

F.I.L.A. – FABBRICA ITALIANA LAPIS ED AFFINI S.P.A.



**EXPLANATORY REPORT OF THE BOARD OF DIRECTORS ON POINT 4 OF THE AGENDA OF
THE ORDINARY SHAREHOLDERS' MEETING OF F.I.L.A. - FABBRICA ITALIANA LAPIS ED
AFFINI S.P.A., CALLED FOR APRIL 27, 2022 IN SINGLE CALL.**

(drawn up in accordance with Articles 114-*bis* and 125-*ter* of Legislative Decree No. 58 of
February 24, 1998, and Article 84-*ter* of the Regulation adopted with Consob Resolution No.
11971 of May 14, 1999)

Report approved by the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A.
at the meeting of March 22, 2022 and available on the website www.filagroup.it

Point 4 on the Agenda of the Ordinary Shareholders' Meeting of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A., called for April 27, 2022 in single call:

"Incentive plan for the period 2022-2026 concerning ordinary shares of F.I.L.A., called "2022-2026 Performance Shares Plan" reserved to employees and/or Senior Directors of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A. and/or other Group companies; resolutions thereon"

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Dear Shareholders,

This Report has been prepared in accordance with Article 114-*bis* and 125-*ter*, paragraph 1 of Legislative Decree No. 58 of February 24, 1998 (the "CFA") and Article 84-*ter* of the Regulation adopted with Consob Resolution No. 11971 of May 14, 1999 (the "Issuers' Regulation").

This report was approved by the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. ("Fila" or the "Company") in the meeting of March 22, 2022 and is made available to the public, in accordance with applicable law and regulations, at the registered office, on the Company's website (www.filagroup.it) and also by the other means established by the applicable regulation.

With reference to point 4 of the Agenda of the Shareholders' Meeting, the Board of Directors intends to submit for your approval, in accordance with Article 114-*bis* of the CFA, an incentive plan called the "2022-2026 Performance Shares Plan" (the "**2022-2026 Plan**") reserved for employees and/or Senior Directors of the Company and/or other companies in the Group (the "**Subsidiaries**" and the latter and the Company considered as a whole, the "**Group**"), to be implemented through the free allocation of Fila ordinary shares (the "**Shares**").

The Shares serving the 2022-2026 Plan will derive from transactions involving the purchase, on one or more occasions, of treasury shares carried out pursuant to Articles 2357 and 2357-*ter* of the Civil Code.

The prospectus on the 2022-2026 Plan, drawn up as per Article 84-*bis* and in compliance with Annex 3A of the Issuers' Regulation, shall be made available to the public in accordance with applicable law and regulations and shall be available on the company website (www.filagroup.it), "Governance" section and on the "EMARKET STORAGE" authorised storage mechanism (www.emarketstorage.com), together with this report.

1. Reasons for the adoption of the 2022-2026 Plan

The 2022-2026 Plan is one of the instruments used by the Company and the Group to supplement the fixed component of the remuneration package of the figures considered strategic for the implementation of the business development and growth plan of the Company and the Group by means of variable components linked to the achievement of certain performance targets, in accordance with the best market practices. Specifically, the Company believes that a rolling share-based incentive plan with specific performance targets is the most effective management incentive and retention tool that best meets the interests of the Company and the Group. The adoption of the

2022-2026 Plan, in Fila's opinion, seeks to (i) align the interest of management with those of shareholders, (ii) reward the achievement of the new business plan targets of the Group for the five-year period 2022-2026 and (iii) retain strategic personnel.

The 2022-2026 Plan also proposes to replace the previous 2019-2021 Plan, which expired naturally on December 31, 2021.

2. The members of the Board of Directors of the Company, parent companies or subsidiaries who will benefit from the 2022-2026 Plan

At the reporting date, the following members of the Board of Directors of the Company were identified as beneficiaries of the 2022-2026 Plan, subject to its approval by the Shareholders' Meeting:

- Massimo Candela, Chief Executive Officer of Fila;
- Luca Pelosin, Executive Director of Fila.

3. Categories of employees or collaborators of the Company and of the parent companies or subsidiaries who shall benefit from the Plan

At the date of this report and in addition to the above, the following were identified as beneficiaries of the 2022-2026 Plan, subject to its approval by the Shareholders' Meeting:

- 6 Senior Executives, i.e. Group executives with the power and responsibility, directly or indirectly, for planning, directing and controlling company and/or Group activities;
- 38 Senior Managers, i.e. employees of the Company and subsidiary companies who occupy positions identified for the long-term business growth and sustainability of the Group.

without prejudice to the right of the Fila Board of Directors to identify, if necessary, additional beneficiaries of the 2022-2026 Plan for the various three-year cycles. We note that some of the beneficiaries of the 2022-2026 Plan currently serve as members of the Board of Directors of companies controlled by Fila. These Executives are not identified by name in the preceding paragraph 2 because their inclusion among the beneficiaries of the 2022-2026 Plan does not depend on the positions they hold in the companies mentioned above, since this allocation is determined exclusively on the basis of the managerial role (Senior Executives or Senior Managers) entrusted to them within the Group.

4. 2022-2026 Plan implementation means and clauses

The 2022-2026 Plan comprises three annual share allocations ("rolling" plan), each of which corresponds to a three-year vesting period (2022-2024 for the first cycle, 2023-2025 for the second cycle and 2024-2026 for the third cycle). At the beginning of each three-year vesting period (i.e., January 1, 2022, 2023 and 2024), beneficiaries of the 2022-2026 Plan will be granted the right to receive, free of charge, a certain number of ordinary shares of the Company, to the extent of, on the terms of and subject to the conditions set out in the Plan Regulation, subject to the achievement of certain performance targets. The level of achievement of these targets will be assessed by the Board of Directors, with the support of the Remuneration Committee, at the end of each three-year vesting period (i.e., December 31, 2024, December 31, 2025 and December 31, 2026).

Specifically, except as described below, the free allocation of shares is linked to the fulfilment of the following conditions:

- (i) (i) the continuance, on the Share allocation date for each cycle of the 2022-2026 Plan, of the individual's status as beneficiary, of the position of employment or management of the beneficiary with a Group company and the beneficiary's continuing qualification as a company Executive Director or as a Senior Executive or Senior Manager of the Group;
- (ii) the achievement of the minimum performance targets.

Once satisfaction of the conditions for allocation of the Shares as indicated above has been verified, the Board of Directors establishes the number of Shares to be allocated to each beneficiary of the 2022-2026 Plan, on one occasion, on the basis of the achievement of the performance targets set out below.

- (i) **quantitative target (relative weighting 70%): achievement of the Group's average ROI (1) for each three-year vesting period, as set out in the Group's business plan in place during those periods; and**

The economic and financial performance indicator and associated targets are linked to the business plan in place during the reference periods and are based on the following scopes:

- consolidation of North America (which represents a portion of the Group consolidation) for 2 Senior Executives and 10 Senior Managers;
- Group consolidation for all other beneficiaries of the 2022-2026 Plan.

The Shares to be allocated to each beneficiary of the 2022-2026 Plan in the case of achieving the quantitative objective shall be calculated, by the Board of Directors with the support of the Remuneration Committee, on the basis of the following criteria:

(1) The ROI indicates the ratio between consolidated Operating income and net invested capital as per the Group business plan.

% of average ROI achievement in each three-year vesting period	% Pay-out with respect to the Base Number of Shares (BNS²)
ROI < 90%	70% x 0 x BNS
90% ≤ ROI < 92.5%	70% x 20% x BNS
95% ≤ ROI < 97.5%	70% x 60% x BNS
97.5% ≤ ROI < 99.5%	70% x 80% x BNS
99.5% ≤ ROI < 100.5%	70% x 100% BNS
100.5% ≤ ROI < 102.5%	70% x 120% x BNS
102.5% ≤ ROI < 105%	70% x 140% x BNS
105% ≤ ROI < 107.5%	70% x 160% x BNS
107.5% ≤ ROI < 110%	70% x 180% x BNS
ROI ≥ 110%	70% x 200% x BNS

The maximum number of Shares that may be allocated in relation to the quantitative target shall in any case be equal to 170% of the BNS related to this target.

If the quantitative performance target (average ROI for each three-year vesting period) is achieved, it is expected that:

- where the performance is below 90.00% of the target, no shares relating to the quantitative target shall be allocated;
- where the performance is between 90.00% and 92.50% - lower range included - of the target, 20% of the shares in relation to the quantitative target shall be allocated;
- where the performance is between 92.50% and 95.00% - lower range included - of the target, 40% of the shares in relation to the quantitative target shall be allocated;
- where the performance is between 95.00% and 97.50% - lower range included - of the target, 60% of the shares in relation to the quantitative target shall be allocated;
- where the performance is between 97.50% and 99.50% - lower range included - of the target, 80% of the shares in relation to the quantitative target shall be allocated;
- where the performance is between 99.50% and 100.50% - lower range included - of the target, 100% of the shares in relation to the quantitative target shall be allocated;
- where the performance is between 100.50% and 102.50% - lower range included - of the target, 120% of the shares in relation to the quantitative target shall be allocated;

(²) The BNS, or base number of shares, indicates the number of Shares obtainable on achieving 100% of the performance targets.

- where the performance is between 102.50% and 105.00% - lower range included - of the target, 140% of the shares in relation to the quantitative target shall be allocated;
- where the performance is between 105.00% and 107.50% - lower range included - of the target, 160% of the shares in relation to the quantitative target shall be allocated;
- where the performance is between 107.50% and 110.00% - lower range included - of the target, 180% of the shares in relation to the quantitative target shall be allocated;
- where the performance is equal to or above 110% of the objective, 200% of the Shares in relation to the quantitative target shall be allocated;

The quantitative objective (average ROI for the three-year period) will be calculated by taking into account the standardisation criteria agreed upon with the auditors and in line with the definitions stipulated in the Company's loan agreements and a consolidation scope matching that indicated in the reference plan.

- (ii) **qualitative target (relative weighting 30%)** implementation of at least 80% of the targets set out for each three-year vesting period in the Group's sustainability plan in place during those periods.

30% of the shares will be allocated upon achievement of the following qualitative Group objective, i.e., implementation of at least 80% of the targets set out for each three-year Vesting Period in the Group's sustainability plan as adopted by the Board of Directors from time to time.

For all the Beneficiaries of the Plan, this target is measured through an "on/off" mechanism; therefore, in case of achievement of the Performance Target to an extent greater than 100%, the Beneficiary will be entitled to be allocated a number of Shares equal to and never exceeding 100% of the Base Number of Shares.

The qualitative target applies for all Plan beneficiaries.

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The Shares to be allocated to each beneficiary of the 2022-2026 Plan, in the number established as above, shall be made available to each beneficiary of the 2022-2026 Plan according to the terms and means established in the Plan regulation and, in particular, not beyond 60 calendar days from approval by the Board of Directors of the consolidated financial statements of the Company for the final year of each three-year vesting period. The Shares subject to allocation shall have full rights and, therefore, the attached rights devolve to each beneficiary of the 2022-2026 Plan from the point at which they become holders of the Shares.

The Board of Directors has determined the maximum total number of Shares to service the three cycles of the 2022-2026 Plan as 1,000,000. The Shares serving the 2022-2026 Plan will derive from transactions involving the purchase, on one or more occasions, of treasury shares carried out

pursuant to Articles 2357 and 2357-ter of the Civil Code, and the implementation of the 2022-2026 Plan will therefore have no effect on Fila's share capital.

For both Performance Targets, the Board of Directors has the authority to disburse to the beneficiaries of the 2022-2026 Plan a sum of money equal to the value of Shares payable and at their normal value to the Beneficiary, determined as per Article 9 of Presidential Decree 917/1986. This authority is granted to the Board of Directors only in cases in which specific circumstances relating to the beneficiary and/or regulatory, tax or financial market performance reasons render, in the Company's reasonable opinion, the Share Allocation process more onerous for the company and/or the beneficiaries.

It should also be noted that the Board of Directors shall have the power, having consulted the Remuneration Committee, to make amendments or additions to the 2022-2026 Plan regulation, within the scope of the powers conferred by the Shareholders' Meeting and in the most appropriate manner, as it deems useful or necessary to better pursue the incentive and loyalty purposes of the 2022-2026 Plan as well as to maintain the substantial and economic contents of the 2022-2026 Plan unchanged, within the limits allowed by the legislation applicable from time to time, taking into account the interests of the Company and of the beneficiaries, for each vesting period.

The Board of Directors may, independently and without the need for further approval from the Shareholders' Meeting, and having consulted the Remuneration Committee, make all the changes and supplements to the 2022-2026 Plan that are considered necessary and/or beneficial to maintain the Plan unchanged - within the limits allowed by the legislation applicable from time to time - and to continue to apply its essential and economic content in the case of: (i) extraordinary transactions on the Company's share capital; (ii) merger or spin-off transactions, acquisition or sale of shareholdings, companies or business units; or (iii) legislative or regulatory changes or other events likely to affect the right to receive Shares, the Shares and/or the Company.

In addition, the Board of Directors shall have the right, at its sole discretion, to grant to the Beneficiaries the right to receive all or part of the Shares in advance with respect to the terms set out in the 2022-2026 Plan, even independently from the actual achievement of the objectives, or to provide for the early termination of the 2022-2026 Plan, if, during the vesting period, (i) there is a change of control in relation to the Company or the subsidiary with which the beneficiary has a relationship, (ii) a public purchase offer or a public exchange offer is launched concerning the Shares, or (iii) the listing of the Shares on the regulated market Euronext Milan, organised and managed by Borsa Italiana S.p.A. is revoked (delisting). This decision shall be binding on the Beneficiaries.

Lastly, in the event of a significant revision of the targets of the Group's business plan, the Board of Directors will have the power to approve, in compliance with the applicable legislation (including the rules governing related party transactions), any changes to the targets of the 2022-2026 Plan in order to adjust them to the changes made to the Industrial Plan and to keep the substantial and economic content of the Plan unchanged, retaining its main incentive and loyalty-enhancing purposes.

5. Support to the Plan by the Special fund to incentivise worker involvement in enterprises, as per Article 4, paragraph 112 of Law No. 350 of December 24, 2003

The 2022-2026 Plan does not receive support from the Special fund to incentivise worker involvement in enterprises, as per Article 4, paragraph 112 of Law No. 350 of December 24, 2003.

6. Details of any restrictions on the availability of the shares, with particular reference to the periods within which the subsequent transfer to the company or to third parties is permitted or prohibited

The right to receive Shares shall be granted on a personal basis to each beneficiary of the 2022-2026 Plan and may not be transferred between living persons, nor be subject to restrictions or constitute other acts of disposal in any form.

The 2022-2026 Plan establishes specific clawback clauses.

In compliance with the Corporate Governance Code for listed companies published by Borsa Italiana S.p.A. and to which the Company adheres, the 2022-2026 Plan provides for an obligation for the beneficiaries to retain any Shares that may be allocated (the "minimum holding"). Specifically, all the Shares allocated (net of any Shares sold in order to comply with tax obligations through the "sell to cover" procedure) shall be subject, starting from the effective allocation date, to a lock-up restriction for 24 (twenty-four) months.

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Considering that stated above, the Board of Directors submits the following proposal for your approval:

"The Ordinary Shareholders' Meeting of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A.

- *having examined the explanatory report of the Board of Directors and the proposals contained therein;*
- *having examined the prospectus of the "2022-2026 Performance Shares Plan" which was provided in the manner established by applicable law,*

resolves

1. *to approve, in accordance with Article 114-bis of CFA, the adoption of the incentive plan called the "2022-2026 Performance Shares Plan" having the same features (including the conditions and implementation requirements) indicated in the explanatory report of the Board of Directors and in the prospectus of the aforementioned plan;*

2. *to grant to the Board of Directors, with the faculty to sub-delegate to third parties, all the necessary and/or appropriate power to completely and fully implement the "2022-2026 Performance Shares Plan", including, merely for example purposes and not to be considered exhaustive, all powers to (i) identify the participants of the various three-year cycles of the 2022-2026 Performance Shares Plan" and the maximum number of ordinary shares to be allocated to each; (ii) verify the achievement of the performance targets, establishing consequently the number of ordinary shares to be effectively allocated to each beneficiary and to proceed with the relevant allocation for each three-year cycle; (iii) establish in detail the performance targets to which the allocation of ordinary shares is subject; (iv) exercise all duties and functions assigned by the Board of Directors under the "2022-2026 Performance Shares Plan" regulation; (v) according to the most appropriate means, approve the plan regulation and make any modifications to it that are useful or appropriate for achieving the objectives of the Plan; (vi) undertake all acts, requirements, formalities and communications, also with the public and any Authorities, which are necessary and/or beneficial for the management and/or implementation of the Plan (including, by way of non-exhaustive example, the provision of treasury shares to beneficiaries as per Article 2357-ter of the Civil Code), with the faculty to delegate their powers, duties and responsibilities with regards to the execution and application of the Plan, including the fulfilment of the relative disclosure obligations, to the Chairperson of the Board of Directors, the Chief Executive Officer and the Executive Director in office, separately, subject to the condition that any decision relating to and/or associated with the assignment of these latter to the Chief Executive Officer or Executive Director (in addition to any other related decision and/or concerning the management and/or implementation of the plan as pertaining to him/ her) shall remain within the exclusive scope of the Board of Directors;*

3. *to grant to the Board of Directors and for it, to the Chairperson of the Board of Directors and to the pro-tempore Chief Executive Officer and the Executive Director in office, individually, the power to delegate to third parties and also by means of special attorneys-in-fact appointed for the purpose, the broadest powers necessary and/or beneficial, without any exclusion, to carry out that previously resolved."*

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Pero, March 22, 2022

The Chairperson of the Board of Directors

(Giovanni Gorno Tempini)