

Benetton Group

Integrated Report 2016

UNITED COLORS
OF BENETTON.



Benetton Group

**Integrated
Report
2016**

UNITED COLORS
OF BENETTON.

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Letter from the Chairman



Dear Stakeholders,

Benetton Group presents its first Integrated Report pursuant to the recently enforced regulations for listed companies, but above all because our employees, customers and suppliers, the territory and our shareholders are interested in the Company's results obtained in the social and environmental spheres, as well as production and distribution, in addition to the standard economic and financial data.

Despite the unavailability of previous formal reporting, Benetton Group has always been active in the area of social responsibility. All initiatives undertaken by the Group have been and continue to be inextricably linked to the commitment of offering our customers "sustainable" and high-quality products, manufactured according to socially sustainable criteria, in full respect of people and the environment and distributed in stores accessible to all.

Along with the investments in commercial development, e-commerce, the acquisition of the Korean joint venture and the radical renewal of the Company's IT system, the Group has implemented a series of tools, including the Sustainability Committee and the Unhate Foundation, with a view to reinforcing its sustainability strategy. The Group has also stipulated collaborations with the most authoritative non-profit associations and international bodies, which the Company has supported for some time in order to give a voice to the "rest of the world". Examples include collaborations with the UN - United Nations - on a number of joint projects, such as the Women Empowerment Program, and the Detox program promoted by Greenpeace.

With a view to making the Company's organization more effective and functional to the pursuit of the Group's goals, a new organizational model was implemented at the beginning of 2017, involving the introduction of the COO function and the direct reporting of central staffing to the Chairman.

Internally, during the year the Company's commitment translated into a close monitoring of social and environmental issues across the supply chain and in compliance with the most stringent international standards in the matter of product safety. In addition, numerous actions were carried out in order to reduce harmful emissions and energy consumption. Other initiatives included the "Benetton Per Te" corporate welfare system, associated with the introduction of the Smart Working project and a significant boost for the development of the Company's training platform.

All the actions were pursued with great determination, despite the generally negative conditions of the apparel market and the geopolitical uncertainties in some geographic regions with a negative impact on our economic and financial performances, which finished below last year's levels.

For over fifty years Benetton Group has believed that producing and selling higher quality garments wearable over the years by adults and resistant to the exuberance of children as they grow up has a social value, resulting in a positive impact on people's lives, thanks to a series of universally shared values based on tolerance and respect for diversity.

Benetton Group will continue to increase its efforts, leveraging on this unique and distinctive legacy of values as one of the cornerstones of its business model and a key element in ensuring the Company's success in the long term.

Francesco Gori
The Chairman
Benetton Group



Benetton Group **Highlights 2016**

5,289
stores in the world



1,490 euro million
economic value generated



alternative packaging



cardboard
-1,340 tons



trees
-20,000

product safety tests

over **40,000**



71%



29%

7,275
employees



separate
waste collection

Benetton
campus

89%



1/ Benetton Group Profile

1.1/ About us

Founded in 1965, today **Benetton Group** is one of the world's best-known apparel companies. Benetton Group is a socially responsible organization that looks to the future and lives in the present, paying attention to the environment, people's dignity and the transformations in society. Committed to innovation - through color, a new store concept, a unique sales network and global communication that has always sparked social and cultural debate - the Group boasts a consolidated identity based on style, color, authentic fashion, quality at affordable prices and passion. These values are reflected in the powerful and dynamic personality of United Colors of Benetton and Sisley.



Present in the world's major markets with over 5,200 stores in strategic locations in historic town centers and shopping malls, the United Colors of Benetton and Sisley sales network, is supported by significant investment programs all over the world. The new stores are highly modular in order to create spaces suitable for displaying the collections, the colors and designs in an increasingly effective way, making the store even more attractive, dynamic and interactive.

Benetton Group faces the challenges of globalization through constant investments and a competent and flexible organization open to change. In recent years, the changes in distribution and in the competitive environment called for speed, quick reaction and a close monitoring of sales channels, resulting in a new orientation for the Company. In fact, in 2014 the Benetton Group started a re-focus and re-launch plan, which was meant to move the Group away from its traditionally sell-in oriented approach with limited monitoring of distribution channels. Consequently, logistics plays a key role, when it comes to serving a global distribution network. The coordination center, located in Castrette (Treviso), which serves the global network of stores effectively, is one of the most modern and advanced industrial logistics infrastructures dedicated to apparel.

In addition to the apparel segment, the Group has another two "social" guises, Fabrica and the Unhate Foundation.



Fabrica, Benetton Group's communications research center is the Group's interface to the world and in the society. Fabrica represents a link to innovation and internationality, combining culture with industry through communication that is no longer exclusively based on traditional formats, but, instead, becomes a vehicle for conveying the "expertise" of an enterprise through numerous different forms of expression, ranging from design and music to cinema production, photography, publishing products, the internet and the new media. Worth mentioning is the Colors magazine, which works as a curious and enthusiast observation platform over "the rest of the world" since 1991.



Established in November 2011 through a global communication campaign, the **Unhate Foundation** is one of the key elements of the Group's new corporate social responsibility strategy and social commitment hub. In line with Benetton Group's core values, Unhate Foundation's mission is to help fight the culture of hatred through global communication campaigns and the organization of concrete projects that have a "real impact" on the international community, and particularly on the younger generations, with the involvement of institutions, international organizations, NGOs and representatives of civil society. Based on the social role of art and individual self-expression as a means of educating people

to tolerance, the projects target youth living in areas considered "at risk", from Brazil to India and to New York's Puerto Rican neighborhoods.

The key principles of the Foundation are summarized here below:

- the fight against hatred and discrimination in all of its forms;
- support for the next generations: youth represents the key beneficiaries of the Foundation's projects and activities;
- the focus on the social impact of art across all activities undertaken by the Foundation.



PINK
IS THE NAVY
BLUE
OF INDIA.

DIANA VREELAND
fashion journalist



On December 31, 2016 Benetton Group's corporate structure was as follows.

Benetton Group S.r.l. Ponzano Veneto		December 31, 2016	
100%	RETAIL ITALIA NETWORK S.r.l. Milan (Italy)	100%	BENETTON PARS P.J.S.C. Tehran (Iran)
100%	BENETTON SERVIZI S.r.l. Ponzano Veneto (Italy)	100%	BENETTON DE COMMERCE INTERNATIONAL TUNISIE S.à r.l. Sahline (Tunisia)
100%	FABRICA S.p.A. Ponzano Veneto (Italy)	100%	BENETTON COMMERCIALE TUNISIE S.à r.l. Sousse (Tunisia)
65%	BENSEC S.c. a r.l. Ponzano Veneto (Italy) (*)	100%	BENETTON INDIA Pvt. Ltd. Gurgaon (India)
100%	PONZANO CHILDREN S.r.l. Ponzano Veneto (Italy)	100%	BENETTON ASIA PACIFIC Ltd. Hong Kong (China)
100%	VILLA MINELLI - SOCIETÀ AGRICOLA a r.l. Ponzano Veneto (Italy)	100%	SHANGHAI BENETTON TRADING COMPANY Ltd. Shanghai (China)
100%	BEN-MODE A.G. Zurich (Switzerland)	100%	BENETTON TRADING TAIWAN Ltd. Taipei (Taiwan)
100%	BENETTON RETAIL DEUTSCHLAND GmbH Frankfurt am Main (Germany)	100%	BENETTON JAPAN Co. Ltd. Tokyo (Japan)
100%	BENETTON DENMARK A.p.S. Copenhagen (Denmark)	100%	BENETTON KOREA Inc. Seoul (South Korea)
100%	BENETTON AGENCY IRELAND Ltd. Dublin (Ireland)	100%	BENETTON RUSSIA O.O.O. Moscow (Russia)
100%	BENETTON FRANCE COMMERCIAL S.A.S. Paris (France)	100%	KAZAN REAL ESTATE O.O.O. Moscow (Russia)
100%	BENETTON RETAIL SPAIN S.L. Barcelona (Spain)	100%	BENETTON TRADING USA Inc. Somerset (USA)
100%	BENETTON 2 RETAIL COMÉRCIO DE PRODUTOS TÊXTEIS S.A. Porto (Portugal)	100%	BENETTON MEXICANA S.A. de C.V. Mexico City (Mexico)
100%	BENETTON RETAIL POLAND Sp. z o.o. Warsaw (Poland)	100%	BENETTON SERVICES S.A. de C.V. Mexico City (Mexico)
100%	BENETTON HELLAS AGENCY OF CLOTHING E.P.E. Tavros (Greece)	100%	BENETTON SERVICES II S.A. de C.V. Mexico City (Mexico)
100%	BENETTON GIYIM SANAYI VE TICARET A.S. Istanbul (Turkey)		

(*) Benetton Group S.r.l. owns also indirectly the 13% of the capital stock; the remaining 22% is owned by companies connected to Edizione S.r.l.

(**) Benetton Japan Co. Ltd. owns directly the further 50% of the capital stock.

1.2/ History

- 1965** Benetton Group is founded.
- 1969** First store opens outside Italy.
- 1974** Sisley enters the Group's brand portfolio.
- 1978** Group exports reach 60% of production.
- 1983** The Group enters Formula 1 as sponsor of the Tyrrel team. In 1986, following the acquisition of Toleman, the Benetton Formula Limited racing team is created and wins one constructors' and two drivers' world championships. In 2000 Renault acquires the Benetton team.
- 1985** Benetton advertising wins the "Grand Prix de la Publicité" in France. It is the first in a series of acknowledgments that, together with criticisms and censorship, foster debate in many countries around the world.
- 1986** The Group is listed on the Milan, Frankfurt (1988) and New York (1989) stock exchanges.
- 1987** Fondazione Benetton Studi e Ricerche is established, as is the Carlo Scarpa International Award.
- 1991** COLORS magazine, distributed in 40 countries and translated into four languages, is launched.
- 1994** Fabrica, Benetton Group's Communications Research Centre, is founded.
- 2005** Benetton is present in 120 countries with 5,000 stores. Alessandro Benetton is appointed Deputy Chairman of the Group.
- 2009** Benetton opens the first store of the future in Istanbul, as part of the "Opening soon..." project.



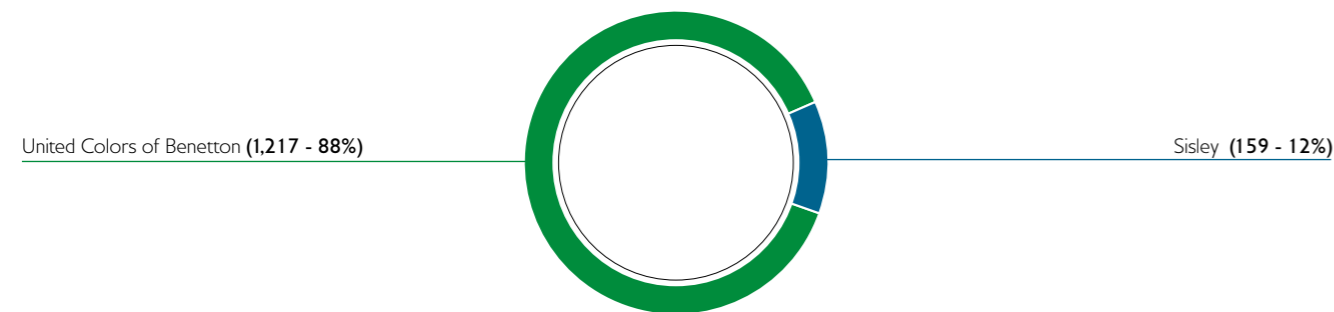
- 2011** The Unhate Foundation, launched with a global communication campaign, is established and is one of the components of the new corporate social responsibility strategy, as well as the Group's social commitment hub.
- 2012** Benetton Group delists from the Milan Stock Exchange, having delisted from those of New York and Frankfurt. Alessandro Benetton is the new Chairman of Benetton Group S.p.A., succeeding founder Luciano Benetton. In November he becomes the new Chairman of Fabrica. Launch of *Unemployee of the year*, a new global communications campaign previewed for the first time by Alessandro Benetton in London.
- 2013** Benetton Group is recognized by Greenpeace for its commitment to safeguarding the environment and product safety.
- 2014** The company is organized into three separate entities: one focused directly on the brands, one on manufacturing and one on real estate management. Benetton Group shareholders' meeting appoints Gianni Mion as non-executive Chairman. Launch of "On Canvas", a new store concept that makes the product the real protagonist of the historic United Colors of Benetton brand. The first openings are in Milan, Moscow and Berlin.
- 2015** The refocus and relaunch plan is completed on January 1, 2015, with the partial demerger of Benetton Group S.r.l. Benetton launches the Benetton Women Empowerment Program, a long-term project to support the rights of women around the world.
- 2016** In April 2016 Benetton Group S.r.l. takes full control of Benetton Korea Inc. May 2016: Francesco Gori is the new Chairman of Benetton Group, succeeding Gianni Mion. In October Benetton launches the Seamless line.



1.3/ Our Brands, our values

Benetton Group operates in Italy and in the world with two brands: UCB - United Colors of Benetton - and Sisley.

Net sales 2016 by brand (millions of euro and %)



The Group's brands and values have always been closely connected. UCB expresses colors, original designs and knits, the epitome of joy, quality and style. Sisley features bold collections targeted to contemporary and unconventional consumers.

UCB - United Colors of Benetton

"Masters of knitting, we make knits for everyone, like nobody else. In 1955 we started our business with our first sewing machine and we never stopped since then, experimenting with new techniques, processes and materials. United Colors of Benetton is universally synonymous of color".



In the 1960s, Luciano and Giuliana Benetton developed the first colored sweater from a yellow stitch, a revolutionary garment for men and women all over the world.

A 360° philosophy: color as a synonym of optimism, diversity and creativity. For over 50 years these keywords have been interwoven in the design of UCB products and served as leit motif in all of the Company's activities.

The brand grew and became global through market expansion. As a result, the concept of United Colors opened up to include universal values like tolerance, peace and respect for diversity. These values are today integrating part of the brand identity.

A brand that puts the people at the center capable of creating an emotional connection with them based on a shared vision of what really matters, a set of common values.

An unconventional brand, a brand that goes beyond cultural stereotypes and takes a stand, committed to ensuring the coexistence of opposites, eliminating barriers, while fostering dialogue and reconciling differences.

Benetton has always promoted these values through innovative communications, the core of the Company, and through collaborations with the most authoritative non-profit associations and international bodies.

Since 2015, United Colors of Benetton has continued to pursue and consolidate its repositioning process by reinforcing the bond between the product and the core values, based on a strategy focused on innovation, quality and sustainability. This was a complex process necessary to offer a quality product capable of meeting consumer demands.

"We want to design products that convey joy and make people feel happy"

To meet this goal, at the end of 2016 UCB reviewed entirely its design process, which is expected to be completed by end of 2017. Thanks to this project, UCB intends to offer products that will make consumers feel happy through:

- good knits
- good quality
- good colors
- good price
- good speed



This is the content of the communication that UCB intends to use to reach its consumers. And these are the pillars of the product and marketing strategies implemented by Benetton Group.

Sisley



A brand with a strong personality: sexy, unconventional and with a powerful contemporary design. In addition to its signature style, Sisley's communication strategy is focused on giving visibility to the brand universe through an interesting mix of seduction, modernity and style innovation, leveraging on the testimonials to reinforce the message. Recent campaigns captured that urban, irreverent and dynamic style that is a distinctive characteristic of the brand, combining online activities and those on the social media with an increasingly large community of followers.



In 2016 Sisley underwent a repositioning process, started in 2014, mainly focused on the Premium Bridge segment. In recent years, this segment posted growth driven both by an increasing number of knowledgeable consumers looking for products with fashion content and a correct value-for-money ratio and by the effects of repositioning strategies implemented by some brands.

In Europe, Sisley targets consumers from both the Luxury and Mass Market segments, while in emerging countries the brand aims at attracting new customers, who will progressively increase their spending power as a result of increased income.

This strategy aims at opening new market segments for Sisley, reaching an increasing number of consumers attracted by a product offering that stands out for marked distinctive style identity and superior quality materials, contributing to increasing the value of the brand away from the price component that was considered a key element in the past.

Consistently with the brand repositioning process, the FW 2016 advertising campaign "When attitude is genetic" was developed in collaboration with Vogue Italia, which was responsible for the management and detailed execution of the project under the supervision of Franca Sozzani.

The protagonists were Yasmin and Amber Le Bon, observed through the lens of the total complicity that develops between a mother and her daughter grown up surrounded by fashion and music.



1.4/ Governance

The Company adopts a system of corporate governance under which its governing body is the Board of Directors, assisted by the Board committees. The body that oversees observance of the law, the Company's Articles of Association and good management practices is the Board of Statutory Auditors, while an Independent Auditing Firm is responsible for the statutory audit of the accounts.

Overview of the Company's Governance structure since May 16, 2017.

SHAREHOLDERS' MEETING

(100% Schematrentasette S.r.l.)

INDEPENDENT AUDITORS

Ernst & Young SpA.

BOARD OF DIRECTORS

BOARD OF STATUTORY AUDITORS

Angelo Casò (Chairman)
Antonio Cortellazzo
Filippo Duodo

EXECUTIVES

1. Francesco Gori (Executive Chairman)

NON-EXECUTIVES

2. Marco Patuano
3. Christian Benetton
4. Franca Bertagnin Benetton
5. Sabrina Benetton
6. Christian Coco

INDEPENDENT

7. Tommaso Barracco
8. Fabio Buttignon
9. Francesco Panfilo
10. James McArthur

Investment Committee

Tommaso Barracco (Chairman)
Marco Patuano
James McArthur
Christian Coco

Control and Risk Committee

Fabio Buttignon (Chairman)
Christian Coco
Francesco Panfilo

Human Resources and Remuneration Committee

Francesco Panfilo (Chairman)
Marco Patuano
Tommaso Barracco
Christian Coco

Monitoring Body under Leg. Decree 231/01

Ugo Fonzar (Chairman)
Roberto Taiariol (Head of Internal Audit)
Andrea Pezzangora (General Counsel)

Head of Internal Audit

Roberto Taiariol

Note: Until May 16, 2017, the following formed part of the Board of Directors: Marco Airoldi in the role of CEO, Alfredo Malguzzi in the role of non-executive and independent director. Alfredo Malguzzi was also chairman of the Control and Risk Committee and the Human Resources and Remuneration Committee. As of May 16, 2017, Tommaso Brusò has been appointed Chief Operating Officer (COO).



Board of Directors

The Board of Directors is the body responsible for managing the business. Among other things it examines and approves:

- ➔ the guidelines for the Group's operations;
- ➔ the proposals concerning organization and corporate governance;
- ➔ the general guidelines regarding the management of human resources;
- ➔ the proposals to reorganize the corporate structure;
- ➔ the results of operations;
- ➔ the extraordinary corporate actions;
- ➔ the annual budgets and quarterly, half-yearly and annual financial results.

Investment Committee

The Investment Committee serves in a due diligence, advisory and/or recommendation-making capacity in support of the Board of Directors with regard to:

- ➔ specific investment projects, assessing their consistency with the Group's strategic guidelines, their profitability targets and financial sustainability;
- ➔ Company procedures regarding investments and significant transactions.

In general, the Committee monitors the implementation of the approved investment programs by following their execution in terms of costs incurred and actual return on investment (post-audit), analyzing the main critical issues.

Control and Risk Committee

The Control and Risk Committee, whose members have suitable experience in accounting and finance, has the following main duties:

- ➔ to assist the Board of Directors in defining the guidelines of the internal controls and in determining the criteria for deciding whether the risks facing the Company and its subsidiaries are compatible with good and sound management practices. At the request of the Executive Chairman, it expresses opinions on specific issues concerning the identification of the principal business risks;
- ➔ to assist the Board of Directors in evaluating the adequacy, efficacy and effective functioning of the system of internal controls, which it oversees;
- ➔ to provide the Board of Directors indications and information on for the compliance with corporate governance rules;
- ➔ to assess, together with the Chief Financial Officer and the Independent Auditors, the adequacy of the accounting standards adopted and their consistency for the purposes of preparing consolidated financial statements;
- ➔ to verify, with the help of the Head of Internal Audit, the process that generates the financial reporting data;
- ➔ to monitor the effectiveness of the auditing process and assess the results published in the Independent Auditors' report and the opinion letter;
- ➔ to receive the annual report of the Head of Internal Audit on the application of the "Organization and

Management Model", pursuant to Italian Legislative Decree 231/2001, which has been adopted by the Company and also includes the Code of Ethics, and to evaluate whether to present the Board of Directors with recommendations for updating and/or amending such model and its method of application:

- ➔ to evaluate all auditing and non-auditing services provided by the Independent Auditors and to express an opinion as to their appropriateness and consistency as a necessary requirement prior to confirming their appointment;
- ➔ to assess and verify the independence of the external Independent Auditors.

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee serves in a due diligence, advisory and/or recommendation-making capacity in support of the Board of Directors and in particular:

- ➔ it presents proposals on the overall remuneration of the Chairman, directors and senior managers of the Company and the Group;
- ➔ it examines performance targets and incentive plans for employees of the Company and the Group;
- ➔ it evaluates proposals regarding:
 - ➔ composition criteria and skills profiles of the managers identified as components of management and control bodies in the strategically important subsidiaries;
 - ➔ policies for the strategic development of human resources;
 - ➔ recruitment and appointment of senior managers of the Company and the Group.



Organizational model under Italian Legislative Decree 231/2001

The current Organization, Management and Control Model adopted by resolution of the Board of Directors on March 1, 2016, to replace the one approved in 2008, comprises a general part and numerous special parts. The Code of Ethics approved by the Company is treated as an integral part of the Model. Under its Code of Ethics, the Group has adopted the International Labor Standards (ILS) contained in the fundamental conventions of the International Labor Organization (ILO).

GREEN
IS MORE THAN
A COLOR.
IT IS A
PHILOSOPHY.

UNITED COLORS OF BENETTON



Sustainability Committee

The Sustainability Committee - set up by Board of Directors in 2015 - defines and oversees Benetton Group's sustainability strategy. The establishment of this Committee is further evidence of the Company's commitment, at all levels, to becoming an agent of social change through its initiatives.

The objectives of Benetton Group's Sustainability Committee include:

- promoting the effective and continuous integration of sustainability initiatives into business activities and supporting the work of the CSR Director;
- harmonizing all sustainability activities;
- promoting dialogue with internal and external stakeholders on sustainability issues;
- examining and periodically reviewing corporate sustainability implementation tools - starting with the Code of Conduct for Manufacturers and its implementation procedures - also in light of possible risks related to brand reputation;
- providing the Board of Directors with a constant flow of information and indications regarding the application of the corporate sustainability strategy and its tools;
- overseeing activities related to integrated reporting and the disclosure of KPIs and relevant information on environmental and social issues.

The Committee was composed as follows:

Tommaso Brusò _ Chief Operating Officer

Lorenzo Dovesi _ Dir. Operations & Sourcing

Teri Naccarato _ Dir. UCB Merchandise & Design

Roberto Taiariol _ Dir. Internal Audit & CSR

Carlo Tunioli _ CEO Fabbrica



2/ Generating long-term value

UNITED COLORS
OF BENETTON.

S I S L E Y

5,289
stores



90
markets



garments produced
100 million



net sales
1,376
euro million

27
online markets



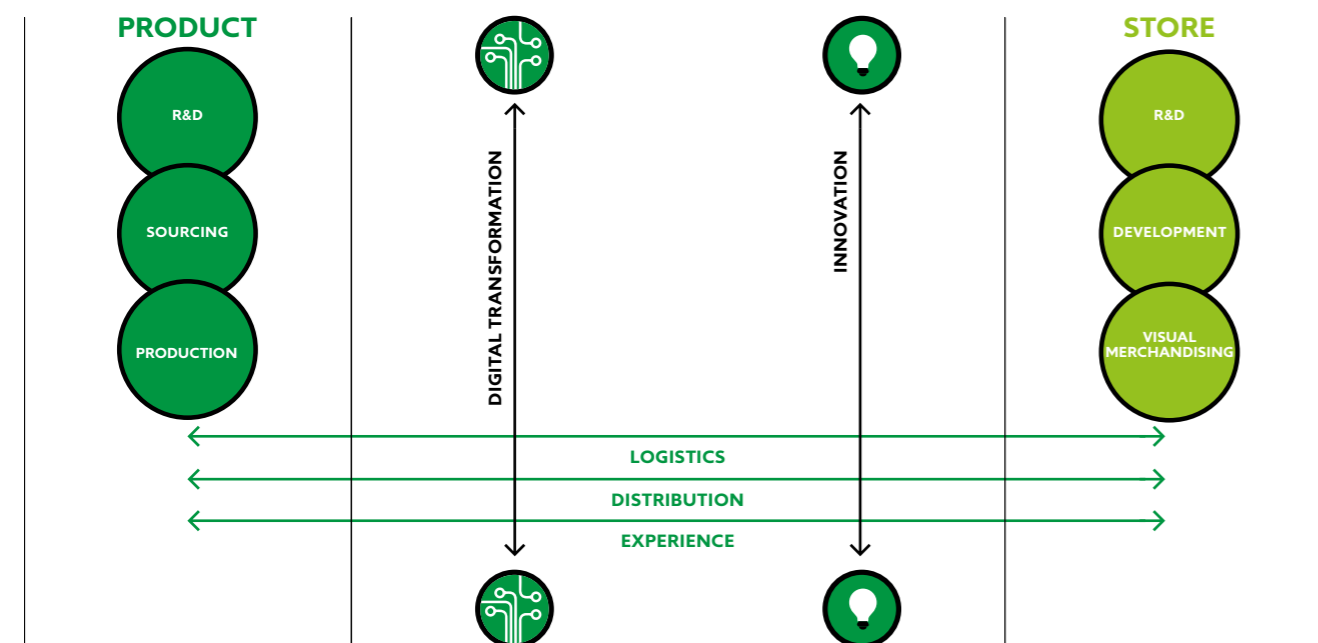
2.1/ The Group's business model

In 2014 Benetton Group launched a major reorganization process reaching up to the stores and consumers. In the first phase the Group concentrated on its core activities, i.e. brand management, product management and distribution, - through the completion of a spin-off of its real estate and manufacturing activities, which were transferred to other companies controlled by Edizione S.r.l. The latter transaction, completed in 2014, resulted in a radical change in the Group's business model, i.e. from a sell-in based model to a sell-out, consumer centric model. Consistently with the actions scheduled for the second part of the Group's relaunch plan, in the last two years, the Group concentrated on laying the foundations for its future evolution. This involved:

- ➔ a brand positioning review to leverage on the distinctive elements of the UCB and Sisley brands, which have unique value in the global apparel market;
- ➔ an update of the business model to make it more in line with emerging market trends and competition;
- ➔ implementation of an action plan including activities aimed at reorganizing the Company's pillars: people, organization, processes and systems.

At present, Benetton Group owns two brands, **United Colors of Benetton** and **Sisley** through parent Benetton Group S.r.l. The latter's role is guiding the reorganization process, defining and implementing brand strategies at every level, managing the entire product design process, product manufacturing and distribution cycle, and coordinating the direct sales network and relations with external partners. In addition, Benetton Group S.r.l. is also responsible for stipulating sales and supply agreements, national and international partnerships, the management of relations with licensees and everything that may be required to ensure the most comprehensive management of the business.

The upshot today is that Benetton Group's core business is mainly focused on sell-out. The cornerstones of this model are the **product** and the **store**, key components of the Group's value proposition and both managed down to the finest of detail, from the concept phase to manufacturing and marketing, with an emphasis on innovation and digital transformation.



Product

Research & Development

Traditionally at the core of the Company's activities, Benetton Group's research and development seeks to provide the end consumer with innovative and cutting-edge products. It comprises the design of new models for the collections, the management of the brands and the related commercial activities. The study of the models for apparel, footwear and accessories is organized in various departments that collaborate closely to obtain the highest levels of quality. The same applies for innovation, thanks to continuous research and experimentation with fabrics, colors and styles, with particular reference to the creative, technical and economic aspects of the product.

Sourcing

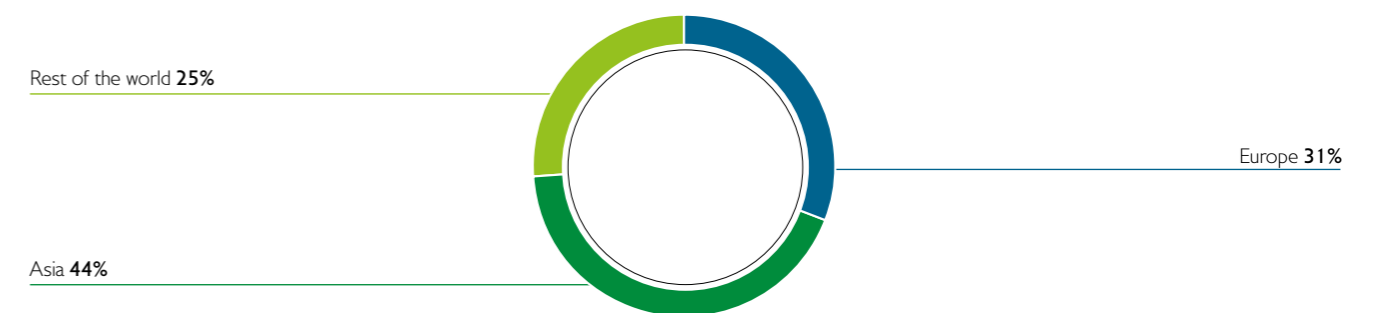
Management of the supply chain is a key aspect for the business activities of Benetton Group, even more so following the recent corporate reorganization that has resulted in the almost total outsourcing of manufacturing processes. To this end, in recent years Benetton Group has placed great emphasis on constructing long-term collaborations and partnerships with its suppliers.

Starting with selection and qualification, the relationship with suppliers is based on the principles and criteria of quality, competitiveness of the products, transparency and respect for social, ethical and environmental principles. The qualification process takes place via the FEP (Factory Evaluation Profile), a technical and qualitative assessment of the supplier that guarantees compliance with the criteria established by Benetton.

In addition, Benetton monitors its suppliers' compliance with the requisites of its Code of Conduct for Manufacturers and Code of Ethics through an audit program that covers, on an ongoing basis, all those suppliers considered most at risk from an environmental and social perspective.

Production

Finished garment manufacturing has been almost completely outsourced since 2015. Most of the suppliers used by Benetton to manufacture clothing and accessories (about 69% of all supplies) are located outside Europe.



2.1/The Group's business model

In the 2016 operating period the Operations & Sourcing department was tasked with implementing a series of actions and projects aimed at maintaining a high level of competitiveness even in challenging market conditions, at the same time supporting the evolution of the Company's business model.

One of the main priorities was the need to control the inflationary pressure on the cost of the product connected with the price of the dollar against the euro, which stabilized during the year after years of gradual strengthening. To achieve this goal it was necessary to act promptly and decisively on levers such as the redistribution of the geographical sourcing mix, the strengthening of bargaining power through the consolidation of partnerships with strategic suppliers, and the fall in logistics costs due to a reduction in the use of air transport.

Consistent with the brand strategy, close attention was also focused on maintaining the high quality standards with which the Group's products have always been associated. It was possible to meet this goal thanks, first and foremost, to the Company's rigorous monitoring of the territory, which enables it to exert close control over the supply chain upstream. Other key factors were the consolidated know-how of the team of skilled and expert technicians and the increasingly relevant role played by the engineering process as regards the quality of the results.

The goal of maintaining excellent quality standards was met while preserving high levels of service, with over 90% of garments delivered to stores within the established deadlines, thanks to precise delivery planning and monitoring activities. The ability to guarantee both quality and high levels of service required first of all an effective process for selecting suppliers, the number of which has gradually been streamlined in recent years: all currently active suppliers are selected with a close focus on their technical abilities and the Company remains intent on creating stable and long-lasting relationships with them.

In a year marked by particularly challenging market conditions, factors such as speed and responsiveness have become even more important: they have been realized through activities of product recovery and product injection, distinctive for their fast time-to-market.

The Operations & Sourcing Department's commitment to offering our customers increasingly sustainable and socially



responsible products has also remained constant, through the continuous monitoring of garments and their content through automatic test procedures that have been used in the Group for years, the respect for the Code of Ethics and the Code of Conduct for Manufacturers guaranteed by a plan of audits - prerequisite for the selection of new suppliers - and the monitoring of the impact of production processes on the environment. With regard to the latter, and with particular reference to the wet processes, Benetton Group has been included among the world's top three companies in the Greenpeace Detox campaign ranking.

2.1/The Group's business model



Seamless

In October 2016 Benetton Group launched the Seamless line: this limited series of garments (200,000 a year) is manufactured within Benetton Group at the Italian production site of Castrette di Villorba. The industrial logistics center in Castrette, around 1,500 m² in area, has been fitted with 36 Shima Seiki machines, next-generation looms used for the creation of the limited edition seamless "TV-31100" sweaters, designed and manufactured in Treviso, with which the United Colors of Benetton brand aims to place knitwear, know-how and innovation at center stage once again. The "TV-31100" (which takes its name from Treviso postal code where Benetton was founded in 1965) is produced using the innovative Whole Garment Technology, a weaving technique that minimizes the wool wastage thus reducing environmental impact and ensuring a perfect fit.

Production in India

The only Group's production facility is located in the industrial district of Gurgaon (India) and covers an area of almost 3,000 m². Opened in 1993, the site employs over 50 full-time technicians, designers and workers who produce garments exclusively for the local market. Currently the site has a sampling room, a cutting room, an embroidery section, a printing section and a storage area for raw materials.

Store

United Colors of Benetton

Research & Development

The new On Canvas format is the evolution of the Benetton store, a meeting of history and modernity, quality and attention to the customer. An all-Italian project in terms of style, design and elegance, the format comprises an innovative structure that is designed to be welcoming, functional and dynamic, a place where the customer is the focal point of an authentic design, technology and emotive experience in a store that is continuously changing in terms of its spaces, colors and materials.



Development

The central element of the Benetton store is the loom, a tribute to knitwear and color, cornerstones of United Colors of Benetton's history. A symbol of tradition and artisanship and now also an emblem of innovation, seasons, collections, colors and materials are constructed around the loom using a solid yet light structure, simple and almost invisible. The new format has been rolled out to a large number of the direct stores and some of the indirect ones (FOS and IOS). At the end of 2016, 220 stores worldwide had been opened or redeveloped with the new format.

The high-profile new openings include those in Dubai, New Delhi, St. Petersburg, Rome, Mexico City, Zagreb and Istanbul, to name just a few. These developments constitute an important driver for the renewal of the network, characterized by modern and highly appealing stores.

Visual Merchandising Design

The On Canvas design solutions make all kinds of transformation within the store a possibility: the materials and canvases change, the spaces evolve to create an infinite array of different solutions with the aim of offering customers a unique shopping experience.

Sisley

Research & Development

The new Rich & Raw format was developed to support the repositioning of the Sisley brand from the Mass to the Bridge Premium segment. In recent seasons the Brand has once again been recognized by consumers for its ability to offer a rock and sexy twist on the latest fashions thanks to the improved quality of the product and a concept that is consistent with the distinctive, sensual and modern image of the brand.



Development

An environment that is Rich and refined yet also unconventionally rock and Raw: this is the sensation transmitted by the furnishings, the accessories and the materials used, which infuse a burst of energy, passion and engagement in Sisley stores.

In 2016, the most important refit was the one carried out in the Palermo store. Furthermore, the first store with the new concept was opened in Greece, in the Glyfada neighborhood of Athens. At the end of the year, around 70 stores and corners had introduced the Rich & Raw concept, with the majority in the three main markets: Italy, Korea and Taiwan.

Visual Merchandising Design

Rich & Raw aims at sparking the interest of an increasing number of consumers attracted by a product offering that stands out for marked style identity and superior quality materials, contributing to increasing the value of the brand by paying tribute to the pair of sentiments that the format manages to transmit to customers that enter Sisley stores that have adopted it.

Logistics

Benetton Group's Logistics

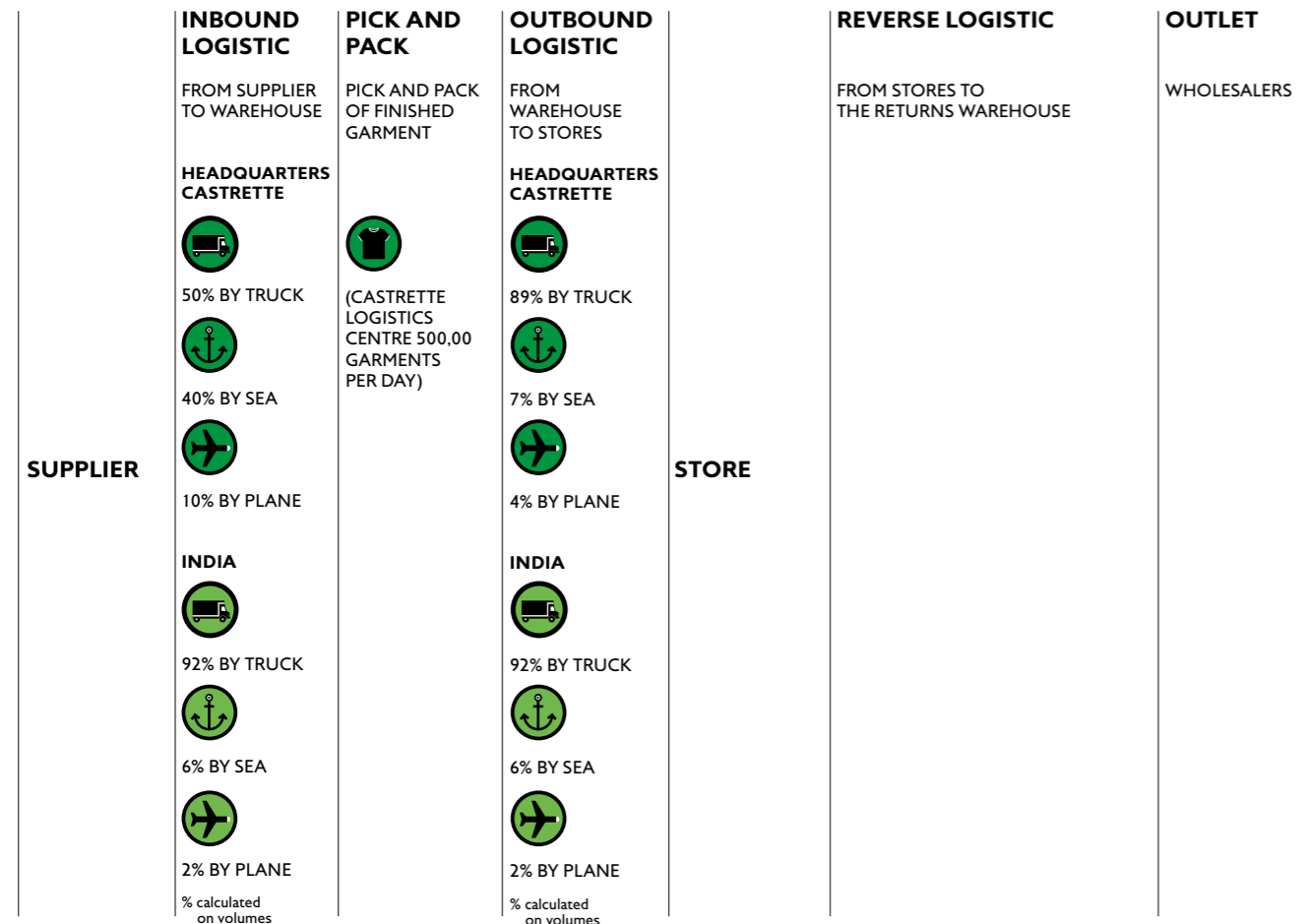
For some years, the business model of Benetton Group has evolved in a perspective that places the consumer at the center of all business processes.

This decision has impacted strongly on the Group's logistics model, which has also had to evolve in order to guarantee a service tailored to the needs of the store, consistent with a production system characterized by the growing importance of the make-to-stock model⁽¹⁾, which is able to ensure better levels of product traceability.

The investments made in recent years to improve the efficiency of the model, organization and automation of this area have allowed to achieve the goal of the increasing centralization of logistics processes and their total integration within the Company's production cycle, from the order collection phase to packaging and delivery to the point of sale. Finally, in recent years a reverse logistics network has been developed that makes it possible to retrieve unsold stock from a single warehouse in Biancade (Treviso) and redirect it to outlets or wholesalers.

As for the distribution of products sold online (e-commerce), the management of the logistics network is completely entrusted to an external partner that is able to guarantee the flexibility, speed and efficiency of the delivery process.

Benetton Group's activities involve the following logistical operations:



⁽¹⁾ M.T.S. (Make-to-stock), a strategy whereby products (for inventory) are manufactured on the basis of sales forecasts.



The warehouse in Castrette is crucial for this logistic model: a completely automated 25,000 m² hub equipped with forty-six 20.5 meter-high stacker cranes for the picking of boxes destined for the approximately 5,200 stores across the world. The Logistics department of Benetton Group also carries out inbound and outbound customs clearance operations internally as part of a completely digitalized relationship with Customs: its recent attainment of EU AEO (Authorized Economic Operator) certification, granted to Benetton

Group since 2009 for being a highly qualified operator with regard to customs regulations, has also allowed to significantly reduce the number of controls on goods, substantially improving its levels of efficiency.

Focus: Main projects of the Group's logistics

The introduction of an automatic replenishment system has made it possible to meet the replenishment needs of stores more efficiently by leveraging on the online reading of sales information and consumer preferences, now available in real time thanks to the online connection between stores and the head office.



To reduce time-to-market and increase the efficiency of the entire distribution process, in 2015 Benetton Group adopted the "Control Tower End-to-End Visibility" solution, allowing the supply chain to be managed from a single visibility point by integrating the upstream perspective (supply) with the downstream one involving stores.

This solution – inserted in Gartner's Magic Quadrant⁽¹⁾ for 2015 thanks to its innovative nature – gives the possibility to check the status of any group of Benetton products at any time, with a level of detail that reaches the individual article.

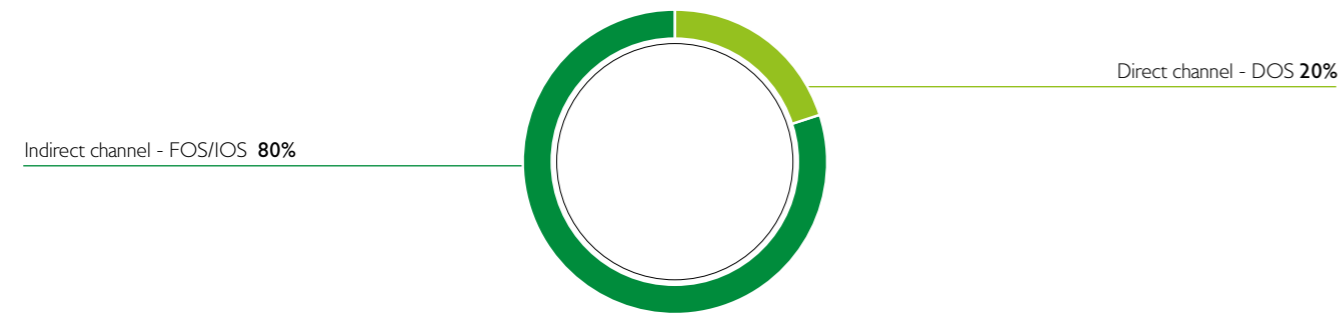
The Quick Win project has made it possible to manage and dispose of stock that has become available through the specific supply per SKU (Stock Keeping Unit) of out of stock garments to the entire network of stores. The Tracking On-Line project makes it possible to receive the results of deliveries made by the Group's logistics partners to all stores across the world online.



⁽¹⁾ Gartner Magic Quadrants is a research methodology and visualization tool for monitoring and evaluating the progress and positions of companies in a specific, technology-based market.

Distribution

Company's distribution network



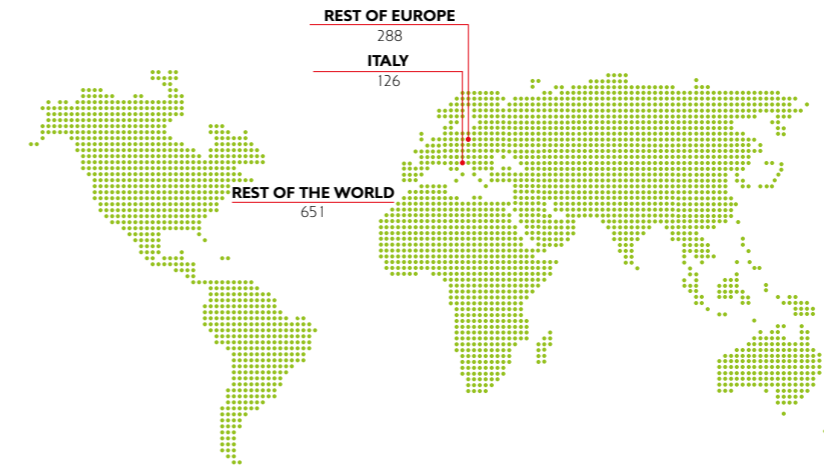
Benetton Group's traditional distribution model was oriented towards sell-in, with the Company carrying out limited controls on the sales channels which consisted mostly of stores managed by independent business partners who were responsible for contact with consumers.

In terms of operations, over time the Group has structured its sales network into three types of channels: the direct channel represented by stores managed directly by Benetton Group (DOS), normally located in big cities and "premium" positions, the indirect channel comprising stores managed by independent partners (IOS) and franchisees (FOS), covering suburban areas and the digital channel via e-commerce sites.

In 2016 the sales network was made up of around 5,000 stores, comprising:

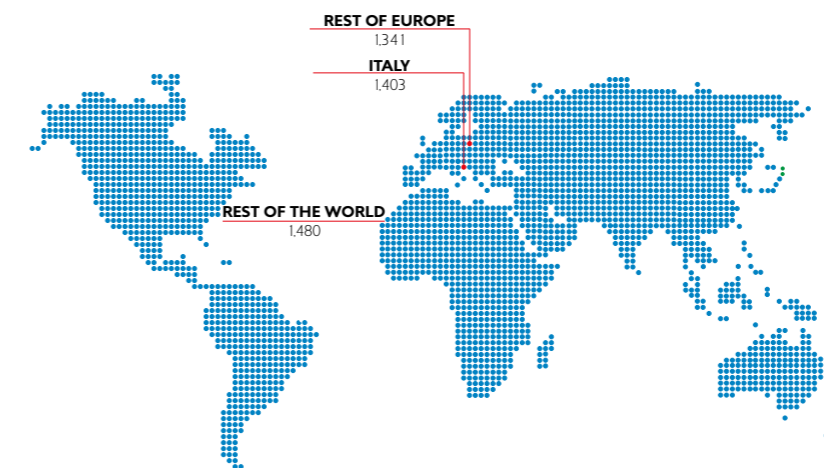
- **direct channel:** directly-managed stores, outlets and corners in department stores (DOS - Directly Operated Stores);
- **indirect channel:** stores managed by clients (FOS - Franchising Operated Stores / IOS - Indirectly Operated Stores).

Stores: Direct channel (DOS)



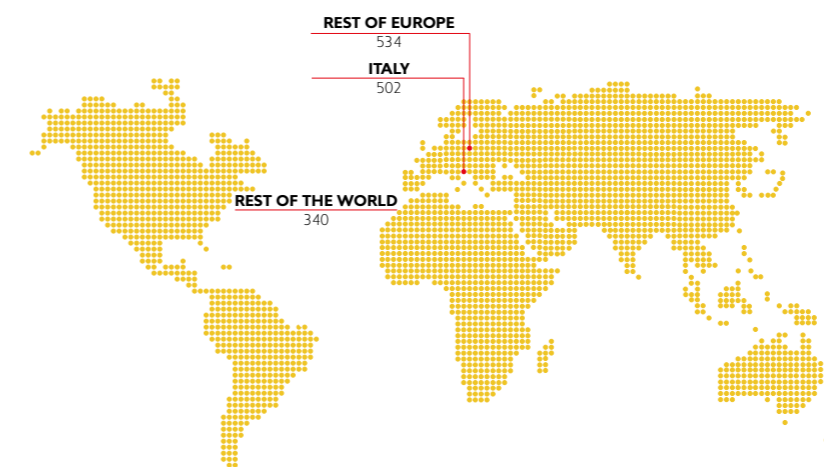
Total 1,065

Stores: Indirect channel (FOS + IOS)



Total 4,224

Sales (millions of euro)



Total 1,376

The new structure is meant to facilitate the necessary evolution of the business model according to consumer-driven perspective with a focus on sell-out, the Company's increased control over sales channels, and the integration and sharing of best practices between the direct and the indirect channel. As matter of fact, a close monitoring of sales channels is fundamental to receive feedback on customer experience and on the Company's ability to promptly react to market changes.

The direct sales channel (DOS)

A new Benetton retail model has been implemented in the direct channel with the definition of standards of service, tools, management processes, training methods and performance indicators. After a pilot design and implementation phase focused on a limited sample of stores, the model has been extended to the direct store network in Italy with positive results in terms of both sales and margins, and is now being gradually rolled out to stores abroad. In general, the reasons behind the migration from indirect to direct channel can be strategic, in the case of stores located in a big city or a privileged location, or connected with the presence of critical issues in the relationship with the business partner.

The indirect sales channel (FOS + IOS)

To strengthen the control over indirect stores, which represent the main part of the network, a franchise model has been developed which provides for stronger integration, a modulated range of supports and the application of the retail model adopted by direct stores.

As regards the indirect channels, in 2016 there was a major acceleration in the switch to the FOS channel. This is confirmed by the fact that the Group reached its 2016 target of 250 stores. The goal for 2017 is of around 400 stores.

In a market situation characterized by uncertainty and instability, the strengthening of the sales channel through franchising can be beneficial for both the partner (who can get greater support and access the Group's know-how) and Benetton, which can consolidate its level of control over the sales network.

E-commerce



Control of the digital channels is ensured by the centralization of direct and indirect e-commerce (formerly managed by individual markets) under a single manager, which is tasked with coordinating operations so as to avoid conflicts between channels (e-commerce and physical) and maximizing the strong potential of digital technology in terms of both markets and communications.

In addition, with the launch of the new website in July 2016, Benetton Group ushered in a new era for the digital channels which will support the strengthening strategy of the United Colors of Benetton brand. In fact, with a design compatible with tablets and smartphones, the new benetton.com website is able to both fulfill business development requirements and communicate the brand's values.

The Group's sales channels were also involved in other projects in 2016:

- the launch in Italy, the Company's reference market, of a geomarketing project aimed at identifying the major areas of potential in which to develop the Group's distribution presence in the next few years; this project will be extended to the major European markets in 2017;
- the launch of the Travel Retail model with the opening of stores at Italy's main airports; this project is of particular importance to Benetton Group as it constitutes an effective tool for promoting brand visibility and a significant business test in a dynamic and high potential market segment.

The monitoring of the global market outside Italy continues to be guaranteed by two regional structures: Europe (outside Italy) and Extra Europe, in order to ensure that international business is managed and supported through the more effective integration of the foreign offices with the headquarters. In Europe, the leading market continues to be that of Italy, where the Group has implemented an extensive and significant distribution strategy.

As for the markets outside Europe, India and Korea remain the Company's second and third markets after Italy. The investment policy to develop a distribution platform combining single-brand stores, department stores and digital opportunities continues.

Others elements that have contributed to the Group's performances in non-European countries include:

- the double-digit growth (+50%) of the retail network in Russia;
- the acquisition of all of the share capital of the Korean branch, regarded as one of the highest-potential markets in the fashion world;
- the rapid increase in sales in the Japanese digital channel;
- the double-digit growth in Mexico where the planned goals were achieved.

Experience

The main goal of Benetton Group is to build a lasting relationship with the consumer that is able to generate value in the mid- to long-term. To achieve this the Company focuses its efforts on ensuring the consistency between the brand's values, the product and the elements that make up the consumer experience in the store, on the street, at home, everywhere.

In line with this goal, in 2016 the Group pursued a marketing strategy consistent with the messages communicated by the collections of the two brands, UCB and Sisley, and in line with the Company's values. Likewise, the new store formats (On Canvas and Rich & Raw) contributed to completing the picture, ensuring effective delivery of the message to the end consumer.

2.2/ The Group's main strategies

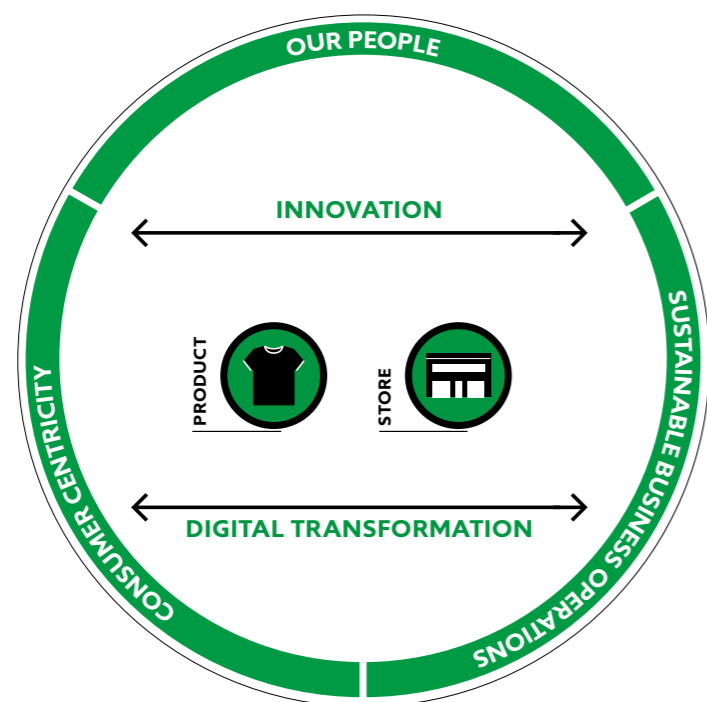
Today, Benetton Group faces a continuously evolving competitive scenario with a business model that has changed dramatically compared to the past. Therefore, steering efforts to concentrate on core activities and create value in the long term represent the challenge that the Company faces now and will face over the next few years.

The corporate reorganization process aims at implementing an operating model that ensures the Company's competitiveness. As a result, the first step is consolidating and strengthening consistency between the product and the corporate identity. Accordingly, Benetton Group's strategy is based on defining its brand identity, as a representation of a life style for its customers while emphasizing its uniqueness. These elements reflect the Group's determination to clarify and reinforce its positioning around the brand's time-honored core values; focus product design on consumer needs and create unique, easily recognizable stores.

"We manufacture quality apparel and are interested in creativity in all of its forms. We believe in intelligence, courage and passion. We aim to become a universal and inclusive brand, through the creation of an elegant, global and Italian style."

In line with its strategic orientation, values and organizational choices made in recent years, Benetton Group defined three priority objectives:

- ➔ **Consumer Centricity:** the consumer is at the center of its business activities;
- ➔ **Sustainable Business Operations:** business activities are carried out with a view to guaranteeing long-term sustainability;
- ➔ **Our People:** a corporate culture is developed consistently with the values expressed by the brand.



Main action areas in 2016

In 2016 the Group continued to pursue its multi-year consolidation and transformation process. Launched in 2015, this process involves the updating of the business model to bring it more into line with the new market conditions and the competition (which require greater speed, strong responsiveness and rigorous oversight of the sales channels) with the necessary reconfiguration of its organization, processes and systems.

The Company has focused in particular on the consolidation of the lines of action already undertaken the previous year:

- ➔ **Product/Brand:** the strengthening and review of the positioning of the United Colors of Benetton and Sisley brands continued in order to leverage on their distinctive features, which have unique value on the global apparel panorama. The gradual differentiation of the traits of United Colors of Benetton and Sisley continued in order to reinforce the most popular attributes that consumers associate with each one: on one side, UCB continued to focus on innovation, quality and sustainability, underlining the founding characteristics and distinctive features of its DNA; on the other, Sisley continued to gradually reposition itself in the Bridge Premium segment, proposing products with a more marked, strong and contemporary stylistic identity. At the same time the refocusing on knitwear as one of the cornerstones of the Benetton brand identity also continued, resulting in two important initiatives:
 - ➔ the launch of the TV-31100 line based on seamless technology (developed by Shima Seiki with an important technical contribution made over the years by Benetton) and manufactured in Italy following an important reshoring initiative;
 - ➔ the launch of collaborations with external designers who, leveraging on Benetton's know-how and tradition in the knitwear field, can express their creativity in the "Nice to knit you" initiative. Stella Jean was the first in a series of future collaborations with other designers;
- ➔ **Sales channels:** the close monitoring of the sales channels is key to understanding the satisfaction level of the end consumer and quickly identifying market trends. Therefore, in 2016 the new Benetton retail model (which redefines standards of service, tools, management processes, training methods and performance indicators) continued to be expanded to the network of direct stores in Italy, where it has now been consolidated, and abroad. In order to strengthen its control over indirect stores, which represent the main part of the network, the Company continued the gradual introduction of the franchise model in collaboration with the partners - both agents and retailers present in key areas. This model entails a stronger integration, a modulated series of support tools and the application of the best practices adopted by direct retail stores.
- ➔ **Store format:** the work to extend the two new store models (On Canvas for United Colors of Benetton and Rich & Raw for Sisley) to the network of direct stores and franchisees has continued.
- ➔ **Processes:** working with greater speed and responsiveness, a condition that goes along with the transition from a push/sell-in approach to a pull/sell-out one, has made it necessary to conduct a complete overhaul of processes and systems in both the logistics and sourcing areas. Building on the work carried out in 2015 in the logistic department, a series of solutions were developed during the year to guarantee a logistics service that is practically tailored to sales requirements (automatic replenishment, prompt reallocation of products to stores, reverse logistics). Regarding Sourcing, work continued to streamline the supplier base on the basis of a more effective selection process, a key pre-requisite to guarantee high levels of service and to shorten the "design-to-shelf" cycle, which will gradually be introduced in the coming collections.
- ➔ **Organization:** the comprehensive review of the business model has had, and continues to have, direct effects on Company organization. The broad transformation entailed the replacement and the enhancement of the management team to make it more international and add industry and specialist expertise to complement and complete the existing know-how. Finally, a Business Transformation department was created to define strategies

and the reorganization process, to orchestrate and coordinate the numerous change projects launched for the adjustment of the business model and structures, and to intensify the ongoing Change Management initiatives.

- ➔ **Sustainability:** the Group continued to pursue the strategic objectives established by the Sustainability Committee for 2015-2016, that are:
 - ➔ sustainable supply chains with particular focus on the situation of women;
 - ➔ product quality and consumer safety;
 - ➔ social engagement initiatives centered on people, according to the UN Sustainable Development Goals reference framework.
- ➔ **Digital Transformation:** the Company continued its work to set up the necessary conditions to effectively embark on the process of the digital transformation of its main processes and the monitoring of its digital communication and sales channels.

2.3/ Risk management

Risk is the combination of the probability of an event happening and the effects it will have. Taking risks is an integral part of business.

Benetton Group focuses the utmost attention on risk management and believes it is fundamental to assess, both beforehand and continuously, the level of risk associated with strategic objectives for the creation of sustainable value. Following the completion of the complex Company reorganization process that saw the core activities, such as management of the brand, the product and distribution, concentrated in Benetton Group, a new risk assessment was carried out in 2016 to identify and manage internal and external risks, as well as to identify corrective actions in order to lower the residual risk level to values regarded as acceptable.

Strategic risks

These are risks that could threaten the Company's current competitive position and the pursuit of its strategic objectives. This category comprises:

Brand strategy

Risks connected with the UCB brand repositioning strategy, which may not have the desired effect if not carried out with the speed or progressiveness required to avoid losing current consumers without acquiring new customers.

Distribution channels

Risks deriving from the failure to meet new store opening goals as well as the uncontrolled growth of the online market, and e-tailers in particular, which may create conflicts with the Company's other strategic objectives, with potential negative effects also on brand positioning.

Supply chain

The ability of the supply chain to respect the delivery times of finished products established by the business calendar (included in the broader concept-to-shelf program) can impact on global profitability.

Country strategy and market presence

The arrival of international brands in the Indian and Korean markets, which are very important to Benetton, requires the delicate transition of the content of the UCB brand collection towards more global styles compared with the current ones which have a strong local influence.

Executive risks

The risks of losses inherent in the Company's operations, deriving from: human error; the incorrect functioning of the organization; internal processes and the use of systems; unlawful behavior connected with fraudulent conduct; legal risks; inappropriate conduct with customers and suppliers that could compromise the ability to meet strategic objectives. This category comprises:

Business organization

- ➔ the resistance to change of staff could limit or slow down the business transformation process taking place in the Company;
- ➔ the ability to attract and retain key people;
- ➔ the development of inadequate organizational structures.

2.3/Risk management

Product and product quality

The Group's inability to identify the tastes of consumers and offer them products that satisfy their needs in terms of quality, considering the characteristics of the fabrics and materials used as well as their comfort.

Time to market

An overly long time to market may prevent the Company from quickly following market trends with subsequent loss of sales opportunities.

Business interruption of the logistics platform

Business interruption due to natural disasters at the Castrette logistics platform, which acts as a hub for the majority of distribution flows.

Corporate Social Responsibility

The inappropriate management of Corporate Social Responsibility issues could cause serious reputational damage.

Financial risks

This is the risk category most immediately perceived by businesses, also thanks to the implementation of the International Accounting Standard (IAS) and the requests for additional information in financial reports deriving from national civil law.

Financial risks include risks connected with exchange rates, interest rates, counterparties and liquidity risk. The most keenly felt risk is that relative to foreign exchange transactions with reference to FX sales in the event of the strong devaluation of their reference currency and relative to acquisitions in dollars, in the event of the revaluation of this currency.

Legal/compliance risks

The compliance risk is the risk deriving from the failure to comply with laws, regulations and internal rules. This can result in negative effects connected with fines, penalties, economic losses and, in more serious cases, damage to the Company reputation with subsequent losses, requests for compensation, damage to the Company image etc. Legal/compliance risks include:

Company procedures

The possible inadequacy of Company procedures designed to guarantee respect for the main Italian and international regulations to which the Group is subject. Also of particular relevance are problems connected with security, antitrust and privacy regulations.

Fiscal compliance

The Group's presence on the international panorama means it is exposed to various tax obligations. The evolution of related regulations may expose the Group to the risk of default.

2.3/Risk management

Control model

Delays in the development and roll-out of the new Control Model in the subsidiaries of the Group could result in the inconsistency and/or unavailability of data to support decision-making processes.

External risks

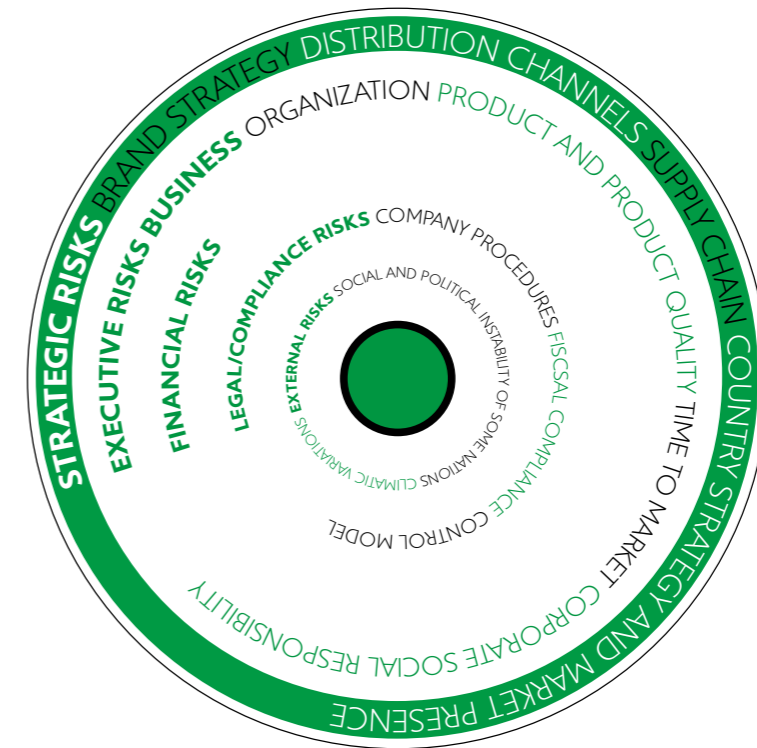
These risks concern the effects of external events that may impact negatively on the Group's activities. This category comprises:

Social and political instability of some nations

Delays in the regular delivery of finished goods due to political instability in some of the countries where the Company's suppliers are located.

Climatic variations

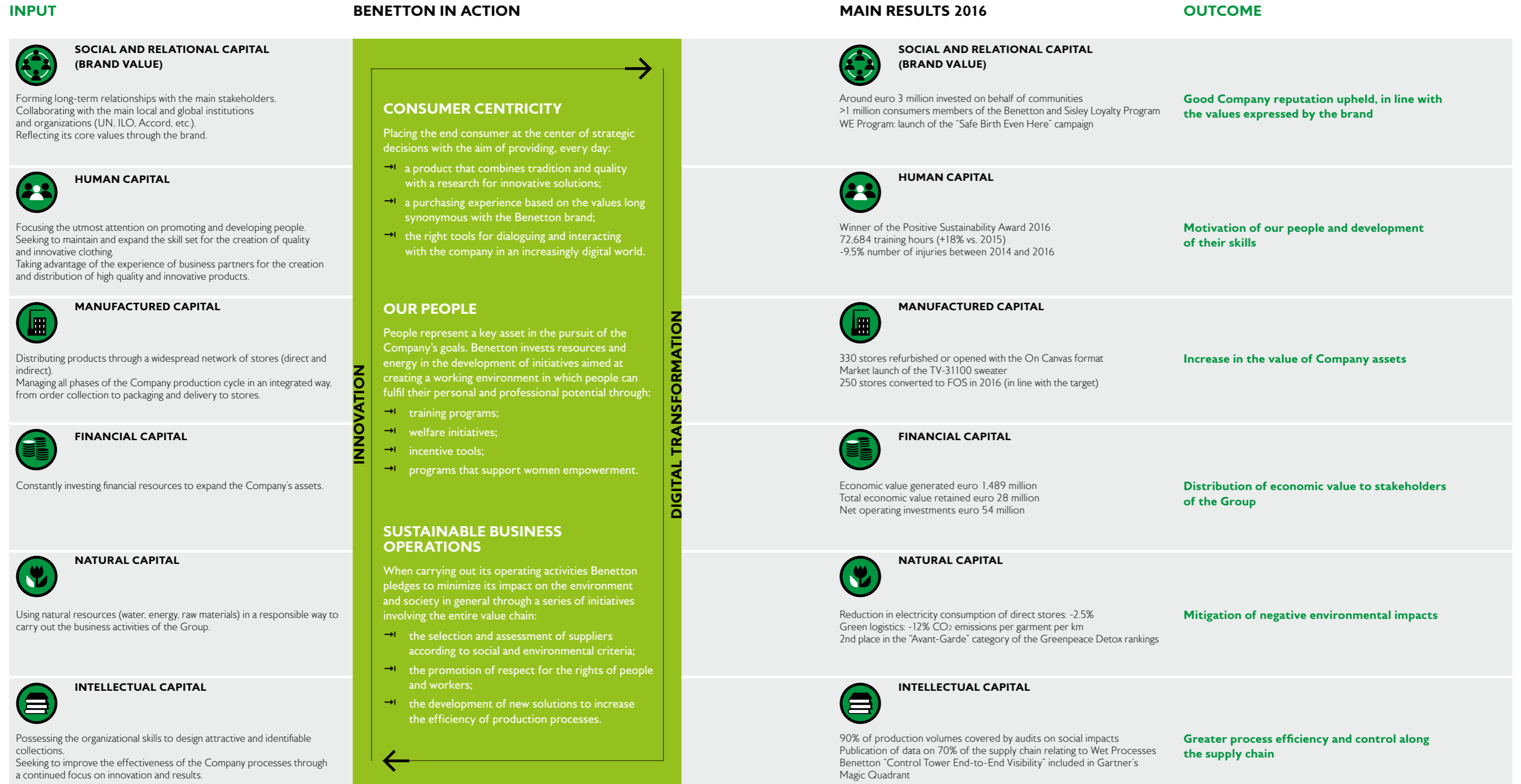
The Group's business is to some extent sensitive to the weather. For example, an excessively mild winter may lead to lower sales of higher-margin products, with a negative effect on economic results and the financial position of the Company.



2.4/ Value generated by Benetton

To carry out its business activities, Benetton Group transforms a series of tangible and intangible resources (capitals), which it accesses directly (through ownership) or indirectly (through trade relations, partnerships,

purchases), into outputs. The result of transforming resources into outputs is the generation of positive and negative outcomes that can create and/or consume value.



The most direct outcome generated by the Group is the impact on financial capital in the form of the economic value distributed to stakeholders.

Economic value generated and distributed by Benetton in 2016

(thousands of euro)	2015	2016
Economic value generated	1,616,803	1,489,759
Economic value distributed	1,553,300	1,461,274
Operating costs	1,285,082	1,187,932
Value distributed to employees	232,426	224,017
Value distributed to providers of capital	13,347	12,807
Value distributed to government	16,728	33,548
Value distributed to the community	5,717	2,970
Total economic value retained	63,503	28,485

In 2016, the economic value distributed by Benetton Group was euro 1,461 million (-6% vs. 2015) and the economic value generated euro 1,490 million (-8% vs. 2015), while the economic value retained amounted to approximately euro 28 million (-55% vs. 2015). The reduction in the economic value distributed is mainly due to:

- ➔ the reduction in sales of the 2016 Spring/Summer and Fall/Winter collections to IOS customers, also following the fall in the number of managed stores, some of which have been transferred to the DOS and FOS channel;
- ➔ the increase in sales support provided to partners;
- ➔ the increase in e-commerce sales;
- ➔ the negative performance of stores under direct management, particularly in Italy, France, Germany, Poland and Turkey; the results of the latter were influenced by the unfavorable political and economic situation in the country;
- ➔ the completion of the closures program.



Despite the external elements that negatively influenced the Group's economic performance in 2016, the Company accelerated its capital expenditures (+39.2% vs. 2015), strongly driving the renewal of the network (330 stores were opened or redeveloped with the new On Canvas store concept, 211 of which directly managed and with the shop-in-shop format).



2.5/ Looking to the future

After a two-year period focused on the consolidation of a completely transformed business model and the repositioning of the two Group's brands, the Company will continue on the path it has undertaken towards its relaunch and the generation of long-term value. More specifically, with the focus increasingly on the end consumer, the cornerstones of this process will be centered on the product and the store, on a **more effective** management of the **time-to-market**, on **monitoring the sales network**, on **digital transformation**, on the implementation of **different development strategies** on the basis of the potential of each countries, and on the **promotion of human capital**.

The product and the store will continue to be increasingly connected and distinctive for their innovation, quality and sustainability, key components of the brand. Offering an experience that is distinctive, unique and clear, and which meets the expectations of the end consumer, will continue to be among the main goals of the Group. These also include reducing "design-to-shelf", the time between the design of a collection and its actual arrival in stores, with the risk that it is no longer fashionable or that it does not meet the real needs of consumers.

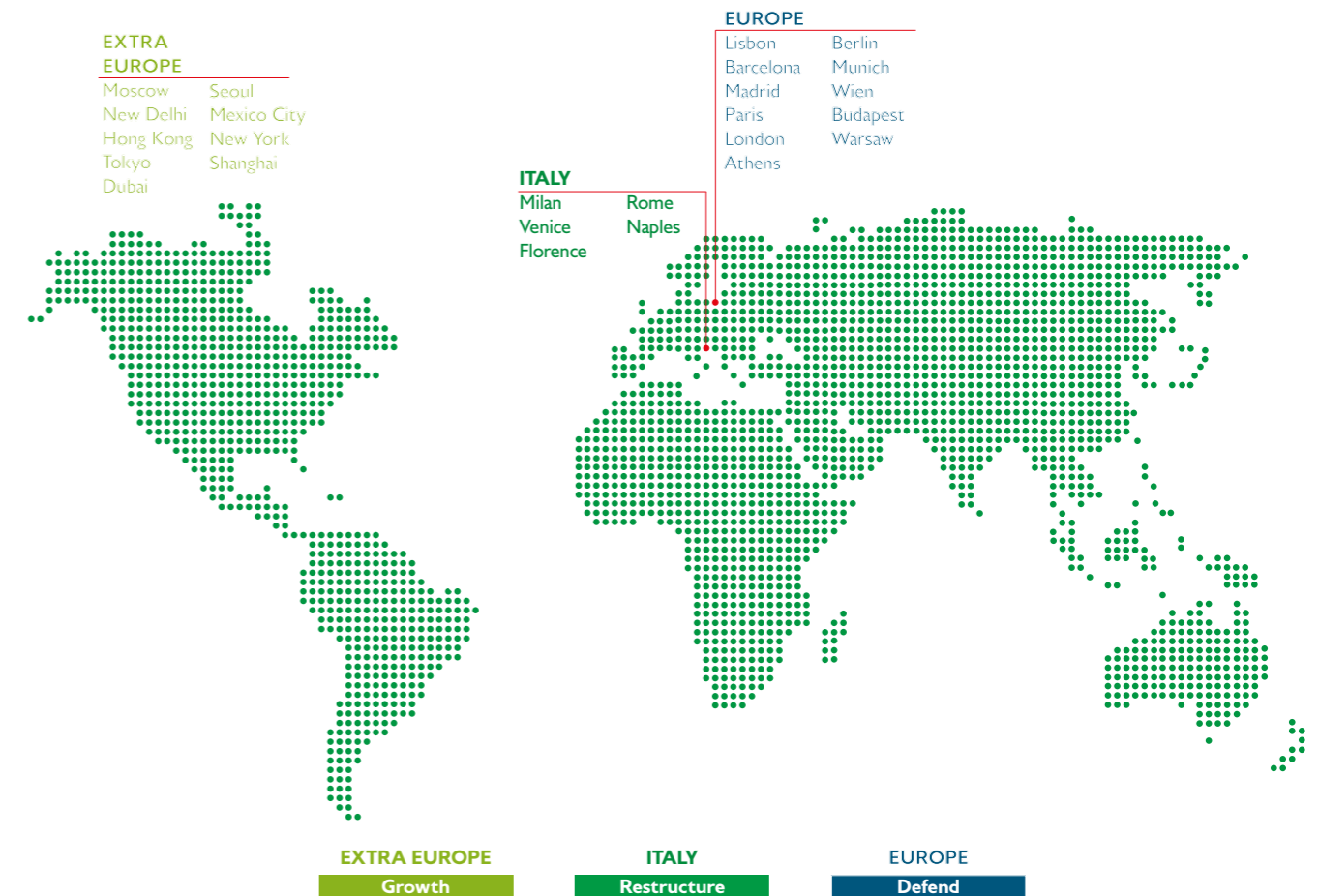
All of this will naturally have repercussions on the sourcing strategies of the Company, which will have to: a) intensify its efforts in the selection of quality materials; b) request greater speed in all phases of the production process; c) promote sustainable behavior along the supply chain; d) increasingly shape its relations with strategic suppliers into collaborative relationships in order to drive innovation from the bottom.

Benetton Group will seek to expand the network of franchisees and extend the network of direct stores, also developing the indirect network with the support of the agencies and with an ad hoc format. In this way the Group will be able to extend service and format best practices (currently implemented in some direct stores) to all stores on the network, guaranteeing consistency in terms of levels of performance and the management of customer relations.

In line with the developments of recent years, both internal operating processes and the customer journey will be affected by the Digital Transformation program organically. The goal of the Company is to manage Customer Relationship processes, e-commerce channels, the relations with indirect sales channels and all internal processes in an integrated way through specially designed digital platform. To this end, a new CRM platform is currently being implemented.

So as not to waste resources and energy, in the next few years Benetton Group will seek to focus on countries and cities with a higher potential. To this end, three different development strategies have been selected: defend the results achieved in Italy and focus on big cities; restructure European markets; drive the growth process in non-European markets with high growth potential.

Benetton Group's three growth strategies



Of course, these goals cannot be achieved without constant focus on the Company's most important asset: people. They are the heart and engine of the Company and Benetton Group will continue to dedicate itself to them in the next few years through training, engagement, incentive and development programs, and in line with its objectives.



3/ Strategic priorities and results

In September 2015 the United Nations approved the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). The implementation of this agenda requires nations, production sectors, businesses, financial institutions, NGOs and civil society to redirect their programs and plans towards these goals.

SUSTAINABLE DEVELOPMENT GOALS



Benetton Group has decided to contribute to achieving these goals. In setting out its charter of commitments for the coming years, the Group has chosen to associate its actions with the SDGs closest to its core businesses and strategic action areas.



SDG 5 – Gender equality

Gender equality is a necessary step for creating a peaceful, prosperous and more sustainable world for everyone. For this reason Benetton Group has launched the Women Empowerment Program, a long-term sustainability program designed to support the emancipation and legitimization of women around the world.



SDG 8 – Decent work and economic growth

Meeting higher economic productivity standards through diversification, technological process and innovation. Promoting development policies that support production activities, the creation of dignified jobs, creativity and innovation. Promoting a healthy and safe working environment for all workers, also at the suppliers. These are all goals that characterize the management of Benetton Group's business activities, to which the Company is constantly committed to from the front line.



SDG 12 – Responsible consumption and production

Benetton Group leads the way in the global commitment to the elimination of the use of dangerous chemical throughout the textile sector by 2020. The Company also implements policies for the sustainable management and the efficient use of resources and energy, as well as for the reduction of waste production also through recycling and reuse, where possible.



SDG 13 – Climate action

Benetton Group has a long tradition of focusing on the environment. The Company's contribution to combating climate change takes form through the implementation of initiatives to reduce energy consumption and climate-altering gas emissions, as well as through the reduction of the environmental impact connected with its logistics activities and the distribution of its products.



SDG 17 – Partnerships for the goals

A successful Sustainable Development Agenda requires partnerships - built upon principles and values, a shared vision, and shared goals - that put people and the planet at the center. Benetton Group also works towards this goal, developing partnerships that can contribute to the achievement of the sustainable development goals.

Our initiatives

CONSUMER CENTRICITY					
	Scheduled	Started	In progress	Fully implemented	Capital
Innovation					
Mineral Dye			■		● ●
Expansion of new UCB and Sisley Store concepts			■		●
Implementation of new digital platform		■			●
Commitment and transparency					
Product safety tests				■	●
Dress Safely project				■	●
OUR PEOPLE					
	Scheduled	Started	In progress	Fully implemented	Capital
People strategy					
Stretch your time		■			●
Stretch your space		■			●
Welcome back, Mom!				■	●
"Benetton for You" health insurance plan			■		●
Baby Welcome Gift				■	●
Training program for children of employees				■	●
Training and professional growth					
Training programs for HQ employees				■	●
Performing Up			■		●
Training program for store employees			■		●
Retail Growing UP			■		●
Retail Performing UP			■		●
In Store UP			■		●
Rewarding and engagement					
Incentive plan			■		●
Restyling of the Company intranet		■			●
KNIT - Internal newsletter				■	●
Zero Injuries target					
Zero Injuries target program			■		●
Respect for human rights					
India - POSH: Policy on Prevention of Sexual Harassment at Workplace				■	●

RESPONSIBLE BUSINESS OPERATIONS					
	Scheduled	Started	In progress	Fully implemented	Capital
Management of social impacts					
Benetton WE Program - "Sustainable Livelihood"		■			●
Accord on Fire and Building Safety				■	●
CSR Audit Program				■	●
Extension of the CSR Audit Program to Benetton Korea Inc.	■				●
Management of environmental impacts					
Reducing Store and HQ CO ₂ emissions			■		●
Reducing energy consumption			■		●
Improving Data Center energy efficiency			■		●
Waste management			■		●
Reduction logistics CO ₂ emissions			■		●
Saturation of transportation vehicles				■	●
Reduction of packaging				■	●
Use of Green Energy	■				●
Participation in Detox Program				■	●
Sustainability of raw materials					
Ban on fur				■	●
Participation in RDS – Responsible Down Standard	■				●
Use of organic cotton		■			●
Participation in BCI – Better Cotton Initiative	■				●

Natural	=	●
Intellectual	=	●
Manufactured	=	●
Human	=	●
Social	=	●
Financial	=	●

3.1/ Consumer centricity



For some years, Benetton Group's business model has evolved with the aim of placing the consumer at the center of the Company's strategies and evaluations.

This evolution saw the achievement of an important first goal in 2016 with Benetton and Sisley Loyalty Programs reaching over a million members, a result attained thanks to the involvement in the project of over 500 retail and franchise stores in six countries (Italy, France, Germany, Poland, Spain, Switzerland).

The goal for the next few years is to leverage on this first significant result to develop an increasingly long-lasting relationship with consumers that is able to generate value in the mid- to long-term.

The first step in this direction will be the more effective monitoring of the "Customer Journey" in the context of a more complete integration between the online and offline world; these results will be pursued through the synergic management of the main touchpoints through which consumers come into contact with the Company and the integration of information and data available in a single customer database.

The analysis of consumer behavior and preferences will guarantee Benetton Group notable benefits: closer control of its direct sales network through the use of sell-out data to monitor consumer loyalty and habits; support for planning actions in the Digital area (from the acquisition of data to listening/clustering actions and through to communications); the strengthening of consumer tracking in order to measure Brand Equity.

To this end, as part of the Company's Digital Transformation process, 2017 will see the completion of an ambitious project involving the Consumer Insight, Digital and IT Departments aimed at the implementation of a new CRM platform.

Market research

In order to validate the Company's main strategic choices and relative action levers, every year Benetton Group carries out numerous market research projects, through a consolidated database of around 1.2 million European contacts for surveys and direct interviews. The main goal is understanding the market logic that governs the choices of consumers and identifying action areas on which to concentrate Company resources in order to influence the consumer's willingness to pay. As such, in recent years research and surveys have been carried out to support some of the main product design choices made by Benetton Group, such as the use of organic cotton, the adoption of synthetic fibers and the membership of the Better Cotton Initiative (BCI).

3.1.1/ Innovation

Product and store innovation is a key element in Benetton Group's strategy.

Product innovation

Product innovation is an important part of Benetton Group's mission: in fact, one of the Company's main goals is the combination of quality and tradition, since ever key elements of Benetton products, along with the ongoing pursuit of economic, social and environmental sustainability.

This explains the Company's long-held commitment to experimenting - in close collaboration with its suppliers - with innovative new processing techniques. Evidence of it are the projects launched by the Group in 2016 and, namely, TV-31100 and Mineral Dye.



TV-31100

The TV-31100 sweater is the result of an advanced development area created at the Castrette site: an innovation based project in line with the brand's legacy. There is much of the brand's original identity in this project: manufacturing tradition, color, high quality and above all the "made in Italy" seal: these items are produced at the Castrette di Villorba site in a specifically dedicated division.

Back to origins with a modern twist thanks also to the seamless technology that ensures total comfort, avoiding any friction between the sweater and the skin.

Environmental sustainability is guaranteed by Whole Garment Technology to avoid wool wastage. This is a true example of innovation, resulting in a perfect sweater for men and women, characterized by quality yarns and a clean and versatile color palette.

Mineral Dye

Color and environmental sustainability are key elements for Benetton. This was the starting point for the launch of a project to use natural alternative dyes for the garments. The FW 2016 collection features T-shirts produced exclusively with plant dyes. The project also included the use of minerals and different types of soil in the dyeing process. The range of colors varies according to the element used: from bright mineral tones to the warmer and more pastel earth hues. The possibility of drawing on the natural world represents an important alternative to man-made dyes. For this reason Benetton Group invests in research and development to design tools that guarantee garment safety and quality.





Innovation via design

United Colors of Benetton by Stella Jean

In December 2016 Benetton Group launched its first collection in collaboration with an external designer, Stella Jean, recognized as one of the most innovative figures on the world fashion scene. The Italian-Haitian designer reinterpreted two of the Group's most distinctive elements, knitwear and color, contaminating them with the traditional textiles of the southern hemisphere.

The capsule collection, dedicated to women, comprises

knitted coats, pullovers, dresses and skirts with ethno-folk decorations made entirely from fine yarns and complete with accessories created in collaboration with a community of Haitian and Ethiopian artisans.

The line is distinctive for the decorations that embellish all of the garments, inspired by the Navajo style and in particular the culture of the Yeii, the spirits that for Native Americans symbolize benevolence and protection for those that wear them.

The philosophy of the collection and the meeting point between Benetton Group and Stella Jean is that of social and cultural crossover and the restoration of the manufacturing traditions of countries in the southern hemisphere, with whose communities the designer has worked for many years.

Store concept

The same dedication to product innovation is applied to the creation of the store format, where the main goal is the development of cutting-edge and sustainable solutions that are consistent with the collections and brand identity.

Case history: Restoration of historic building



Trevi Fountain

In 2016 Benetton Group redeveloped a store inside a historic building close to the Trevi Fountain, in the square of the same name in Rome.

Classified as a monument, the property is part of a 4-floor 16th century building opposite the Fountain. In accordance with the Architectural and Landscape Heritage Office, Benetton Group restored the internal walls and vaults and prioritized materials in keeping with the origins and history of the building. The remains of the medieval arcade on the ground floor and a column discovered in the basement were also restored.

The On Canvas concept, with its light load-bearing metal structures, makes it possible to further emphasize the building's history.

Digital and media management

In 2016, Benetton Group invested in the development of a digital platform, which will come into use in the next operating period and which will make it possible to manage the e-commerce channel and customer relations in a synergic manner. Thanks to this investment, the Company will therefore be able to identify trends and end consumer preferences faster, enabling it to customize and channel its product range more effectively.

The launch of the new benetton.com website in July 2016 represented an important development in support of the strategy to reinforce the positioning of the United Colors of Benetton brand: in fact, with a design compatible with tablets and smartphones, the new website is able to both fulfill business development requirements and communicate the brand's values.

The benefits of this launch are supplemented by those deriving from the implementation during the year of an organic strategy to use the digital channels - from the social networks and newsletters to online advertising and the planning of multimedia content - together in a targeted and effective marketing campaign.

The goal for 2017 is the strengthening of the integration of the digital channel with the logistics platform in terms of both technology and traditional distribution.

Online sales

As regards the online sales channel, the benetton.com e-commerce site is currently active in 27 markets and in 2016 generated revenues of euro 12.5 million, with an increase of around 50%, significantly higher than the market growth figure of approximately +15-20%. This was achieved thanks to the focused management of the channel and a closer collaboration with the external partner that is completely responsible for managing it in outsourcing.

3.1.2/ Commitment and transparency

Product safety

Benetton Group believes that highest product quality can only be achieved if said products are "sustainable", i.e. safe and manufactured in ethical contexts with respect for the environment.

One of the Group's main priorities is therefore that of offering its customers increasingly safe products. This pledge inspires workers on a daily basis and involves encouraging and monitoring, in all products, the respect for the most stringent international product safety standards, through the application of specific procedures for controlling raw materials and garments aimed at ensuring their complete compliance with applicable standards. To this end, Benetton Group performs strict controls on its entire value chain - from the design of its garments and the procurement of raw materials to low environmental impact in the production and distribution processes and to transparent communications - and continuously updates the Company processes, in order to guarantee their complete alignment through the most accredited third-party institutions.

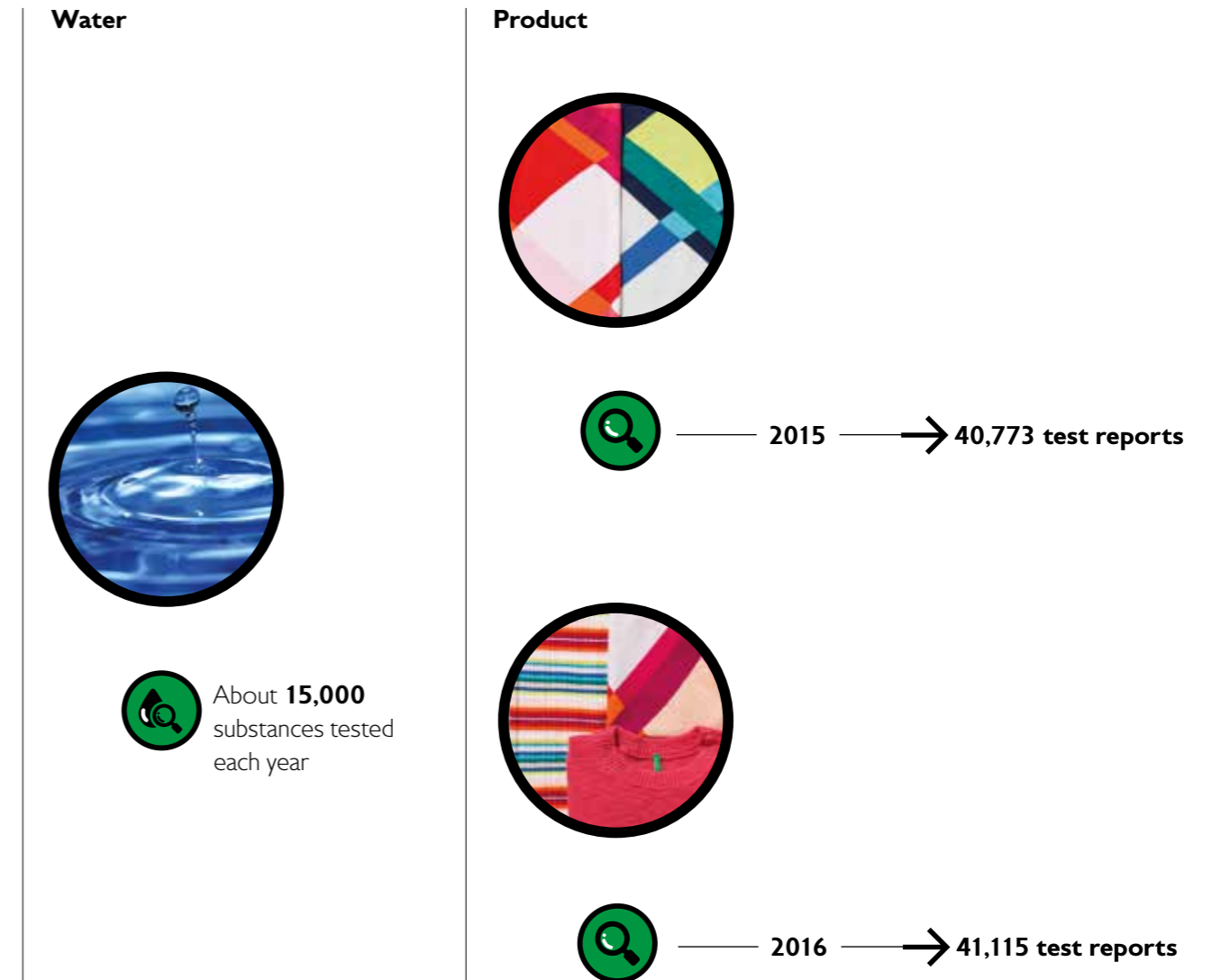
Specific internal tools have been adopted to define the product features required to ensure respect for the strict obligations the Company has voluntarily set itself through the "Dress Safely" project. In addition, Benetton Group has committed to the Detox program promoted by Greenpeace, underlining the Company's commitment to eliminating even the potential risk of using harmful chemical substances in the supply chain (for more details see the "Sustainable Business Operations" chapter).

"Dress Safely" project



Benetton Group launched the "Dress Safely" project in 2012 as a commitment to providing transparent information to those who choose its products, starting with those consumers that require the greatest protection: children. A special tag, applied to articles in the children's product lines (United Colors of Benetton, Sisley Young and Undercolors of Benetton), and since 2015 also to the adult line of Undercolors of Benetton, guarantees the application of high chemical and mechanical safety standards, as verified in recent years by the UL Group, an important and recognized independent body that certifies the safety of consumer goods.

The purpose is to consolidate its relationship with consumers, through information on product safety, in the belief that transparency is one of its defining core values.



Responsible communications

Over the years, Benetton Group has stood out for taking up social issues, for its partnerships with organizations actively engaged in solidarity and for its support for causes that otherwise could not have been communicated on a global scale. This has given meaning and value to the Benetton brand, helping to build a serious and ongoing dialogue with different players throughout the world. Since 2011, with the launch of the Unhate Foundation, the Group has sought to consolidate and strengthen its social commitment through a body dedicated to the spread and promotion of the values that make up the DNA of Benetton Group.

Since the campaigns of the 1980s, Benetton Group's communication has evolved along a definite and coherent path: from stances on social issues to active collaboration with organizations committed to solidarity.

A history of social commitment:

2014

I BELONG.

This campaign, developed by Fabrica for United Colors of Benetton, supports the UNHCR program to end statelessness by 2024. Through the creativity, images and communication tools it has developed, Benetton Group helped engaging public opinion and it assisted UNHCR in achieving its goal of 10 million supporters in ten years.



2014

END VIOLENCE AGAINST WOMEN NOW!

The United Colors of Benetton global communication campaign for the UN International Day for the Elimination of Violence against Women.



2015

A COLLECTION OF US.

The global campaign accompanying the new collection of United Colors of Benetton is a unique blend of knitwear and social commitment. The five female protagonists want to promote a message of female empowerment, a focal point of the Company's sustainability strategy.



2015

ONE WOMAN FOR ALL. ALL WOMEN FOR ONE.

The United Colors of Benetton global communication campaign to celebrate the UN International Day for the Elimination of Violence against Women is focused on equal opportunities and non-discrimination.



2016

SAVE BIRTH EVEN HERE.

Conceived and developed by Fabrica, this campaign seeks to raise awareness on the issue of the health of women and girls during pregnancy and childbirth in emergency situations. Three artistic images and a film reinterpret the issue of childbirth in an emergency context; the campaign material will also become an installation.



2016

UNITED TO END VIOLENCE AGAINST WOMEN.

The campaign by Fabrica to support the International Day for the Elimination of Violence against Women.



Behind the power and effectiveness of every campaign developed by the Group there is Fabrica, Benetton Group's communications center, which through innovative and unconventional activities that exploit multiple forms of expression - photography, cinema, design, music, publishing products, internet - has contributed to the success of every single initiative and the growth and spread of the brand.

Fabrica

Born in 1994 from an idea by Luciano Benetton, Fabrica is a communication research center that offers a one-year scholarship to a highly diverse and international group of researchers under 25 years. The range of disciplines comprises design, graphics, interaction, photography, music and video. The variety of cultures, experiences and approaches makes Fabrica a unique center on the international scene. According to the principle of learning by doing, Fabrica offers the opportunity to develop personal projects or projects commissioned by external organizations and companies, employing the most advanced technology tool. The researchers' daily work is supervised by a team of tutors who use innovative and engaging methods to stimulate and encourage them to develop their projects.

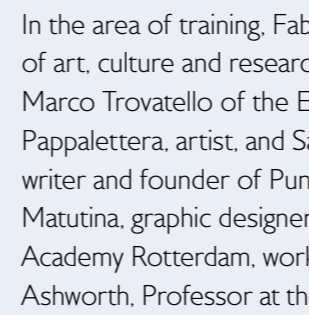
Three areas of activity: Design, Editorial and Social Campaigns.

Design works on projects such as exhibitions, collections of objects, installations, apps and websites for important clients like Airbnb, Daikin, Veuve Clicquot, Art Basel, Expo Milan, Ace Hotel and Tate Britain, for which Recognition was designed, an artificial intelligence project and winner of the 2016 IK Prize that compares current Reuters photojournalism with British art in the Tate collection, which attracted the attention of the prestigious New York Times.

Editorial investigates social and cultural changes through reportage, photographic projects, narrative works and videos, and also produces documentaries like "La Gente Resta" by Maria Tilli, winner of the Special Jury Award at the 2015 Turin Film Festival. Editorial also oversees the production, communication and organization of Imago Mundi - Luciano Benetton Collection, the collection of 10x12 cm canvases intended as a catalogue of contemporary art. The collection now comprises works by over 20,000 artists from 120 countries.

Social Campaigns aims to reinvent the contemporary communication campaign by focusing on various socially important issues. From violence against women with "Facing", an art installation in collaboration with SmileAgain fvg, to "Too Young to Drink", a campaign to raise awareness about fetal damage caused by alcohol consumption during pregnancy.

The team regularly contributes with creative multimedia content to Benetton Group's internal sustainability project and to Benetton Women Empowerment Program, a long-term program through which the Group supports a series of concrete initiatives



designed to achieve important objectives for women, based on the Sustainable Development Goals of the United Nations for 2030.

Fabrica regularly hosts international-level events such as the Italia Innovation Program of Innovation Foundries: in June and July 2016 some of the most iconic Italian brands, including Ermenegildo Zegna, Illy Caffè, Palazzo Grassi and Punta della Dogana, Thun, Distillerie Nardini and Santa Margherita Wine Group, met with students from the world's leading universities who received mentoring from business leaders, professors and international journalists. Additional events were hosted on behalf of companies like

Mediolanum, Google, the Italian Department of Education, ADI.

Fabrica is a Higher Education Training Body recognized by Italy and the Region of Veneto, and is therefore qualified to provide training to students with high-school and/or university qualifications through courses funded by the European Social Fund (ESF). In the last four years Fabrica has held over 2,500 hours of courses with an employment rate of 90%.

In the area of training, Fabrica organizes workshops and conferences, open to external participants, where the worlds of art, culture and research come together to develop new ideas. In 2016 Fabrica hosted: Fabrizio L'Abbate and Marco Trovatiello of the ESA (European Space Agency); Massimo Banzi, co-founder of the Arduino project; Sergio Pappalettera, artist, and Saturnino, bass guitarist, collaborators of Lorenzo Jovanotti; John Holmstrom, illustrator, writer and founder of Punk Magazine; Aric Chen, design and architecture curator at M+ Museum, Hong Kong; Dan Matutina, graphic designer and illustrator, Philippines; Nike Italy, executive education workshop; Willem De Kooning Academy Rotterdam, workshop; Alex Lobos, Associate Professor at Rochester Institute of Technology, USA; Cathleen Ashworth, Professor at the School of Film and Animation, Rochester Institute of Technology, USA; Christine

Heusner, Senior Lecturer at the College of Imaging Arts and Sciences, Rochester Institute of Technology, USA; Mandy Magyar, Assistant Professor of Industrial Design, Rochester Institute of Technology, USA; Amy Larkin, producer, activist and author, USA; Marion Hislen, curator and director of Circulation(s) Festival, France; Nikola Tomic, founder of BEMapps.com; Simone de Dreuille, architect, France; Amanda Sans, director, screenwriter, journalist and producer, Spain.

The first Reunion in the 22-year history of the research center took place in June 2016. Over 300 creatives from 40 countries took up this opportunity with enthusiasm and affection, special guests including Alejandro Aravena (Pritzker Prize Laureate 2016 and Director of the Biennale of Architecture) and Erik Kessels (artist, curator and founder of the Kesselskramer communications agency).

2016 concluded with MERRY FABRICA - Pop up Christmas market, a day of shopping, conferences, live music and street food organized in collaboration with Paw Chew Go and Treviso Comic Book Festival and which brought over 3,000 people to Fabrica.

3.2/ Our People



The management of human capital represents the biggest challenge in supporting all the changes introduced with the new business model and implementing the Company's strategies. In fact, there is no Business Strategy that isn't adequately supported by a **People Strategy**.

To this end, in 2016 Benetton Group focused its attention on the following actions areas:

- ➔ the evolution and internationalization of the Company's organization (cf. Main strategies pursued by the Group);
- ➔ People Care;
- ➔ training and professional growth;
- ➔ the launch of a structured process to evaluate performance and potential;
- ➔ the development of new reward strategies;
- ➔ engagement and internal communications.

All initiatives involving human capital management, designed to foster the development of the business strategy, are inevitably inspired by social sustainability principles, such as the guarantee of equal opportunities and the respect for workers' rights, that have always permeated Benetton Group.



3.2.1/ Our numbers

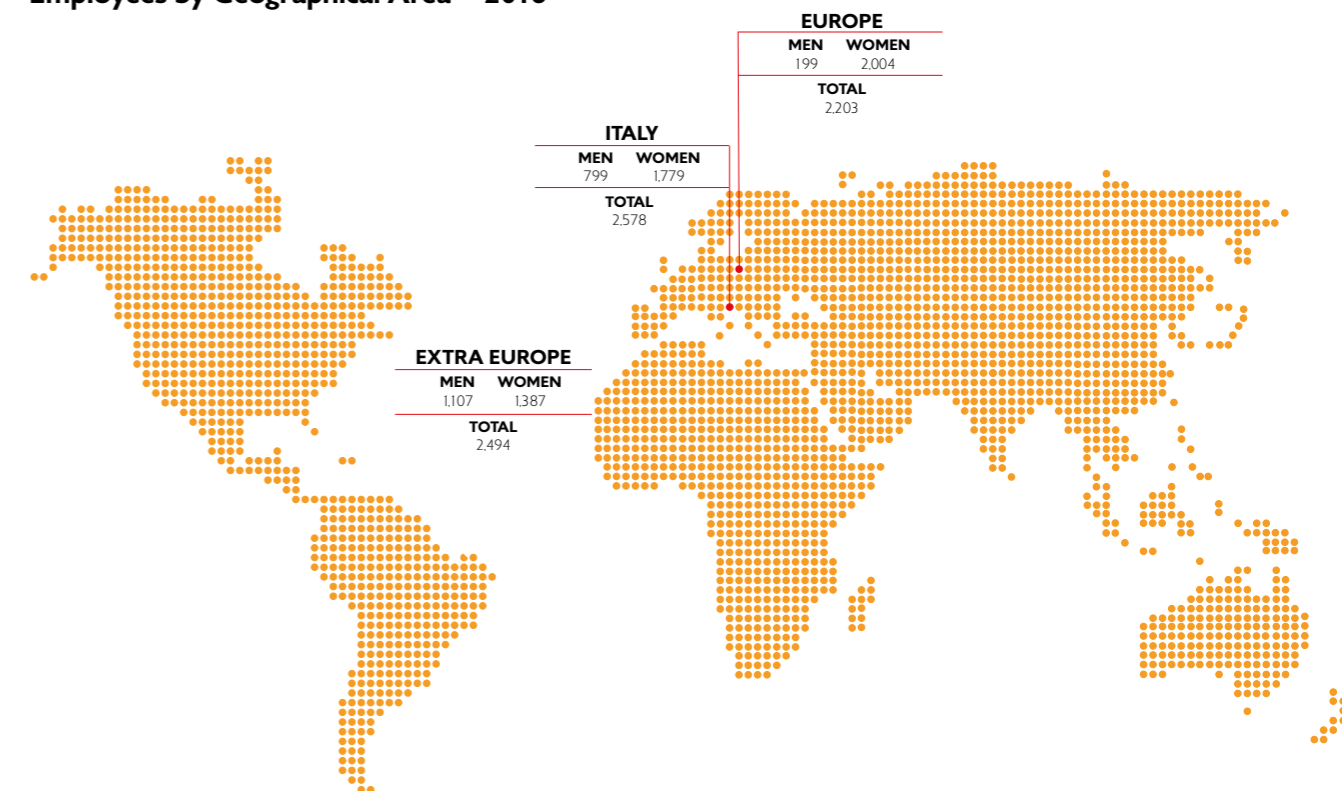
As of December 31, 2016, Benetton Group had a workforce of 7,275 employees at global level, 71% of whom are women.

In **Italy** Benetton Group and its subsidiaries employ 2,578 workers (around 35% of the Group's direct workforce), 69% of whom are **women**.

The **other European** workforce comprises 2,203 units (91% of whom women), amounting to 30% of the overall Benetton Group headcount.

The remaining 34% of employees, 2,494 workers in total, is distributed at international level in the **extra European countries** in which the Group's subsidiaries are based. Women make up 56% of the workforce.

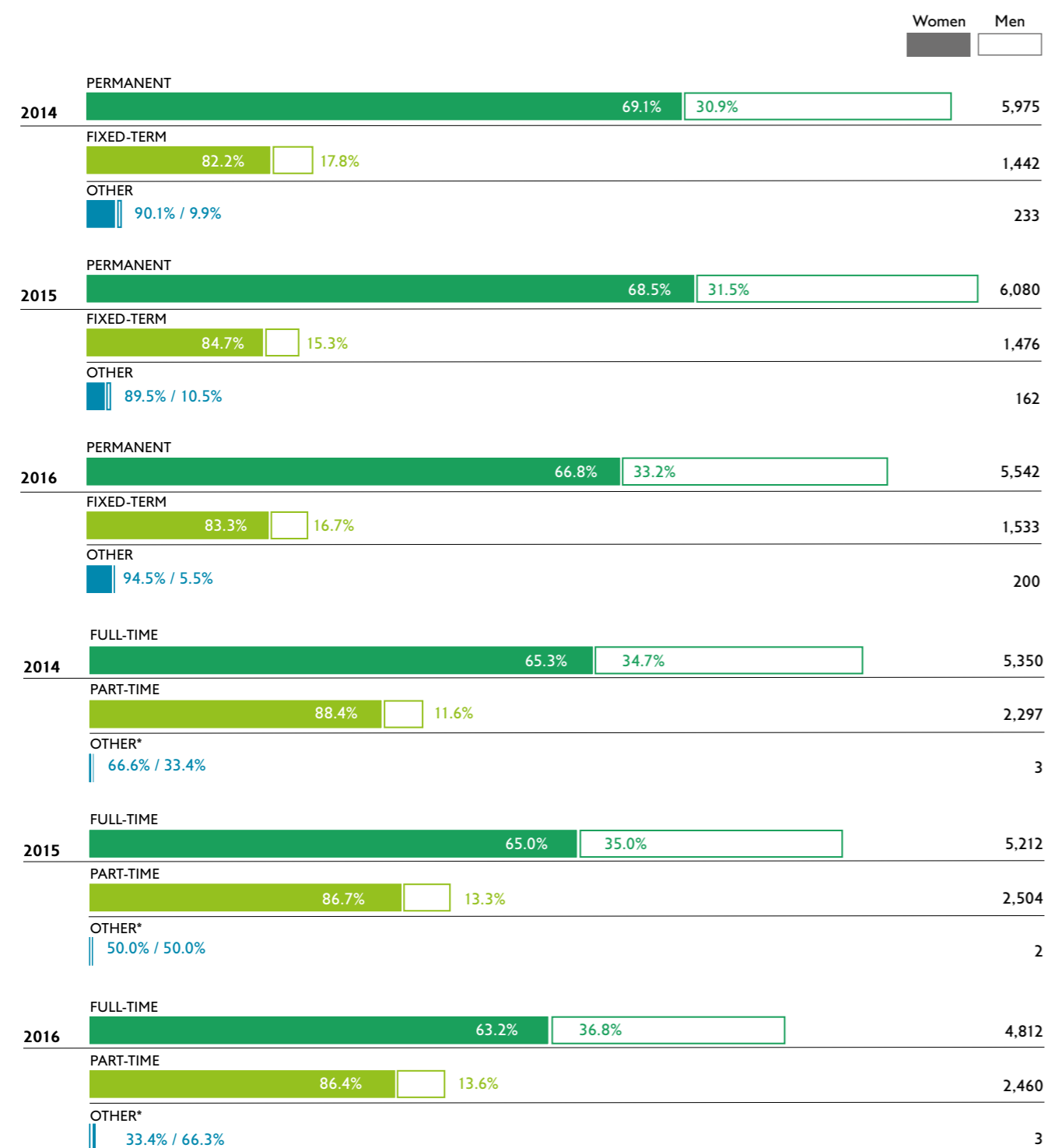
Employees by Geographical Area – 2016



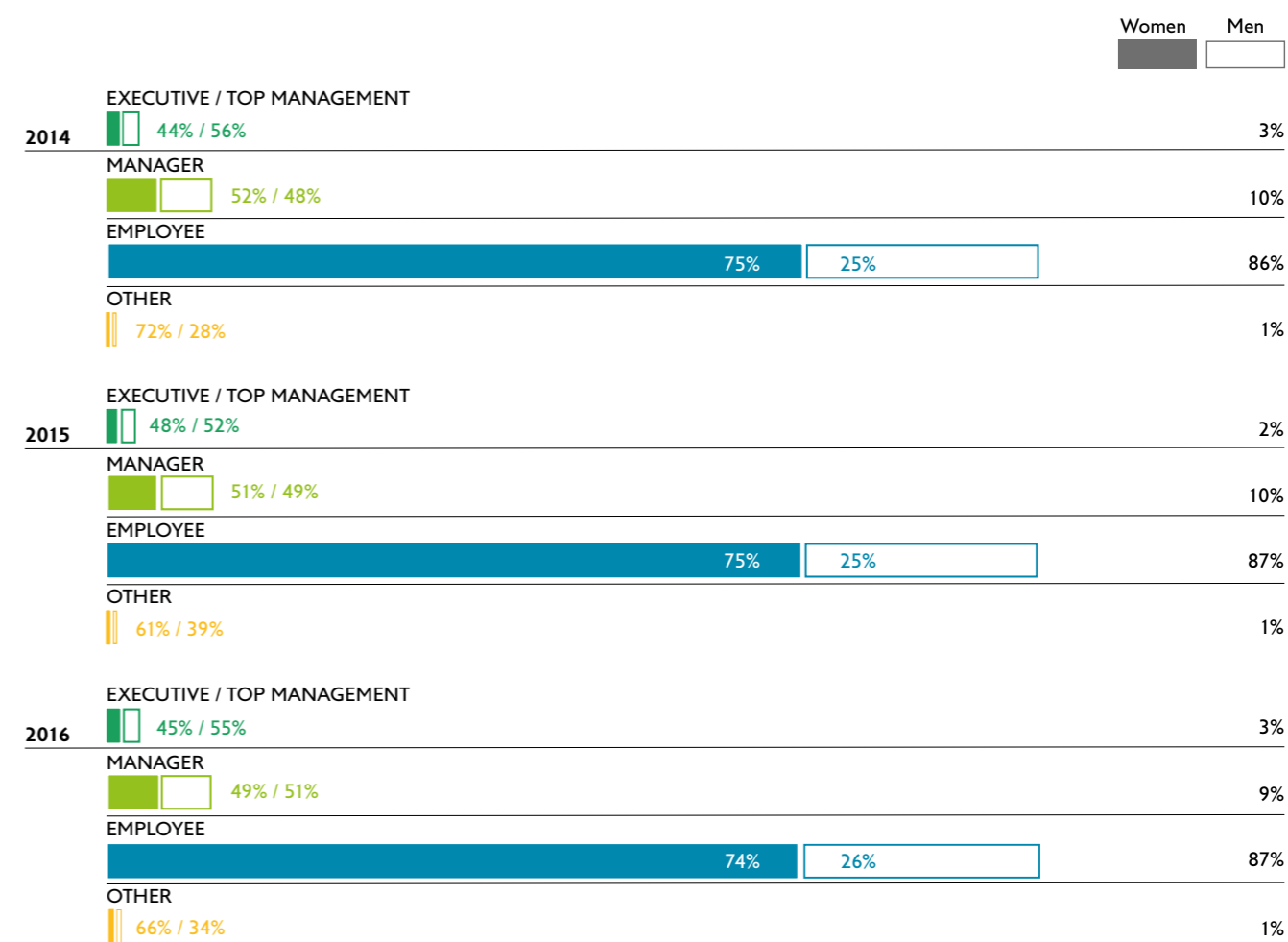
In the last three years there has been a slight reduction in the size of the Group's workforce at global level (-5%). More specifically, between 2014 and 2016 there was a small increase in the number of employees in Italy as a result of the reduction in staff at the head office and the increase in personnel in the direct sales network (+2% between 2014 and 2016). In the same period there was an average increase of 5% in the companies of the Group that operate outside of Europe, with increases of over 30% in the companies operating in India, Russia and Mexico, again as a result of an increase in staff numbers in direct points of sale. At the same time there was a fall in the number of staff employed in the companies located in Europe (-20%) and Japan.

Geographical area	2014	2015	2016
Italy	2,546	2,628	2,578
Europe	2,740	2,663	2,203
Extra Europe	2,364	2,427	2,494
Total	7,650	7,718	7,275

Benetton Group's people by type of contract



* The category "Other" refers to the Company Benetton Russia O.O.O.



In 2016, 66% of Benetton Group's employees were covered by collective labor agreements.

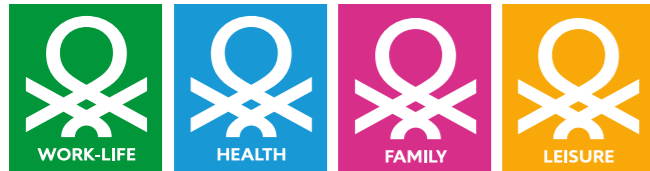
3.2.2/ Benetton Group People Strategy

Benetton Group believes that people are the key to relaunching the Group and improving its competitiveness. For this reason it has defined a series of measures and initiatives aimed at the engagement of employees and their involvement in organizational processes.



In 2016 the Group's efforts on behalf of its employees were rewarded with the "Positive Sustainability Award 2016" in the category Sustainability – Social. The award is created and organized by Scuola di Palo Alto (the leading non-academic Italian Business School as well as Italy's prime mover in the area of Positive Education), in partnership with Carter & Benson and NTP Italia (Alta Sartoria Italiana, Made in Quality).

People Care – “Benetton for You”



The Company's welfare system "Benetton for You" - the key project in the Group People Care initiative launched in 2015 - was consolidated in 2016 with new projects in the different action areas - work-life balance, health, family and free time - and with a web platform available

in the Company intranet, which enables all employees to participate in the various initiatives also remotely. Over 1,400 employees from the Italian HQ have taken advantage of the projects focused on personal wellbeing - projects developed in line with the People Strategy which increasingly looks to strengthen relationships with people, placing them at the center of the underlying strategy.

Work-life balance

The “Stretch” project seeks to manage human capital in an innovative way and it is structured into two streams: “Stretch your time” and “Stretch your space”.



“Stretch your time” is a project that seeks to bring greater flexibility to Benetton Group in terms of the management of working hours. Since October 2016 this phase has involved over 1,000 employees and middle managers at Company sites.



“Stretch your space” introduces the possibility of flexible remote working, of up to one day a week, for those persons in the Departments involved and with a role compatible with the project.

The pilot phase involved a population of around 140 employees working in four different Company departments (Information Technology, Sisley brand, Human Resources and Industrial Relations) and was launched in November 2016, initially for a six - month period. Today the participation level is over 80%.

To help female employees with children to manage their working hours the “Welcome back, Mom!” project has continued. Launched in 2015, this initiative is designed to help women returning from maternity leave to (re)establish a work-life balance thanks to individual and group meetings, broached with the right level of light-heartedness and irony, with the support of a specialist coach, also a mother and professional.

A key indicator for measuring the effectiveness of this initiative is the rate of retention following maternity leave, i.e. the percentage of female employees that return to work after leave and are still with the Company one year later. In 2016 this indicator came to 83% in Italy but was lower in the other European (51%) and non-European countries (41.5%).



Return from parental leave - 2016

Type	Unit	Italy	Europe	Extra Europe	Benetton Group
Employees entitled to maternity leave	no.	76	140	54	270
Employees entitled to paternity leave	no.	2	2	11	15
Total	no.	78	142	65	285
Employees that took parental leave					
Employees that took maternity leave	no.	76	140	53	269
Employees that took paternity leave	no.	2	2	11	15
Total	no.	78	142	64	284
Return to work after the end of parental leave					
Female employees that returned to work after maternity leave	no.	65	74	26	165
Male employees that returned to work after paternity leave	no.	2	2	11	15
Total	no.	67	76	37	180
Return to work rate after maternity leave	%	85.5%	52.9%	49.1%	61.3%
Return to work rate after paternity leave	%	100%	100%	100%	100%
Return to work rate after parental leave	%	85.9%	53.5%	57.8%	63.4%
Retention rate - employees that returned to work rate after parental leave and were still working after 12 month					
Female employees still employed 12 months after maternity leave	no.	63	72	22	157
Male employees still employed 12 months after paternity leave	no.	2	2	10	14
Total	n.	65	74	32	171
Retention rate - maternity leave	%	82.9%	51.4%	41.5%	58.4%
Retention rate - paternity leave	%	100%	100%	90.9%	93.3%
Retention rate	%	83.3%	52.1%	50.0%	60.2%

Paternity leave is not granted to Benetton India Pvt. Ltd. employees.

ITALY	82.9%
EUROPE	51.4%
EXTRA EUROPE	41.5%
BENETTON GROUP AVERAGE	58.4%

Health

Health was the first area affected by the “Benetton for You” program with a health plan introduced in collaboration with the trade unions in July 2015.

The plan involves around 1,400 Benetton Group S.r.l. and Fabrica S.p.A. employees, around 20% of whom have extended coverage to their families for a total of over 500 families covered.

Family

This section includes all of the initiatives dedicated to children of employees and their education, from pre-school age through to university; these projects include “**Baby Welcome Gift**”, a kit given to all of the children of employees (including those that work in the stores) within the first few months of their lives.

Educational support begins right away with the **Ponzano Children Center** targeted at children of between nine months



and six years of age, and continues with the “**English for You**” program, with English language courses provided at subsidized rates at a partner language center, which offers programs diversified according to age and level of proficiency. Finally, there is the “**Nice to meet you!**” initiative which provides career guidance for recent graduates or final-year degree students, giving them the chance to become familiar with the working world, the Company structure and its various departments, and offering them useful advice for job interviews, thanks to the support of the dedicated area in the Human Resources Department. The 2016 edition involved around 25 men and women of between 21 and 25 years old who had the opportunity to experience life in the Company for an entire day.

In line with the projects focused on the education of children, the “Educate children to happiness” workshop was organized for the entire Company. The experts of Scuola di Palo Alto, to which the course was entrusted, presented the principles of the discipline known as Positive Education, a model that develops children’s learning capacities beginning with positive emotions. Over 400 employees attended the event.



Ponzano Children

Ponzano Children Center is an early childhood center that comprises a nursery school for children aged one to six and a crèche for babies of nine to 12 months, with a total capacity of about 100 places reserved for the children of the residents of Ponzano Veneto and Benetton employees.

Surrounded by woods, an orchard and a vineyard, Ponzano Children is a cutting-edge facility both for its architectural design (the work of internationally renowned architect Alberto Campo Baeza) and its educational and pedagogical philosophy: the “Reggio Children

Approach”, according to which the environment is not conceived as a rigidly structured space but rather as a living place-organism where several different dimensions can live side by side. An environment that takes its shape and identity from the relationships that are built within it; a space that is an active partner, a metaphor for knowledge, a research project for children.

	2014	2015	2016
Children of employees enrolled in Ponzano Children	65	62	56

Free time

Benetton continues to support activities designed for the free time of its employees and their families through over 80 agreements with local and domestic partners which make their services and products available at subsidized prices. One important partnership, in the area of sports and recreation, is the one with “La Ghirada” sports center in Treviso, which organizes summer campuses during school holidays for children and sports activities (competitive and non-competitive) that are accessible to all employees and their families.

3.2.3/ Training and professional growth



As for personnel **training and professional development** projects, these can be distinguished between those at Corporate level and those for store staff:

→ At **Corporate** level, Benetton Group offers a catalogue divided into six macro areas: *Leadership and Management, Soft Skills, Linguistical, Compliance, Technical, Induction*. Following a complete mapping of language skills at head office, efforts continued to improve employees' knowledge of the English

language through individual and group courses and courses for specific technical language. The 2016 portfolio saw the consolidation of the PMP (*Project Management Program*) and CSP (*Communication Skills Program*) courses, in collaboration with Rome's Luiss Business School. A training course to support the introduction of the new Performance Management – PUL (*Performing UP Lab*) process was also put together and held. In fact, 2016 saw the implementation of the first Company performance assessment and management system (**Performing UP**) which introduced the new Benetton Distinctive Expertise Model, divided into four clusters: **Be united, Be focused, Be bold, Be a coach**. Performing UP seeks to align the performance of resources with the Company's goals and to foster ongoing dialog between manager and collaborator in all process phases. The program, which has so far involved 400 people, will be extended to the store management companies in 2017.

→ **Store-based** training, for both the direct and franchise channels, is organized along two main lines:

- role-playing, dedicated to the various store positions, with the *I Love District, My Store, My Floor, I will be a Sales Coach* and *Who is a Planner?* programs, which are joined by another important training initiative dedicated to the Sisley Franchising Partners.
- themed courses on: *People, Product, Sales, Economics* and *Soft Skills*. Of note in this regard is the Product Training Kit dedicated to the in-store collection, produced for both the United Colors of Benetton and the Sisley brands as a support tool for communicating the values of the products on sale and designed for sales assistants in direct stores. An e-book with functions and connected apps is in the pipeline for 2017.

In addition, the UP strategy - the first integrated development and training system dedicated to people selected to embark on growth paths - was completed and consolidated also in stores. This system is based on the evaluation of potential through an assessment plan (Retail Growing UP), steps to assess performance (Retail Performing UP) and role-based training courses (In Store UP). Finally, in 2016 the first Global Training & Development Town Hall was organized, focusing on the training of stores and the launch of the UP Strategy.

At Group level, Benetton provided a total of **71,020** hours of training in 2016, a yearly average of 10 hours per employee.

The figures confirm the importance that Benetton Group places on training its resources and highlight how it has consistently expanded its training offer and increased its number of hours of training per employee: between 2015 and 2016 there was an 15% increase in the total number of training hours provided with a consequent increase in the "average annual number of hours of training per employee" indicator, which rose from 8 to 10 in the same period. While in Europe the number of training hours per employee is already quite high and constantly on the rise, the biggest increase has been in non-European countries where there was a substantial increase in the overall amount of training provided in the two-year period (56% increase in the total annual number of hours of training supplied, from 11,569 in 2015 to over 18,000 in 2016).

Training provided	Unit	2015		2016	
		Women	Men	Women	Men
Italy					
Total training provided	Hours	18,101		15,531	
Training per employee	Hours/employee	7		6	
of which training provided to:	Hours/employee	6	8	5	9
Europe					
Total training provided	Hours	32,197		37,420	
Training per employee	Hours/employee	14		17	
of which training provided to:	Hours/employee	15	8	19	12
Extra Europe					
Total training provided	Hours	11,569		18,069	
Training per employee	Hours/employee	6		8	
of which training provided to:	Hours/employee	8	6	10	8
Total - Benetton Group					
Total training provided	Hours	61,867		71,020	
Training per employee	Hours/employee	9		10	
of which training provided to:	Hours/employee	10	7	12	9

Total hours of training by geographic area and by employee category

2015	ITALY	18,101
Total hours 61,687	EUROPE	32,197
	EXTRA EUROPE	11,569
2016	ITALY	15,531
Total hours 71,020	EUROPE	37,420
	EXTRA EUROPE	18,069
2015	EXECUTIVE / TOP MANAGEMENT	1,527
Total hours 61,867	MANAGER	4,643
	EMPLOYEE / WORKER	55,697
2016	EXECUTIVE / TOP MANAGEMENT	1,781
Total hours 71,020	MANAGER	7,710
	EMPLOYEE / WORKER	61,528

3.2.4/ Rewarding and engagement

Benetton Group's remuneration system aims to attract, motivate and retain key resources in order to help the Company achieve its business strategies and ensure that value creation and remuneration are aligned.

The system is structured into fixed and variable remuneration components in order to recognize the contribution made by each of the Group's resources, pursuing the principles of impartiality within the organization and competitiveness on the market in line with the Company's results and approved policies.

With this in mind, 2016 saw the formalization of the **MBO** ("Management by Objectives") plan aimed at managerial roles within the Group, a plan that consolidates the structure defined in 2015, involving 17 countries and over 140 managers, 34% of whom work abroad.

The short-term incentive scheme is based on the achievement of specific Company and individual goals closely related to the Group business strategy and identified through a formal process of defining and measuring performances. The plan also involves respect for a financial trigger condition (EBITDA), which makes the plan operative.

There are also specific incentive schemes for the sales roles in each sales channel, in particular:

- the **DOS** ("Direct Operated Store") **channel**, personalized scheme per brand (United Colors of Benetton and Sisley) which "evolves" each year to effectively support the brand strategy for all roles in the channel, both in Italy and abroad. In 2016 Benetton launched a process to harmonize the incentive schemes relating to the Group stores in all European countries with the aim of adopting a "glo-cal" approach that prioritizes the definition of "global" guidelines (in terms of roles, main KPI, mechanics and communication process), leaving each country to manage "local" aspects more closely connected with regulations, practices and policies;
- the **FOS** ("Franchising Operated Store") **channel** for roles performed in Italy, which aims to contribute to the development of the performances in the channel, recognizing the results obtained;
- the **IOS** ("Indirect Operated Store") **channel** for roles performed both in Italy and other countries, a scheme currently being fine-tuned.



As regards internal communications and the engagement of employees, Benetton Group intends to provide its workers with greater quantities of information on Company business issues and, more specifically, its commercial policies, market and brand trends, volumes sold, geographical origin of products, capex and innovations.

In line with the Company's transformation and the ongoing relaunch process, 2016 saw the launch of an internal communication project with the development of various tools to support employees. The Communications Department, in collaboration with the Engagement & Internal Communication team, further established the Company magazine – **KNIT** – during the year with the aim of reaching out to all employees in Italy and abroad, as well as employees of Group partner stores, to communicate Benetton's most significant initiatives on a monthly basis.

In support of this initiative, and with the aim of disseminating the content of **KNIT** throughout the organization, 20 **KNIT** Points were set up at the HQ to relay the main content of the magazine to employees at Ponzano and Castrette instantly on screen.

The restyling of the Company intranet to offer new content and a new interface also began in 2016.

3.2.5/ Industrial relations

The industrial relations system stands out for the consolidated and constructive dialogue and relationship with the workers' unions.

As part of this system, in 2016 in Italy, Benetton Group saw the consolidation of the content of the agreement for the renewal of the supplementary Company labor contract and the performance-related bonus for the 2015-2017 period in Italy. The participative and constructive system of industrial relations, which benefits from an increasingly comprehensive flow of information, was reconfirmed. This information regards:

- the strategic role of training with a significant increase in the number of hours dedicated to the professional growth of employees;
- the application of the new Code of Conduct for Manufactures and Code of Ethics;
- the management of some important and high-impact organizational turnaround actions with very positive results;
- protecting the health and safety of resources in the workplace, recording further improvements and closing in on the "zero injuries" target;
- the introduction of defibrillators in the main Company sites;
- the consolidation of actions on behalf of all employees and their families through a Company welfare system with particular emphasis on a healthcare plan;
- the reconfirmation of the criteria for determining the efficiency parameter, already used in 2015, to determine the 2016 performance-related bonus.

With regard to the period of notice given to employees before the implementation of important organizational changes, all companies must refer to applicable laws and the national collective labor agreements, where relevant. This is not applicable in Poland, Portugal, Russia and Turkey where there are only notice periods for resigning employees.

In Italy there are specific notice periods for different contractual levels and on the basis of one's seniority in the company, as per the National Collective Contract applicable for the various eventualities (transfer of company ownership, transfer of workplace, termination of a permanent contract by the employer etc.).

Transfers of departments or workplaces and changes to working hours for technical-production reasons, as well as for the better use of workforces and sites, are carried out by the company in accordance with legal and contractual provisions.

In addition, as established by the Textiles and Fashion Clothing Sector Contract, for production units with more than 80 employees the notice is firstly sent to the Unitary Union Representative Body in the case of non-temporary transfers that affect groups of workers at the site.

3.2.6/ “Zero injuries” target

Positive results were recorded in terms of safety with no fatal injuries registered in 2016 and a low level of injuries in the workplace.

Benetton Group has always sought to guarantee suitable workplaces for its business activities, continuously implementing improvements and preventive measures to manage worker health and safety issues.

All of these elements are guaranteed through the detailed examination of specific national guidelines, in addition to current legislation.

The Prevention and Protection Service in Benetton Group’s companies is responsible for constantly updating the risk assessment and related improvement plan, also with regard to organizational changes. The culture of prevention is spread through targeted training at all levels, awareness-raising activities concerning near misses and dangerous behavior, and by actively involving employees in safety roles with coordination by the Prevention and Protection Service.

Training is organized not simply for regulatory compliance purposes but as an opportunity for the self-critical correction of bad practices, teaching employees practical prevention measures and how to manage residual risk. More specifically, there are training courses on the management of increasingly specific emergencies based on real cases, and on-the-job training on the risks posed by equipment.

Practical exercises have also formed part of training on managing emergencies, allowing participants to identify the right course of action to take in specific circumstances.

With regard to the representation of employees on formal joint worker and employer committees for the management of worker health and safety, the situation is different in the various countries in which the Group’s companies operate.

In **Italy** 100% of Benetton Group S.r.l. workforce is represented on Health and Safety committees. There are also special committees in the companies that operate in **other European countries**: for example, in Germany there is the “Arbeitsschutzausschuß” made up of internal representatives and an external consultant, while in Spain the Madrid site has a five-member committee made up of representatives of the workers and the management.

Regarding the **Extra Europe** region, three internal committees have been set up at Benetton India Pvt. Ltd. since August 2015: two at site level (the “Health & Safety Committee” and the “Employee Redressal Grievance Committee”, with workers, management and human resources representatives) and “POSH - Prevention of Sexual Harassment Committee”, which operates at company level and manages sexual harassment claims at site, head office and store level. In Russia, at Kazan Real Estate O.O.O., there is a committee consisting of 35 managers with qualifications in employment, health and safety who oversee the training of employees and represent their interests in these matters. In Korea there are two committees (the “Labor-Management Committee” and “Prevention of Sexual Harassment Committee”) made up of representatives of the workers, management, heads of department and human resources. Every subsidiary drafts an annual report on work-related injuries containing statistics and details of any corrective actions. The end result of the annual injury report is an index, disclosed at all levels, which can be used to evaluate the effectiveness of the prevention measures put in place, the goal being “zero work-related injuries”.

At Benetton Group level, the number of injuries in 2014-2016 fell by around 17% from 192 in 2014 to 159 in 2016, as also highlighted by the frequency index (from 22.1 in 2014 to 15.7 in 2016). The severity index also fell in the three-year period, going from 0.201 in 2014 to 0.193 in 2016.

Injury ratios

Injuries	Unit	2014	2015	2016
Frequency index	No. injuries/hours worked x 1,000,000	22.1	16.2	15.7
Severity index	Working days lost/hours worked x 1,000	0.201	0.166	0.193

The injury rate calculation does not include Portugal, Turkey (only for 2014 and 2015) and India as this information is not available.

Injuries	Unit	Italy	Total Europe	Total Extra Europe	Total
2014					
Frequency index	No. injuries/hours worked x 1,000,000	84	15.2	35.4	21.2
Severity index	Working days lost/hours worked x 1,000	0.2	0.2	0.2	0.201
2015					
Frequency index	No. injuries/hours worked x 1,000,000	105	15.3	18.3	16.2
Severity index	Working days lost/hours worked x 1,000	0.1	0.2	0.2	0.166
2016					
Frequency index	No. injuries/hours worked x 1,000,000	100	11.8	23.0	15.7
Severity index	Working days lost/hours worked x 1,000	0.3	0.3	0.1	0.193



3.2.7/ Respect for human rights at Benetton

Benetton Group is committed to respecting human rights and attaining gender equality through female emancipation, and plays a frontline role in combating violence against women. To this end, the Company has launched specific projects for female employees of the companies of the Group that work in countries most exposed to these risks.

Benetton India Pvt. Ltd.



POSH: Policy on Prevention of Sexual Harassment at Workplace



In India the Government has adopted a **law on the sexual harassment of women in the workplace** to protect women from such behavior (through **prevention, prohibition and reduction** actions). To reinforce its commitment to respecting the fundamental Indian right to equality and with reference to the UN's strategic SDG 5 gender equality objective, in March 2015 Benetton India Private Limited (BIPL) defined a **policy on the prevention of sexual harassment at workplace (POSH)**.

BIPL pledges to provide a working environment which guarantees:

- that every female employee is treated with dignity and respect, and has the right to equal treatment;
- a climate that fosters the professional growth of its employees and encourages equal opportunities;
- protection against the sexual harassment of women in the workplace in order to eliminate sexual harassment claims.

Any female worker employed full-time or part-time, apprentice, agent or any other woman that works for BIPL, regardless of their salary, can file an informal or formal sexual harassment complaint.

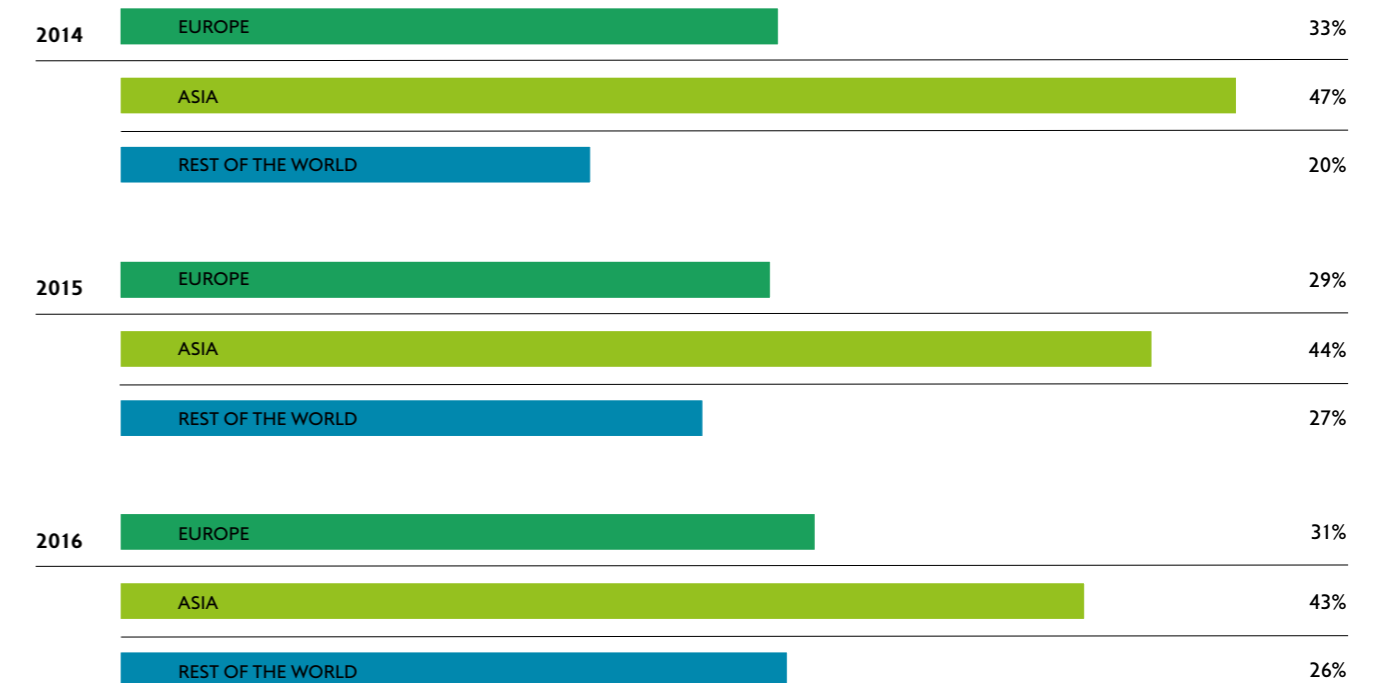
In November 2014 a forum was set up for the resolution of complaints received, the **Internal Complaints Committee**, which includes senior employees (50% of whom are women) and a female member of an NGO.

3.3/ Sustainable Business Operations



Following the complete outsourcing of production activities, the main social and environmental impacts of Benetton Group are primarily concentrated in the supply chain.

Most of the suppliers used by Benetton to manufacture clothing and accessories (about 69%) are located outside of Europe: the main countries from which it sources its purchases are China, Tunisia, Bangladesh, India, Egypt and Cambodia. As for Europe, the countries in which sourcing is concentrated are Romania, Croatia, Serbia and Italy.





In this context, Benetton's goal is to constantly encourage its suppliers to adopt best practices in order to respect the fundamental rights of people and workers, to guarantee a healthy and safe working environment and to mitigate its environmental impact.

For this reason, starting with the selection and qualification phase its relationship with suppliers is based on the principles and criteria of quality, competitiveness and transparency, as well as respect for social, ethical and environmental principles. In fact, Benetton Group requires that all of its suppliers pledge both directly and

indirectly, on behalf of their employees, collaborators and authorized subcontractors, to observe the ethical and behavioral principles of the Code of Conduct for Manufacturers (www.benettongroup.com/sustainability/responsible-supply-chain).

The Code of Conduct for Manufacturers is based on the most relevant international regulations, with particular reference to the UN's Guiding Principles on Business and Human Rights, dated June 2011, and the Renewed EU Strategy for Corporate Social Responsibility, dated October 2011. These policy documents imply full compliance with all applicable laws and regulations relating to fundamental rights at work as contained in the Conventions of the International Labor Organization (ILO) and the ILO Declaration on Fundamental Principles and Rights at Work of 1998, with the rules on environmental protection and the right to a healthy and safe environment, and with health and safety legislation.

3.3.1/ Management of social impacts

Protection of human rights

The choice of social issues, the partnerships with organizations actively engaged in these areas and the support for causes that otherwise would not have found a voice on the global stage have given the United Colors of Benetton brand a clear connotation, instilling it with strong values and helping to establish an ongoing dialogue with its customers around the world.

Benetton Group's commitment has evolved in a clear, consistent direction over the years, going from stances on social issues in its campaigns of the 1980s, to active collaboration with organizations committed to sustainability. In particular, by espousing SDG 5, which aims to achieve gender equality by empowering women and girls and, as part of its sustainability strategy Benetton Group has strongly supported gender equality, promoting women empowerment. On October 22, 2015, it launched the "Benetton Women Empowerment Program" (WE Program), a long-term sustainability program which aims to promote and support the rights of women around the world. To achieve this goal, the Group has identified five priorities, in accordance with the UN agenda:

- sustainable livelihood;
- non-discrimination and equal opportunities;
- quality education;
- healthcare;
- fight against violence.



On October 22, 2016, the first WE Program, "Sustainable Livelihood", was launched, a two-year program of concrete initiatives focused on the emancipation of women that work from home in Pakistan and those employed in the "Ready Made Garments" (RMG) sector in Bangladesh. The project, which will be carried out in the context of the public-private partnerships promoted by the SDGs, will support the activities of UN Women, the United Nations gender equality and female empowerment organization, to improve their conditions and to reduce the vulnerability of female workers employed in the textile industry, both at home and in the workplace.



In line with the goals of the WE Program, Benetton Group and the United Nations Population Fund (UNFPA) announced the joint launch of the "Safe Birth Even Here" campaign at the World Humanitarian Summit in Istanbul on May 23, 2016. The project has a dual goal: firstly, to make sure that the health, safety and dignity of women become humanitarian priorities at global level, and secondly to increase awareness and encourage people to raise funds in support of female health in humanitarian operations all over the world.

In November 2016 the **United to End Violence Against Women** campaign by Fabrica was launched to support the International Day for the Elimination of Violence against Women.

Responsible management of the supply chain



Benetton Group is aware of the impact that the activities of its suppliers and subcontractors may have concerning the issue of human rights and health and safety at work. The Company continues to pay closer attention to these issues with the aim of promoting the best working practices within its supply chain.

Benetton Group was among the first signatories of the "Accord on Fire and Building Safety" in Bangladesh, launched in May 2013 in the aftermath of what is universally remembered as the "Rana Plaza tragedy". The Accord is an independent agreement signed by more than 200 companies from the global apparel industry and also

involving trade unions, the International Labor Organization (ILO) and various non-governmental organizations. The Accord, which aims to make all garment factories in Bangladesh safe workplaces, also calls for independent safety inspections and for transparency within the Bangladeshi textile supply chain.

The key points of the agreement are:

- ➔ an independent inspection program supported by the signatory companies in which workers and trade unions are involved;
- ➔ the public disclosure of the list of production sites, inspection reports and corrective action plans;
- ➔ a commitment by signatory brands to guarantee the implementation of the corrective action plans and to maintain ongoing sourcing relationships;
- ➔ the institution of democratically elected health and safety committees in all factories to identify the principal health and safety risks to workers;
- ➔ worker empowerment through an extensive training program, the implementation of complaint mechanisms and the right to refuse unsafe work.

With the aim of assessing the compliance of its supply chain activities with its Code of Conduct for Manufacturers, Benetton Group regularly carries out audits on its suppliers.

These involve:

- ➔ monitoring performance in the area of corporate social responsibility (e.g. forced child labor, workplace safety, etc.);
- ➔ verifying the adequacy of the results achieved against the standards;
- ➔ adopting appropriate corrective actions to eliminate digressions and the risk of recurrence.

In addition, in order to ensure respect for the Group's social and ethical principles, the Company has implemented an audit program to check compliance with the Code of Conduct for Manufacturers, which involves all manufacturers of finished garments with particular attention on those located in areas where respect for human rights and workers is considered more at risk.

CSR Management and Operations jointly decide which suppliers to audit, while the operational organization of the audit is delegated to the CSR Management department. The audits are performed by internationally recognized external audit firms and are performed on the basis of a checklist developed internally according to the principles of the Code of Conduct for Manufacturers.

In 2016 Benetton consolidated its control over these issues, performing almost exclusively unannounced audits and updating the main tools for managing the audit process.

Specific CSR technical training activities on supplier audits, aimed at employees of the HQ and the Group's foreign companies, are planned for 2017.

In 2016, 315 suppliers (43%) were audited in terms of their impact on society. Of these, around 80% met the necessary requirements. 26 business relationships were terminated following the identification of shortcomings in the implementation of the agreed corrective actions.

The assessment of social impacts along the supply chain

GRI 414-2 - Negative social impacts along the supply chain and actions undertaken	2014	2015	2016
Total number of suppliers	779	619	725
of which:			
Suppliers audited for their impact on society	288	299	315
Suppliers identified as having significant real and potential negative impacts on society	103	35	62
Suppliers identified as having significant real and potential negative impacts with whom improvement actions to mitigate their impact on society have been agreed on	90	23	40
Percentage of suppliers identified as having significant real and potential negative impacts with whom improvement actions to mitigate their impact on society have been agreed on	87.4%	65.7%	64.5%
Suppliers identified as having significant real and potential negative impacts with whom relations were terminated following an audit of their impact on society	26	22	26
Percentage of suppliers identified as having significant real and potential negative impacts with whom relations were terminated following an audit of their impact on society	25.2%	62.9%	41.9%

The figures relate to Benetton Group S.r.l., Benetton India Pvt. Ltd, Benetton Japan Co. Ltd and Benetton Korea Inc.

Currently the social audit program involves suppliers of clothing to Benetton Group and Benetton India Pvt. Ltd. Korean suppliers will also soon be involved in the social audit program. In any case, the current supply chain audit program covers over 90% of production volumes.

In 2016, 71.9% of new suppliers were audited according to social criteria. This figure, higher than in 2015 and 2016, underlines the Group's ongoing commitment to monitoring social issues right along its supply chain.

GRI 414-1 - New suppliers assessed using social criteria	2014	2015	2016
Total number of new suppliers	35	75	64
of which:			
New suppliers audited for their impact on society	18	45	46
Percentage of new suppliers audited for their impact on society	51.4%	60.0%	71.9%

The figures relate to Benetton Group S.r.l., Benetton India Pvt. Ltd, Benetton Japan Co. Ltd and Benetton Korea Inc.

3.3.2/ Management of environmental impacts

Fighting climate change

Benetton's contribution against climate change takes form through the implementation of initiatives to reduce energy consumption and, as a result, climate-altering gas emissions, associated with the head offices and direct stores. These projects, together with the now established practices and the new development directions introduced in the logistics network, produced significant benefits in 2016 in terms of energy savings and lower CO₂ emissions.

In 2015 Benetton Group began performing energy assessments on a representative sample of stores and at the Ponzano and Castrette head offices, which provided a snapshot of the energy structure of the areas analyzed making it possible to identify the biggest critical issues in terms of energy consumption, for which an efficiency plan was subsequently defined and structured.

Benetton Group also began measuring greenhouse gas emissions, both direct and indirect, due to energy consumption at the Ponzano and Castrette head offices and direct stores in Italy, and a large proportion of the logistics distribution activities (Italy and Europe).

Below are the CO₂ emissions deriving from electricity and natural gas consumption in the 2014-2016 period:

Type	Unit	2014	2015	2016
Emissions Scope 1 (GRI 305-1)				
Natural gas consumption in head offices	t CO ₂	1,862	2,280	2,172
Natural gas consumption in direct stores	t CO ₂	n.a.	127	156
Total	t CO₂	1,862	2,407	2,328
Emissions Scope 2 (GRI 305-2)				
Electricity consumption in head offices	t CO ₂	6,593	6,455	6,302
Electricity consumption in direct stores	t CO ₂	5,421	5,597	5,828
Total	t CO₂	12,014	12,052	12,130

In 2016 CO₂ emissions due to the consumption of natural gas fell slightly. Conversely, compared with the previous year there was a slight increase in carbon dioxide emissions deriving from electricity consumption. The increase is due to emissions connected with the electricity consumption of direct stores which recorded a positive trend in 2014-2016 because of the new openings during the year (17) and not because they became more energy intensive.

In fact, compared with 2014, on a like-for-like basis in terms of sales area and opening hours there was a reduction in the electricity consumption of directly managed stores of around 2.5%. This reduction is quantified through the API, Area Performance Index, which relates the annual electricity consumption of a specific store to its sales area and its total number of opening hours during the year. The Group uses this index to monitor and compare the energy consumption levels of direct stores.

Energy consumption of direct stores - API (GRI 302-4)

Variation of API index



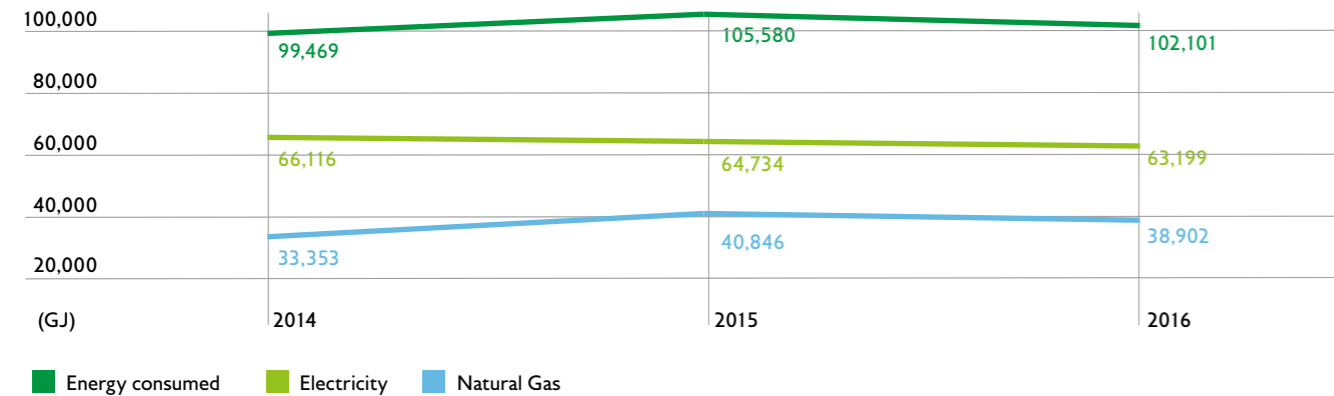
The figures refer solely to stores under direct management for at least three years.

The reductions recorded can mainly be attributed to the spread of the On Canvas concept which, as well as architectural restyling, also involves energy efficiency measures such as the installation of high-efficiency air conditioning systems, the use of LEDs and the introduction of self-reading meters. This latter operation, in particular, forms part of a project (still at the test phase) for the remote monitoring and management of the energy consumption of the lighting and air conditioning, lift and escalator systems in stores and head offices. The initiative will make it possible to measure realtime consumption and to estimate future consumption, identify high-consumption areas and, as a result, improve energy performances, identify faults and define an effective prioritization and intervention plan.

These systems were also installed at Benetton Campus where, thanks to the efficient redistribution of work and management spaces and the upgrading of the systems, over the years the Company has been able to optimize and reduce its energy consumption. In the three-year period in question, there was a reduction in energy consumption also at the Ponzano and Castrette head offices.

Energy consumption (GRI 302-1)	Unit	2014	2015	2016
Total electricity	kWh	18,365,556	17,981,579	17,555,149
Ponzano	kWh	5,579,713	5,078,631	4,935,040
Castrette	kWh	12,786,487	12,902,948	12,632,386
Seamless	kWh	-	-	104,177
Total natural gas	m³	952,397	1,166,384	1,110,863
Ponzano	m ³	301,091	354,000	350,414
Castrette	m ³	651,306	812,384	805,449
Total electricity	GJ	66,116	64,734	63,199
Total natural gas	GJ	33,353	40,846	38,902
Total energy consumed	GJ	99,469	105,580	102,101

The electricity and natural gas consumption of the Ponzano center was forecast on the basis of its energy bills. The energy consumption of Fabrica S.p.A., Ponzano Children S.r.l. and Villa Minelli Società Agricola S.r.l. is not reported.



With regard to the Ponzano site, the reduction in energy consumption was mainly due to the activities to improve the efficiency of the Data Center cooling system which, accounting for around 35% of the center's energy consumption, represents the most energy-intensive area of the entire campus. The measures, which commenced in 2012, involved the installation of a new chiller, the activation of an automated hydraulic bypass between the Data Center cooling system and the system serving the other buildings, and the replacement of the IT equipment UPS with a new highly reliable and highly efficient system. The efficacy of these measures can be quantified through the PUE (Power Usage Effectiveness) index, a parameter used to measure the efficiency of the Data Centers which relates the total power absorbed by a computer center (ventilation, powering IT devices, UPS failures) with the amount required solely to power the IT equipment. Over these four years the PUE of the Ponzano Data Center has fallen sharply from around 2.5 in 2012 to around 1.59 in 2016, well below the average global value (1.80).

Power Usage Effectiveness (PUE)



The electricity consumption of the Castrette center has also fallen thanks to the implementation of systems to control the lighting and cooling systems, this despite the fact that the Seamless project was launched at one of the center's warehouses in August 2016, bringing a small part of production back to Treviso. This project, which entailed the installation and start-up of 36 Shima Seiki machines, resulted in an energy consumption of 104,177 kWh in 2016. Following on the activities carried out in previous years, further energy efficiency measures are in the pipeline for 2017, including: the refurbishment of one of the Central Heating Plants at Castrette, the redevelopment of one of the summer and winter climate control units at Ponzano, and the replacement of the UPS of the electric stations. Benetton's commitment for the next year also include that of using 100% green electricity from renewable sources for HQ and its directly-managed stores.

Green logistics

The Group continued with its objective of reducing emissions of harmful substances and its energy consumption, introducing a series of actions targeted at the various phases of the value chain. More specifically, for some time Benetton Group has been refocusing lots of attention on promoting and implementing projects to reduce environmental impact connected with the logistics and distribution of its garments in the markets in which it operates. In 2016 the CO₂ emissions connected with the entire logistics network, both inbound and outbound, fell by 22.6% versus 2015, a reduction of 6,064 tons of CO₂ emitted into the atmosphere. Confirming the results achieved, there was a reduction of around 13% in the CO₂ emitted per garment per km traveled, the reference indicator used by the Group to monitor the environmental impact of its logistics system.

Type	Unit	2015	2016
Logistics	t CO ₂	26,885	20,821
Indicator of intensity	g CO ₂ /garment x km	0,078	0,068

In 2016 there was an increase in the density of garments per cubic meter, a factor that contributes to the reduction in value of the indicator.

Reduction of end-to-end CO₂ emissions per garment/km

In 2016 the Group reduced by 13% end-to-end CO₂ emissions per garment per kilometer traveled.



The results achieved are connected with the use of less impacting types of transport in terms of CO₂ emitted, such as the reduction in air transport for inbound logistics and for outbound logistics towards countries outside Europe. Another initiative launched in 2016 regards the movement of goods to Spain, now transported by ship rather than road thanks to the introduction of Roll-on/Roll-off, a ship loading technique that does not require the use of cranes as the transportation vehicles are motor vehicles that are able to drive on and off the ship using a ramp. Going against the general trend, the level of CO₂ emissions connected with outbound logistics within Italy increased mainly due to the switch from sea transport to transport via lorry in the stretch towards Sicily.

Saturation of transportation vehicles

With the aim of streamlining the number of transport vehicles used to distribute the garments to its stores, Benetton Group does not use pallets to store crates on vehicles, in this way achieving a load capacity of 90% as compared with an average possible value of 70%. As well as being efficient from an economic perspective (the unit cost of transport is one of the lowest on the market), this practice has made it possible to reduce the number of trucks used by around 20%. In practice, one in five trucks has been removed from the road with a consequent saving in terms of CO₂ emissions of around 511 t/year.

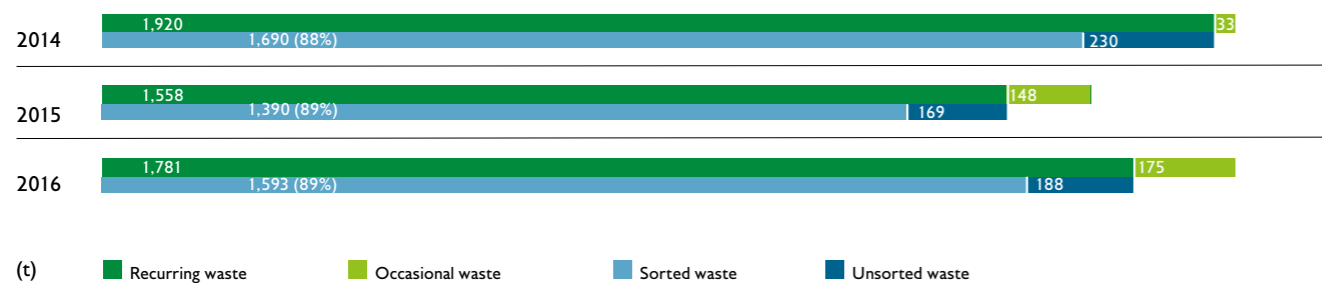
Intermodal transport analysis

Thanks to the "Control Tower End-to-End Visibility" system which makes it possible to trace the entire logistics network (inbound and outbound), in 2015 the Group launched a CO₂ emissions assessment based on the information available relating to the routes traveled and the methods of transport employed. This analysis provided a snapshot of the situation and enabled the Group to classify its suppliers and routes on the basis of the lowest impact transport solutions. The project aimed at reducing emissions through the adoption of low environmental impact transport solutions was launched in 2016. Six European routes were identified on which to test the intermodal transport and the reduction of CO₂ emissions was calculated for each route according to the percentage of mode change. The results highlighted an average reduction in emissions of 22% per route, for a total of 121.3 t CO₂/year.

Correct management of Company waste

Benetton Group adopts a correct ethical and environmental approach in the area of waste management, in line with industry regulations and its responsibilities.

Total waste production - Ponzano and Castrette



Polluting chemical substances

Benetton Group decided to join the Greenpeace Detox campaign in 2013. The aim of this campaign is the complete elimination of the use of hazardous chemical substances in textile/clothing industry manufacturing processes by 2020. More specifically, the Detox Commitment calls for the following actions:

- complete elimination of 11 groups of chemical substances by 2020;
- adoption and publication of a "Restricted Substances List" (RSL);
- publication of the results of tests on water discharged by suppliers that use wet processes (dyeing and laundering) with the goal of publishing 80% of the wet supply chain by 2017.

At operational level, an accurate and complete overview of the management and use of chemical substances in the supply chain is possible thanks to the aforementioned "Restricted Substances List", an integral part of the supply agreement that defines the limits and parameters to apply both to products (constantly monitored through a targeted sampling plan) and to production processes (through an annual monitoring plan at production sites).

This second type of control is focused on "wet processes", i.e. dyeing and washing, processing phases in which chemical substances like dyes and other additives are often used dissolved in water.

As well as the chemical analysis of water, designed to check whether the banned substances have been used, Benetton has established a "Chemical Audit Protocol", a checklist for the 360° assessment of its suppliers as regards the impact deriving from the management of the chemical substances used.

Improvements and benefits were possible right away thanks also to Benetton's participation in the Zero Discharge of Hazardous Chemicals (ZDHC) program (www.roadmaptozero.com) which saw various brands set themselves the ambitious goal of using a holistic approach to drive the widespread implementation of sustainable chemistry and best practices in the textile and footwear industries to protect consumers, workers and the environment.

As well as the principle of precaution, a cornerstone of Benetton philosophy to which the Company has stayed true through the constant monitoring of its entire supply chain, research and transparency in providing public information on its progress are other factors with which Benetton Group wishes to be synonymous (www.benettongroup.com/sustainability/detox/).

In December 2016, in line with its commitment to the Detox campaign, Benetton Group published the results of the tests on wastewater relating to 70% of the suppliers involved in the "wet processes" of its production activities. Details on the results of the tests can be found at: <http://benettongroup.com/sustainability/detox/supply-chain-disclosure/water-test-results/>. In order to take full advantage of the tests on water, in 2016 a research project was developed in association with the Department of Environmental Sciences, IT and Statistics of Ca' Foscari University of Venice. The research is based on data collected over a three-year period from over 100 plants in 10 countries and reports the results and the trends as regards treated and untreated incoming water.

These efforts were rewarded. In fact, in 2016 the Group was named among the top three brands in the "Avant-Garde" category of the Greenpeace Detox campaign rankings. This important acknowledgment, which follows those of 2015 and 2013, rewards companies that have made greatest progress towards the complete elimination of toxic substances from their processes.

In particular, this year Greenpeace rewarded Benetton Group for its widespread efforts to eliminate 11 potentially harmful groups of chemicals from its production processes and for carrying out very stringent tests on wastewater, defining this the "clean factory" approach, a method that is not only extended to the production of Benetton clothes but to the entire production chain.

In 2016, 67 suppliers underwent an audit regarding the chemical substances used in the production phase: of these, around 57% complied with the Group's valuation criteria, an increase compared with 2014-2015. During the year the Group terminated relations with 83% of suppliers that were identified as having a negative impact on the environment.

Negative environmental impacts in the supply chain and actions taken by the Group (GRI 308-2)	2014	2015	2016
Total number of suppliers	530	547	495
of which:			
Number of suppliers assessed for environmental impacts	48	42	67
Number of suppliers identified as having significant actual and potential negative environmental impacts	38	31	18
Number of suppliers identified as having significant actual and potential negative environmental impacts with which improvements were agreed upon as a result of assessment	38	31	18
Percentage of suppliers identified as having significant actual and potential negative environmental impacts with which improvements were agreed upon as a result of assessment	100%	100%	100%
Number of suppliers identified as having significant actual and potential negative environmental impacts with which relationships were terminated as a result of assessment	6	4	15
Percentage of suppliers identified as having significant actual and potential negative environmental impacts with which relationships were terminated as a result of assessment	15.8%	12.9%	83.0%

The reporting boundary is limited to Benetton Group S.r.l.

In line with its commitment to eliminating polluting substances from its supply chain, in 2016 Benetton Group launched a number of projects to use non-synthetic dyes extracted from plants or obtained from the processing of stones and minerals. These initiatives led to the creation of clothes lines produced exclusively with 100% natural pigments, such as the Mineral Dye collection.

The possibility of coloring fabrics by drawing directly on the natural world represents an important alternative to traditional dyeing which involves the use of synthetic dyes and in 2017 Benetton Group will continue to invest resources in the research and development of innovative instruments that guarantee the safety and quality of its clothes.

3.3.3/ Sustainability of raw materials

Benetton Group approach to sustainability also regards raw materials and their impact. For this reason the Company has embarked on a process that will permit increasing use of the most sustainable raw materials. In line with this goal, to ensure that its garments are manufactured with the utmost respect for nature, people and animals, Benetton Group has made a series of commitments in recent years:

- the Company has a strict ban on the use of natural fur in its clothing and accessories;
- in 2016 Benetton began the process of compliance with the Responsible Down Standard;
- in 2016, 6.1% of cotton garments were made from organic cotton. Benetton Group also began a process that will make it possible to increase the amount of sustainable cotton used in its garments in the next few years.

Furthermore, in March 2017 Benetton Group joined the IWTO (International Wool Textile Organization) which seeks to represent the interests of the wool textile industry at global level, facilitate industry strategies, guarantee production standards and sustainability, and foster connections between the various stakeholders in the market. Membership of the IWTO will enable Benetton Group to consolidate its commitment to the sustainability and transparency of the supply chain, launching a permanent dialog with the main players in the wool production chain and participating, with an active role, in discussions on important topical issues such as the recycling of wool, the quest for quality yarn and the application of animal welfare principles to the wool textile production chain.

Raw materials used in the composition of garments marketed by Benetton Group

Raw materials (GRI 301-1)	Unit	2014	2015	2016
Total	t	31,138	30,799	27,082
Renewable				
Cotton*	t	21,923	21,605	18,803
Wool*	t	1,559	1,309	1,326
Linen*	t	122	126	154
Mixed (natural fibers)	t	148	209	197
Non-Renewable				
Artificial fibers	t	6,167	6,074	5,167
Mixed (natural/artificial/synthetic fibers)	t	1,219	1,476	1,435

The figures reported in the table relate to apparel.

For Benetton Japan and Benetton Giyim Sanayi Ve Ticaret A.S. the quantities of raw materials purchased from parent Company Benetton Group S.r.l were included, while the quantities of raw materials deriving from external suppliers and purchased directly by companies at local level are not currently available.

* pure raw material > 35%

Materials used for the packaging of garments

Packaging (GRI 301-1)	Unit	2016
Total	t	5,911
Renewable		
Paper and cardboard	t	4,825
Non-Renewable		
Polyethylene (PE)	t	1,084
Iron	t	2

The reporting boundary is limited to Benetton Group S.r.l.

Reduction of packaging



The Company's focus on the environment also takes tangible form in its choice of packaging. Currently only 50% of the garments arriving at the central warehouse are packaged in cardboard boxes; these are later gathered together in special compacters and handed over to an external company for recovery. The other 50% of the garments are transported in reusable metal baskets allowing for an estimated reduction in cardboard consumption of around 1,340 t/year, the equivalent of around 20,000 trees.

For some time an initiative has been underway at the

Group's Indian site to recover the cardboard boxes used to transport the garments that arrive at the warehouse. In fact, over 300,000 cardboard boxes are reused multiple times every year before being recycled, thus making it possible to reduce paper consumption.




FSC (Forest Stewardship Council)

Since January 2010 anyone making a purchase in a Benetton Group's store has been taking their items home in eco-friendly white kraft paper shopping bags, produced entirely with water-based inks and supplied by a paper mill certified by the "Forest Stewardship Council" (FSC), whose trademark identifies products from forests that are controlled and managed on a socially and environmentally sustainable basis. The Company's catalogues, brochures and other printed communication materials are also now made from the same type of eco-friendly FSC-certified paper.

THERE IS
NO BLUE
WITHOUT
YELLOW
AND
WITHOUT
ORANGE.

VINCENT VAN GOGH
painter



Annex

Methodological

notes

Benetton Group's Integrated Report illustrates how value is created over time through the connections between financial and non-financial factors, and the business's primary sustainability performance indicators.

The principles and content of the "International <IR> Framework" issued in December 2013 by the International Integrated Reporting Council (IIRC) were taken into account when preparing the Integrated Report. The report was also prepared in accordance with the "GRI Sustainability Reporting Standards" defined in 2016 by the Global Reporting Initiative (GRI), adopting the core option.

The GRI disclosures has been audited by an independent company whose limited audit report is available at the end of this document.

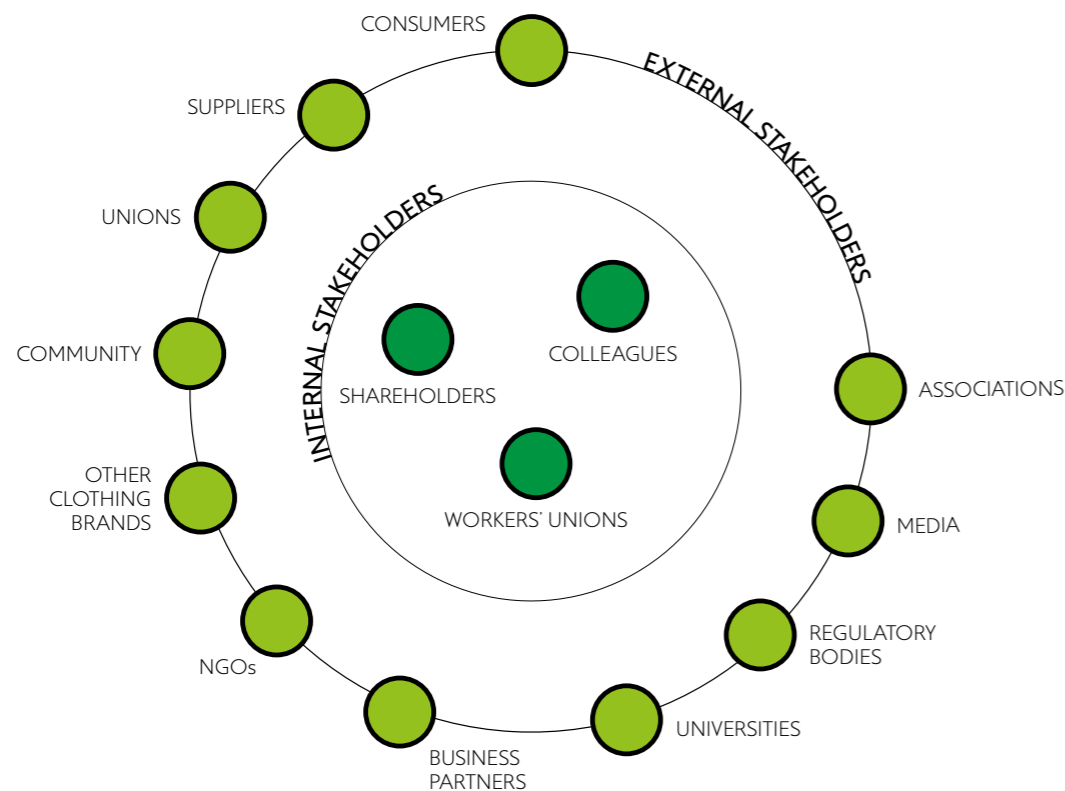
Our stakeholders

Taking the areas of Company activity into account, Benetton Group has mapped its stakeholders, dividing them into:

- ➔ **internal:** people that are part of the Company;
- ➔ **external:** people that work along the Group's value creation chain or that are indirectly influenced/affected by the Company's activities.

During this operating period around 30 relevant categories of stakeholders were identified which, through dedicated interviews and workshops with the main Company departments, were subsequently prioritized on the basis of:

- ➔ their dependence on Benetton;
- ➔ their influence on Benetton.



In 2016 Benetton Group launched numerous communication and engagement activities for both its internal and external stakeholders.

More specifically, during the year the "Internal communication" project was launched for employees with the aim of strengthening the Group's communications and increasing the engagement and level of knowledge of all people in Benetton world. Through this project, the result of collaboration between the Communications department and the Engagement & Internal Communication team, a series of different tools were made available to employees. Of particular significance among these is KNIT, the Company magazine for all employees in Italy and abroad, including employees of the Group's partner stores. The magazine gathers together information on the main initiatives launched by Benetton Group, as well as updates on the "People Care" activities. In support of the initiative, at the head offices of Ponzano and Castrette 20 KNIT points were set up with monitors relaying the main content of the magazine. 2016 also saw the Company Intranet, the Group's most effective global communications tool, undergo a complete technology upgrading and redevelopment process.

Benetton Group's commitment to constructing solid relations with its stakeholders also takes the form of targeted "Public Affairs" activities.

To this end, the initiatives launched by the Group in 2016 were mainly focused on expanding and consolidating its network of institutional relations through the organization of meetings with parties and bodies that act as spokespersons for issues related to human rights.

In April 2016, Benetton Group took part in the conference "Human rights in the Company: winning the challenge of integration" and, in the same month, in "The value of sustainable Made in Italy" meeting, during which the "Guidelines on the ecotoxicological requirements of clothing, leather goods, footwear and accessories" were presented. Both events were an opportunity for Benetton Group to consolidate its relations with a number of Italian institutions and share and discuss issues that are very dear to the Group.

During the "World Humanitarian Summit" in Istanbul in May 2016, Benetton Group launched the "Safe Birth Even Here" campaign together with the United Nations Population Fund (UNFPA), an event that enabled the Group to expand its network of institutional relations.

In addition, during the year Benetton Group carried out an ongoing legislation monitoring activity with the aim of identifying issues potentially subject to regulation, institutional dynamics and movements of opinion, thus enabling it to interpret the political, institutional and social context in which the Company operates.

The main aspects subject to monitoring in 2016 regarded the following areas.

- ➔ human rights
- ➔ environment and product life cycle
- ➔ product-related policies (toxic substances, consumer health)
- ➔ animal welfare
- ➔ supply chain and stakeholder engagement
- ➔ ethics in business
- ➔ advertising and communication
- ➔ consumer rights

Materiality assessment

The degree of detail with which the different topics within the Report are treated reflects the results of the materiality assessment.

The materiality assessment is a process aimed at identifying, assessing and prioritizing the most significant issues from both the Company's point of view and that of its stakeholders. As envisaged by the GRI Standards, material topics have been identified by considering the importance of the impacts of business activities both within and outside the reporting boundary, meaning throughout the entire value chain of Benetton Group.

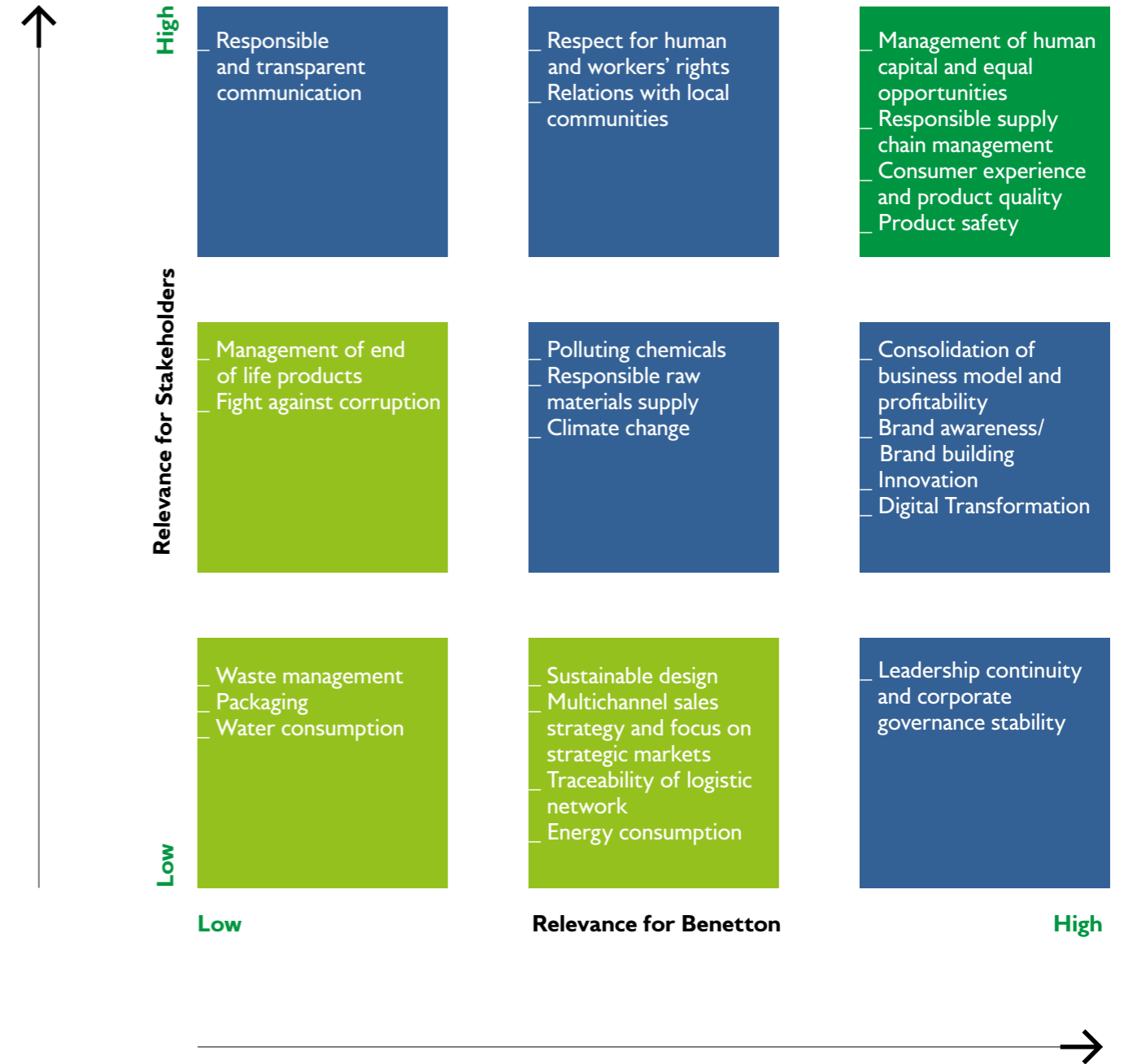
In particular, the first stage in the process of defining materiality was to identify relevant topics using the following steps:

- media analysis aimed at mapping media coverage and public interest in each topic;
- benchmark analysis of the topics covered by major companies operating in the same sector as Benetton Group;
- mapping of priorities and strategic business objectives;
- prioritization of the identified topics through individual interviews with management during which the key business functions were asked to rank the topics in terms of their importance for Benetton Group;
- the analysis of the relevance of the topics for stakeholders was carried out by weighting each single aspect in terms of its importance to the stakeholder in question;
- aggregation of the interview results and formulation using criteria that took into account other qualitative aspects, as well as the perception of Company management.

As regards the relevance for Benetton Group the following factors were considered:

- Company commitment and policies concerning each topic;
- the impact of each topic on the Company's capital as identified by the framework <IR> (financial, manufactured, intellectual, human, natural, social and relationship capital).

With regard to the importance for stakeholders, the primary factor was the specific relevance of the different topics for the sector in which Benetton Group operates.



The material topics were then compared with the aspects defined by the GRI Standards, as set out in the following table. The table also indicates the boundary of each aspect and any limitations involving failure to extend reporting to the aspect boundary outside the organization.

As for the material aspects outside of Benetton Group, but currently not reported, the Company will focus its attention in coming years on implementing specific activities designed to gradually extend the scope of disclosure.

GRI Standards material aspects	Aspect boundary		Disclosure limitations on aspect boundary	
	Within organization	Outside organization	Within organization	Outside organization
Economic performance	Group	-	-	-
Procurement practices	Group	-	-	-
Raw materials	Group	Suppliers	-	Disclosure partially extended to suppliers
Effluents and waste	Group	Suppliers	-	Disclosure partially extended to suppliers
Emissions	Group	Suppliers; Logistics; Indirect stores (IOS/FOS)	Disclosure partially extended only to direct stores and to Italian HQ	Disclosure not extended to indirect stores and suppliers; partially extended to logistics
Supplier environmental assessment	Group	-	-	-
Employment	Group	-	-	-
Labor/management relations	Group	-	-	-
Occupational health and safety	Group	Suppliers	-	Disclosure not extended to suppliers
Training and education	Group	Indirect stores (IOS/FOS)	-	Disclosure partially extended to indirect stores
Diversity and equal opportunity	Group	Suppliers	-	Disclosure not extended to suppliers
Non-discrimination	Group	Suppliers	-	Disclosure not extended to suppliers
Freedom of association	Group	Suppliers	-	Disclosure not extended to suppliers
Child labor	Group	Suppliers	-	Disclosure not extended to suppliers
Forced or compulsory labor	Group	Suppliers	-	Disclosure not extended to suppliers
Local communities	Group	Suppliers	-	Disclosure not extended to suppliers
Supplier assessment for impacts on society	Group	-	-	-
Customer health and safety	Group	-	-	-
Marketing and product labeling	Group	-	-	-
Socioeconomic compliance	Group	-	-	-

Reporting boundary and sustainability context

This document is the first edition of Benetton Group's Integrated Report and contains a description of initiatives and activities carried out during calendar year 2016 and performance trends during the three years from 2014 to 2016, where available.

Performance indicators are gathered and reported on an annual basis.

The information reported refers to Benetton Group S.r.l. and its subsidiaries in Italy and abroad (Retail Italia Network S.r.l., Fabrica S.p.A., Ponzano Children S.r.l., Benetton Servizi S.r.l., Benetton India Pvt. Ltd, Benetton Korea Inc., Benetton Asia Pacific Ltd, Benetton Retail Sucursal en España, New Ben GmbH, Benetton Russia O.O.O., Benetton Mexicana S.A. de C.V., Kazan Real Estate O.O.O., Benetton Giyim Sanayi A.S., Benetton Group S.r.l. - Sucursal em Portugal, Benetton Japan Co. Ltd., Benetton Retail Poland Sp. Z.O.O., Benetton Group S.r.l. Succursale en France). The headquarters of Benetton Group S.r.l. are located in Via Villa Minelli, Ponzano Veneto (Treviso), while its industrial complex is at Via della Cartiera no. 1, Castrette di Villorba (Treviso).

The reporting boundary coincides with the above, except for some data, as indicated in the text.

Principles for ensuring report quality

The information reported has been gathered with the aim of providing a balanced and clear picture of the Company's actions and characteristics. The process of reporting the information and quantitative data has been structured so as to ensure data comparability over time, where possible, in order to provide an accurate reading of the information and a complete view to all stakeholders interested in trends in Benetton's performance.

Calculation methods

Details of the methods used for certain indicators reported in this document are provided below. The data referred to 2016 are the best possible estimate with the information available at the time of the drafting of this Report.

Retention after parental leave

The retention rate after parental leave is calculated as the number of workers employed 12 months after returning from maternity/parenity leave compared to the number of employees that took the parental leave during the year.

Injury rates

Details of the methods of calculation used for injury rates are provided below:

➔ Severity rate: working days lost for injuries/hours worked x 1,000

➔ Frequency index: no. injuries/hours worked x 1,000,000

The rates for all three years have been calculated for employees only and exclude interns and other staff on temporary contracts. The injury rate has been computed by taking into account also commuting injuries. To calculate the lost day rate, lost days have been calculated as calendar days from the day the incident occurred (unless the latter was worked in part).

Greenhouse gas emissions

Greenhouse gas emissions were calculated using the principles indicated in the ISO 14064-1 international standard. In particular, the only gas considered was carbon dioxide (CO₂). The emission factors used to calculate the CO₂ emissions disclosed in the Report were determined in the following way:

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Direct emissions Scope 1: the emissions related to the consumption of natural gas for the heating of the head offices (Ponzano and Castrette) and direct stores (RIN) were determined using the emission factor reported in the table of national standard parameters published by the Italian Environment Ministry.

Indirect emissions Scope 2: for emissions connected with the consumption of electricity purchased from the national grid the emission factor used is the one reported in the tables, published by Terna, of the international comparisons available for 2014, the source for which is Enerdata.

Indirect emissions Scope 3: for the CO₂ emissions connected with transport in the logistics network, Ecotransit software was used, a tool developed by the Institute for environmental and energy research (Institut für Energie- und Umweltforschung, Ifeu) of Heidelberg and Rail Management Consultants GmbH (RMCon).

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102-44	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	62; 64-65; 68-69; 76-79; 86; 89-91; 97-98	
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102-46	Defining Report content and topic boundaries	106-108	
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305-4	GHG emissions intensity	95-96	
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GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	96-98	
103-3	Evaluation of the management approach	96-98	

GRI Standard	Disclosure	Page number	Omission
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103-2	The management approach and its components	23-27; 76-77; 86	
103-3	Evaluation of the management approach	23-27; 76-77; 86	
GRI 405: Diversity and Equal Opportunity 2016			
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GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	76-77; 86-89	
103-3	Evaluation of the management approach	76-77; 86-89	
GRI 406: Non-discrimination 2016			
406-1	Number of incidents of discrimination and corrective actions taken	86; 87-89	The information regarding this indicator is not currently available. Benetton undertakes, in the coming years, to gather the data needed to disclose this indicator
Freedom of association			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	86; 87-91	
103-3	Evaluation of the management approach	86; 87-91	
GRI 407: Freedom of association 2016			
GRI 407-1	Identification of operations and main suppliers in which the right to exercise freedom of association and collective bargaining may be at significant risk and measures taken to support these rights		The information regarding this indicator is not currently available. Benetton undertakes, in the coming years, to gather the data needed to disclose this indicator
Child labor			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	86; 87-91	
103-3	Evaluation of the management approach	86; 87-91	

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GRI Standard	Disclosure	Page number	Omission
GRI 408: Child labor 2016			
408-1	Identification of operations and main suppliers having significant risk for incidents of child labor, and measures taken to contribute to its elimination		The information regarding this indicator is not currently available. Benetton undertakes, in the coming years, to gather the data needed to disclose this indicator
Forced or compulsory labor			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	86; 87-91	
103-3	Evaluation of the management approach	86; 87-91	
GRI 409: Forced or compulsory labor 2016			
409-1	Operations having significant risk for incidents of forced or compulsory labor, and measures to contribute to its abolition		The information regarding this indicator is not currently available. Benetton undertakes, in the coming years, to gather the data needed to disclose this indicator
Local communities			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	89-91	
103-3	Evaluation of the management approach	89-91	
GRI 413: Local communities 2016			
413-1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	89-91	
Supplier assessment for impacts on society			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	87-91	
103-3	Evaluation of the management approach	87-91	
GRI 414: Supplier assessment for impacts on society 2016			
414 -1	New suppliers that were screened using social criteria	91	
414-2	Significant actual and potential negative impacts on society in the supply chain and actions taken	87-91	
Customer health and safety			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	66-67	
103-3	Evaluation of the management approach	66-67	
GRI 416: Customer health and safety 2016			
416-1	Assessment of the health and safety impacts of product and service categories	66	

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GRI Standard	Disclosure	Page number	Omission
416-2	Incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes		There have been no significant incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle in the three-year period 2014-2016
Marketing and labeling			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	68-71	
103-3	Evaluation of the management approach	68-71	
GRI 417: Marketing and labeling 2016			
417-1	Requirements for product and service information and labeling		All products marketed by the Group, regardless of product sector, report the information required by law in the country in which they are marketed on their labels. More specifically, information is provided on: country of origin, presence of toxic substances, methods of disposal.
417-2	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes		There have been no significant incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling in the three-year period 2014-2016
417-3	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes		There have been no significant incidents of non-compliance regarding consumer protection that determined the payment of monetary fine by the Group in the three-year period 2014-2016

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GRI Standard	Disclosure	Page number	Omission
Socioeconomic compliance			
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its boundary	104-108	
103-2	The management approach and its components	47-49, 62-71	
103-3	Evaluation of the management approach	47-49, 62-71	
GRI 419: Socioeconomic compliance 2016			
419-1	Non-compliance with laws and regulations in the social and economic area		In the three-year period 2014-2016 Benetton has not received significant fees for non-compliance with laws and regulations concerning the provision and use of products and services

Independent auditors' report on data and information included in the "Integrated Report 2016" and referenced in the "GRI Content Index" (Translation from the original Italian text)

To the Board of Directors of
Benetton Group S.r.l.

We have carried out a limited assurance engagement of data and information included into the "Integrated Report 2016" of Benetton Group S.r.l. and its subsidiaries (hereinafter also "Benetton Group") referenced in the "GRI Content Index" (hereinafter also "GRI disclosure of the Integrated Report 2016") as of December 31, 2016.

Directors' responsibility on the GRI disclosure of the Integrated Report 2016

The Directors are responsible for the preparation of the GRI disclosure of the Integrated Report 2016 in accordance with the "GRI Sustainability Reporting Standards" issued in 2016 by GRI - Global Reporting Initiative that are detailed in the paragraph "Methodological Notes" of the Integrated Report 2016, as well as for that part of internal control that they consider necessary in order to allow the preparation of a GRI disclosure of the Integrated Report 2016 that is free from material misstatements, even caused by frauds or unintentional behaviours or events. The Directors are also responsible for defining commitments of Benetton Group regarding the sustainability performance and for the reporting of the results achieved, as well as for the identification of the stakeholders and of the significant matters to report.

Auditors' responsibility

It is our responsibility the preparation of this report on the basis of the procedures carried out. Our work has been conducted in accordance with the criteria established by the principle "International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000"), issued by the International Auditing and Assurance Standards Board for the engagements that consist in a limited assurance. This principle requires the respect with the independence and other ethical requirements in compliance with professional standards and applicable legal and regulatory requirements and the maintenance of a comprehensive system of quality control ISQC (Italy) n. 1 as well as the planning and the execution of our work in order to obtain a limited assurance that the GRI disclosure of the Integrated Report 2016 is free from material misstatements.

These procedures included inquiries, primarily with company's personnel responsible for the preparation of the information included in the GRI disclosure of the Integrated Report 2016, document analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

The procedures were related to the compliance with the standard GRI 101: Foundation for defining report content and quality of the GRI disclosures of the Integrated Report 2016 and are summarised below:

- a. comparison of economic and financial data and information included in the GRI disclosure of the Integrated Report 2016 with those included in Benetton Group's consolidated financial statements as of December 31, 2016 on which we issued our audit report on April 28, 2017;
- b. analysis, through interviews, of the governance system and management process of the issues related to the sustainable development regarding Benetton Group's strategy and operations;
- c. analysis of the process relating to the definition of material aspects included in the GRI disclosure of the Integrated Report 2016, with reference to the criteria applied to identify priorities for the different stakeholders categories and to the internal validation of the process outcomes;
- d. analysis of the operation of the processes that support the generation, recording and management of the quantitative data reported in the GRI disclosure of the Integrated Report 2016. In particular, we have carried out the following procedures:
 - interviews and discussions with personnel of the Management of Benetton Group, to obtain an understanding about the information, accounting and reporting systems in use for the preparation of the GRI disclosure of the Integrated Report 2016, as well as about the internal control processes and procedures supporting the collection, aggregation, data processing and transmission of data and information to the department responsible for preparation of the GRI disclosure of the Integrated Report 2016;
 - on site verifications at Benetton Retail Spain S.L. (Barcelona, Spain) and Benetton Retail Deutschland GmbH (Frankfurt, Germany);
 - analysis on a sample basis of the documentation supporting the compilation of the GRI disclosure of the Integrated Report 2016, in order to confirm the processes in use, their adequacy and the operation of the internal control for the correct processing of data and information in relation to the objectives described in the GRI disclosure of the Integrated Report 2016;
- e. analysis of the compliance and internal consistency of the qualitative information included in the GRI disclosure of the Integrated Report 2016 to the guidelines identified in paragraph "Directors' responsibility on the GRI disclosure of the Integrated Report 2016" of the present report;
- f. analysis of the process relating to stakeholders engagement, with reference to procedures applied, through review of minutes or any other existing documentation relating to the main topics arisen from discussions with them;
- g. obtaining of the representation letter, signed by the legal representative of Benetton Group, relating to the compliance of the GRI disclosure of the Integrated Report 2016 with the guidelines indicated in paragraph "Directors' responsibility on the GRI disclosure of the Integrated Report 2016", as well as to the reliability and completeness of the information and data presented in the GRI disclosure of the Integrated Report 2016.

Our engagement is less in scope than a reasonable assurance engagement in accordance with ISAE 3000 and, as consequence, we may not have become aware of all the significant events and circumstances which we could have identified had we performed a reasonable assurance engagement.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that data and information included into the "Integrated Report 2016" of Benetton Group referenced in the "GRI Content Index" as of December 31, 2016 is not in compliance, in all material aspects, with the "GRI Sustainability Reporting Standards" issued in 2016 by the GRI - Global Reporting Initiative, as stated in the paragraph "Methodological Notes" of the Integrated Report 2016.

Treviso, November 28, 2017

EY S.p.A.
Signed by: Maurizio Rubinato, Partner

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

Acknowledgements

*Thank you to all the colleagues
who give their collaboration
for the success of this project.*

Registered office

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Single shareholder company
Villa Minelli
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Corporate information

Share capital: euro 200.000.000 fully paid-in
Fiscal code/ Treviso company registrar no. 03490770264