

**STOCK OPTION PLAN FOR  
TOP MANAGEMENT**  
RULES - 10TH DRAFT  
12 JULY 2004

**UNITED COLORS  
OF BENETTON.**

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# 1

## INTRODUCTION

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The purpose of these RULES is to provide the basic framework and application indications for management of the Stock Option Plan intended for the Top Management of the Benetton Group (hereafter called “Plan” and “Benetton”, respectively).

The clauses of these Rules are correlated and inseparable.

# 2

## PURPOSES OF THE PLAN

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- To focus the attention of the Top Management on the strategic success factors over the medium to long-term with particular emphasis on certain specific corporate objectives.
- To introduce, in addition to the overall financial package currently provided for Top Management, a further financial incentive correlated to the creation of value for the Company and its Shareholders, aligning the interests of investors and Managers and consequently sending positive messages to the market.
- To improve competitiveness on the remuneration market, over the medium to longterm.
- To encourage faithfulness to the Group, by providing incentives to the “key” Managers to remain with the Group.

# 3

## OBJECT OF THE PLAN

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The Plan is directed at the free assignment of options to subscribe to a new issue of Benetton ordinary shares, to be created by an increase in the share capital.

The options, if exercised, give the right to subscribe for shares on a 1:1 basis.

The shares shall have full rights and accordingly dividends shall be due to the Plan’s Participants commencing from the time when they become owners of these shares.

# 4

## MANAGEMENT OF THE PLAN

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The body responsible for the decisions related to the Plan (with the exceptions of the prerogatives of the Shareholders’ Meeting) is the Board of Directors of Benetton Group S.p.A. (hereafter called the “Board of Directors”). The Board of Directors shall

approve the Plan and its Rules and delegate operational management of the Plan to the Remuneration Committee, (hereafter called the “RC”), which, in collaboration with the Human Resources Management of the Benetton Group S.p.A., shall apply the regulations set out in these Rules.

Each year the RC shall report on the progress of the Plan to the Board of Directors and the Chairman of the Meeting of Shareholders.

## 5

### **PARTICIPATION – ELIGIBILITY**

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The Plan is offered to the Top Managers of the Group who have been identified by the Board of Directors, on a proposal from the RC, as having a “key” role in the perspective of Benetton’s achievement of the strategic objectives.

With the exception of changes approved by the Board of Directors from time to time, the requisites normally required, in terms of eligibility, are:

- to have been employed for at least 6 months during the year concerned with a contract for an indeterminate time;
- must not be serving a period of notice following resignation or dismissal at the time the options are assigned.

The RC, acting on a proposal from the Managing Director/Human Resources Management, has the discretion to evaluate admittance to the Plan of persons/roles that are particularly critical in the perspective of Benetton’s strategic objectives.

## 6

### **DEFINITION OF THE CYCLE**

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The Plan provides for a single cycle of annual options assignation, which can be renewable at the discretion of the Board of Directors.

The cycle comprises a period of restriction before options can be exercised (“vesting period”) of 4 years from the date of assignation of the options and a further period of 5 years for the exercise of the options themselves (“exercise period”). Nevertheless, there is the possibility of exercising up to a maximum of 50% of the options assigned after 2 years have elapsed from the date when the options were assigned, subject to the conditions provided in Art. 8 below.

Attachment 1 gives a graphic example of the structure of the cycle for assignation of options.

The criteria for the assignation of options are established by the RC, which formulates proposals on the number of options to be assigned for submission to the approval of the Board of Directors.

The base number of options to be assigned to each Participant is established with reference to their Gross Annual Income (GAI); a multiplier is applied to this amount associated with the “organizational weighting” of each role, which is calculated from the joint evaluation of the following two elements:

- organizational level in the structure;
- criticality of the role in the perspective of value creation.

The quota of options assigned that will be effectively become exercisable, following the vesting period of 4 years (see Art. 6), shall depend upon the level of achievement, accumulated during the vesting period, of the following performance indicator relating to the four years 2004-2007:

- EVA (Economic Value Added)

(see Attachment 2)

With reference to this parameter, a minimum threshold for exercising is provided, which is equal to 60% of the cumulative EVA in the four years 2004-2007 and determined on the basis of the profitability and financial estimates contained in the “Guidelines” for the financial years 2004-2007, as presented to the Board of Directors on 20/11/03. Should the results for the four years be inferior to this threshold no further option shall become exercisable after the expiry of the 4 year vesting period, with the exception of the options that are exercisable after the first bi-annual period, as indicated below.

Above this threshold, a percentage of the options that become exercisable of between 60% and 100% is linked to the EVA values achieved, as compared to the four-year EVA Objective. The percentages of options that become exercisable for each level of EVA achieved are shown in an appropriate table (see Attachment 3). For EVA values within the intervals indicated in the Table in Attachment 3, the options corresponding to the lower percentage shall become exercisable.

The achievement of an excellent EVA performance ( $\geq 105\%$ ) allows 100% of the options assigned to be exercised.

The degree of achievement of the performance objective (EVA), measured in cumulative terms in the period of reference, will be verified at the end of each of the two vesting periods and must be approved by the Board of Directors. For the purpose of calculating the final performance figures (EVA) it is specified that the same Income Statement format as that given in Attachment 2 shall be applied, and in particular the same criteria for identification of the other charges/income; it is also specified that the final EVA figure shall in general be calculated by applying the same accounting criteria as those used to determine the objectives in the 2004-2007 "Guidelines".

As stated in Art. 6 above, nevertheless there is the possibility of exercising up to a maximum of 50% of the assigned options after only two years from the date of assignment of the options themselves. This is on the condition that 100% of the cumulative EVA Objective is achieved in the bi-annual period 2004-2005. Such options shall become exercisable before the end of the exercise period (September 2013) even if the minimum cumulative EVA Objective (60%) relating to the four years 2004-2007 is not achieved.

In the case where 100% of cumulative EVA is not achieved in the bi-annual period 2004-2005 and thus no early exercise is possible, the possibility is provided of recuperating the suspended options, at the end of the four-year vesting period, on condition that at least the pre-established threshold of 60% of cumulative EVA is achieved in the 2004-2007 reference period (see Attachment 3).

Finally, it is specified that, once the performance conditions at the end of the bi-annual and four year periods have been verified, the total options that become exercisable by each Participant in the Plan shall not in any event exceed the overall percentages indicated in Attachment 3 and shall be correlated to the various levels of EVA achievement and also take into account any options already exercised in advance after the first bi-annual vesting period.

Acceptance of the options assigned must be confirmed by restitution of a copy of the letter communicating participation in the Stock Options Plan, the Registration Form for the Plan itself and these Rules, duly signed by the Participant, as soon as possible and in any event not more than 30 days from the date of despatch of the assignment letter. Failure to sign the receipt and acceptance and return the above documentation automatically excludes the Participant from this Plan.

Each Participant in the Plan shall be able to state, in writing, the number of options that they intend to exercise and thus the shares for which they intend to subscribe, by following the instructions that shall be provided on this matter by the Trust Company to which the Benetton Group S.p.A. will entrust the Plan Administration (see Art. 16).

The right of a Plan Participant to exercise the options attributed to him is conditional on the existence of each of the following prerequisites:

- the achievement of the performance objective (EVA), as already indicated in Art. 8, verified by the Board of Directors and advised to the individual Participants;
- the conclusion of the vesting periods as indicated in Attachment 1;
- the non- conclusion of the final term (“expiration date”) provided for the exercise of the options (i.e.: 9 years after the date of assignation of the options);
- the continuing nature of employment at the time of exercising the options, it being understood that this is specifically regulated by Article 15.

In any case, for the entire duration of the Plan the options shall not be exercised in the period between the date on which the Board of Directors of the Company approve the financial statements for the year and the date on which dividends are payable, based on the Stock Market calendar.

The options must be exercised for a minimum lot of no less than 5,000 options or multiples thereof.

Only in the case where the difference between the number of options that become exercisable by each Participant and the number of options already exercised by the latter is less than the above- mentioned minimum lot, the residual options that become exercisable shall be in any event exercised by the Participant even if there is a smaller number than the minimum negotiable lot.

The shares shall be made available to each Participant according to the instructions that will be provided by the Trust Company.

The options are registered personally, free and non-transferable, except for “mortis causa”, as provided hereafter (Art. 15, 4th point).

The share subscription price, payable at the time the options are exercised, shall be equal to the “normal value” of the share at the date the options were assigned.

This value is established on the basis of letter a) of paragraph 4 of Article 9 of the “Unified Tax Code” (TUIR), which states that the normal value of shares is determined on the basis of the arithmetical average of the prices recorded during the last month on the Milan Stock Market. In this regard, it is specified that the expression “last month” does not refer to the previous calendar month, but to the period from the reference day (the date of assignment of the options to the employee) to the same day of the previous calendar month.

In case of the launch of a TOB (take-over bid) for 100% of Benetton shares or the acquisition of control by third parties during the duration of the Plan, each of the Managers Participating in the Plan shall be entitled to request, alternatively:

- the exercise of the options assigned to them, even though these are not yet “vested”, by subscribing to the underlying shares and re-selling them on the same terms and conditions provided in the TOB or in the acquisition agreement;
- the retention of the options assigned to them, thus conserving the rights acquired.

In the case of:

- an increase in the Company’s share capital, either by way of a bonus issue or for payment, or else extraordinary dividend distributions that can influence the financial content of the Plan;
- events capable of influencing the objectives, options, shares or the Plan, for example mergers, spin-offs, public subscription or exchange offers, de- listing on one or more markets or other exceptional events that could affect the trend of the business;

the Board of Directors, subject to a change, if the case warrants, in the unitary price for the exercise of options in conformity with the applicable fiscal legislation, shall be empowered to:

- suspend the right to exercise options for a maximum period of 3 months;

- make changes and additions to the Rules, as considered necessary and appropriate to maintain the essential contents of the Plan unchanged as far as is possible.

The Company must give timely advice to the Participants of the date when this suspension will commence, its duration and the date when the facility to exercise options will be re-established.

## 15

### TREATMENT IN THE CASE OF TERMINATION OF EMPLOYMENT

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In the case of termination of employment due to resignation or dismissal, the option rights that become exercisable but not yet exercised shall become exercisable within the period up to the date of termination of employment.

- In the case of termination agreed between the parties (including for just cause and/or for a justified subjective reason), the option rights that become exercisable and not yet exercised shall become exercisable before the termination date agreed by the parties.
- In the case of pensioning or disablement, all the option rights already assigned shall become exercisable immediately and can be exercised within 1 year from the date of termination of employment.
- In the case of the death of the holder of option rights, all the option rights already assigned can be exercised by their heirs or assignees within 6 months from the date of death.

However, the Board of Directors have the power to decide on a forfeiting formula, or in any event improve the treatment of particular cases.

## 16

### PLAN ADMINISTRATION

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The administration of the Benetton Group Stock Option Plan is entrusted to a Trust Company (hereafter called "Trust"), in collaboration with the Human Resources Management of Benetton Group S.p.A.

- The Trust, shall receive information from Benetton regarding:
  - the number of individual Participants in the Plan, their personal details, role, etc.;
  - the number of options assigned to each Participant, subscription price of the shares and other contractual clauses.

- At the time of commencement of the period for exercising the options the Trust shall advise the Plan Participants of the opening of the exercise possibility, the final date (expiration date) and reiterate the principal clauses of the Rules.
- The Participants must inform the Trust directly in writing of their wish to exercise, within the dates provided, specifying the number of options that they intend to exercise and simultaneously place the sum necessary for subscription to the shares at the Trust's disposition or arrange a bank transfer.

The Participant shall be considered the owner of the shares from the date of exercise of the options and simultaneous payment of the subscription price.

The Trust, on request from the interested parties, shall be able to administer the shares in trust or arrange a sale, crediting the proceeds to the account indicated by the party concerned.

- The Trust shall operate in accordance with the mandate granted by Benetton Group S.p.A.
- The Trust shall carry out all the commitments contained in these Rules.

The Trust's administration costs, with the exclusion of the costs arising on the exercise of options, will be met by Benetton Group S.p.A.

## 17

### ARBITRATION

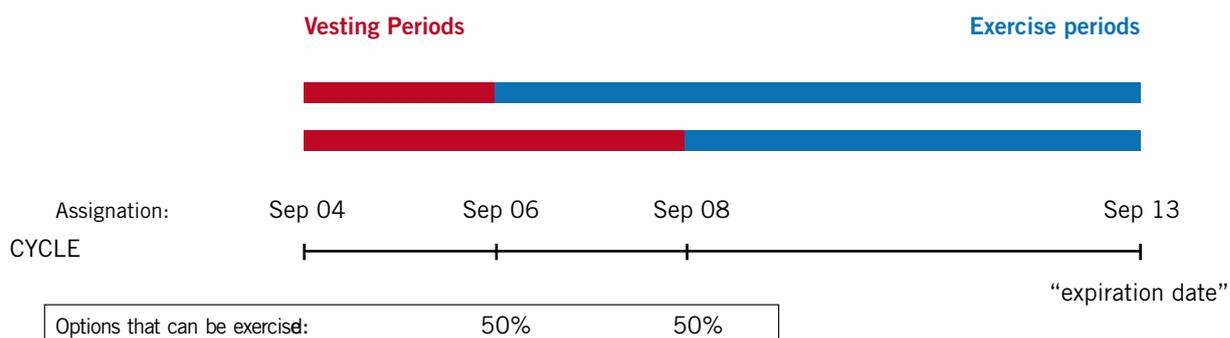
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Whatever controversy arises regarding the Plan, its interpretation and execution, nonexecution or termination, and their effects, shall be exclusively resolved by a Board of three arbitrators constituted as follows:

- an arbitrator appointed by Benetton Group S.p.A.;
- an arbitrator appointed by the Participant or their heirs or successors;
- the third, who shall act as Chairman, shall be designated by the other two, or else, if they do not appoint the third person within 15 days from their own appointment, by the President of the Treviso Court.

The latter shall also nominate another arbitrator if this not arranged - or not arranged where necessary for his substitution - within 15 days. The Board shall conduct its procedures according to the rules of the National and International Arbitrators Board of the Treviso Chamber of Commerce and proceed in the customary manner according to the law.

## ATTACHMENT 1 REFERENCE TIMETABLE CHART



## ATTACHMENT 2 FINANCIAL PARAMETERS FOR 2004-2007 EVA CALCULATION

### GUIDELINES CONSOLIDATED FINANCIAL STATEMENTS

The values are expressed in millions of Euros	2004	2007	
<b>EVA CALCULATION:</b>			
OPERATING RESULT (A)	223	324	
TAXES ON OPERATING RESULT:			
- TOTAL TAXES	-44	-76	
- TAX RATE FIN./OTHER EXP.	33%	33%	
- TAX SHIELD FIN./OTHER EXP.	-17	-8	
TAXES ON OPERATING RESULT (B):	-61	-84	<b>CUMULATIVE EVA 2004-2005 68</b>
NOPAT (C=A-B)	162	240	<b>CUMULATIVE EVA 2004-2007 229</b>
WACC (D)	7,40%	7,50%	
AVE. CAP. INVESTED (E)	1774	1862	
COST OF CAPITAL (F=D*E)	131	140	
<b>EVA (G=C-F)</b>	<b>31</b>	<b>100</b>	

## ATTACHMENT 3 PERFORMANCE INDICATOR: EVA

Each level of achievement of the EVA objective corresponds to a percentage of the options assigned that become exercisable, as indicated below:

The values are expressed in millions of Euros

LEVEL ACHIEVED	EVA: OBJECTIVE VALUE (*)	OPTIONS EXERCISABLE
>=105%	240	100%
100%	229	96%
92%	211	92%
84%	192	84%
76%	174	76%
68%	156	68%
60%	137	60%

## ACCEPTANCE OF THESE RULES

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I hereby declare that I have read and fully understood the Stock Option Plan Rules of Benetton Group S.p.A.

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Date

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Signature