terms for the above amount commence from April 1998.

The allowance for doubtful accounts as of December 31, 1997 amounts to Lire 204,388 million (Lire 168,883 million as of December 31, 1996).

A prudent assessment of the specific and generic collection risks associated with receivables outstanding at year-end has resulted in suitable additional provisions to take account of the aging of certain balances and the difficult economic conditions in a number of markets.

The economic situation in Japan progressively deteriorated during the year following the failure of a leading local bank. The shockwaves caused by the crash had negative repercussions on the financial situation of certain of the Benetton Sportsystem Group's major customers, which, in some cases, are members of banking organizations. In these circumstances, it was considered prudent to provide a reserve to cover the risks connected with certain specific positions.

Lire 103,163 million was released from the allowance for doubtful accounts to cover losses during the year, while provisions for 1997 amounted to Lire 95,762 million compared with Lire 78,304 million in 1996. The Benetton Sportsystem Group's reserve as of June 30, 1997 amounted to Lire 42,906 million.

Due from subsidiaries, associated companies and the parent company

Amounts receivable from associates, subsidiary companies and the parent company of Lire 980 million, Lire 8,174 million and Lire 6 million, respectively, mainly relate to trade and financial receivables due from companies not consolidated on a line-by-line basis.

Other receivables

As of December 31, 1997, other receivables include: VAT recoverable from the tax authorities, Lire 45,896 million (Lire 36,703 million as of December 31, 1996); tax credits, Lire 38,622 million (Lire 16,257 million as of December 31, 1996); and other amounts due from the tax authorities totaling Lire 16,577 million (Lire 8,790 million as of December 31, 1996).

Amounts due from the tax authorities include Lire 21,034 million reflecting the net credit balance on current income taxes, of which Lire 18,795 million relates to taxes paid in prior years by the subsidiary company, Rollerblade Inc., that will be recoverable over the next two accounting periods.

Other amounts due from the tax authorities also include Lire 8,099 million paid in advance on net timing differences between taxable income and that reported for consolidation purposes, as well as on consolidation adjustments.

This balance is reported in the consolidated financial statements, since its recoverability is reasonably certain.

The caption also includes approximately Lire 25 billion, reflecting the net balance of taxes paid in advance, as indicated in the notes to the parent company's statutory financial statements in the comments on the "Taxation reserve".

Such amounts due from the tax authorities reflect the net tax effect of the timing differences indicated above:

in millions of Lire	12.31.1996	12.31.1997(A)
Tax effect of eliminating intercompany profits	11,588	12,631
Tax effect of provisions and costs that will become deductible		
in future accounting periods	48,402	50,203
Deferred taxes arising on the reversal of accelerated depreciation		
and the application of finance lease accounting	(43,824)	(40,934)
Deferred taxes on gains taxable over a number of accounting periods	(18,061)	(10,223)
Deferred taxes on the partial distribution of the reserves		
of foreign subsidiaries to the parent company	(4,400)	(4,400)
Other	6,151	822
Total	(144)	8,099

In relation to:

Italian companies	(8,780)	1,718
Foreign companies	8,636	6,381
	(144)	8,099

11. Financial assets not held as fixed assets

Treasury shares
Treasury shares purchased by Benetton Group S.p.A. in 1996 and 1997 were all sold during 1997.

Other securities

in millions of Lire	12.31.1996 Book value	12.31.1996 Face value	12.31.1997(A) Book value	12.31.1997(A) Face value
Zero coupon Treasury Certificates, maturing through 1998 and 1999, at interest rates between 4.91% and 5.97%	-	-	193,277	205,000
Long-term Government bonds (BTP), maturing through 1998 and 2001, at interest rates between 8.5% and 10.5%	368,807	350,000	-	-
Consorzio di Credito per le Opere Pubbliche bonds, maturing through 1999 and 2002, at interest rates between 5.07% and 12.63%	134,490	128,100	136,589	131,100
European Investment Bank bonds in Italian Lire, maturing between 2000 and 2002, at interest rates between 6.69% and 11.25%	37,822	33,375	37,854	33,375
IBRD bonds in Italian Lire, maturing through 1998 and 2002, at interest rates between 10.4% and 11.63%	6,906	6,325	6,845	6,325
ENEL bonds maturing in 2001 and 2002, at interest rates of 11.7% and 10.63%	44,678	41,700	44,679	42,535
Italian State Railways bonds maturing in 1999 and 2002, at interest rates of 6.25% and 10.65%	12,399	12,000	13,166	13,035
Treasury Certificates (CCT) maturing in 2001, at floating interest rates	50,690	50,000	-	-
Other	3,508	3,508	64,445	64,507
Total	659,300	625,008	496,855	495,877

"Other" includes Lire 63,541 million of foreign securities issued by other public and private sector entities. Investments concern fixed and floating rate securities of various types.

These securities have been written down by Lire 2,646 million to reflect their market value, determined on the basis of average stockmarket prices for the month of December.

Other financial receivables

in millions of Lire	12.31.1996	12.31.1997(A)
Short-term financing	4,399	127,849
Amounts due on repurchase agreements	-	231,024
Total	4,399	358,873

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

Differentials on forward transactions
During 1997, as in prior years, the proceeds of future sales were sold forward, mainly by the parent company, in order to optimize exchange risk management. In particular, forward contracts and other currency hedges have been put in place with maturities in 1998. The total value of these commitments, including the positions opened in 1996, is reflected among "Commitments, contingencies and memorandum accounts".

Part of these contracts, totaling Lire 294 billion, was subsequently renegotiated and the related positive differentials amounting to Lire 11,933 million and recorded within "Other financial income", will be collected in 1998.

The residual balance, Lire 3,268 million, reflects the differentials emerging from similar positions opened in 1996, which will be collected in 1998.

Such differentials, being highly liquid, are classified among current assets.

12. Liquid funds

in millions of Lire	12.31.1996	12.31.1997	12.31.1997(A)
Current account deposits (Lire)	56,880	80,837	86,705
Current account deposits (foreign currency)	151,504	115,738	150,476
Time deposits (Lire)	182,694	119,649	119,649
Time deposits (foreign currency)	93,992	133,253	139,017
Checks	13,148	29,443	29,497
Banknotes and coins	694	984	1,260
Total	498,912	479,904	526,604

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

The balances as of December 31 reflect temporary high liquidity due to significant year-end receipts from customers and substantial bank current account deposits in lire and foreign currency.

13. Accrued income and prepaid expenses

in millions of Lire	12.31.1996	12.31.1997	12.31.1997(A)
Accrued income:			
– financial income	36,525	21,748	21,748
– other income	527	4,510	4,527
Total accrued income	37,052	26,258	26,275
Prepaid expenses:			
– financial charges	17,992	6,675	7,112
– rentals and leasing charges	4,104	3,410	4,099
– advertising and sponsorships	1,414	644	3,166
– other expenses	3,087	25,707	27,788
Total prepaid expenses	26,597	36,436	42,165
Total	63,649	62,694	68,440

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

Accrued other income mainly concerns television rights relating to Benetton Formula Ltd.

In 1997, the Group's merger differences were released from further taxation via payment of a substitute tax at 27%, as provided by Decree 358 of October 8, 1997.

This substitute tax totals Lire 11,930 million, of which around Lire 2,500 million is to be paid within the time-limit set for paying final taxes for the 1997 financial year.

The substitute tax is classified under "Current income taxes" with a matching balance in "Due to tax authorities". On the accruals basis some Lire 9,400 million of this tax has been recorded as a prepayment because the cost of freeing up merger differences from tax is related to the benefit deriving from future savings generated by tax-deductible amortization charges.

Given the dissimilarity of the amortizable assets involved and taking account of the prudence principle, the existing amortization periods were considered unsuitable with a more limited timescale being required. Accordingly, the amortization period fixed was five years.

Prepayments of other expenses also include around Lire 12,000 million for costs incurred by Benetton Formula Ltd. for the design, engineering and construction of their single-seater entry in the 1998 world championship.

Comments on the principal liability and equity captions

Stockholders' Equity

14. Capital stock

The capital stock of Benetton Group S.p.A. is represented by 181,558,811 issued and fully-paid ordinary shares, par value Lire 500 each. The 1980 spinoff reserve and part of the monetary revaluation reserves were capitalized by Benetton Group S.p.A. in prior years and in 1997 were used to increase the capital stock. Capital stock, issued and fully-paid, amounts to Lire 90,779,405,500.

15. Additional paid-in capital

This caption is unchanged with respect to the prior year.

16. Revaluation reserves

This caption reflects the residual amount of revaluation reserves established in accordance with the provisions of Law 72 of March 19, 1983, together with the net surplus following the revaluation in accordance with Law 413 of December 30, 1991, and the monetary revaluation of tangible fixed assets by a Spanish subsidiary, in accordance with local legislation (Royal Decree 2607/96).

17. Legal reserve

This caption is unchanged with respect to the prior year.

18. Reserve for treasury shares held

As indicated previously, the treasury shares purchased in 1996 were sold during the year.

19. Other reserves

As of December 31, 1997, this caption amounts to Lire 1,116,723 million (Lire 950,880 million as of December 31, 1996) and includes:

- Lire 213,968 million relating to other reserves of the parent company (Lire 174,877 million as of December 31, 1996);
- Lire 13,381 million relating to the cumulative translation adjustment generated by translating the foreign currency financial statements of companies consolidated on a line-by-line basis;
- Lire 889,373 million representing the additional equity of consolidated companies with respect to their carrying value, together with other consolidation entries.

The first of the schedules which follow reconciles the stockholders' equity and net income of Benetton Group S.p.A. with the corresponding consolidated amounts; the second lists the equity in consolidated subsidiaries attributable to minority stockholders. A statement of changes in stockholders' equity during the years ended December 31, 1996 and 1997 is provided in an attachment to these notes.

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

in millions of Lire	12.31.1996 Stockholders' equity	Net income	12.31.1997(A) Stockholders' equity	Net income
Per Benetton Group S.p.A. financial statements	916,978	125,325	993,797	163,759
Group share of net income and stockholders' equity of consolidated subsidiaries, net of their carrying value	781,898	344,181	713,902	179,343
Elimination of dividends paid by consolidated subsidiaries	-	(187,967)	-	(31,233)
Allocation to fixed assets of the difference between the purchase price and the equity of new subsidiaries at the time they were acquired and related depreciation	76,688	(13,781)	277,351	(28,939)
Reversal of accelerated depreciation considering the useful lives of fixed assets and of intercompany gains on disposal of tangible fixed assets, net of the related tax effect	10,213	(1,231)	20,467	4,977
Application of finance lease accounting, taking account of therelated tax effect	9,894	(325)	10,929	1,073
Recognition of deferred tax assets, net of deferred taxes on any future distribution of reserves from subsidiaries to the parent company	38,871	(23,601)	34,344	(4,427)
Elimination of intercompany profits included in the inventory of consolidated subsidiaries, net of the related tax effect	(12,512)	7,163	(24,981)	192
Adjustment to reflect the equity value of associated companies	2,531	1,551	5,010	936
Net effect of other consolidation entries	(3,725)	(5,673)	(350)	4,459
Per Group's consolidated financial statements	1,820,836	245,642	2,030,469	290,140

Minority interests

As of December 31, 1997 and 1996, minority interests in consolidated subsidiaries were as follows:

	12.31.1996	12.31.1997(A)
Italian subsidiaries:		
– Socks & Accessories Benetton (S.A.B.) group	50%	50%
– Olimpias (ex Stefani) group	22%	13.5%
– Texcontrol group	18.125%	16.231%
– Benetton Sportsystem group	-	43.233%
Foreign subsidiaries:		
– K.K. Via Veneto	50%	50%
– Benetton China Japan K.K.	9%	9%
– Benetton Shoes Japan K.K.	50%	50%
– Bene Moda K.K.	50%	50%
– Benetton Egypt S.A.E.	50%	50%
– DCM Benetton India Ltd.	50%	50%

20. Reserves for risks and charges

Taxation reserve

in millions of Lire	12.31.1996	12.31.1997(A)
Reserve for fiscal risks	7,782	8,459
Deferred taxes:		
– Italian companies	8,780	-
– Foreign companies	(8,636)	-
Total deferred taxes	144	-
Total	7,926	8,459

As of December 31, 1997, the reserve for fiscal risks amounts to Lire 8,459 million (Lire 7,782 million as of December 31, 1996), net of deferred tax assets of Lire 144 million. It prudently covers contingent liabilities which may arise on the final settlement of outstanding disputes with the revenue authorities.

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

As of December 31, 1997, taxes paid in advance on timing differences, net of deferred taxation and the taxation provided on consolidation adjustments, are classified among "Other receivables".

The tax benefit of substantial loss carry-forwards accumulated by certain Italian and foreign consolidated companies will be recorded only when realized.

Other reserves

in millions of Lire	12.31.1996	12.31.1997(A)
Reserve for contingencies	44,346	72,872
Agents' leaving indemnity reserve	10,104	13,091
Exchange fluctuation reserve	1,079	8,346
Total	55,529	94,309

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

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

Benetton International N.V., having previously applied to the courts for a stay of execution, obtained a temporary stay in regard to Eco Swiss China Time Ltd., pending the decision of the relevant tribunals on the questions indicated above. The Court of Appeal of The Hague has subsequently denied to lift the stay and the District Court in Amsterdam has declined to award Eco Swiss China Time Ltd an advance payment pending the final resolution of the dispute.

On March 21, 1997, the High Court in The Hague accepted the appeal by Benetton International N.V. and referred the case for consideration by the European Court of Justice in Luxembourg, on the grounds that the matter fell within the jurisdiction of Community law. This decision has had a positive outcome for Benetton International N.V., since it also resulted in the adjournment of proceedings before the High Court in The Hague of Eco Swiss China Time Ltd.'s petition to lift the stay of execution on the payment of the arbitration award. The hearing before the European Court in Luxembourg has been fixed for July 7, 1998.

This important result is encouraging for Benetton International N.V. in the defense of its case and interests. Any risks which could emerge from the final outcome of proceedings are adequately covered by the existing provision of f. 47.7 million.

However, Eco Swiss China Time Ltd. initiated new proceedings, as a matter of urgency, (before the ordinary courts in the Netherlands) for obtaining an advance payment from the arbitration award of June 23, 1995, pending the outcome of the procedures seeking to overturn or cancel the award.
In the meantime, separate arbitration proceedings instigated by Benetton International N.V. are currently taking place between the parties before the Netherlands Arbitration Institute in The Hague.

Benetton International N.V. aims to demonstrate in this second arbitration case that the company correctly fulfilled its obligations and sought, in good faith, to negotiate the extension of the 1986 license contract and that it is due for compensation for the considerable damage suffered as a consequence of breach of contract by the other party.

Benetton International N.V. has submitted a "Statement of Claim" and Eco Swiss China Time Ltd. and Bulova Corporation, for their part, have presented a counterclaim demanding compensation for alleged damages which they attribute to supposed breach of contract by Benetton International N.V. Both parties have presented extensive further documentation and additional written and oral submissions are anticipated.

The Board of Arbitration passed judgment on certain preliminary matters (regarding applicable law and the consequences of art. 85 of the Treaty of the European Union) with the Partial Final Award of June 27, 1997. Benetton International N.V. proposed before the ordinary courts in the Netherlands that the Partial Final Award on preliminary matters be cancelled and, as part of these procedures, was able to obtain a stay of execution on the partial award, although the dispute between the parties as to the efficacy of the decision is still pending. The counterparties have appealed against the decision.

In the interim, Eco Swiss China Time Ltd has asked the District Court in Amsterdam to set aside various restructurings of the subsidiaries of Benetton International N.V., but proceedings regarding the request are only beginning, and no final decision is anticipated for some time.

The reserves for risks and charges of the Benetton Sportsystem Group, mainly cover:

– restructuring costs	12,962
– liabilities for guarantees and returns	5,533
– liabilities for legal disputes	4,869

The agents' leaving indemnity reserve is prudently maintained to reflect contingencies associated with the interruption of agency contracts in certain circumstances covered by Italian law. The provision of an additional Lire 2,350 million during 1997 follows utilizations during the year.

The exchange fluctuation reserve mainly reflects the net effect of adjusting forward contracts hedging financial transactions, as well as the unhedged foreign currency receivables and payables of Italian companies in the Group, using year-end exchange rates.

21. Reserve for employee termination indemnities

Movements in this reserve during the year were as follows:

in millions of Lire	1997	1997(A)
Balance as of January 1, 1997	62,521	62,521
Provision for the year	13,151	14,896
Indemnities paid during the year	(8,034)	(10,891)
Other movements	(854)	17,185
Balance as of December 31, 1997	66,784	83,711

"Other movements" reflect the opening balances of companies acquired during 1997, net of those deconsolidated.

22. Accounts payable

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

Bonds

These consist of the following:

– Bond issued on July 16, 1997 by Benetton Group S.p.A. for Lire 500,000 million, repayable in 2002. The bond bears interest at floating rates which, at year-end, was 6.625%, and is listed on the Luxembourg Bourse.

EuroLire bond, guaranteed by Benetton Group S.p.A., issued in 1993, by the Dutch subsidiary Benetton International N.V., for the equivalent of Lire 200,000 million, bearing interest at 4.5% payable annually and repayable in July 1998. The bonds carried 2,520,000 warrants, each giving the holder the right to receive, at the option of the Company's management, either (i) one Ordinary Share which the Company would have to purchase in the stock market, or (ii) an amount in Lire equal to the closing price of one Ordinary Share on the Milan Stock Exchange ("MSE"). These warrants were exercised at their maturity, on July 29, 1996. The net cost of servicing the warrants, totaling around Lire 38,300 million, is recognized on an accruals basis that reflects the accumulation of interest.

– Bonds totaling LuxF 750 million (Lire 35,690 million at the December 31, 1997 exchange rate) were issued in 1994, by the subsidiary company, Benetton Finance, at a unit price of LuxF 102.25, repayable on August 4, 1999. Following an operation linked to an interest-rate swap, the bond bears interest at floating rates which, at year-end, was 7%. The bond is guaranteed by Benetton Group S.p.A. and listed on the Luxembourg Bourse.

A bond issued on January 27, 1992, by Benetton España S.L. for Ptas 3,000,000,000, equivalent to Lire 34,986 million at the December 31, 1996 exchange rate, bearing interest at an annual rate of 12.10%, was repaid in full on January 27, 1997.

Due to banks

in millions of Lire	12.31.1996	12.31.1997	12.31.1997(A)
Current account overdrafts	34,030	59,810	73,549
Import/export advances	53,810	80,725	138,578
Lines of credit, advances on receivables			
and other short-term loans	698,194	212,260	363,255
Long-term loans:			
– due within 12 months	18,753	12,984	63,540
– due beyond 12 months	80,543	446,041	460,553
Total	885,330	811,820	1,099,475

The caption includes Lire 13,916 million due beyond five years. Amounts due to banks include around Lire 88,869 million secured by mortgages on tangible fixed assets.

Group companies had the following lines of credit available at the balance sheet date: Lire 293 billion for current account overdrafts and Lire 3,896 billion for advances on import/export transactions, the negotiation of trade notes and other short-term loans.

Long-term loans from banks outstanding as of December 31, 1997 and 1996 are as follows:

in millions of Lire	12.31.1996	12.31.1997
Multicurrency loan coordinated by Banca di Roma S.p.A. and Deutsche Bank S.p.A., disbursed on February 6, 1997 for a total of US$ 220 million, at floating interest rates - 6.3875% at the balance sheet date. US$ 200 million of this loan is repayable in full on December 10, 2001	-	365,5
Loan from Efibanca (Ente Finanziario Interbancario S.p.A.) and the European Investment Bank, disbursed in two tranches: Lire 20,000 million, at an annual interest rate of 8.375%; and Lire 30,000 million, at quarterly floating interest rates - 6.365% at the balance sheet date -, repayable in semiannual instalments in arrears through 2003, secured by mortgages on real estate	47,274	41,8
Loan from Efibanca (Ente Finanziario Interbancario S.p.A.), at floating interest rates - 6.63% at the balance sheet date, repayable on May 14, 1998	-	40,0
Loan from Efibanca (Ente Finanziario Interbancario S.p.A.) at an annual interest rate of 9.75%, repayable in full on April 9, 1997	10,000	
Loans from Efibanca (Ente Finanziario Interbancario S.p.A.) at an annual interest rate of 7.93%, repayable from 1998 through 2005, secured by mortgages on real estate	5,500	5,5
Loans from Fondo Rotazione Iniziative Economiche, at annual interest rates between 6% and 8%, repayable in semiannual instalments through 2004, secured by mortgages on real estate	9,746	7,9
Loan from IMI (Istituto Mobiliare Italiano), at annual interest rates between 5.741% and 6.15%, repayable from 1999 through 2004, secured by mortgages on real estate	21,000	26,0
Loan from Istituto Bancario San Paolo di Torino S.p.A., at floating interest rates - 5.815% at December 31, 1997 -, repayable quarterly through 2002, secured by mortgages on real estate	-	3,9
Loan from Rolo Banca, at floating interest rates - 6.5% at December 31, 1997 -, repayable monthly through 2000	-	1,2
Loan in yen from Bayerische Vereinsbank, at an annual interest rate of 2.01%, repayable on October 4, 1999	-	13,5
Loan from Midland Bank, at floating interest rate - 6.392% at the balance sheet date, repayable on April 21, 1998	-	10,0
Disbursement by Mediocredito Centrale S.p.A. of first tranche of Lire 4 billion credit line granted under Law 394 of July 2, 1981, at an assisted interest rate of 4.16%, repayable on July 24, 2003	-	4
Other Lire loans secured by mortgages on real estate	2,463	1,5
Other foreign currency loans obtained by foreign consolidated companies, of which 2,100 million secured by mortgages on real estate	3,313	6,5
Total long-term loans	99,296	524,0
Less - Current portion	(18,753)	(63,5
Long-term loans, net of current portion	80,543	460,5

The non-current portions of these loans as of December 31, 1997 fall due as follows:

1999	18,278
2000	32,023
2001	383,394
2002	12,942
2003 and beyond	13,916
	460,553

Due to other providers of finance

in millions of Lire	12.31.1996	12.31.1997	12.31.1997(A)
Other short-term loans	4,002	7,896	36,368
Long-term loans:			
– due within 12 months	5,647	3,285	3,318
– due beyond 12 months	2,605	2,531	3,212
Due to leasing companies:			
– within 12 months	3,720	3,647	3,867
– beyond 12 months	12,657	11,712	11,978
Total	28,631	29,071	58,743

Long-term loans obtained from other providers of finance outstanding as of December 31, 1997 and 1996 are as follows:

in millions of Lire	12.31.1996	12.31.1997(A)
Loans from suppliers of machinery, repayable in instalments over 24 months	7,771	5,781
Other Lire loans	417	681
Other foreign currency loans obtained by foreign consolidated companies, secured		
by mortgages on real estate for Lire 36 million	64	68
Total long-term loans	8,252	6,530
Less: Current portion	(5,647)	(3,318)
Long-term loans, net of current portion	2,605	3,212

The non-current portions of these loans as of December 31, 1997 fall due as follows:

in millions of Lire	
1999	2,531
2003 and beyond	681
	3,212

The non-current portions of amounts due to leasing companies as of December 31, 1997 fall due as follows:

in millions of Lire	
1999	3,603
2000	2,190
2001	1,587
2002	1,266
2003 and beyond	3,332
	11,978

Notes payable

These amount to Lire 102,348 million (Lire 6,763 million as of December 31, 1996) and consist of Lire 100,000 million of promissory notes placed on the market by Benetton Group S.p.A. These notes, which bear interest at 6.77%, are underwritten by professional investors and fall due in January 1998. Assisted loans obtained under the Sabatini Law (Law 1329 of November 28, 1965) for the purchase of tangible fixed assets amount to Lire 300 million (Lire 1,811 million in 1996) and are redeemable in 1998.

Due to subsidiary and associated companies
Amounts due to subsidiary and associated companies, Lire 4,743 million and Lire 95 million, respectively, mainly comprise trade and financial payables to companies not consolidated on a line-by-line basis.

Due to tax authorities

in millions of Lire	12.31.1996	12.31.1997(A)
Income taxes payable:		
– Italian companies	15,337	62,023
– Foreign companies	12,345	18,972
Total income taxes payable	27,682	80,995
VAT payable	5,844	12,385
Other amounts due to tax authorities	15,456	33,267
Total	48,982	126,647

Income taxes payable are stated net of taxes paid in advance and all tax credits and withholdings that would reduce the tax liability. Other amounts due to tax authorities mainly comprise amounts withheld at source, capital taxes and the substitute tax.

Due to social security and welfare institutions
This balance totals Lire 21,385 million (Lire 16,675 million as of December 31, 1996) and reflects both the Group and employee contributions payable to these institutions at year-end.

Other payables
Other payables, totaling Lire 75,454 million, include Lire 32,587 million due to employees (Lire 19,415 million as of December 31, 1996) and other non-trading payables of Lire 30,014 million (Lire 11,061 million as of December 31, 1996). "Other payables" due beyond five years included in this caption amount to Lire 990 million. The caption includes the liabilities associated to the following employee benefits:

Retirement plans
A Company’s subsidiary located in the United States of America has a noncontributory defined benefit pension plan for substantially all its employees, the magnitude of which is totally immaterial to the Group.

Stock appreciation rights plan (SARP)
Stock appreciation rights are granted to key individuals as defined under specific agreements with each key employee as selected by the U.S. subsidiaries’ Board of Directors.

Prince Sports Group Inc. (“Prince”) has approved grants of stock appreciation rights which equal in the aggregate 6% of the outstanding common stock of the company. The value of each stock appreciation right is based upon a three year average earnings formula with vesting rights as defined in the plan.

Payrnents to participants who exercise a right will be made in five equal annual installments, without interest following the exercise date. There were compensation charges related to the company's plan of Lire 918 million in 1997.

Rollerblade Inc. (“Rollerblade”) has terminated its SARP on January 10, 1996. The total cash settlement consisted of cash payments of Lire 5,933 million in 1996 and 1997. Additional payments of approximately Lire 3,000 million and Lire 2,900 million are scheduled to be paid in fiscal years 1998, and 1999, respectively.

Restricted Stock Awards and Stock Option Plans
In 1996 Rollerblade created three incentive plans. Individuals eligible for these plans were selected by the Company's board of directors. The level of incentives were also determined by the Company's board of directors and agreed upon with each employee through separate written agreements. Awards were issued in 1996 and consisted of restricted stock awards (RSA), nonqualified stock options (NQSO) and incentive stock options (ISO).

Rollerblade has 23.425 outstanding common shares as of December 31, 1997 related to RSAs. RSAs representing 20.625 common shares were vested as of December 31, 1998. The remaining RSAs representing 2.8 common shares vest on various dates between May and October 1998. RSAs representing 35.165 shares were forfeited in fiscal 1997 due to employee termination.

The company has outstanding NQSOs of 76.55 to purchase common shares as of December 31, 1997. NQSOs were granted in fiscal year 1996 at a market value of $23,459 per share as determined by the Company. NQSOs vest over five years. In the event of an initial public offering of the company's stock, 60% of senior management's outstanding options vest immediately with the remaining 40% vesting at a rate of 20% on each of the first and second anniversaries of the initial public offering date. In fiscal year 1997, NQSOs of 162.51 were forfeited due to employee termination. As of December 31, 1997, NQSOs of 15.31 were vested.

The company has outstanding ISOs of 63.90 to purchase common shares as of December 31, 1997. ISOs were also granted in fiscal year 1996 at a market value of $23,459 per share. ISOs vest over five years. In fiscal year 1997, ISOs of 63.90 were forfeited due to employee termination. As of December 31, 1997, ISOs of 12.78 were vested.

Related to the above award programs, each employee has entered into a stock repurchase agreement with the company. The agreements allow the employees to sell shares under the above award plans to the company at a formula price based on earnings. Payment for the shares is made by the company over a two-year period from the date of sale. As of December 31, 1997 the formula price equaled $8,368 per share. Under the terms of this agreement, the company also has the first right of refusal in the event that employees elect to sell their shares. In the event of an employee termination, the employee must sell its shares to the company at the formula price. In fiscal year 1997, 79.95 shares were sold back to the company at an aggregate price of approximately Lire 2,500 million.

The above plans are considered variable stock option and award plans. Compensation expense was recorded based on the plans' formula price for the year ended December 28, 1996. The company intends to buy back the remaining restricted stock in fiscal year 1998 for approximately Lire 1,170 million. Net compensation expense of Lire 204 million was recorded in fiscal year 1997 and is based on the expected buyback price.

Other plans

Rollerblade has a discretionary profit incentive plan that covers substantially all its employees. The company makes a matching contribution equal to 27% of a participant's contributions for the year. The amount expensed by the company under this plan was approximately Lire 444 million in 1997.

23. Accrued expenses and deferred income

in millions of Lire	12.31.1996	12.31.1997	12.31.1997(A)
Accrued expenses:			
– financial charges	32,786	16,170	16,969
– other charges	1,914	2,160	2,326
Total accrued expenses	34,700	18,330	19,295
Deferred income:			
– financial income	6,623	2,328	2,328
– sponsorships	17,003	23,155	23,155
– other income	467	556	556
Total deferred income	24,093	26,039	26,039
Premiums on bond issues	390	1,020	1,020
Total	59,183	45,389	46,354

24. Commitments, contingencies and memorandum accounts

These mainly include currency to be sold or purchased forward.

This account group records the Lire value at the balance sheet date of commitments deriving from hedging contracts opened during the year.

For the most part, the caption reflects transactions opened to hedge foreign currency receivables, firm orders and future sales. Those covering future sales were subsequently renegotiated by entering opposite transactions. Other transactions were entered into to hedge the exchange risk on capital invested in Group companies.

The object of these transactions is to optimize currency management and secure the Group's operating margins and foreign exchange position.

The estimated fair values and relating contract amounts of the Group's financial instruments at December 31, 1997 are as follows (in millions of lire):

Forward contracts:	Fair value	Contract amounts
Sell currency	2,835,131	2,864,689
Buy currency	1,491,654	1,512,208

	Notional amount
Forward rate agreements	-
Interest rate swaps	164,330

Forward exchange contracts expire from January 1998 through July 1999. Included in forward contracts, sell and buy currencies are respectively Lire 1,812,446 million and Lire 976,157 million of contracts that hedge identifiable foreign currency assets, liabilities, contractual obligations or foreign investments in subsidiary companies.

As of December 31, 1997, outstanding contracts involving the purchase or sale of interest rate swaps have a notional value of Lire 164,330 million. They expire within four months and therefore their carrying value approximates fair value.

Purchase commitments mainly relate to the commitment by Edizione Holding S.p.A: to purchase the residual 43.233% of Benetton Sportsystem S.p.A.'s capital stock. Restricted receivables relate to transactions involving advances against receivables.

In conformity with document number 22 of the accounting principles issued in July 1997, the following captions have not been included among the Group's commitments, since they relate to payables and receivables reported in the financial statements:

in millions of Lire	
– secured guarantees given	88,905
– sureties and other unsecured guarantees	8,564
– guarantees given to third parties	9,453

Comments on the principal statement of income captions

The tables below present Benetton Group S.p.A. 1997 data on a consistent comparative basis with 1996 data; 1997(A) refers to the figures which include the second semester data of Benetton Sportsystem Group.

25. Value of production

Revenues from sales and services

in millions of Lire	1996	1997	1997(A)
Sales of core products	2,666,418	2,858,492	3,493,707
Miscellaneous sales	45,205	49,264	54,464
(Discounts)	(8,938)	(8,286)	(104,408)
Royalty income	15,124	17,678	21,602
Miscellaneous revenues	153,299	172,303	171,420
Total	2,871,108	3,089,451	3,636,785

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

Information by geographic area

The following information is provided by geographic area:

in millions of Lire	Italy	Europe (excluding Italy)	The Americas (c) (d)	Other countries	Inter-company	Consoli-dated transactions
1995						
Net sales and other revenues (a)	1,011,727	1,034,665	208,459	684,283	-	2,939,134
Operating income (a)	195,568	182,529	(23,737)	112,833	(23,390)	443,803
Identifiable assets (b)	2,633,545	825,485	143,331	234,718	-	3,837,079
1996						
Net sales and other revenues (a)	1,064,201	1,004,175	192,450	610,282	-	2,871,108
Operating income (a)	214,529	110,184	(13,806)	85,060	5,714	401,681
Identifiable assets (b)	2,372,025	1,177,212	147,046	167,979	-	3,864,262
1997						
Net sales and other revenues (a)	1,184,074	1,147,996	213,706	543,675	-	3,089,451
Operating income (a)	255,195	181,388	2,408	94,008	(2,255)	530,744
Identifiable assets (b)	3,303,727	1,410,416	101,219	159,333	-	4,974,695
1997 (A)						
Net sales and other revenues (a)	1,236,922	1,344,792	429,756	625,315	-	3,636,785
Operating income (a)	243,998	170,618	(5,916)	92,993	(2,054)	499,639
Identifiable assets (b)	3,399,939	1,210,878	644,108	210,920	-	5,465,845

(a) Amounts principally determined by destination.
(b) By geographic location.
(c) Operating income in the Americas included in operating results Lire 2,409 million and Lire 15,961 million of loss, respectively in 1996 and 1995, arising from Cosmetics Group.

Sales of core products, by business category

in millions of Lire	1996	1997	1997(A)
Clothing	2,191,326	2,367,021	2,367,021
Fabrics and yarns	226,621	253,619	253,619
Accessories	149,105	127,580	127,580
Footwear	82,353	79,788	79,788
Cosmetics	17,013	30,484	30,484
On-line skates	-	-	225,922
Ski boots	-	-	105,458
Racquets	-	-	104,592
Sports clothing	-	-	75,922
Skis and snowboards	-	-	46,334
Mountain boots and tennis shoes	-	-	29,329
Other	-	-	47,658
Total	2,666,418	2,858,492	3,493,707

Core product sales, by brand

n millions of Lire	1996	1997	1997(A)
Benetton	1,548,463	1,609,675	1,609,675
012, Zerotondo and 999	565,934	623,559	623,559
Sisley	308,709	364,442	364,442
Nordica	-	-	149,375
Rollerblade	-	-	180,813
Prince	-	-	109,687
Killer Loop	-	-	35,518
Kästle	-	-	50,380
Asolo	-	-	23,184
Other sales	243,312	260,816	347,074
otal	2,666,418	2,858,492	3,493,707

26. Production costs

Purchasing costs

in millions of Lire	1996	1997	1997(A)
Raw materials and finished goods	729,512	783,132	1,012,116
Other materials	29,383	34,060	35,154
Sundry purchases - advertising	3,295	7,052	13,058
Other purchases	29,921	36,320	41,251
(Discounts and rebates)	(1,674)	(1,222)	(1,285)
Total	790,437	859,342	1,100,294

Services received

in millions of Lire	1996	1997	1997(A)
Subcontracted work	590,555	693,017	709,141
Transport and distribution	46,797	50,304	59,677
Commission expense	132,629	141,990	159,726
Advertising and promotion	97,516	101,243	134,387
Other services	167,885	179,503	212,331
Total	1,035,382	1,166,057	1,275,262

Other services mainly include power costs, maintenance costs, consultancy and other fees, insurance premiums and personnel travel expenses.

Payroll and related costs

Payroll and related costs, Lire 341,848 million, increased by Lire 20,220 million with respect to 1996 due to the application of contractual agreements and legislation, together with additional costs incurred by Benetton Formula Ltd.

With the inclusion of second semester payroll and related costs of the Benetton Sportsystem Group, this caption totals Lire 403,945 million.

Group employees are listed below, by category:

in millions of Lire	Average for the year	1996	1997	1997(A)
Managerial personnel	100	98	102	212
Clerical personnel	2,166	2,120	2,212	3,115
Factory personnel	3,465	3,501	3,428	3,761
Part-time personnel	229	254	205	333
Total	5,960	5,973	5,947	7,421

Amortization, depreciation and writedowns

Amortization of intangible fixed assets

in millions of Lire	1996	1997	1997(A)
Amortization of start-up and expansion expenses	6,205	5,546	5,863
Amortization of research and development expenses	251	349	349
Amortization of industrial patents and intellectual property rights	496	319	1,235
Amortization of licenses, trademarks and similar rights	1,771	1,949	18,894
Amortization of goodwill	313	310	460
Amortization of consolidation differences	2,760	2,706	5,705
Amortization of costs for the purchase and development of software	3,540	3,228	4,524
Amortization of other charges	3,125	4,829	6,104
Total	18,461	19,236	43,134

Depreciation of tangible fixed assets

in millions of Lire	1996	1997	1997(A)
Depreciation of real estate	12,725	12,732	14,102
Depreciation of plant and machinery	46,926	46,052	49,572
Depreciation of equipment	1,977	2,838	12,046
Depreciation of other assets	12,998	12,503	16,610
Depreciation of assets acquired under finance leases	1,825	1,904	1,904
Total	76,451	76,029	94,234

Writedowns

"Other amounts written off fixed assets", Lire 1,437 million, mainly relates to the permanent loss in value of the molds used by a number of Benetton Sportsystem Group companies.

"Writedowns of current receivables and of liquid funds", Lire 95,762 million, reflects a prudent provision to the allowance for doubtful accounts. This is discussed in more detail in the note on current receivables.

Other operating costs

in millions of Lire	1996	1997	1997(A)
Emoluments to Directors and Statutory Auditors	14,205	14,771	15,707
Indirect taxation	14,295	17,270	20,525
Losses on disposal of fixed assets	3,336	2,164	2,555
Losses on receivables	7,805	1,420	4,999
Other general expenses	9,521	8,302	20,593
Total	49,162	43,927	64,379

Indirect taxation includes capital taxes and the substitute tax paid for freeing up reserves amounting to around Lire 13,000 million.

Emoluments earned during the year by the Directors and Statutory Auditors of the parent company total around Lire 8,300 million and Lire 530 million, respectively.

Other general expenses include about Lire 7,600 million of returns and discounts expensed in the second semester by Benetton Sportsystem subsidiaries. These costs were incurred, as explained previously, in the market crisis situation affecting sports products; under the circumstances, significant returns and discounts were accepted to cushion credit positions at risk and to encourage sales for the new collections.

27. Financial income and expense

Income from equity investments

This balance, Lire 3,674 million (Lire 6,223 million in 1996), includes Lire 3,271 million of interest income on tax credits on dividends distributed by consolidated subsidiaries.

Other financial income

in millions of Lire	1996	1997	1997(A)
From receivables held as financial fixed assets:			
– assets leased to third parties	124	34	34
– other receivables held as financial fixed assets	457	886	212
Total	581	920	246
From securities held as financial fixed assets not			
representing equity investments	15,821	5,444	5,520
From securities included among current assets not			
representing equity investments	24,635	54,428	54,428
Financial income other than the above:			
– interest income from subsidiary companies	227	6,099	392
– interest income from associated companies	6	-	-
– interest income from trade and other receivables	3,751	11,472	12,135
– interest income from banks	27,005	23,280	24,215
– miscellaneous financial income and income from derivatives	71,285	33,017	33,171
– exchange gains and income from currency management	402,794	272,742	298,703
Total	505,068	346,610	368,616
Total	546,105	407,402	428,810

"Interest income from subsidiary companies" includes around Lire 5,700 million of intercompany interest between Benetton Finance S.A. and the Benetton Sportsystem Group.

As discussed in the note on consolidation principles, miscellaneous financial income and income from derivatives comprises:

- exchange gains on capital hedging transactions, representing the differentials between spot and forward exchange rates, approximately Lire 4,788 million (around Lire 21,200 million in 1996);
- positive differentials on interest rate swaps and forward rate agreements, approximately Lire 2,000 million;
- premiums collected on options and income deriving from the adjustment of warrant-related transactions linked to the Lire 200,000 million bond issued by Benetton International N.V., approximately Lire 3,900 million (around Lire 3,300 million in 1996);
- income from cross-currency and currency swaps, approximately Lire 22,000 million (around Lire 4,700 million in 1996).

Interest and other financial expense

in millions of Lire	1996	1997	1997(A)
Interest expense on bonds	17,012	27,919	27,919
Interest expense on bank current accounts	5,362	4,255	5,030
Interest expense on import/export advances	3,992	2,485	3,872
Interest expense on advances against receivables	10,528	6,332	6,527
Interest expense on short-term loans	31,421	15,225	20,981
Interest expense on long-term bank loans	19,720	29,798	31,550
Interest expense on loans from other providers of finance	3,942	6,592	6,682
Miscellaneous financial expense	70,878	35,277	39,228
Exchange losses and charges from currency management	285,580	200,248	212,244
Total	448,435	328,131	354,033

Miscellaneous financial expense mainly includes:

- negative differentials on interest rate swaps, around Lire 1,600 million (Lire 11,200 million in 1996);
- the current portion of charges deriving from the valuation of warrants and of premiums paid for options, including accrued interest, amounting to approximately Lire 10,800 million (around Lire 9,000 million in 1996);
- charges on currency swaps, cross-currency swaps and forward transactions, approximately Lire 8,200 million (around Lire 20,000 million in 1996);
- discounts allowed on the early settlement of trade receivables, approximately Lire 9,500 million (around Lire 6,600 million in 1996);
- bank charges and commission of approximately Lire 5,300 million (around Lire 5,100 million in 1996).

28. Extraordinary income and expense

Income

in millions of Lire	1996	1997	1997 (A)
Gains on disposal of fixed assets	7,318	2,519	4,694
Other income:			
– Out-of-period income	5,101	7,118	9,113
– Other extraordinary income	4,115	5,414	7,161
Total	16,534	15,051	20,968

Out-of-period income mainly reflects the reversal of commission provided in prior years but not paid to agents since the related receivables are no longer collectible. Other extraordinary income includes a State investment grant to a subsidiary company amounting to around Lire 2,000 million.

Expense

in millions of Lire	1996	1997	1997(A)
Losses on disposal of fixed assets	2,030	4,997	8,034
Taxes relating to prior years	61	1,372	1,372
Other expense:			
– Donations	4,768	5,603	5,603
– Out-of-period expense	11,455	3,644	4,461
– Other extraordinary expense	37,415	22,657	28,368
Total	55,729	38,273	47,838

Other extraordinary expense includes compensation payments made to customers against accident and theft claims and charges in relation to settlements of various types. The same caption includes restructuring costs deriving from reorganization programs currently taking place in a number of Benetton Sportsystem Group companies. These provisions and other charges relate to personnel for Lire 4,772 million and sundry other costs for Lire 938 million.

Income taxes

The provision for income taxes includes the following amounts:

in millions of Lire	1995	1996	1997	1997(A)
Current:				
Italian companies	189,365	171,676	225,769	229,657
Foreign companies	15,427	17,817	24,163	12,979
Deferred:				
Italian companies	(10,953)	18,051	(7,645)	(10,765)
Foreign companies	(5,180)	(906)	4,206	4,507
Total	188,659	206,638	246,493	236,378

The tax liability for the year amounts to Lire 236,378 million, of which Lire 218,892 million relates to Italian companies. The effective tax rate on income before taxes and minority interests is 44% (45.2% in 1996).

This is less than the ordinary Italian tax rate, primarily due to the effect of lower rates applicable to the earnings of certain foreign subsidiaries, the use of tax loss carry-forwards and the receipt of tax-exempt income. The reconciliation of the effective tax rate is as follows:

	1995	1996	1997(A)
Italian statutory tax rate	53.2%	53.2%	53.2%
Aggregate effect of different taxation of foreign subsidiaries	(10.0%)	(12.3%)	(12.2%)
Effect of writing down of the cost of consolidated investments	(8.8%)	(5.9%)	(0.9%)
Effect of losses from consolidated subsidiaries	15.1%	9.5%	6.3%
Tax exempt income	(1.2%)	(2.3%)	(2.0%)
Tax effect of loss carry-forwards	(0.3%)	(0.5%)	(1.0%)
Other, net	(2.1%)	3.5%	0.7%
Effective tax rate	45.9%	45.2%	44.1%

29. Transactions with related parties

The Benetton Group engages in commercial and financial transactions with subsidiaries of Edizione Holding S.p.A. (the ultimate parent company) and other companies which, either directly or indirectly, are linked by common interests with the ultimate parent company.

The conditions of such transactions are fully consistent with those applied in the ordinary course of business. The effect of such transactions is summarized below:

in millions of Lire	1996	1997	1997(A)
Accounts receivable	6,018	5,042	5,131
Accounts payable	2,639	2,481	2,841
Purchase of raw materials	9,452	7,582	7,582
Other costs and services	22,770	22,807	23,339
Sales of products	7,325	10,924	11,103
Services provided and other income	5,260	5,065	5,080

30. Legal matters

Benetton has been a party to a number of lawsuits, primarily with customers, arising in the normal course of business.

Benetton International N.V. ("BINV") is a party to various disputes with Eco Swiss China Time Ltd. ("Eco") and Bulova Corporation ("Bulova"), arising from a trademark licensing agreement entered into by the companies in 1986. The agreement provided for the manufacture and sale by Eco of timepieces carrying the Benetton and Bulova trademarks. BINV attempted to terminate the agreement in 1991, prior to its expiration date in 1994, but an arbitral tribunal in the Netherlands subsequently held that it was not entitled to do so. In June 1995, the tribunal awarded Eco approximately US$ 23.7 million and Bulova US$ 2.8 million, together with interest and costs. (Also see note 20 to the Consolidated Financial Statements).

BINV has challenged the awards in two separate proceedings in the courts of the Netherlands. The merits of the challenges have still not been finally determined by the Netherlands courts, although a District Court has initially denied one of them. This order is currently on appeal. In the interim, after previously denying a stay in one of the two proceedings, the Court of Appeal of the Hague on March 28, 1996, granted a stay of enforcement in the other proceeding of the principal award made to Eco. The principal ground of the Court of Appeal's decision was that the 1986 licensing agreement was void and unenforceable as a matter of the competition law of the European Union.

The award made to Bulova had previously been paid by BINV, although it is subject to recovery if BINV ultimately prevails on the merits of its challenges to the arbitral awards. In March 1997 the Supreme Court in The Hague, in the context of the stay proceedings, referred to the European Court of Justice in Luxembourg five preliminary questions of EU Competition Law, thus suspending the stay proceedings. The European Court has scheduled a hearing for July 7, 1998. A judgement regarding the pending questions will presumably be issued within several months of the hearing, at which point the Dutch Supreme Court will consider the current stay of enforcement in light of the European Court's answers to the question. BINV anticipates that the full merits of its various challenges to the awards, including the application of European Union competition law, will be the subject of lengthy additional proceedings in the Netherlands courts.

As those proceedings continue, a separate arbitral proceeding initiated by BINV is pending in The Hague. BINV contends in this second arbitral proceeding both that it satisfied any obligations it may have had to negotiate in good faith regarding an extension of the 1986 licensing agreement and that it is entitled to substantial awards of compensatory and other damages from Eco and Bulova regarding conduct occurring during and since the expiration of that agreement. BINV submitted its Statement of Claim on April, 1996 and Eco and Bulova subsequently asserted substantial counterclaims for damages.

A hearing on the preliminary questions of the applicability of art. 85 of the EU Treaty and choice of law took place in December 1996. The tribunal subsequently issued a Partial Final Award holding in essence that Dutch substantive law is applicable to the dispute and that the 1986 agreement did not violate EU Article 85. BINV has challenged this Partial Award in the Dutch Courts, and the District Court of The Hague has suspended its enforcement on the ground that it may well be set aside. This decision is itself now under appeal, and the arbitration proceedings are temporarily suspended pending further decision by the Dutch Courts. No dates have currently been established for oral hearings or other further proceeding in the arbitration, although BINV anticipates they may occur over the next several months, depending on the judgements issued by the Dutch Courts.

31. Subsequent events

In March 1998, Benetton Group S.p.A. took up the firm purchase offer, formally presented to Edizione Holding S.p.A. on July 22, 1997, for the remaining 43.233% of the capital stock of Benetton Sportsystem S.p.A., thus raising the Company's investment in Benetton Sportsystem S.p.A. to 100%.

Difficulties encountered in the 1997 second semester on the Japanese market and in the Far East as a whole, impacted heavily on the Benetton Sportsystem Group's results, obliging Benetton Group S.p.A. to make a formal request to Edizione Holding S.p.A. to revise the purchase price of the residual investment.

The negotiations, carried out with the aid of independent professionals, led to the redefinition of the price indicated in the original offer from Lire 248 billion to Lire 198 billion.

With the completion of the acquisition of Benetton Sportsystem S.p.A., the absorption of the company by Benetton Group S.p.A. can now go ahead and is expected to take place in 1998. The process of integrating the activities of Benetton Sportsystem S.p.A. with those of the Company can also go ahead, with the development of synergies and the unification of numerous corporate operations. The objective is to strengthen the sports equipment sector and develop the sportswear sector, thereby creating a global reference point for the garment industry.

The reorganization program for the Sportsystem group's American companies continues, with many of the operating functions being concentrated in Prince Sports Group Inc. Measures to reduce staff numbers are currently under way in other subsidiaries, particularly in Japan. In the meantime, the reorganization of the marketing and distribution activities of European subsidiaries is progressing.

As for 1998 forecasts, the Group's traditional business activities in the clothing sector must be distinguished from those in the sports equipment sector. As regards the latter, a radical restructuring program is currently in progress in the Benetton Sportsystem Group. The program involves corporate and organizational aspects but, above all, concerns distribution and marketing strategies. This program will achieve the expected long-term results, but in the short term will result in substantial costs and a possible fall in sales, which will impact the Group's 1998 statement of income.

With reference to the garment sector, firm orders and information available at this time lead Management to expect additional expansion, both in terms of volumes and revenues, although the persistent and serious economic and financial crisis that has hit the markets of the Far East will, inevitably, have repercussions in those countries.

The Extraordinary Stockholders' Meeting of May 27, 1998 resolved upon a reduction of the par value of the Company shares from Lire 500 to Lire 50 per share, thus bringing about a splitting of the same shares and an assigment of No. 10 shares for each share owned. Furthermore, the Meeting resolved upon a subsequent increase of the par value from Lire 50 to Lire 250 per share by transferring lire 363,117,622,000, a portion of the share premium reserve, to capital stock.

The reduction of the par value of the shares and the consequent splitting were aimed at ensuring greater liquidity of Benetton shares, thus favoring an increase in the volume of transactions.

The Company's stock capital amounts to Lire 453,897,027,500 divided into No. 1,815,588,110 ordinary shares of Lire 250 each. Upon completion of the stock split, each of the Company's outstading American Depositary Shares ("ADS") shall represent the right to receive twenty Ordinary Share of the Company. The Company has disclosed the proforma effect of such stock split on earnings per share in the statement of consolidated income.

At the beginning of June 1998, Edizione Finance S.A., a Luxembourg Company that is wholly owned by Edizione Holding S.p.A., has proposed to sell on July 8, 1998 Lire 600 billion of Notes at 100% of principal amount maturing in five years and accruing interest at an annual rate of 2%. Edizione Holding S.p.A. is guarantor of the Notes. Holders of the Notes will have the right to exchange the Notes for up to 11,215,000 Benetton Group S.p.A. Ordinary Shares, which are owned by Edizione Holding S.p.A. at any time between approximately July 8, 2000 and the maturity date.

32. Reconciliation to generally accepted accounting principles in the united states

The Group's accounting policies that differ significantly from accounting principles generally accepted in the United States of America ("US") are described below:

Differences which have an effect on net income and Stockholders' equity

a Revaluation of Fixed Assets and Trademarks

In 1991 and prior years, certain categories of property, plant and equipment and trademarks were revalued to amounts in excess of historical cost.

This procedure, which was authorized by Italian law, was allowed under Italian accounting practice to give consideration to the effects of local inflation.

Revaluations were credited to stockholders' equity and revalued assets are depreciated over their remaining useful lives. Accounting principles in the US do not permit the revaluation of such assets.

The reconciliation to accounting principles in the US eliminates the effect of the revaluation.

As of December 31, 1997, the residual gross amount of revaluation was Lire 13,581 million for fixed assets and Lire 4,430 million for trademarks.

In 1996, a Spanish subsidiary restated its tangible fixed assets by Lire 1,210 million in a monetary revaluation in accordance with local legislation (Royal Decree 2607/96).

Surplus from monetary revaluation of assets reserve, amounting to Lire 42,711 million, represents the original revaluation effected in accordance with Italian and Spanish Law.

The 1991 revaluation resulted in an asset revaluation of Lire 27,104 million for legal and tax purposes and a Lire 4,030 million revaluation for consolidated financial reporting purposes (considering the partial offsetting of the revaluation with the reversal of excess depreciation on the same fixed assets reflected as adjustment in the consolidated financial statements and prior years consolidating entries related to purchase price allocation). In order to maintain a record of the amount of asset revaluation for legal and tax purposes, Lire 23,074 million was transferred from other reserves to "surplus from monetary revaluation of assets".

The Lire 8,359 million adjustment in the reconciliation of stockholders' equity represents the remaining excess of revaluations for financial reporting purposes and differs from the 42,711 million Lire "surplus from monetary revaluation of assets" in the statement of stockholders' equity because:

a) Revaluations made for legal purposes but not for consolidated financial reporting purposes, as noted above.

b) Depreciation on the revalued assets.

c) Sales of revalued assets.

d) Increase of capital stock via release of revaluation reserves.

b Purchases and Sales with Parent Company

The Group has entered into several significant purchases and sales of companies with its parent, Edizione Holding S.p.A., and an affiliate of Edizione. The prices paid were based upon independent appraisal. The Group recorded the assets of purchased businesses at their acquisition value. Goodwill was charged directly to consolidated equity. In the case of sales transactions, the difference between carrying value and selling price was reflected as a gain in the accompanying financial statements.

Under US generally accepted accounting principles, transactions between members of a "controlled group" should not result in gains or losses, or increases in asset carrying values. Accordingly, gains recognized on these transactions have been reversed in the accompanying reconciliation.

Generally accepted US accounting principles also require the use of a method consistent with "pooling of interests" accounting for acquisitions and dispositions between members of a "controlled group". Accordingly, consolidated net income and shareholders' equity have been restated to present the combination between Benetton Group and Benetton Sportsystem Group as though the companies had been combined on January 1, 1997. Consolidated net income and shareholders' equity for prior years have also been restated on a combined basis to furnish comparative information.

c Accounting for Goodwill

Up to 1992, goodwill on investments acquired was charged or credited to stockholders' equity at the date of purchase. This policy differs from US generally accepted accounting principles which require that such differences be reflected as an asset in the balance sheet of the acquiring company and then amortized over a period not in excess of 40 years.

The adjustment in the accompanying reconciliation has been made to recognize the goodwill on acquisitions from third parties made in 1990 and prior years originally amounting to Lire 7,330 million. Goodwill is being amortized over a 10 year period, corresponding to the estimated useful lives of the underlying assets acquired.

d Deferred Charges

The Group has deferred certain taxes paid on capital stock increases and stock exchange listing costs and is amortizing these amounts over 5 years. Under US generally accepted accounting principles, these taxes and listing costs would have been considered to be a reduction of the proceeds received and charged to capital stock or additional paid-in capital. The accompanying reconciliation reflects the adjustment to follow US generally accepted accounting principles.

e Foreign Currency Translation

Since 1989, the Group's policies and procedures with respect to the translation of financial statements of foreign subsidiaries operating in hyper-inflationary economies, have been in conformity with the requirements of Statement of Financial Accounting Standards No. 52.

Group accounting policies state that long term debts denominated in a foreign currency are translated using the exchange rate at the balance sheet date, with losses included in the determination of net income and unrealized net gains deferred.

The Company has forward contracts maturing in 1998 and 1999 in order to hedge estimated future sales in foreign currencies for a total amount of Lire 419 billion. (see Item 9A).

Since such contracts do not hedge firm commitments, they are to be considered as anticipatory hedging and, under US GAAP, accounted for as speculative transactions, using the mark to market valuation (“m.t.m.”).

Such valuation results in a net unrealized gain of Lire 3.7 billion before taxes at December 31, 1997, (Lire 3.0 billion and Lire 13.6 billion respectively as of December 31,1996 and 1995).

f Accounting for Deferred Income Taxes

The Group provides for deferred income taxes on timing differences between book and taxable income which are expected to become payable or recoverable in the foreseeable future using the liability method.

The accompanying reconciliation reflects the tax effects related to reconciling adjustments.

In 1992, Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" was issued in the US and was adopted by the Group in the year 1993.

The deferred tax methodology required under US GAAP differs in certain circumstances from the deferred income tax methodology under Italian GAAP due to different treatment of tax assets mainly deriving from tax loss carry-forward. The valuation allowance against certain loss carry-forwards is Lire 86 billion at December 31, 1997 (Lire 74 billion and Lire 81 billion respectively as of December 31, 1996 and 1995).

Beginning in 1998 business and professional activities in Italy will be subject to a new regional tax (IRAP). This new tax will replace certain existing taxes, including ILOR (local income tax), and will be based on adjusted operating income as defined in the code. The initial rate will be 4.25% on such adjusted operating income. This change in the Italian tax structure will have a positive impact on future results.

The introduction of IRAP affected the calculation of deferred taxes as of December 31, 1997. Percentages ranging from 37 to 41.25% were applied to the individual deferred tax items, based on the different deductibility allowed by the new regional tax.

Under US GAAP the measurement of current and deffered tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are anticipated.

g Net Income per Share

Under Italian accounting principles, earnings per share are not required to be disclosed. The approximate net income per share amounts, based on income determined in accordance with accounting principles generally accepted in the US as shown in the accompanying reconciliation, have been calculated based on the average number of shares outstanding.

h Marketable securities

Under Italian GAAP, marketable securities are carried at the lower of cost or market value. Under US GAAP, effective with fiscal years beginning after December 15, 1993, companies are required to adopt Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investment in Debt and Equity Securities (SFAS 115)", which changes the accounting for investments in marketable securities from a lower of cost or market methodology to a fair market value methodology. Under this methodology, the Company classifies its marketable securities as available for sale. The effect of SFAS 115 on net income has been reflected in the reconciliation.

i Treasury shares

Under Italian GAAP, the purchase by a Company of its treasury stock is accounted for as an investment and the establishment of a separate reserve within stockholders' equity. Since the Company's intent with respect to this stock is short term, they have been classified as marketable securities in the Italian balance sheet. Under US GAAP this purchase is accounted for as treasury stock and presented as a reduction of stockholders' equity in the balance sheet. The Company sold all treasury stock during 1997.

Differences which have an effect on the format of the financial statements

The Group's balance sheet and income statement format is in accordance with Italian reporting requirements and differs from the financial statement format typically followed under the requirements of US GAAP. The Group has included in appendix 2 and 3 financial statements prepared in accordance with Italian GAAP but reclassified to follow an international financial statement presentation format.

The following tables summarize the significant adjustments to consolidated net income and stockholders' equity which would be required if accounting principles generally accepted in the US had been applied instead of those established or adopted by the Italian Accounting Profession.

	1995	1996	millions of Lire (1) 1997(A)	Thousands of US $ (1) (2) 1997 (A)
Net income:				
Net income as reported in the consolidated				
statements of income	220,255	245,642	290,140	164,014
Items increasing (decreasing) reported income:				
Reduction in depreciation and amortization of fixed assets and				
trademarks as a consequence of the elimination of revaluation,				
including impact of disposals	475	476	526	297
Adjustment related to acquisitions and				
dispositions of companies under common control	9,435	10,502	12,556	7,098
Restatement according a method consistent				
with "pooling of interest" accounting	25,429	(14,257)	(93,236)	(52,705)
Amortization of goodwill	(1,989)	(733)	(729)	(412)
Adjustment of deferred charges	2,831	2,831	2,831	1,600
M.t.m. gain deriving from adjustment to conform anticipatory				
hedging transactions to SFAS 52	13,643	2,981	(12,907)	(7,296)
Accounting for deferred income tax	2,605	29,281	35,416	20,020
Elimination of gain on sale of treasury shares	-	-	(674)	(381)
Reversal of writedown effect of securities held for sale	-	-	2,646	1,496
Tax effect of reconciling adjustments	(8,774)	(3,045)	4,455	2,518
Net income in accordance with accounting principles				
generally accepted in the US	263,910	273,678	241,024	136,249
Earnings per share amounts in accordance with accounting				
principles generally accepted in the US				
Basic and diluted	1,512	1,568	1,353	$ 0.76
Proforma earnings per share (3)				
Basic and diluted	151	157	135	$ 0.08
Stockholders' equity:				
Balance as reported in the consolidated balance sheets	1,656,958	1,820,836	2,030,469	1,147,806
Items increasing (decreasing) stockholders' equity:				
Elimination of revaluations of fixed assets and trademark net of				
related depreciation and amortization	(8,150)	(8,848)	(8,322)	(4,704)
Adjustments related to acquisitions and dispositions				
of companies under common control	(55,434)	(49,289)	(214,204)	(121,088)
Restatement according a method consistent				
with "pooling of interest" accounting	154,771	125,600	(75,967)	(42,944)
Reinstatement of goodwill previously written-off	3,002	2,269	1,540	871
Adjustment of deferred charges	(8,494)	(5,663)	(2,832)	(1,601)
M.t.m. gain deriving from adjustment to conform anticipatory				
hedging transactions to SFAS 52	13,643	16,624	3,717	2,101
Accounting for deferred income tax	23,593	52,874	88,290	49,910
Treasury shares	-	(719)	-	-
Tax effect of reconciling adjustments	(1,008)	(4,053)	1,132	640
Balance in accordance with accounting principles				
generally accepted in the US	1,778,881	1,949,631	1,823,823	1,030,991

(1) Except per share data, which are in Lire and US $.
(2) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.
(3) Represent the proforma impact of a ten for one split of the Company's common stock approved by the Shareholders' meeting on May 27, 1998 (see Note 31).

Differences which do not have an effect on net income and stockholders' equity

j Amortization of License

As discussed in Note 4 the Group is not amortizing certain license costs, as the amounts will be fully recoverable upon disposal of the underlying assets.

Under US generally accepted accounting principles, such amounts would be amortized over the life of the license. No adjustment has been made for this item in the accompanying reconciliation, as the amounts involved are not significant.

k Transactions in foreign currencies

As discussed in Note 4, the Group records income, relating to forward exchange contracts that were subsequently renegotiated, on the date of renegotiation.

Under US GAAP, only the m.t.m. at the balance sheet date would be recorded in the consolidated statement of income. No adjustment has been made for this item in the accompanying reconciliation, as the amounts are not deemed material.

l Purchases and Sales with Parent Company

As mentioned in section (b) of Note 32, under US GAAP transaction between a "controlled group" should not result in gains or losses, or increases in asset carrying values. During 1996, the Group purchased Benetton Gesfin S.p.A. (formely Schemaventi S.p.A.) from Edizione Holding S.p.A. and third parties.

The Group recorded a deferred tax asset related to the excess of purchase price over net equity (Lire 2,495 million). In the US GAAP stockholder's equity reconciliation, the Group has reduced stockholder's equity for the amount of the excess related to Edizione Holding. The remaining amount (Lire 740 million) related to third parties shoud be classified as goodwill and not a deferred tax asset for US GAAP.

Appendixes

Appendix 1
Companies and Groups included within the scope of consolidation as of December 31, 1997

Name of the company	Location	Currency	Capital stock	Group interest
Companies and Groups consolidated on a line-by-line basis:				
Parent company				
Benetton Group S.p.A.	Ponzano Veneto (TV)	Lit.	90,779,405,500	
Italian Subsidiaries				
Benfin S.p.A.	Ponzano Veneto (TV)	Lit.	90,000,000,000	100.000%
Olimpias Group	Grumolo delle Abbadesse (VI)	Lit.	977,750,000	86.500%
Texcontrol Group	Ponzano Veneto (TV)	Lit.	17,000,000,000	83.769%
Bencom S.p.A.	Ponzano Veneto (TV)	Lit.	3,294,000,000	100.000%
Benair S.p.A.	Ponzano Veneto (TV)	Lit.	3,000,000,000	100.000%
Socks & Accessories Benetton Group (S.A.B.) (1)	Sesto Fiorentino (FI)	Lit.	1,000,000,000	50.000%
Fabrica S.p.A.	Ponzano Veneto (TV)	Lit.	8,000,000,000	100.000%
Colors Magazine S.r.l.	Ponzano Veneto (TV)	Lit.	3,000,000,000	100.000%
Benetton Fashion S.p.A.	Ponzano Veneto (TV)	Lit.	70,000,000,000	100.000%
Benlog S.p.A.	Ponzano Veneto (TV)	Lit.	27,400,000,000	100.000%
Benetton Gesfin S.p.A.	Ponzano Veneto (TV)	Lit.	80,000,000,000	100.000%
Benetton Sportsystem Group (1)	Trevignano (TV)	Lit.	510,151,740,000	56.767%
Foreign subsidiaries				
Di Varese International N.V.	Amsterdam	f.	500,000	100.000%
Divarese America Corp.	Wilmington	US $	125,000	100.000%
Di Varese (Far East) Ltd.	Hong Kong	Hk $	500,000	100.000%
Benetton U.S.A. Corp.	Delaware	US $	34,654,000	100.000%
Benetton Retail Corp.	Delaware	US $	1,301,000	100.000%
Benetton Holdings N.V.	Amsterdam	f.	45,434,000	100.000%
Benetton Group Japan K.K.	Tokyo	Yen	800,000,000	100.000%
Benetton Shoes Japan K.K.	Tokyo	Yen	60,000,000	50.000%
Bene Moda K.K.	Tokyo	Yen	60,000,000	50.000%
Benetton China Japan K.K.	Tokyo	Yen	50,000,000	91.000%
K.K. Via Veneto	Tokyo	Yen	232,500,000	50.000%
Benetton Argentina S.A.	Buenos Aires	$Arg	500,000	100.000%
Egyptian European Clothing Manufacturers S.A.E.	Alexandria	LE	6,000,000	50.000%
DCM Benetton India Ltd.	New Delhi	Rs.	80,000,000	50.000%
Benetton (Far East) Ltd.	Hong Kong	Hk $	51,000,000	100.000%
Benetton do Brasil Textil Ltda.	Sao Josè dos Pinhais	R$	11,097,149	100.000%
United Colors of Benetton do Brasil S.A.	Sao Josè dos Pinhais	R$	19,707,528	100.000%
Colors Brasil Roupas Ltda.	Rio de Janeiro	R$	1,000	100.000%
Novaben Comercio de Roupas Ltda.	Rio de Janeiro	R$	50,000	100.000%

(1) Include foreign subsidiaries

Name of the company	Location	Currency	Capital stock	Group interest
Benetton International N.V.	Amsterdam	f.	244,260,000	100.000%
Benetton Finance N.V.	Curaçao	US $	26,000	100.000%
Benetton Finance S.A.	Luxembourg	Lit.	1,000,000,000	100.000%
Benetton France Trading S.a.r.l.	Troyes	F	240,000,000	100.000%
Benetton France S.A.	Troyes	F	40,000,000	100.000%
Benetton Realty France S.A.	Troyes	F	272,000,000	100.000%
Benetton España S.L.	Castellbisbal	Ptas.	100,000,000	100.000%
Benetton S.A.	Castellbisbal	Ptas.	200,000,000	100.000%
Benetton Lda.	Maia	Esc	20,000,000	100.000%
Benetton (U.K.) Ltd.	London	£	52,334	100.000%
Benetton Formula Ltd.	London	£	3,900,000	100.000%
Benetton Retail (1988) Ltd.	London	£	10,000,000	100.000%
Benetton Società di Servizi S.A.	Lugano	SwF	100,000	100.000%
United Colors Communication S.A.	Lugano	SwF	1,000,000	100.000%
Benetton Services S.A.	Lugano	SwF	1,400,000	100.000%
Benetton Korea Inc.	Seoul	W	110,000,000	100.000%
Benetton Engineering Ltd.	Enstone	£	12,342,000	100.000%
Benetton Tunisia S.a.r.l.	Sahline	At	303,900,000	100.000%
Benetton Ungheria Kft.	Nagykallo	Ft	20,000,000	100.000%

Investments carried at equity:

Bene West Co. Ltd.	Osaka	Yen	110,000,000	40.000%
Benetton Mexico S.A. de C.V.	Mexico City	N$	27,740,000	100.000%
Beijing Benetton Fashion Co. Ltd.	Beijing	Y	3,797,620	50.000%
T.W.R. Group Ltd.	Kidlington	£	20,000,000	50.000%
Benetton Central Europe Ltd.	Warsaw	Zloty	4,224,000	100.000%
Benest Ltd.	Moscow	R	400,000,000	100.000%
Benetton China Holdings Ltd.	Hong Kong	Hk $	20,085,000	100.000%

Appendix 2
Consolidated balance sheets as of December 31, 1996 and 1997

reclassified for an international format

Assets	12.31.96	12.31.97	in millions of Lire 12.31.97 (A)	Thousands of US $ (1) 12.31.97
Current Assets				
Cash	498,912	479,904	526,604	297,685
Marketable securities	680,019	547,026	547,026	309,229
Differentials on forward transactions	75,003	18,202	19,113	10,804
Financial receivables	12,173	764,912	373,404	211,082
Assets leased to third parties	1,053	-	-	-
Accounts receivable				
Trade receivables	1,416,312	1,513,344	1,912,903	1,081,347
Other receivables	81,071	73,032	116,348	65,771
Less - Allowance for doubtful accounts	(168,883)	(164,040)	(204,388)	(115,539)
	1,328,500	1,422,336	1,824,863	1,031,579
Inventories	411,292	480,174	703,332	397,587
Prepayments and accrued income	63,649	62,694	68,440	38,689
Total current assets	3,070,601	3,775,248	4,062,782	2,296,655
Investments and other non-current assets				
Investments	43,241	489,555	52,547	29,704
Securities held as fixed assets	51,042	461	3,030	1,713
Guarantee deposits	13,332	12,166	14,756	8,341
Financial receivables	1,644	15,077	18,352	10,374
Other non current receivables	11,628	20,173	20,711	11,708
	120,887	537,432	109,396	61,840
Fixed assets				
Land and buildings	439,877	426,684	503,331	284,529
Plant, machinery and equipment	523,913	531,151	700,609	396,048
Office furniture, furnishings and electronic equipment	67,635	74,766	132,585	74,949
Vehicles and aircraft	48,123	49,813	55,369	31,300
Construction in progress and advances for fixed assets	5,758	40,777	42,796	24,192
Finance leases	26,245	26,926	26,926	15,221
Less - Accumulated depreciation	(519,285)	(568,258)	(761,162)	(430,278)
	592,266	581,859	700,454	395,961
Intangible assets				
Licenses and trademarks	11,825	11,320	457,138	258,416
Deferred charges	68,683	68,836	136,075	76,922
	80,508	80,156	593,213	335,338
Total assets	3,864,262	4,974,695	5,465,845	3,089,794

(A) It referes to the figures which include Benetton Sportsystem Group
(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.
The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Liabilities and stockholders' equity	12.31.96	12.31.97	in millions of Lire 12.31.97 (A)	Thousands of US $ (1) 12.31.97
Current liabilities				
Bank loans	786,034	352,795	575,382	325,258
Bonds	34,986	200,000	200,000	113,058
Short-term loans	4,002	330,845	138,472	78,277
Current portion of long-term loans	25,536	16,569	67,158	37,964
Current portion of lease financing	3,720	3,647	3,867	2,186
Accounts payable	550,665	598,251	768,273	434,298
Other payables and accruals	125,725	138,760	173,028	97,811
Reserve for income taxes	27,682	77,381	80,995	45,786
Total current liabilities	1,558,350	1,718,248	2,007,175	1,134,638
Long-term liabilities				
Bonds	236,075	535,690	535,690	302,821
Long-term loans, net of current portion	83,823	448,572	463,765	262,162
Other long-term liabilities	1,942	11,702	28,066	15,865
Lease financing	12,657	11,712	11,978	6,771
Reserve for termination indemnities	62,521	66,784	83,711	47,321
Reserve for deferred income taxes	144	-	-	-
Other reserves	63,311	77,164	102,768	58,094
	460,473	1,151,624	1,225,978	693,034
Minority interests in consolidated subsidiaries	24,603	36,535	202,223	114,315
Stockholders' equity				
Capital stock	87,277	90,779	90,779	51,317
Additional paid-in capital	472,661	472,661	472,661	267,191
Surplus from monetary revaluation of assets	46,202	42,711	42,711	24,144
Other reserves and retained earnings	962,107	1,120,797	1,120,797	633,577
Translation differences	6,947	14,576	13,381	7,564
Net income for the year	245,642	326,764	290,140	164,014
	1,820,836	2,068,288	2,030,469	1,147,807
Total liabilities and stockholders' equity	3,864,262	4,974,695	5,465,845	3,089,794

(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.

Appendix 3
Consolidated statements of income
for the years ended December 31, 1995, 1996 and 1997

reclassified for an international format

	1995	in millions of Lire 1996	1997	1997 (A)	Thousands of US $ (1) 1997
Revenue					
Net sales	2,767,585	2,702,685	2,899,470	3,443,763	1,946,729
Other revenues	171,549	168,423	189,981	193,022	109,113
	2,939,134	2,871,108	3,089,451	3,636,785	2,055,842
Cost of sales					
Material and net change in inventories	872,790	809,982	793,477	1,112,710	629,005
Payroll and related cost	171,687	172,412	180,408	186,587	105,476
Subcontract work	549,958	616,189	653,323	669,447	378,432
Industrial depreciation	59,226	56,759	56,158	68,983	38,996
Other manufacturing costs	67,631	61,231	64,892	67,799	38,326
	1,721,292	1,716,573	1,748,258	2,105,526	1,190,235
Gross margin	1,217,842	1,154,535	1,341,193	1,531,259	865,607
Selling, general and administrative expenses					
Payroll and related cost	165,579	149,216	161,440	217,358	122,871
Distribution and transport	56,969	46,797	50,304	59,677	33,735
Sales commission	114,994	132,629	142,020	160,868	90,937
Advertising and promotion	119,993	101,638	108,774	145,224	82,094
Depreciation and amortization	41,763	38,153	39,107	68,385	38,657
Other expenses	274,741	284,421	308,804	380,108	214,872
	774,039	752,854	810,449	1,031,620	583,166
Income from operation	443,803	401,681	530,744	499,639	282,441
Other (income) expenses:					
Foreign currency (gain) loss, net	(45,957)	(117,214)	(72,494)	(86,459)	(48,874)
Interest income	(131,422)	(142,292)	(132,115)	(127,249)	(71,933)
Interest expense	178,062	154,913	124,385	135,014	76,322
Other (income) expense, net	32,025	49,107	28,185	41,574	23,501
	32,708	(55,486)	(52,039)	(37,120)	(20,984)
Income before taxes and minority interests	411,095	457,167	582,783	536,759	303,425
Income taxes	188,659	206,638	246,493	236,378	133,622
Income before minority interests	222,436	250,529	336,290	300,381	169,803
Minority interests	2,181	4,887	9,526	10,241	5,789
Net income	220,255	245,642	326,764	290,140	164,014

(A) It refers to the figures which include the second semester data of Benetton Sportsystem Group
(1) Exchange rate: US $ 1 = Lire 1,769 as of December 31, 1997.
The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

Schedule II
Valuation and qualifying accounts
As of December 31, 1995, 1996 and 1997

in millions of Lire

Description	Balance at Beginning of Period	Additions Charged to Profit/Loss	Other(1)	Deductions	Balance at End of Period
Deducted in the Balance Sheets from the assets to which it applies:					
Allowance for doubtful accounts					
1995	173,276	60,839	(3,389)	(60,791) (2)	169,935
1996	169,935	78,304	(4,763)	(74,593) (2)	168,883
1997	168,883	95,762	40,000	(100,257) (2)	204,338
Inventory valuation reserve					
1995	13,969	12,291	(420)	(10,387)	15,453
1996	15,453	9,382	(1,827)	(10,027)	12,981
1997	12,981	14,253	34,166	(21,239)	40,161
Other reserves					
– Exchange fluctuation reserve					
1995	45,930	6,285	(4)	(11,876)	40,335
1996	40,335	14,366	(102)	(53,520)	1,079
1997	1,079	8,063	23,384	(24,180)	8,346
– Risk reserve					
1995	6,325	30,517	(1,218)	(3,092)	32,532
1996	32,532	23,046	(3,516)	(7,716)	44,346
1997	44,346	15,587	14,392	(1,453)	72,872
– Taxation reserve					
1995	7,630	-	20	-	7,650
1996	7,650	130	63	(61)	7,782
1997	7,782	572	153	(48)	8,459
– Reserve for agents' termination indemnities					
1995	8,397	2,239	-	(1,352)	9,284
1996	9,284	9,282	-	(8,462)	10,104
1997	10,104	2,350	1,259	(622)	13,091
– Total other reserves					
1995	68,282	39,041	(1,202)	(16,320)	89,801
1996	89,801	46,824	(3,555)	(69,759)	63,311
1997	63,311	26,572	39,188	(26,303)	102,768

(1) Represents balances of acquired companies, transfers from other reserve accounts and the effect of translation adjustment.

(2) Represents write-offs of uncollectible accounts.

Report of the board of statutory auditors on the consolidated financial statements as of december 31, 1997

To the Stockholders of Benetton Group S.p.A., the Parent Company,

As part of our duties pursuant to article 41 of Decree 127/91, we have examined the consolidated financial statements of the Benetton Group as of December 31, 1997, which report net income of Lire 290,140 million, total assets of Lire 5,465,845 million, total liabilities of Lire 3,233,153 million, stockholders' equity of Lire 2,232,692 million, and memorandum accounts totaling Lire 4,685,238 million, together with the report on Group operations.
Based on the information and documentation received from the Directors and Management, we confirm the following:

a Examination of the consolidated financial statements

1. Our examination was performed in accordance with the law that regulates consolidated financial statements, the standards of conduct recommended by the Italian Accounting Profession, generally-accepted accounting principles and recommendations deriving from CONSOB regulations. The financial statements were audited by Deloitte & Touche SpA, who have not communicated to us any censurable matters concerning the Parent Company or any of its subsidiaries.

2. The financial statements of the subsidiary and associated companies included within the scope of consolidation were examined, as required by the law, by their respective Boards of Statutory Auditors and Independent Auditors. We have not been informed by the independent auditors or any other party of irregularities of any kind in relation to such financial statements.

3. In our opinion, the above mentioned consolidated financial statements reflect the accounting records of the Parent Company and the information received from subsidiary companies, and have been prepared in conformity with the consolidation principles and criteria for establishing the scope of consolidation laid down in Decree 127/91. The instructions contained in articles 32 and 38 of the Decree mentioned have also been respected. Accordingly, taken as a whole, the consolidated financial statements fairly present the financial position of the Benetton Group as of December 31, 1997, and its results for the year then ended.

b Examination of the report on operations

1. We have examined the report of the Directors on the results of operations that accompanies the consolidated financial statements, in order to verify compliance with article 40 of Decree 127/91 and determine its consistentcy with such statements pursuant to article 41 of the same Decree. The recommendations of CONSOB, as applied to transactions with related companies, have also been respected.

2. On the basis of the work we performed, the Board of Statutory Auditors believes that the report on Group operations is properly presented and is consistent with the consolidated financial statements.

The board of statutory auditors

Dino Sesani
Fanio Fanti
Filippo Duodo

Ponzano Veneto, Italy, May 7, 1998

Report of the independent public accountants

BENETTON GROUP S.p.A.

We have audited the accompanying consolidated balance sheet of BENETTON GROUP S.p.A. (an Italian Corporation) and subsidiaries as of December 31, 1996 and 1997 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain subsidiaries, which financial statements represented 25 percent of total consolidated assets as of December 31, 1997 and 19 percent of total consolidated revenues for the year then ended. The financial statements of these subsidiaries were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in the consolidated financial statements for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BENETTON GROUP S.p.A. and subsidiaries as of December 31, 1996 and 1997, and the results of their operations and their cash flows for the three years ended December 31, 1997, in conformity with the accounting principles established or adopted by the Italian Law and the Italian Accounting Profession.

The accounting principles referred to above vary in certain respects from accounting principles generally accepted in the United States of America. A description of the significant differences and the adjustments required to conform consolidated net income and stockholders' equity for the three years ended December 31, 1997, to generally accepted accounting principles in the United States are set forth in Note 32 to the consolidated financial statements.

Our audit comprehended the translation of Italian Lire amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4. Such U.S. dollar amounts are presented solely for the convenience of international readers.

Deloitte & Touche S.p.A.

Treviso, Italy, April 30, 1998
(except for Note 31, as to which the date is June 8, 1999