

Again in 2005, Benetton Group paid particular attention on corporate governance, continuing to evolve the organizational structure in accordance with Italian and international best practices and the standards required by the Italian Corporate Governance Code for listed companies (Codice di Autodisciplina delle Società Quotate).

The system of corporate governance, as outlined below, is inspired by the principles of fairness and transparency in management and information and includes an ongoing process of verifying its efficiency and efficacy.

The Company has adopted the traditional system of corporate governance by which the company is led by a Board of Directors, while the body that oversees observance of the law, the Company's bylaws and the principles of proper administration is the Board of Statutory Auditors, while an independent auditing firm provides for the auditing of the accounts. Within this system of governance, the Internal Audit Committee plays a key role, as described in greater detail below.

**Controlling interest.** As described in greater detail below in the related section of the 2005 Directors' Report and based on the latest available data, the shareholder Edizione Holding S.p.A. holds a controlling interest in the company with a 67.144% stake.

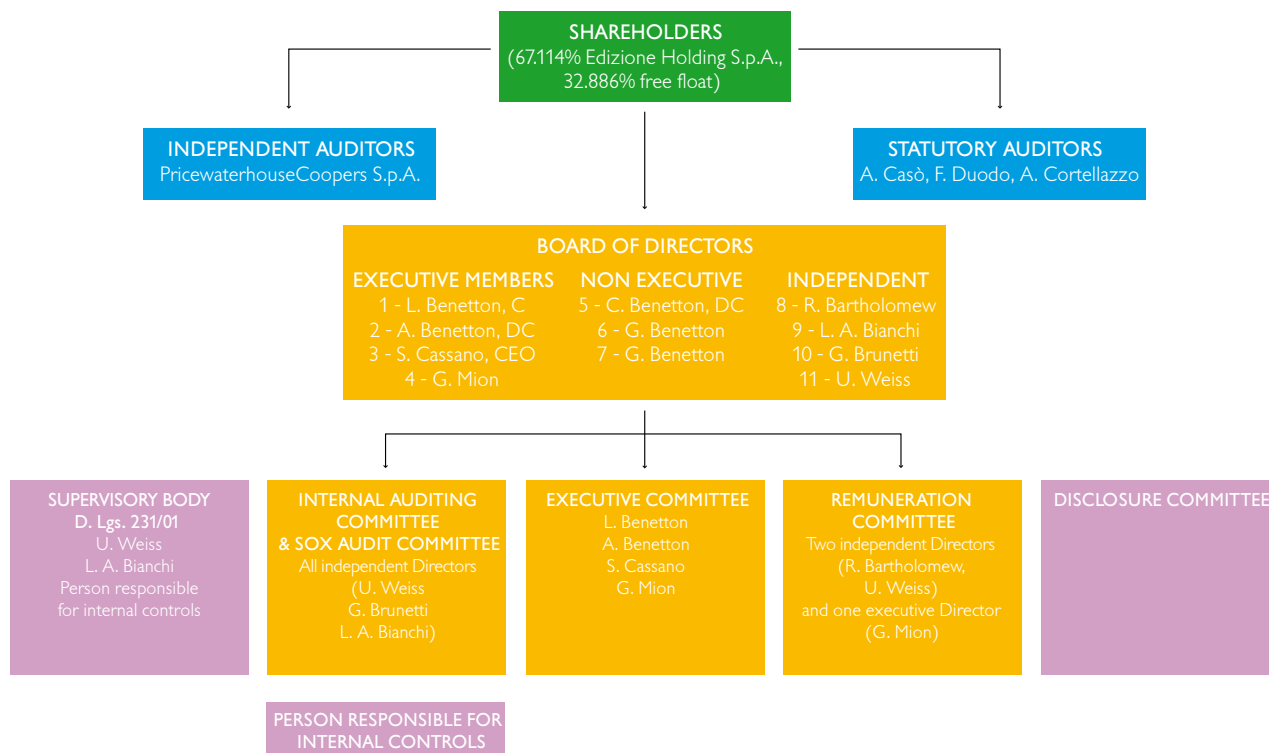
### **Board of Directors. Directors. Executive Committee. Related Party Transactions.**

**Board of Directors.** During 2005, the Board of Directors held nine meetings in which it analyzed and approved the guidelines for Group operations, organizational recommendations and general guidelines regarding human resources management, proposals to reorganize the corporate structure, operating performance, extraordinary operations and the quarterly and half-year results. During these meetings, the executive directors also provided the Board of Directors and Board of Statutory Auditors with information regarding any significant or unusual operations or related party transactions.

The Board of Directors has paid particular attention on analyzing the periodic reports of the Internal Audit Committee regarding its activities and an evaluation of the appropriateness of the internal control system, and providing updates on the accomplishments adopted by the Committee in accordance with the Sarbanes-Oxley Act (the U.S. law that Benetton is required to observe as a result of being listed on the New York Stock Exchange). At the Board meetings, the necessary documentation and information were provided, with reasonable advance notice, such that the Board could knowingly deliberate on the various issues submitted before it.

The current system of powers granted by the Board of Directors on May 16, 2005, as described below, and the disclosure procedures adopted ensure that the Board is informed of all of the most significant transactions for the Company and for the Group. Indeed, even though vested with the related powers, executive directors are required to submit such transactions to the Board of Directors for approval before their execution. Particular attention has been paid on transactions with related parties, as described in greater detail below in the section "Related Party Transactions".

## Benetton Group Governance - 2005



Directors. The current Board of Directors, appointed by the shareholders' meeting on May 16, 2005, is composed of 11 members, who are to remain in office until the meeting of shareholders to approve the financial statements for the year ended December 31, 2005. A complete overview of the directors' curricula are available on the Company's web site in the Corporate Governance section.

The Chairman, Luciano Benetton, is vested with the powers of company representation and the power to carry out all actions related to the Company's activities, with limitations for certain categories of actions and the following transactions in particular:

- the purchase and sale of shares or corporate bonds for amounts exceeding 25 million euro;
- the purchase and sale of business units and the purchase and sale of property for amounts exceeding 25 million euro;
- the approval of loans to parties other than subsidiaries for amounts exceeding 5 million euro.

The Chief Executive Officer, Silvano Cassano, is vested with the power to carry out actions related to ordinary administration and certain actions of extraordinary administration, with limitations for the following actions in particular:

- the purchase and sale of shares in companies for amounts exceeding 5 million euro;
- the purchase and sale of securities and bonds for amounts exceeding 10 million euro;
- the purchase and sale of business units and the purchase and sale of property for amounts exceeding 10 million euro;
- the approval of loans to parties other than subsidiaries for amounts exceeding 5 million euro;
- the guarantee of loans of companies that are not wholly controlled, either directly or indirectly, by Benetton Group S.p.A.

None of the other directors have executive powers.

The Board of Directors has appointed two Deputy Chairmen (Carlo Benetton and Alessandro Benetton), who are vested severally with the powers of Company representation in the absence of the Chairman.

There are seven non-executive directors (Carlo Benetton, Gilberto Benetton, Giuliana Benetton, Reginald Bartholomew, Luigi Arturo Bianchi, Giorgio Brunetti and Ulrich Weiss), of whom four (Reginald Bartholomew, Giorgio Brunetti, Luigi Arturo Bianchi and Ulrich Weiss) are "independent" from the owners and corporate management, in accordance with the concept of independence as defined by the Corporate Governance Code for listed companies in effect for financial year 2005. All directors participate diligently in the board's activities.

On an annual basis, the Board of Directors, based also on the information provided by the directors themselves, evaluates the requirements of independence of all members in accordance with the aforementioned Corporate Governance Code. No limits to the reappointment of directors have been defined.

The table below shows the offices that the directors hold in other companies listed on regulated markets, either domestic or foreign, or in banks, insurance companies, or other financial organizations, as well as in other companies of significant size that are not a part of the Group:

Director	Office	Company
Luciano Benetton	Board member	21,Investimenti S.p.A., Edizione Holding S.p.A.
Carlo Benetton	Deputy Chairman	Edizione Holding S.p.A.
Gilberto Benetton	Chairman	Autogrill S.p.A., Edizione Holding S.p.A., Ragione S.A.p.A. di G. Benetton & C.
	Deputy Chairman	Telecom Italia S.p.A., Olimpia S.p.A.
	Board member	Aldeasa S.A., Mediobanca S.p.A., Lloyd Adriatico S.p.A., Autostrade S.p.A., Pirelli & C. S.p.A., Schemaventotto S.p.A., Infrastrutture e Sviluppo S.p.A.
Giuliana Benetton	Board member	Edizione Holding S.p.A.
Alessandro Benetton	Chairman and CEO	21,Investimenti S.p.A.
	Chairman	21 Partners S.G.R. S.p.A., 21,Investimenti Partners S.p.A., 21 Network S.p.A.
	Deputy Chairman	Nordest Merchant S.p.A.
	Sole Director	Saibot S.r.l. società unipersonale
	Board member	Edizione Holding S.p.A., Autogrill S.p.A., Sirti S.p.A., Permasteelisa S.p.A., Industrie Zignago Santa Margherita S.p.A.
		Member of the Supervisory Board
Reginald Bartholomew	Chairman	Merrill Lynch Italy
	Deputy Chairman	Merrill Lynch Holdings Ltd
	Board member	Pirelli & C. Real Estate S.p.A.
Giorgio Brunetti	Board member	Autogrill S.p.A., Carraro S.p.A., Messaggerie Italiane S.p.A.
	Auditor	Autorità per l'energia e il gas
Luigi Arturo Bianchi	Board member	Anima S.G.R. S.p.A., Assicurazioni Generali S.p.A., MBE Holding S.p.A.
Gianni Mion	Deputy Chairman	TIM Italia S.p.A.
	CEO	Edizione Holding S.p.A.
	Board member	Aldeasa S.A., 21,Investimenti S.p.A., Autogrill S.p.A., Autogrill Group Inc., Autostrade S.p.A., Cartiere Burgo S.p.A., Olimpia S.p.A., Telecom Italia S.p.A., Fondazione Cassa di Risparmio di Venezia, Luxottica Group S.p.A., Infrastrutture e Sviluppo S.p.A., Schemaventotto S.p.A., Igli S.p.A.
Ulrich Weiss	Board member	Ducati Motors S.p.A., Bego Medical AG (Bremen)

The Group has recently adopted a new Policy, which was also approved by the Boards of Directors of the subsidiaries, regarding the exercise of power granted to Benetton Group S.p.A.'s proxy holders and to directors and proxy holders of its subsidiaries. This Policy provides prior authorization by the Board of Directors of each company, or by its shareholders' meeting, for the execution of the following transactions, in the event that such transactions are not conducted within the scope of ordinary intragroup relations: the issuance of guarantees, concessions or requests for financing, the purchase or sale of property, the purchase or sale of shares in companies (with certain exceptions). In principle, the Policy assures to the Group the directors and proxy holders of all foreign or domestic subsidiaries are vested with uniform decision-making powers regardless of the provisions of local laws and regulations.

**Executive Committee.** The Executive Committee members include the Chairman, Luciano Benetton, the CEO, Silvano Cassano, and Board members Alessandro Benetton and Gianni Mion.

The meetings of the Executive Committee are also attended, without voting rights, by the Board of Statutory Auditors and the chairman of the Internal Audit Committee.

The Executive Committee's responsibilities include defining strategic, industrial, and financial plans for the Group, as proposed by the CEO - preliminarily to the analysis by the Board of Directors - as well as preparing the annual budgets and interim forecasts.

The Executive Committee also examines and approves particularly significant investment and divestment plans, the approval of financing, and the provision of guarantees, and analyzes the most significant issues related to Company performance, to enable the Board of Directors to carry out its duties effectively.

In 2005, the Executive Committee met three times.

**Related party transactions.** The Rules of Conduct regarding transactions with related parties and other significant transactions, which were approved in 2004 and formally adopted by all subsidiaries during 2005, reiterated the central role played by the Board of Directors in the system of corporate governance and have ensured that the transactions regulated therein were always executed appropriately, according to criteria of substantial and procedural fairness.

Related party transactions, that are atypical or concluded at non-standard conditions and for which the Board of Directors is not directly responsible, are, notwithstanding, submitted to the Board for prior approval. Greater details on the related party transactions executed during the financial year in question are provided in the section "Relations with the parent company, its subsidiaries, and other related parties" of the Directors' Report for the consolidated accounts.

Also submitted to the Board of Directors for prior approval are those transactions of a significant impact on the financial standing or performance of the Company and the Group and which, for their amount, type of counterparty, object, methods or timeframes, could adversely affect the value of the Company. For both categories of transactions, the Board of Directors has passed resolutions based on adequate information provided with suitable advance notice.

The Rules of Conduct mentioned above do not expressly require that Board members with an interest in the transaction abstain from voting on such issue. In this way, it is left to the decision of the Board whether or not it is appropriate for such members to abstain from

deliberations when this could compromise the maintenance of the quorum required. On March 30, 2006, the Company's Board of Directors adopted the new Procedure for Related party transactions and for Significant transactions in order to adopt the latest indications on the subject contained in the Corporate Governance Code of Listed Companies and to follow other domestic and international best practices in identifying the parties, the transactions and the corporate procedures necessary to facilitate the appropriate flow of information.

This new procedure provides for a more extensive definition (based on the indications contained in IAS 24) of related parties of Benetton Group S.p.A. and more rigorous authorization and disclosure procedures for transactions with such parties, including the requirement, in certain cases, of the prior opinion of the Internal Audit Committee regarding the transaction.

The new procedure also requires that the Board member who, either directly or through a third party, has an interest in a company transaction, even if such interest is potential or indirect, abstains from the Board's deliberations on the issue or, in the event the member's presence should be necessary for the purposes of maintaining the quorum required, from the actual vote. This Procedure is to be adopted in 2006 by all the Group's companies. The entire text of this Procedure can be found on the Company's web site in the Corporate Governance section.

**The Board of Statutory Auditors.** The Board of Statutory Auditors is made up of the following members:

- Angelo Casò - Chairman;
- Filippo Duodo - Auditor;
- Antonio Cortellazzo - Auditor;
- Marco Leotta - Alternate Auditor;
- Piermauro Carabellese - Alternate Auditor.

A complete overview of the qualifications of the members of the Board of Statutory Auditors is available on the Company's web site in the Corporate Governance section. All members of the Board were appointed on May 16, 2005. Their terms expire with the meeting of shareholders to approve the financial statements for 2007.

The members of the Board were appointed in accordance with the criteria established by Article 148 of the Italian Consolidated Law on Finance (TUF for Testo Unico della Finanza) in effect at the time, as reflected in Article 19 of the Company's Articles of Association, and based on the lists of candidates presented to the company 10 days prior to the meeting of shareholders along with sufficient documentation of their professional and personal qualifications.

There is no auditor representing minority interests, as no related list of candidates was submitted.

During 2005, the Board of Statutory Auditors met 12 times.

**Direction and coordination function pursuant to Article 2497 et seq. of the Italian Civil Code.** In January 2004, all Italian subsidiaries owned, directly or indirectly, by Benetton Group S.p.A. recognized the role of direction and coordination played by the Parent Company Benetton Group S.p.A. pursuant to Article 2497 et seq. of the Italian Civil Code. All obligations required by law have been fulfilled in that regard.

**Remuneration Committee and Nomination Committee.** In implementation of the Corporate Governance Code for listed companies and with the responsibilities indicated therein, the Board of Directors confirmed the appointment of Reginald Bartholomew, Ulrich Weiss, and Gianni Mion (chairman) to the Remuneration Committee for financial year 2005. As such, this Committee is comprised primarily of non-executive directors and includes one non-independent director, given the current composition of the Company's shareholders structure.

As expressly defined by the related rules and procedures, the Remuneration Committee makes recommendations to be submitted to the Board of Directors, with those directly concerned removing themselves from the related deliberations of the Board. In 2005, the Remuneration Committee met twice.

Again for 2005, the remuneration for the executive directors and those with particular responsibilities were assigned by the Board of Directors, based on the recommendations of the Remuneration Committee, as indicated in the explanatory notes to the Consolidated Financial Statements of Benetton Group, subject to definition of the total remuneration by the shareholders' meeting as required by the Articles of Association. In 2004, with the help of external experts in preparing the variable components of remuneration, the Remuneration Committee also recommended the adoption of a stock option plan in order to motivate and promote the loyalty of the Company's top management. The Company then adopted the proposed plan and assigned five managers a total of 3,233,577 options convertible into the same number of Company shares to be purchased at a price of 8.984 euro each, subject to the achievement of certain corporate objectives and targets.

Additional information is provided in the section "Stock options" in the Directors' report accompanying the Statutory and Consolidated Financial Statements of Benetton Group S.p.A. The content of this stock option plan can be found on the Company's web site in the Corporate Governance section.

The Board of Directors has not yet deemed it to be necessary to establish a Nomination Committee for the appointment of directors, given the current composition of the Company's shareholder structure.

The appointment of directors is done based on a single list filed with the Company prior to the meeting of shareholders along with sufficient documentation of the personal and professional qualifications of the candidates indicated.

**The Internal Audit Committee. Internal Control.** The Internal Audit Committee is composed of three independent, non-executive directors. On May 16, 2005, the Board members Ulrich Weiss and Luigi Arturo Bianchi were confirmed to the committee, and Giorgio Brunetti was appointed.

In 2005, given that Benetton shares are listed on the New York Stock Exchange, and in compliance with the provisions of recent U.S. legislation concerning foreign private issuers, the Company vested the Internal Audit Committee with all powers necessary to fulfill the requirements of such legislation. This decision, which was formally approved by the Company's Board of Directors, was formally communicated to and approved by the U.S. Securities Exchange Commission (SEC). This was made possible by the existence within the Company of an Internal Audit Committee - composed solely of independent directors, one of whom (Giorgio Brunetti) is a financial expert as defined by the aforementioned legislation - which was already appropriately structured and effective, thanks in part to

the existence within the Company of the "Internal Control" function, which assists the Committee.

As a result, it was necessary to modify the rules of the Internal Audit Committee in order to vest it with all responsibilities, duties and powers required in the U.S. for such a committee, compatibly with Italian laws and regulations.

As such, the Internal Audit Committee's responsibilities include:

- evaluating the process of determining the financial statement account balances, with the help of the head of the Internal Control function;
- evaluating the appropriateness of the accounting principles adopted, together with the Company's CFO and the independent auditing firm;
- receiving, as point of contact for the auditing firm, information and communications regarding the consolidated accounts and Form 20-F concerning critical issues involving the standard or alternative accounting treatment of certain items; receiving from and transmitting to management information and communications regarding such issues;
- evaluating the proposals of independent auditing firms, with the help of the Company's CFO and the head of the Internal Control function, for the purposes of hiring such a firm, and making related recommendations that the Board of Directors is to then present to the shareholders' meeting;
- evaluating the results of the independent auditor's report;
- adopting procedures for (a) receiving and handling complaints received by the Company regarding issues of accounting, internal accounting controls, or auditing in general, and (b) receiving, filing, and handling reports or disputes filed by employees regarding accounting issues or auditing in general, while ensuring the anonymity of the employee concerned. To that end, specific "Procedure for reporting complaints to the internal audit committee", has been adopted;
- evaluating all auditing and other services provided by the independent auditing firm and expressing an opinion as to their appropriateness and consistency as a necessary requirement prior to hiring such firm;
- verifying the independence of the auditing firm.

During 2005, the Committee, chaired by Ulrich Weiss, met eight times, with the participation of the entire Board of Statutory Auditors, in compliance with the adopted rules and procedures.

The functioning and appropriateness of the system of internal control were verified by the Board of Directors, in part with the help of the related corporate function coordinated by the head of Internal Control, who reports directly to the chairman of the Internal Audit Committee. The systems of organization and reporting were seen to be adequate to ensuring the monitoring of the system of administration and accounting, including for subsidiaries.

Efforts also continued on the mapping of processes, risks and existing controls concerning the main operating processes of the companies of the Group, while also conducting an analysis of the consistency of the related internal control procedures. Because Benetton shares are also listed in the U.S., this process was also conducted in compliance with the provisions of the Sarbanes-Oxley Act. The independent directors, the Board of Statutory Auditors and the independent auditing firm were adequately informed on the process, as well.

In 2005, the Supervisory and Monitoring Body (Organismo di Vigilanza e Controllo, pursuant to Article 6(1)(b) of Italian legislative decree no. 231/2001), which is composed

of Ulrich Weiss (chairman), Luigi Arturo Bianchi and Roberto Taiariol, carried out its responsibilities of control of the observance and functioning of the Organizational and Operational Model adopted by the Company. This Model is comprised of the following:

- Code of ethics;
- Operating procedures and reporting systems;
- Internal supervisory and monitoring body;
- Disciplinary system.

The rules of the Internal Audit Committee and its procedures for reports, complaints, and disputes can be found on the Company's web site in the Corporate Governance section.

**Handling of confidential information.** The management of confidential information is overseen by the CEO, with the counsel of the Chairman, both of whom are to take steps to ensure that adequate verifications are conducted regarding the qualification of confidential information in accordance with applicable laws and regulations.

The press releases regarding the approval of the annual and interim financial statements, as well as any extraordinary transactions that may be subject to approval of the Board of Directors are, themselves, to be approved by the Board. The communications and relations with the press and institutional and private shareholders are the responsibility of the Media & Communications and Investor Relations offices, respectively.

In 2002, by way of implementing the rules of the markets organized and managed by Borsa Italiana S.p.A., the Company adopted the related Code of Conduct on Internal Dealing, which governs the disclosure obligations regarding transactions executed by so-called "significant parties" ("persone rilevanti"), as defined by said code, in financial instruments issued by Benetton Group S.p.A. The obligations of disclosure for significant parties as defined by this Code of Conduct called for more restrictive timeframes and involved broader categories of parties and types of securities than those of the rules defined by Borsa Italiana S.p.A.

On March 30, 2006, the Company adopted the new Internal Dealing Regulations, which, in compliance with the provisions of Article 114 of the Italian Consolidated Law on Finance and Article 152-sexies et seq. of the Regulation implementing the provisions on issuers of CONSOB, both of which have recently been amended, establishes new terms, conditions and procedures for the disclosure of transactions by these significant parties in Benetton securities. The entire text of the Internal Dealing Regulations can be found on the Company's web site in the Corporate Governance section.

**Compliance to the evolution of corporate governance legislation.** The Corporate Affairs Department, in coordination with the various corporate departments involved, ensures observance of the legislation in force regarding corporate governance, which includes all related laws and legislation in the U.S. and Germany, given that Benetton shares are listed in New York and Frankfurt, as well as in Italy.

To that end, the Department promotes the evolution of the corporate governance structure and tools to adapt them to new legislation, while also seeing to the adoption of appropriate rules of corporate governance that are in line with domestic and international best practice.

In 2006, the Company will adopt the provisions of the new Corporate Governance Code issued on March 2006.

Relations with institutional investors and other shareholders. The Investor Relations Department is responsible for ensuring the proper management of relations with financial analysts, institutional investors and private shareholders, both foreign and domestic, which includes coordinating activities with the financial community.

In accordance with the principles of fairness, clarity and equal access to information, the Department provides ample documentation and information regarding the Company, with a particular emphasis on price-sensitive information, on the web site at [www.benettongroup.com/investors](http://www.benettongroup.com/investors).

In the Corporate Governance section of the web site, the following documents are also available (as also mentioned above): Articles of Association; Internal dealing regulations; Organizational and operational model; Procedure for Related party transactions and for significant transactions; Procedure for reporting complaints to the Internal Audit Committee; Stock option plan; press releases and periodic financial information.

This document is also available on in the Corporate Governance section of the web site [www.benettongroup.com/investors](http://www.benettongroup.com/investors).