

The product: style and planning

Throughout 2005, the Product Development Unit, which was established in 2004, continued consolidating its role of connecting the product, operations, and sales units. This unit has the twofold objective of providing an ever better service to Benetton's traditional customers, the company's global network of partners, and of generating more direct contact with the market and the final consumer.

"We are working to provide the necessary creativity in the design of our collections, taking into account the demands of rationalization and organization, so as to combine product innovation and planning in a quick and effective response to the needs of the marketplace." **Walter Giuriato, head of the Product Development Unit**

An improved rationalization of the collections, in particular, led to an average reduction in the number of articles presented in 2005, thereby lowering dispersion, inefficiency, and costs, while at the same time strengthening the identity and consistency of the various brands.

In conjunction with this, and in order to complement the product offering and take advantage of as many opportunities for growth as possible, Benetton collections now include "nice price" articles, which are basic yet original and are inspired by the practical needs of day-to-day living. Product planning is also intended to constantly reduce the time it takes to restock the points of sale, in order to quickly reach the goal of offering with the base, flash, integrations and new fashion collections at least a new proposal every four weeks.

The continuative articles, which represent the very genetic makeup of each brand, are available throughout the year and at increasingly rapid resupply times: as low as seven days in Italy and 15 throughout the rest of the world.

In 2005, a merchandising plan was also created for each brand, which analyzes the sales performance of the various articles from the previous year and provides additional guidelines for planning and developing future collections.

"Benetton's collections are constantly evolving, yet never lose their own identity. With innovative raw materials, colors that are in touch with the times, and new, youthful shapes, we help stimulate the market by designing articles that always evoke the history and tradition of our brands. From 2005, hanging garments made a decisive entry into the collections alongside our casualwear, while knitwear was the focus of a special color project. The search for new materials has also led us to produce articles made of bamboo viscose for Fall/Winter 2006, which provides a soft, natural feel and advanced ecological and anti-bacterial characteristics. Benetton's constant dedication to the quest for new materials and new designs has led us, for example, to strengthen our relationship with Politecnico di Milano, particularly on a project, co-funded by the Italian Ministry of Education and Research, to study and eliminate the peeling effect of wool and other fabrics. Another study, which we are developing with Istituto di Nanotecnologie in Venice, involves the application of Nanotechnology in fabrics, which will lead to further innovation in our collections." **Vincenzo Scognamiglio, UCB Chief Product Officer**


Production organization: speed and service

Benetton's production system was redesigned in 2005, evolving from an organization based on divisions (e.g. wool and cotton) to a structure based on Service Units, such as planning and quality control.


The new system is more efficient, flexible, and integrated, and makes it possible to optimize quality, service, and product delivery times, while being able to sustain desired growth in production over the coming years. In 2005, clothing production increased by as much as 3 million articles over the previous year.

This system relies on a "network of skills", which, leverages the best industrial capabilities available internationally, into which Benetton know-how is introduced, in each case using the most appropriate production techniques. In a landscape of increasing competition, such a system ensures rapid response times, product quality, and customer satisfaction. Benetton's control and research units, which govern the entire system, operate in eastern Europe, in the Mediterranean - led by Tunisia and Turkey - and in transitional Asian markets, such as China and India.

In terms of logistics, in 2004, the new Hong Kong hub became fully operational and, together with the European hub, allows for more rapid response times and better customer service in China, Japan, and the Far East in general, as well as in the U.S. Other such units throughout the world are being studied and will consolidate the transition from a centralized system to a new model based on satellite logistics.



"In 2005, Benetton celebrated the fifteenth anniversary of its presence in India, which represents a significant competitive advantage in a market rich in history and tradition, but which is, at the same time, strategic to the development of business in Asia. The production of cotton clothing, shirts, accessories, and footwear by our production network, which includes the facilities in Gurgaon (Haryana) just outside of Delhi, has enabled us to continue the strong growth of Benetton India (wholly owned by Benetton Group since December 2004), which boosted sales by 70 percent in 2005. The more than 50 shops currently in business in the country are expected to double over the next three years." **Gagan Singh, managing director of Benetton India**



The markets: knowledge and development

The areas of greatest growth in 2005 were eastern Europe, the Mediterranean - Spain, Greece, and Turkey - and Korea. In Turkey, a joint venture has also been established with the Boyner Group in order to develop production and sales in the country and certain surrounding areas.

Retail distribution, which, as of this year, is being centrally coordinated in Italy, numbered almost than 300 shops in the leading international fashion capitals and posted encouraging economic results.

The evolution of the interior design elements of shops continued in 2005 with the new Sisley concept, known as Pentagram, which is a better fit for the glam image and for brand positioning. The previous year also saw the debut of the Twins concept for UCB, which expresses the themes of the various collections very effectively.

Commercial policies were also launched in 2005 aimed both at broadening the product offering to include "nice price" articles while favoring an increase in customer traffic in the points of sale and at the same time at supporting an increase in margins for our partners so that they can invest to keep the sales network fresh and up to date. The results achieved will enable us to continue confidently along this path in 2006.

In the area of co-branding, Benetton and Mattel have begun a global partnership through December 31, 2006, for the creation of a girlsweat line called "Barbie loves Benetton", which has been well received throughout the world.

With regard to licensing, of particular note is the agreement with Zorlu Holding, one of the largest Turkish groups, for Sisley Casa products, as well as the exclusive agreement with the French firm Selective Beauty for the development and global distribution of United Colors of Benetton perfumes, colognes, and fragrances.

"The new Benetton Giyim Sanayi, a joint venture between Benetton and Boyner Group, manages all commercial activities of the brands United Colors of Benetton, Sisley, Playlife, and Killer Loop. According to the development plan, sales should increase by 50 percent over the next five years, thereby significantly strengthening our presence in Turkey. Benetton has grown here like no other international brand. With entrance into the European Union, our domestic market is certain to grow, as will our business in the Eurasia zone, which shows strong potential for sales development. Today in Turkey, there are already more than 100 shops in 50 cities displaying the Benetton logo."

Zeynep Selgur, general manager of Benetton Giyim Sanayi

"Barbie and Benetton have joined forces to create one of 2005's most exciting developments in the world of fashion, delighting and surprising customers throughout the world by combining Benetton's brilliant abilities in the clothing industry and its strength in distribution with the world's most famous fashion doll. Being successful in business today means having the courage to run risks and to support innovative, creative ideas. That's the difference between a good brand and an exceptional one. The Benetton-Barbie relationship shows that innovative thinking, imaginative leadership, and the courage to run with an idea can lead to exciting results. Mattel is enthusiastic about this partnership and is looking forward to future innovations with Benetton. 'Barbie loves Benetton' is a splendid partnership and a sign for these two world-famous brands that will stand the test of time."

Richard Dickson, senior vice president of worldwide marketing, media and entertainment for Mattel

Human resources: teamwork and corporate culture

In 2005, the department contributed to the evolution of the Group's corporate culture by redesigning the organizational structure around three fundamental principles: teamwork, knowledge, and quality.

Directly managed distribution, in particular, is currently being coordinated by a centralized Retail Unit, which also serves to connect the various units throughout the world.

By preparing forecasts of market dynamics, the new Production Planning office makes it possible to anticipate and reduce production times in order to respond to the needs of the marketplace in a timely manner.

The Commercial department, in turn, has been redesigned around the two main sales channels: wholesale distribution and the retail chain.

In terms of training, of particular note is a visual merchandising program (concepts, brand communication, and window and in-shop displays) for our partners, which involved more than 250 shops in 2005.

For young people looking for a career in sales, there was also the *Wanna Sell?* project, including hands-on sales experience in the field. The program has a duration of roughly one year and highlight characteristics such as strong sales ability, product sensitivity, pragmatism, and speed at becoming one with the system. After an initial period of six to eight months in the shop, the most promising participants continue on with a trial period with a Benetton agent/area manager.


Information Technology: analysis and reliability

During 2005, numerous initiatives were launched as part of Project Phoenix, which supports the core business with the renovation and full integration of IT systems. Completed projects included the new information system for the retail channel, which is based on the Oracle platform and manages the main processes (financial planning and management of both corporate activities and stores activities) globally through a single centralized system.


The project *Benettontv* calls for the implementation of a new portal for Benetton partners (agents, clients, shops, and buyers), which provides controlled access with all the necessary security assurances. The system will make it possible to provide information to the entire Benetton commercial network in real time, updating everyone on initiatives (new collections, reassortments, display methods, distance learning for employees, and so on) and receiving orders via web. In particular, the *Continuative Articles* project has already begun according to which orders for these products will be entered directly, and, thanks to integration with the information systems of the production and logistics units, the system will provide immediate confirmation and guaranteed delivery times (first in, first out).

Upon completion of the *Planning* project for the organization of production and having implemented the first phase of the "Sell-out" project to keep track of market trends in real time, the diffusion of the centralized system of Administration and Control, based on the SAP platform has gradually advanced.

Among the other projects in 2005, the followings are of particular note: support for the Benetton orders process, from receipt of the orders to their fulfillment using the SAP Apparel and Footwear (SAP AFS) platform; the adoption of Java technology in order to complete and launch the packaging system; the design of a new high-speed metropolitan area network (MAN) to connect the corporate offices of Benetton Group, based in the Treviso area.



"The Phoenix-SAP project sees IBM's Business Consulting Services division working side by side with Benetton. It is a project of strategic importance for the company, one which seeks to update the information system that supports the company's main processes, beginning with sales and logistics. IBM feels deeply involved and is working as a close-knit team with Benetton, sharing commitments, objectives, and results." **Andrea Pontremoli, CEO of IBM Italia**



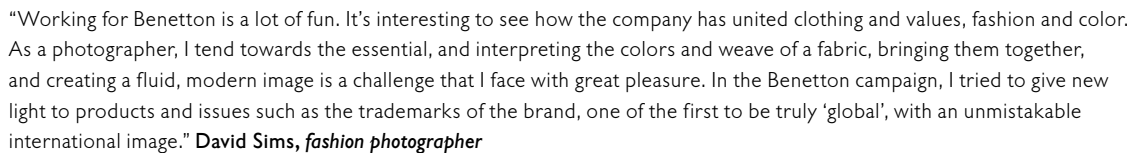
Communication: innovation and vision

In 2005, we launched the communication project to celebrate Benetton Group's 40th anniversary, which will culminate in a grand event in Paris in October 2006 at the prestigious Centre Pompidou, featuring both fashion and art and which will be designed by Fabrica.

During the year, Benetton's communication research center continued its multicultural and international activities with projects and events ranging from the global campaign to promote tourism in the Veneto region to Flipbook, the media art project encompassing nearly 200,000 animations and 15 million visitors (winning the Grand Prize at the Japan Media Art Festival), from promotion and graphic design for art exhibits to a documentary on the city of Shanghai for Swiss German television.

The United Colors of Benetton campaign, photographed for Fabrica by David Sims, reaffirmed the brand's values of color and youth with a decidedly modern flair. Sisley asserted its reputation as a sexy, trendy brand in its Fall/Winter 2005 campaign, which was set in the streets of Naples and photographed by Terry Richardson. The success of the clothing collections in 2005 was also supported by communication, with a significant increase worldwide, up 16%, of coverage in fashion newspapers and periodicals.

In the world of new media, both the blog, *benettontalk*, designed to open up dialogue with online youth, and the new web site dedicated to the world's media debuted during the year.



"Working for Benetton is a lot of fun. It's interesting to see how the company has united clothing and values, fashion and color. As a photographer, I tend towards the essential, and interpreting the colors and weave of a fabric, bringing them together, and creating a fluid, modern image is a challenge that I face with great pleasure. In the Benetton campaign, I tried to give new light to products and issues such as the trademarks of the brand, one of the first to be truly 'global', with an unmistakable international image." **David Sims, fashion photographer**

Administration, tax and corporate: skill and precision

In 2005, the Group completed the transition to International Financial Reporting Standards (IFRS), which have become the accounting standards for the Benetton Group consolidated financial statements. The 2005 half-year report, which we presented last September, was the first to be prepared in accordance with IFRS and included the "transition" document with the reconciliations of the 2004 financial statements between Italian GAAP and IFRS and which detailed the main impacts on those financials.

We have therefore continued efforts to train and update administrative personnel, both corporate and at subsidiaries' level, as well as to perfect the accounting information system. Training also involved the staff of the fiscal and corporate areas, which have been affected by many important regulatory changes.

Beginning in 2006, the financial statements for the parent group, Benetton Group S.p.A., will be prepared in accordance with IFRS. Also in 2006, the organization will be engaged in meeting the requirements of Italian law nos. 62/2005, on market abuse, and 262/2005, on investment and savings.

Finally, for Benetton Group, as SEC registrant, 2006 will be the first year of application of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. This law requires publicly listed companies in the U.S. to have and document a detailed system of documentation and controls regarding corporate processes and financial statement information.

Investor relations: proactivity and discipline

During the year, the Investor Relations unit sought to strengthen direct communication with institutional investors throughout the world, with the organization of an ongoing series of presentations, conference calls, and meetings with the management.

Communication with the retail investors has also been further strengthened with the enhancement of the web site at www.benettongroup.com/investors, where new sections have been added (Social and Glossary) and content has been expanded. A new means of communicating with analysts has also been introduced, with a “virtual room” that facilitates group discussion on issues of common interest. Particular emphasis has also been placed on communicating clearly and fully the impact of the adoption of IAS/IFRS.

Finally, at the end of the year, a shareholders identification study was conducted in order to provide a breakdown by geographic area and to define the structure of institutional investors. The study showed that European investors hold roughly 55% of the organization's free float, with some 40% being held by American investors and the remaining 5% by Japanese investors.