

Business Development Policy

Our approach to Business Development

The F.I.L.A. Group is one of the leading global enterprises devoted to the research, design, manufacture, and sale of tools for creative expression. The Group designs, makes and packages tools and supports for drawing, colouring and painting, modelling, for use by children, youths and adults. Our product range includes more than 25 well-known brands and thousands of products sold on all continents.

We are engaged to a responsible behavior towards all our relevant stakeholders in operating business, combining respect of people, natural environment, and communities, and sustainability is therefore embedded with our Purpose, Vision, Mission, Values set out in our Ethics Code, and day-to-day operations.

This policy, together with our Ethics Code and the Corporate Governance Model, should be adopted by all Group companies and form part of the Group Organization, Management and Control Model, in accordance with the principles and objectives of the Organization, Management and Control Model as per Italian Legislative Decree 231/2001.

Business development is the set of activities that involve evaluating the Company business to fully realize its potential, using tools such as market trends analysis, Competitors' benchmark, product's marketing, marketing communication, R&D, production process, consumer engagement, sales, information management and customer service. It is an ongoing process, which takes place in parallel with the development of the organization, and which requires a multi-disciplinary approach, which goes beyond mere "sales to the customer."

We are committed to maintaining the highest possible ethical standards and to complying with all applicable laws in all countries in which we do business. We firmly believe to have the responsibility to operate in compliance with the rules of the countries where we have a presence, distinguishing ourselves as an enterprise capable of exporting the values that permeate our actions, by promoting them in the communities where we operate.

Scope of this Policy

This Policy applies to F.I.L.A., its subsidiaries, the entities in which it holds a majority interest, and the facilities that it manages.

Locally each company should adopt more stringent rules and procedures, as needed and in accordance with local laws and regulations. While conducting its management, coordination and supervision activities, F.I.L.A. S.p.A. respects management autonomy of each affiliate within its Group, managing and controlling the overall business, as per legitimate interests of majority and minority shareholders, considering confidentiality requirements and local applicable laws.

We firmly believe to have the responsibility to operate in compliance with the rules of the countries where we have a presence, distinguishing ourselves as an enterprise capable of exporting the Values that permeate our actions, by promoting them in the communities where we operate. The purpose of this Policy is to provide guidance to F.I.L.A.'s directors, officers, employees, agents, consultants, intermediaries, controlled joint ventures, and other third-party representatives to ensure compliance with applicable regulation and our Values and Policies.

The F.I.L.A. Group is committed to a continuous improvement of its policies and its programs, facilitating the adoption at local level of all procedures, rules, and instructions needed to have the principles set in this Policy applicable and monitored, in order to make an impact. By adopting this Policy, we believe to contribute to a better condition of existing and of next generations, providing tools for a better quality of life.

General principles

The history of the Group, which is over a century old, encompasses growth and expansion through successful mergers and acquisitions that has enabled F.I.L.A. to become one of the leading global enterprises devoted to the research, design, manufacture and sale of tools for creative expression. Since 1994 we have followed a constant process of internationalisation, thanks above all to a prudent M&A strategy that has led to key successful acquisitions. The far-reaching geographical expansion has been accompanied by consolidation in mature markets through the expansion of products in the Fine Art & Crafts segment

Our 2021-2025 Strategic Plan, organized into five strategic lines and 22 levers and available at <https://www.filagroup.it/en/strategic-plan/>, defines Group management guidelines with a view to sustainable growth:

- it is a tool that allows the Group to define and plan its medium-/long-term identity, its core goals, the actions required and the tools to achieve them
- it is an organizational management activity used to establish priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders work towards shared goals, establish an agreement on the outcomes planned and assess and adjust the direction of the organization in response to a changing environment.

The line of “Growth” of our Strategic Plan is declined in three major levers: Strategic M&A Transactions, Industrial Investments and Commercial Investments.

The line “Profitability” of our Strategic Plan is declined in five major levers: Distribution channels, Market share by brand and product family, Commercial policies, Production efficiency and Structural costs.

The Business Development Policy represents the reference document for the activities that the F.I.L.A. Group puts in place to grow its business, fully realizing its potential.

Business development is the responsibility of each CEO, supported by F.I.L.A. S.p.A.’s Officers and Vice Presidents – different F.I.L.A.’s Committees, of each Major Subsidiary and of the Minor Subsidiaries Committee as applicable.

Business development is the set of activities which, starting from the Strategic Plan, the Business Plan and the Company budget, provide for the definition of:

- action plan of each Company of Group to achieve the defined targets
- business targets by Country, supervision of all distribution channels, market share by brand and product family
- organizational changes
- Capex and production plans to support commercial and sales plans.

Some of the tools used for business development are the evaluation of marketing opportunities and reference markets, the management of information on consumer trends, customers and competitors, the generation of contacts for possible sales, the sales follow-up activity and the drafting of formal offers.

Operating principles

The elements to consider and which contribute to setting up business development activities are:

- rules, regulations and laws applicable in the various countries where the F.I.L.A. Group operates
- results achieved in the previous period
- market research, conducted internally or by specialized subjects, sector trend analysis, study of information relating to competitors in the various sectors and countries in which the F.I.L.A. Group operates

The expected results of the business development activities are:

- definition of targets, in terms of product portfolio, BtoC engagement, marketing initiatives
- definition of targets, in terms of products and customers portfolio, brand and distribution channels market share
- definition of the offer, in terms of market approaches, product, price, etc.
- definition of capex to start new productions or to increase the capacity production
- definition / confirmation / reorganization of marketing and sale departments and function responsibilities
- periodic examination of the Company and function budget.

The main phases for the business development of the F.I.L.A. Group are:

- marketing policies development
- sales policies development
- production capabilities and plans development
- organizational chart policy development
- development of strategic relationships and alliances.

Marketing Policy development

A Marketing Policy is the set of coordinated activities to achieve the economic and financial objectives, detailed in the medium term by the Business Plan and in the short term by the Sales budget. The levers used are:

- definition of the most effective product offer by business unit and distribution channel in meeting the wishes and needs of the target consumers,
- recommended consumer price positioning and price list in order to guarantee, after the commercial policy and discount strategies, the correct and expected level of profit and margin for the Company
- implementation of the most appropriate promotional offer
- consumer engagement activities to increase the brand awareness, brand loyalty and products sell out
- communication strategy for business support purposes.

The definition of Marketing Policies is the responsibility of the Chief Marketing Officers.

Sales Policy development

A Commercial Policy is the set of coordinated activities to achieve the economic and financial objectives, detailed in the medium term by the Business Plan and in the short term by the Sales budget. The levers used are:

- definition of the most effective product offer in meeting the wishes and needs of the target customers,
- implementation of discount strategies by market, distribution channels and product family,
- definition of rebate programs, sales conditions, and payment guidelines
- efficiency of the sales force in order to optimize the dissemination of products also considering the structure of the different areas, of the different distribution channels or groups of reference customers,
- implementation of the most appropriate promotional offer and communication strategy for business support purposes.

The Group's ability to adopt the commercial policy that best meets the needs of customers and the market in which the business operates is of fundamental importance for achieving the economic and financial objectives that the company wants to achieve. The objectives, contained and detailed in the Sales Budget, are expressed in terms of:

- sales and turnover
- contribution margin, understood as revenues net of the cost of sales
- gross operating margin.

The definition of Sale Policies is the responsibility of the Chief Sales Officer.

Production Capabilities and Plans development

Business development can be achieved if the Production Plans support the defined commercial policies.

The Production Capabilities and Plan is a decision-making process through which production resources are organized in order to achieve certain objectives. The main stages are capex budget and capex business plan, planning, scheduling and control.

In the capex budget and in the capex business plan, production plants and machinery obsolescence together with new machines needed to produce new products are both considered with the aim of keeping the plants and machinery technologically up to date and capable to produce new products.

Pay-back, production efficiency and security of the employees are all considered while building the capex budget and capex business plan.

In the planning phase, the objectives are selected, the strategies, policies, programs and procedures necessary to achieve them are established. With programming, the quantities and production times are defined in more detail. In the control phase, the progress of the operations is supervised, highlighting any deviations from the production programs and implementing the appropriate corrections.

The main production capabilities, planning and programming tool is the Strategic Production Plan.

The development Of Production Plans is the responsibility of the COO at F.I.L.A. S.p.A. and locally of the CEO supported by the local COO.

Organizational chart policy development

Business development can be achieved if any needed position in the organizational employees' chart is covered.

The technological progress, the digitalization, the target of covering more distribution channels or increase the market share by brand or by product family and the distribution changes may require reorganize/reinforcing some departments.

An organizational chart Policy is the set of coordinated activities to achieve the economic and financial objectives, detailed in the medium term by the Business Plan and in the short term by the Sales budget. The levers used are:

- Targets defined by marketing and sales development policies
- Current and to be organizational chart supporting the achievement of the targets

The development of the organizational chart policy development is the responsibility of the Chief HR Officer at F.I.L.A. S.p.A. and locally of the CEO supported by the local HR.

Development of strategic relationships and alliances

Business development is also possible thanks to the creation and consolidation of business relationships with other companies in sectors similar to that of the F.I.L.A. Group and, in particular, thank you to the Vertical Integration in "upstream" or "downstream" markets and/or the creation and management of strategic relationships and alliances with third-party companies.

Vertical Integration strategies are those situations in which the company tries to gain control over its "inputs" (upstream integration) or its "outputs" (downstream integration) or both. Vertical integration has the following advantages:

- barriers to competition
- reduction of the risks of investments in plants
- specialization and greater efficiency
- protection of the quality of goods and services offered
- internalization of markets
- planning and coordination
- stimulation of demand
- investments of excess resources.
- acquisition and business combination processes.

In addition to Vertical Integration, other business development strategies are Strategic Alliances and Joint Ventures. These are long-term cooperation agreements between the company and one or more partners, which make it possible to exploit the expertise of each, or the reciprocal technologies or other intellectual properties to expand its offer of products, services, functions. and / or markets without investing to build or acquire them with internal resources. Revenues are generally shared with royalty-based agreements.

Alliances can be:

- horizontal: collaboration between companies in the same sector
- vertical: collaboration between customer and supplier.

Joint ventures are a particular type of strategic alliance in which two or more companies provide the capital of a new independent organization and control its management.

Furthermore, important informal relationships can be created, including relationships based on long-term collaborations and delegations for the most critical activities with strategic subcontractors.



The development of strategic relationships, alliances and informal relationships with strategic suppliers is the responsibility of the CEO at F.I.L.A. S.p.A. and locally of the CEO.

F.I.L.A.'s Top Management has a strategic role in the full implementation of this Policy ensuring the involvement of all personnel and of those who collaborate with F.I.L.A. and the consistency of their behavior with the values embodied in this Policy.

This Policy is communicated within the organization and made available online to all stakeholders on the web site www.filagroup.it.

F.I.L.A. encourages anyone who becomes aware of facts or behaviors contrary to the Company's Code of Ethics, policies and internal rules, laws or regulations, to make a report in the utmost confidentiality. Assuring confidentiality of the whistleblower's identity, F.I.L.A. offers the following channels to file a report:

- E-mail: whistleblowing.fila@gmail.com
- Mail to: odv@fila.it Organismo di Vigilanza, F.I.L.A. Fabbrica Italiana Lapis ed Affini S.p.A. Via XXV Aprile, 5 20016 Pero (MI).

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GROUP CEO – Massimo Candela