

2018

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report

FLOS

2018

sustainability report

FLOS

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Message To Stakeholders

In 2018 we announced the creation of Design Holding, a global high-end interior design group that brings together a collection of prominent and complementary brands: Flos and Louis Poulsen in the lighting sector and B&B Italia Group in the furniture one. The idea behind Design Holding is to bring together companies that make excellence in design their founding value. For many decades, the history of industrial design has been marked by extraordinary iconic products generated by these companies through partnerships with legendary designers.

The creation of the group thus aims to connect businesses, each with their own strong and unique nature, under a unanimous banner of international growth based on shared values and visions. As a worldwide Group, we will have the potential for enhanced geographical reach, having access to widened sourcing and distribution networks, and the ability to better adapt to market evolution and to customers' changing expectations.

Albeit just the first step of a long-term roadmap, this strategic union represents for Flos a great opportunity to strengthen our pioneering approach in the lighting industry. Indeed, innovation epitomizes one of the key elements of our sustainability commitment, as proven by Flos' contribution to face global challenges that are reshaping the lighting world, such as the introduction of LED lighting sources and the advent of a circular economy. Aiming to create a company culture that boosts innovation and digitalization, we continue to invest in digital transformation, by integrating digital technologies in our operations, communication strategies and customer experiences.

In 2018 we also progressed with the reduction of environmental impacts linked to our operations by focusing on energy efficiency and GHG emissions. In this direction, we continued investing in thorough monitoring of energy consumption and renewed our efforts to offset the carbon emissions resulting from our logistics activities.

With the purpose of contributing to our local communities, we continued to build on our strong relationships with the territory by sponsoring and supporting cultural and philanthropic initiatives. In the same vein, regarding our people, we worked to foster an inclusive and constructive working environment, with particular attention on nurturing and retaining our talents by strengthening training activities.

Despite 2018 being a year of significant changes and great challenges, we look forward to a new era of growth and carry forward Flos' identity and iconic heritage. With our fourth Sustainability Report we reaffirm our deep commitment to adhere to the Principles of the United Nations Global Compact, and provide all our stakeholders with an overview of our sustainability performance and achievements.

Roberta Silva, CEO



Electronic department



R&D department



Outdoor production department



Salt spray test



Polishing



Painting department



Custom product department



Painting department



Logistic department



Outdoor painting department



Arco lamp manufacturing



Customization of architectural product



Microcomponents automatic warehouse



LED assembly department



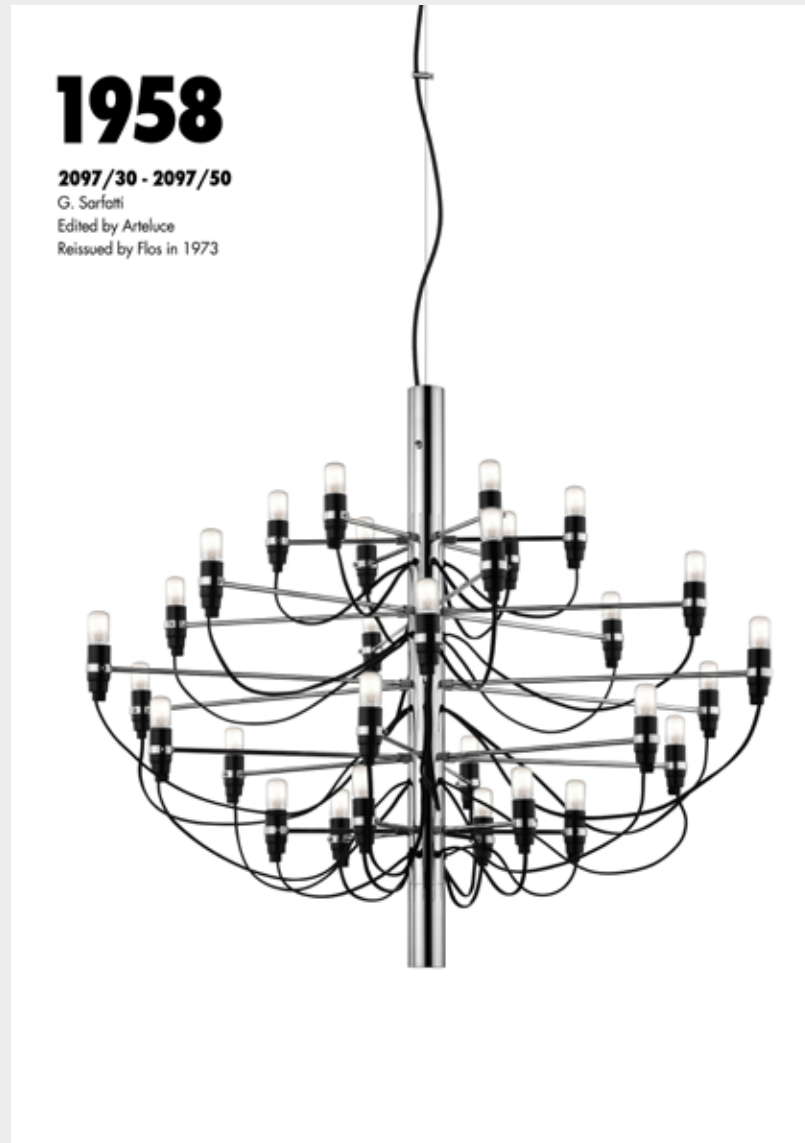
Finance department



R&D department

Sustainability Highlights 2018

The Group	Revenues 225 M€	People 619	Countries 104
Value Chain	Local suppliers in Italy 87 %	Local suppliers in Spain 67 %	
People	Employees Flos, Ares and Antares 401	Training hours per employees 9.7 h	
	Permanent contracts 94 %	Increase of training hours per employee with respect to 2016 89 %	
Environment	Tons of CO ₂ 670 GHG emissions compensated through the subscription to Go Green Program by DHL	Reduction of electricity consumption in the Bovezzo plant compared to 2017 13 %	



1. Flos World And History

Established in 1962 in Merano, Italy, by Dino Gavina and Cesare Cassina, Flos Group is recognized as a world leading manufacturer of innovative lighting solutions in the residential, outdoor and architectural sectors, featuring high quality products and systems characterized by timeless design. The beginnings of Flos, meaning flower in Latin, blossomed from a brilliant idea: to create objects, which would change the way of life for both the Italian and foreign markets.

2097-30/50 by Gino Sarfatti

1.1 Flos History, Combining Heritage And Innovation



Since the launch of Flos, the founders had the key objective of creating products that would become icons, establishing new typologies and innovative archetypes.

This has progressively allowed Flos to become universally renowned for producing design icons, like the Arco lamp, tangible proof of Flos' timeless design and excellence in craftsmanship.

Today Flos is the only Company in the lighting industry that is able to offer a complete range of integrated solutions. It exports to more than 70 countries worldwide and has single-brand stores and showrooms in Rome, Milan, Paris, Lyon, New York, Stockholm, Oslo, Amsterdam and Copenhagen.

The brand's creations have received numerous international awards and many of them are now featured in the permanent collections of leading international art and design museums. Thanks to a know-how acquired after more than fifty years of experience, Flos is today an international organization that offers a complete range of residential, commercial and custom-made lighting products that can be seamlessly integrated in any office, hotel, home or store. With a constant commitment to research and technological innovation, but always aiming to reach a poetic quality of light, the Company has demonstrated how a historic brand can look to the future without losing sight of its tradition.



Biagio by Tobia Scarpa



Following its commitment to technological innovation, in 2018 Flos continued the integration of digital technologies in both internal processes and communication activities. Flos' digital transformation started in 2017 with a cross-divisional process aimed at reskilling its employees and enhancing their digital expertise. Indeed, Flos believes that to effectively achieve a digital transition it is crucial to provide digital skills to employees, to empower them in order to drive and funnel the corporate technological change. This process is actively coordinated and supported by a new corporate function, the Chief Digital Officer, specifically devoted to the digital transformation. In line with these objectives, Flos

organized a series of Digital Lessons, i.e. training sessions dedicated to its employees focusing on digital topics - e.g. digital public relations, digital marketing, 3D modeling, internet of things, the potential of mobile devices - aimed at creating a company culture that nurtures innovation and digital transformation. In addition, concerning its communication with customers, Flos is also investing in the creation of a new Data Asset Management System along with a Product Information Management System, aimed at storing and sharing in a single, centralized platform all the product information, ranging from the technical designs to the historical archive of catalogs.

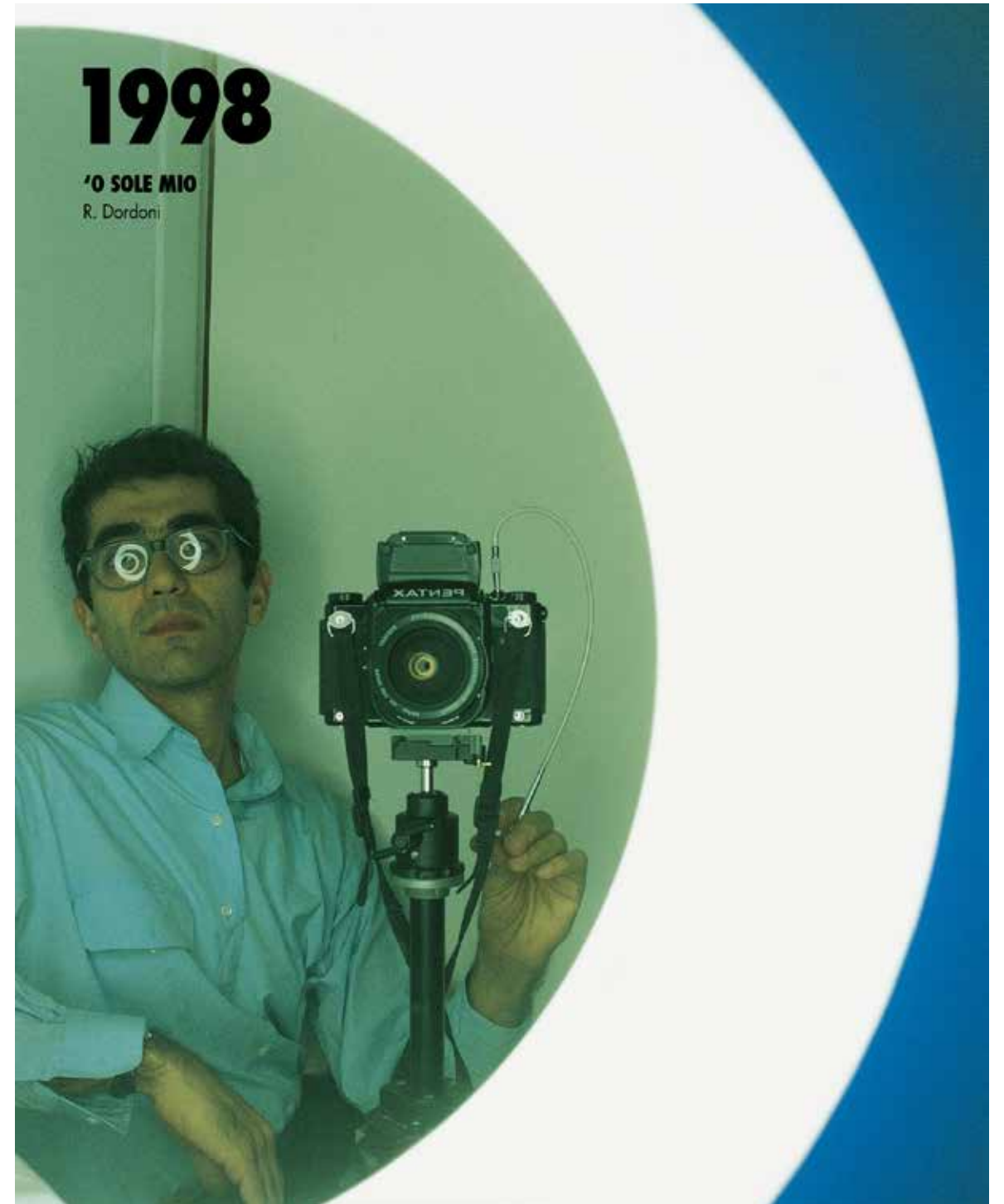
Frisbi, Taraxacum 88 by Achille Castiglioni

Plissé by Achille Castiglioni
Butterfly by Afra & Tobia Scarpa
Advertising Campaigns



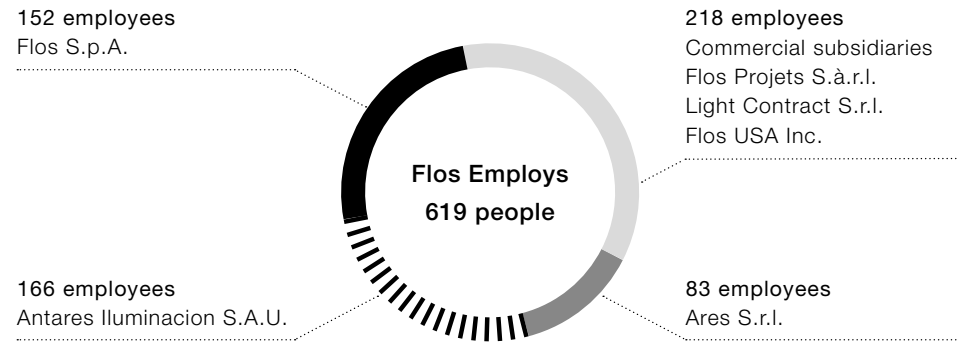
The new platform will also allow the collection and monitoring of key indicators related to products through the creation of a single dashboard accessible from different users belonging to different corporate functions. Concurrently, Flos is also redesigning the digital customer experience, mapping and monitoring the different touchpoints and interaction channels in order to meet customer expectations. Taking the opportunity of the reopening of its flagship store in Milan, Flos implemented a new system for displaying products. The entire store has been conceived as a flexible and changing space that becomes a real communication tool for the brand, supporting and complementing the Company's digital channels.

With the new feature, the customer will thus experience a new store format in which the physical space is fully integrated with digital contents that are always alive and changing. Just like on a social media wall, the objective is to make the relationship between the visitor and the object more complete and more engaging. While maintaining a strong commitment to integrate the digital transformation into its identity, Flos has also contributed to face the challenges that are reshaping the lighting sector, such as the introduction of the LED lighting source and the advent of a circular economy. In this time of change, Flos' ultimate goal is indeed to translate heritage into a meaningful direction aligned to the present and future situation.



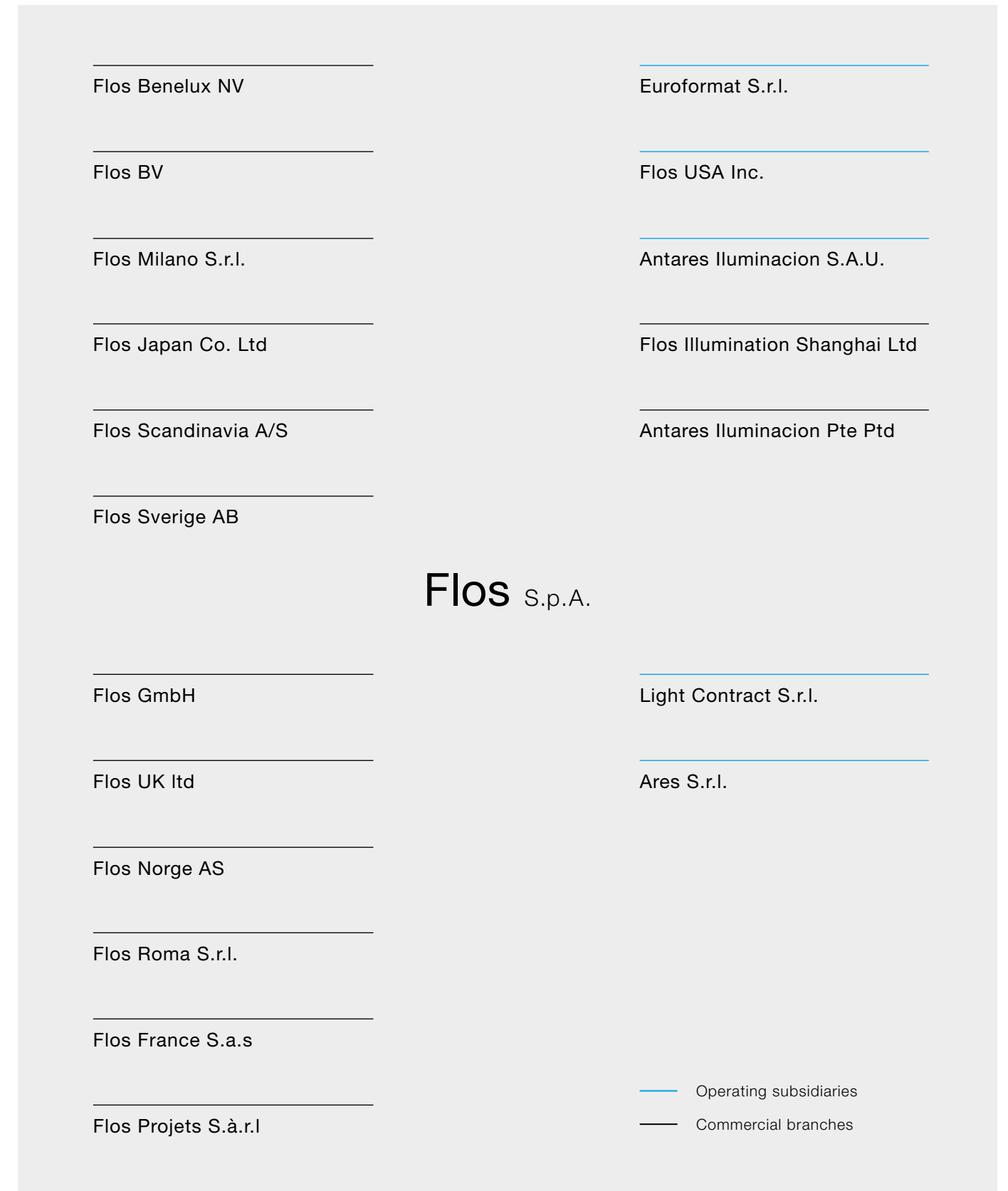
'O Sole Mio by Rodolfo Dordoni

1.2 The Group And Corporate Governance



Flos is one of the leading players in the Italian lighting industry, with registered revenues of more than €225 million in 2018 at group level. As of 31st December 2018, Flos employs 619 people, mainly located in the three operating sites of Flos S.p.A. in Italy, for the Design segment (headquartered in Bovezzo, Brescia, 152 employees); in Spain with its subsidiaries Antares Iluminacion S.A.U. for the Architectural and Soft architectural segment (Valencia, 166 employees);

and, again in Italy, with Ares (Bernareggio, 83 employees) for the Outdoor segment. The remaining people are employed in the smaller commercial subsidiaries of the Group, including Flos Projets, acquired in 2017, and in the two custom product manufacturing subsidiaries, Light Contract (Collebeato, Brescia - Italy) and Flos USA Inc. (formerly Lukas Lighting, Long Island City, NY-USA).



The Group Structure

In December 2014, Investindustrial V L.P., one of Europe's leading independent investment groups, became the majority indirect shareholder of Flos S.p.A.

Starting from November 2018, Flos S.p.A. is fully controlled by Design Holding S.p.A., jointly controlled and owned by Investindustrial and The Carlyle Group. The new Design Holding Group, that is the largest global high-end design group with a European heritage, brings together three complementary companies with strong individual identities and significant design heritage: B&B Italia Group in furniture, Louis Poulsen in lighting and Flos.

Flos S.p.A. has implemented a control and governance system based on:

- A Board of Directors, comprising four members, which, together with Design Holding Board of Directors, is entrusted with the powers to ensure the ordinary and extraordinary management of the Company;
- A Board of Statutory Auditors, comprising three standing statutory auditors and two substitute statutory auditors.

Board Member

Vitaliano Borromeo Arese	Chairman of the Board (Company's representative)
Piero Gandini	Board member - CEO (Company's representative)
Maurizio Bottinelli	Board member
Malvezzi Francesco	Board member

An independent auditing firm has also been appointed. To ensure transparency and responsible day-by-day operations, since 2015, Flos has an Organizational, Management and Control Model pursuant to Italian law 231/2001 (hereinafter "Model 231"), approved by the Board of Directors in March 2016. The drafting of the Model 231 has included the analysis of the main risks and the mapping of operating areas potentially subject to those risks.

Design Holding

FLOS

B&B
ITALIA

louis
poulsen

B&B Italia

B&B Italia is the leading Italian high-end furniture design brand, globally recognised for its iconic products and technological innovation. The Company has a unique product portfolio, marketed under the B&B Italia, MAXALTO and Azucena brands for furniture and Arclinea for high-end kitchens, and has been awarded many design prizes over the years. B&B Italia has developed longstanding partnerships with world-renowned designers and architects such as Antonio Citterio, Patricia Urquiola, Naoto Fukasawa, Gaetano Pesce and many others which have positioned the Company at the forefront of technological innovation and design. B&B Italia is headquartered in Como (Italy) and has 9 flagship stores worldwide (Washington, Dallas, London, Paris, Munich, 2 in Milan and 2 in New York) and 40 monobrands. B&B Italia also signed commercial agreements in 80 Countries, developing a presence in over 800 specialized points of sale. The Company also operates in the Contract Division with complex "turnkey" realizations of furnishings and finishes in the hospitality, retail, office and nautical areas.

Louis Poulsen

Louis Poulsen is a leading lighting brand with an iconic product portfolio focused on Danish design heritage, with headquarters in Copenhagen and production facilities in Vejen (Denmark), that offers a high-end product range for both indoor and outdoor applications. Louis Poulsen combines iconic designs stemming from the work of golden age Danish designers, such as Poul Henningsen, Arne Jacobsen, Finn Juhl and Verner Panton, and collaborations with leading modern designers such as Christian Flindt, Shoichi Uchiyama and Louise Campbell. The Company has a global distribution network with more than 50 countries served, and dedicated showrooms in Copenhagen, Stockholm, Miami, Helsinki, Vejen, Oslo, Los Angeles, Singapore, Tokyo and Dusseldorf.

Design Holding Structure

As foreseen by the Model 231 and applicable legislation, Flos has appointed a Supervisory Body (Organismo di Vigilanza) entrusted with the task of controlling the internal implementation and the corporate compliance with Model 231, as well as its updating process.

The Supervisory Board comprises two external members, who fulfill the regulatory requirements in terms of autonomy, independence and continuity and a secretary. Together with the Model 231, Flos drafted its Code of Ethics, which describes the Company's missions and ethical principles and governs the relationship between Flos and all its counterparts, i.e. shareholders, employees and partners, suppliers, Public Administration, trade unions, political parties and clients.

The implementation of the Model 231 and of the Code of Ethics, together with Flos' certified 9001 Quality Management System, also represents the framework to ensure compliance with national and international applicable laws and regulations.

Flos firmly believes that acting in accordance with the principles of Model 231 and of the Code of Ethics is essential to promote responsible business conduct, i.e. one enabling it to avoid the occurrence of corruption cases and of unethical business practices. In this regard, in the 2016-2018 period, no complaints from competitors and public authorities for anti-competitive behavior nor episodes of corruption were either identified or reported.

Recent Facts Affecting Corporate Governance

In June 2019, Roberta Silva has been named as the new Chief Executive Officer (CEO) of Flos. In her role as CEO of Flos, Roberta's task will be to carry forward the brand's strong identity and history of excellence, whilst guiding the Company and the Group into a new phase of growth and management that will enable it to successfully address the ongoing changes in the sector and the challenges of an increasingly global marketplace.

Roberta was previously the Italian Country Manager of Bose, a US multinational manufacturer of high-end electronics. After successfully fulfilling this role, the Group promoted her to an international role appointing her as Head of Bose's Global Direct Retail Network. She left Bose after having led the Company into a new phase of strategic commercial development and brand enhancement.



Roberta Silva

1.3 Flos Global Presence

Milan, Rome, Paris, Lyon, New York, Melbourne, Sydney, Amsterdam, Copenhagen, Oslo, Stockholm, Valencia, Prague, London, Singapore, Tokyo, Moscow, Regensburg, Shanghai.

Flos has a widespread global presence serving 104 countries (among which 34 directly host Flos' personnel), with showrooms and shops located in important cities such as Milan, London, New York, Lyon, Stockholm, Oslo, Amsterdam, Copenhagen, Rome and Paris.

Flos' growth and development is mainly due to its ability to combine tradition and innovation, offering to its clients a large and diversified product portfolio, which includes new innovative lighting solutions next to well-known classic icons.

Sales by Country

Western Europe 63.7%	Asia Pacific 10.8%	Eastern Europe 5.2%
Americas 14.8%	Middle East 4.8%	Africa 0.7%



Manufacturing Plants

Ares S.r.l.
Bernareggio (MB), Italy

Flos S.p.A.
Bovezzo (Brescia), Italy

Light Contract S.r.l.
Collebeato (Brescia), Italy

Antares Iluminación S.A.U.
Valencia, Spain

Lukas Lighting (Flos USA Inc.)
New York, United States

Showrooms - Flagship Stores - Offices

Flos Norge AS
Oslo, Norway

Flos Flagship Store
Stockholm, Sweden

Flos Scandinavia A/S
Copenhagen, Denmark

Flos BV
Amsterdam, Netherlands

Flos France Store and Showroom
Paris, France

Flos Projets S.à.r.l.
Paris, France

Flos Flagship Store
Lyon, France

Flos USA Inc.
New York, United States

Flos Co Ltd.
Tokyo, Japan

Flos Flagship Store & Showroom
Milano, Italy

Flos Flagship Store
Roma, Italy



Flos Decorative

Flos' original core business, the Design collection merges technical research and innovation with emotional and aesthetic design, thanks to the strong relationships existing between the Company and the designers.

All products belonging to Flos' Design collection are designed and developed in the Flos S.p.A. Italian headquarters in Bovezzo and they include several product categories, such as table lamps, floor lamps, pendant lamps and wall & ceiling solutions.

Gaku by Nendo



WireRing by Formafantasma
Bellhop by Edward Barber & Jay Osgerby





Flos Architectural

The Architectural collection includes indoor lighting systems both for domestic/residential use as well as for professional use.

This business segment designs and develops lighting solutions, often in cooperation with engineering and architectural firms, both for big retail networks (mainly fashion retail and hospitality) and for private customers. This business line focuses on professional and residential lighting systems, custom-made solutions and soft architecture products and it is based in Antares Iluminación S.A.U.'s headquarter in Valencia, Spain.

Zero Track by Flos Architectural



Light Shadow by Flos Architectural



Flos Outdoor

The Flos Outdoor collection has been created to illuminate open spaces through a new design language, finding balance both by hiding in the natural landscape behind discrete objects, and by conversing with the architecture through designs with a unique identity.

At present, Flos Outdoor collection is mainly produced by Ares (Bernareggio, Italy).

Klein Pro



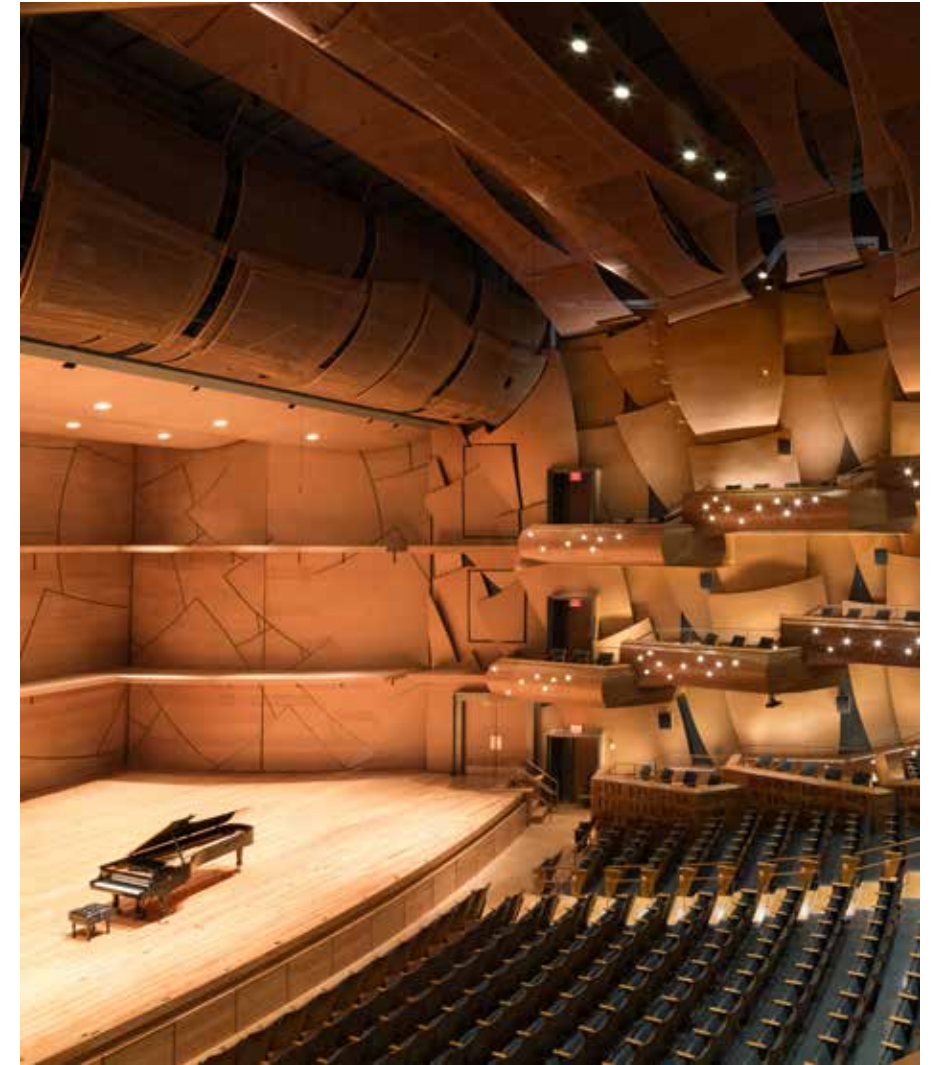
Klein Pro
Camouflage by Piero Lissoni



Flos Custom

Born to satisfy customers' specific practical needs and their increasing desire for exclusivity, this collection includes the custom-made segment. The custom-made business segment has been developed over 20 years by Flos' Italian subsidiary, Light Contract, and it is currently growing following the acquisition of Lukas Lighting, later merged into Flos USA Inc., in December 2015.

Hotel Brooklyn Bridge, New York



Musco Center for the Arts - Chapman University, Orange
Condé Nast 1 World Trade Center HQ, New York

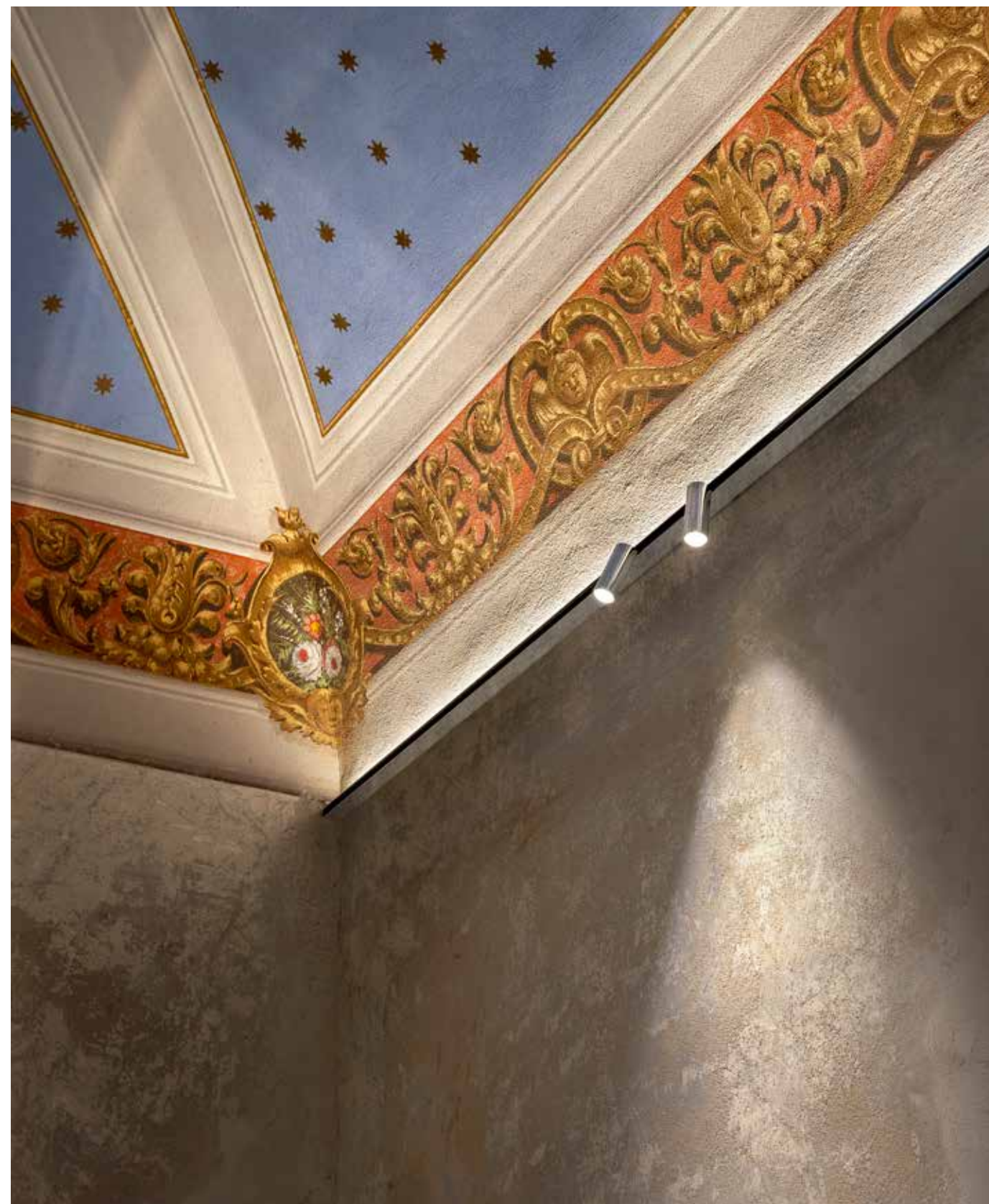


Through this period of continuous change and development, on one hand it is becoming particularly important for Flos to guarantee a corporate identity and strong internal cohesion, and, on the other, to offer its products through a unique brand and image.

At the beginning of 2017, Flos published its first outdoor lighting catalogue with the aim of presenting the new outdoor collection, communicating the same vision and an innovative design spirit that makes the Group leader in the Design and Architectural segments. Over recent years, the participation in major projects with the involvement and integration of the Design, Architectural and Outdoor collections has been a key element and a growing trend in Flos' business strategy.

Thanks to the differentiation of its collections and products and to the presence of its Custom division, Flos is able to design and implement complex lighting solutions, which respond to the specific needs and expectations of increasingly demanding clients.

Flos took part in the design and realization of several new buildings, including airports and luxury hotels and structures; for each project, Flos supplies its client with a unique lighting solution for the whole building, guaranteeing the same concepts for indoor and outdoor lighting, from the design to the realization phase.



Customised architectural product for retail

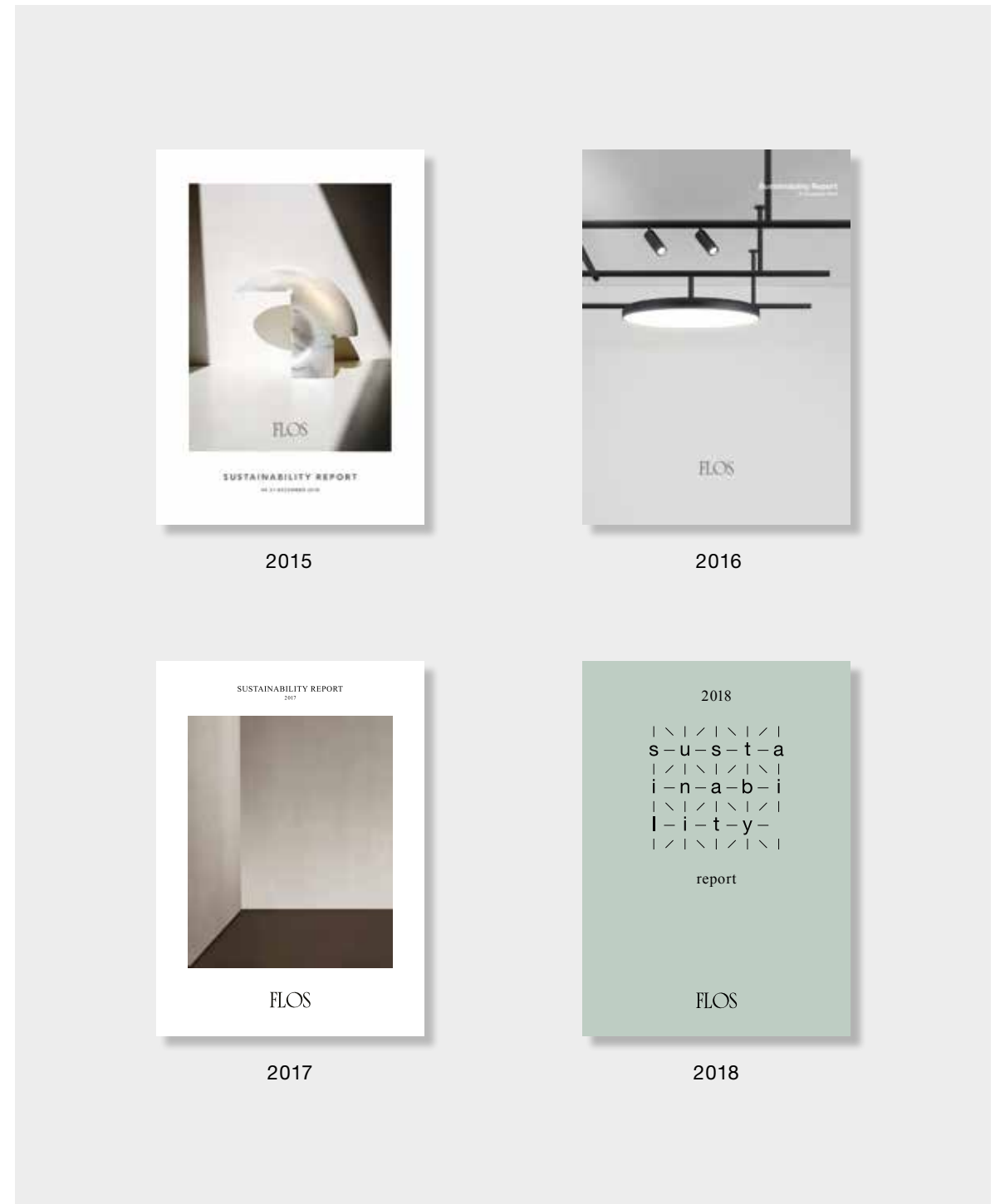
1.4 Flos' Commitment To Sustainability



In 2015, Flos strengthened its commitment towards its stakeholders by publishing its first Sustainability Report. Since then, Flos started a process of identification and prioritization of its social and environmental impacts as well as a monitoring process of its most significant key

performance indicators. Thanks to this path, internal comprehension and attention to sustainability issues have increased and have allowed Flos to start several initiatives and to update its materiality analysis for its fourth Sustainability Report with a higher degree of awareness and knowledge.

Soft Architecture employee



Sustainability Reports Covers

1.4.1. Key Stakeholders

The following table reports an overview of Flos' key stakeholders, based on their influence and on the dependence of these stakeholders on the Company; for each stakeholder category, a description of existing engagement activities is provided.

Stakeholder Category	Engagement Tools And Activities
Employees And Trade Unions	Continuous dialogue between HR department and employees/trade unions, specific initiatives
Board Of Directors	Formal meetings
Suppliers	Continuous dialogue and periodic meetings
Clients	Website, Fairs, Catalogues Training course organized for clients Preliminary analysis of customer satisfaction on a sample of clients
End-User	Social networks, communication campaigns, fairs and meetings
Competitors	-
Media	Press releases
Architects And Interior Designers	Continuous cooperation on research and development of new products
Providers Of Financial Capital	Formal meetings and periodic management reports
Regulatory And Certification Bodies	Membership of working groups within regulatory bodies and industry associations (E.g. Assoluce, Lighting Europe, Iec)

Flos impacts those stakeholders that are influenced by the Group's economic results (employees, Public Administration, local communities, shareholders), as well as those that have commercial relationships with it (providers of loans, suppliers), through the distribution of the value generated by its activity. The following table reports the economic impact that Flos' financial results have on its stakeholders. Direct economic value generated and distributed by Flos shows a proportional increase between 2016 and 2018, while the economic value retained decreased in 2018 by 30%.

Direct Value Generated, Distributed and Retained € in thousands	2016*	2017	2018
Direct economic value generated	208,072	215,144	225,762
Direct economic value distributed	173,355	180,223	201,467
Operating costs	115,777	120,626	143,233
Employees' wages and benefits	35,825	37,687	39,212
Payments to providers of capital	13,927	12,322	13,791
Payment to government	7,649	9,506	5,127
Community Investment**	176	82	103
Economic Value Retained	34,717	34,920	24,295

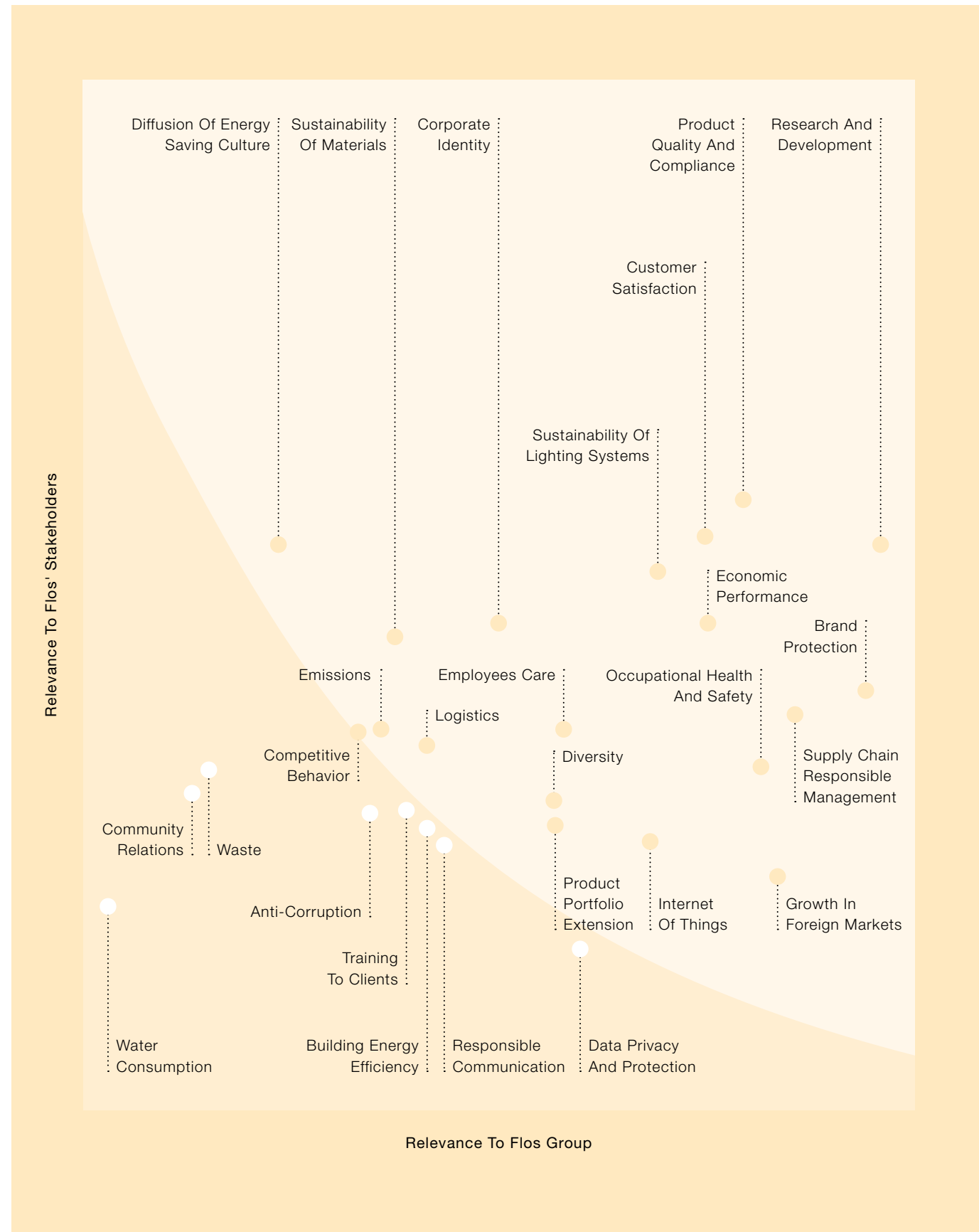
* 2016 values do not include Flos Projeets S.à.r.l., acquired in May 2017

** Value related to Community Investment excludes donations of lamps (e.g. donations to charity auctions)

1.4.2. Materiality Analysis

As part of the process for defining the Sustainability Report contents, the materiality analysis has been updated for the current reporting year in order to map relevant topics, which reflect Flos' economic, environmental and social impacts and/or may influence the decisions of the key stakeholders identified. Starting from last year results, the results of the benchmarking analysis related to the lighting industry and to sustainability reporting best practices have been taken into account. In addition, a meeting with management was carried out, in order to evaluate possible changes and updates in terms of topics' relevance and priority. This has been carried out considering different sources of information:

- The GRI Sustainability Reporting Standards;
- The ten principles of the UN Global Compact to which Flos adheres;
- Actual or potential requests coming from clients;
- Results of a sector specific media analysis, that covered news regarding Flos;
- The Regulatory framework;
- Reports from industry associations;
- Flos' ESGs KPIs and goals.



The following highlights the main results obtained through the materiality analysis update:

- The most relevant sustainability issues for both Flos and its stakeholders have remained the same as last year: product quality and compliance, and research and development. With respect to 2017, the perceived internal relevance of the corporate economic performance and customer satisfaction has slightly increased;
- Anti-corruption, among the topics already present in the 2017 materiality analysis, has become non-material, mainly due to the low risk related to Flos' business;
- The relevance that the stakeholders attribute to emissions and sustainability of materials has increased with respect to 2017, mainly due to growing attention on the topics at an international level;
- Other relevant issues are related to the responsible management of the supply chain, to internet of things, to direct and indirect environmental impacts (logistics, diffusion of an energy saving culture), to Flos' business model and strategic priorities (corporate identity, brand protection, competitive behavior, product portfolio extension and growth in foreign markets) and to the Group's human capital (employee care, diversity, and occupational health and safety).

In November 2015, Flos subscribed to the United Nations Global Compact (UNGC), a global coalition of companies committed to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. Companies participating in the Global Compact initiative are required to communicate annually on progress made in implementing the ten principles in order to inform Company stakeholders (e.g., investors, consumers, civil society, governments, etc.). This Sustainability Report represents Flos' Communication on Progress.

An integral part of the UNGC commitment is to take actions and be a leading catalyst in supporting the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development – adopted by world leaders in September 2015. The SDGs aim to end poverty and other deprivations, develop strategies that improve health and education, reduce inequality and spur economic growth, all while facing climate change and working to preserve oceans and forests. Flos, with its activities and initiatives, aims to contribute most to achieving six of the 17 SDGs, as highlighted in the figure below.



Soft Architecture employee



Landlord Soft by Piero Lissoni

2. The Creation Of Light: A Synthesis Of Innovation And Tradition

In the last few years, the furniture and artificial lighting industries have been dealing with relevant changes. First, the need for internationalization, which is increasing export shares, has resulted in a clear increase in M&A (Merger and Acquisition) deals together with the entrance of financial investors as relevant shareholders of small and medium enterprises, in order to improve their competitiveness abroad. At the same time, brand protection and identity represent key strengths to ensure business continuity and sustainability over time, in particular in relation to the concept of *Made in Italy*.

Thus, companies like Flos are continuously facing risks and threats related to anti-competitive behavior and imitations of their most iconic products. The analysis of the external pressures Flos carried out in 2018 has revealed no significant variations in relation to environmental and social topics, with respect to the corresponding analysis conducted in previous years. From a business perspective, the demand for lighting products is continuing to increase as a consequence of the global population growth and urbanization. The most urgent priority for the industry is therefore to decouple demand growth and environmental impacts.

Resource scarcity and climate change concerns are resulting in the development of new or updated regulations to promote energy efficiency, while the increasing spread of voluntary certifications (such as the LEED certification for buildings) is driving consumers to ask for more efficient products. The lighting industry has been addressing these issues by pursuing the development and enhancement of more efficient lighting technologies. Some years ago, the industry underwent a paradigm shift from conventional lighting to Light Emitting Diodes (LED), which represent a sustainable alternative to incandescent lamps and fluorescent tubes because of their longer life span and ability to consume comparatively less energy. This shift represented only a first step, as the great controllability of LED-generated light has also resulted in growth opportunities in the area of automated and intelligently controlled systems, not only for professional purposes but also for residential ones. Indeed, the next technological step will be the mass adoption of automated LEDs, which guarantee costs and energy savings, for example by adjusting light levels based on the number of people in a room or based on sunlight, or by adjusting light levels based on where a customer is standing in a store. To reach these objectives, within the coming years the evolution of the lighting market will most likely see the integration of advanced data-transmission technologies with intelligent lighting systems.

Attention is also moving towards the so-called "human centric lighting", which considers the impacts of artificial light quality on people's wellbeing and emotions. Industry associations, such as Lighting Europe, are currently focusing on this topic, promoting studies to assess how lights can improve concentration, safety, efficiency and health both in the workplace and at home. Finally, in the lighting industry, like many other industrial sectors, there is a growing interest in the transition from a linear to a circular economy aiming at decoupling economic growth from the consumption of finite resources. The circular economy concept is founded on the shift from a "take-make-dispose" economic model to one that tries to retain as much value as possible from natural resources and products.

This objective can be achieved by a so-called regenerative design, which is one based on the extension of the product life cycle, on the optimization of reuse, refurbishment and recycling techniques in order to increase resource productivity.

For instance, effective actions in this direction include increasing modularity, as well as facilitating the disassembly or maintainability of products, in order to improve their durability and to reduce their overall environmental impact. This approach implies the need to design and manufacture products in a way that guarantees both modularity and safety, even in the case of customer's modification or disassembly at the end of the life phase of the product. In addition, if on one hand there is a possibility to reuse or modify part of products and contribute to the reduction of the environmental impact, on the other hand, it is crucial to guarantee the respect of patents and registered copyrights.

Within the upcoming years, as circular economy principles spread and lighting control systems constantly improve, the sector might face an additional change in the business model with the introduction of lighting as-a-service (LaaS). This service delivery model consists of third-party management of the lighting system charged on a subscription basis, that includes financial, technical, or operational services, additional maintenance as well as end-of-life electronics management. Therefore, LaaS stimulates a more efficient use of materials and products while creating a virtuous circle that can improve the behavior of both the user and the producer. Street lighting, sport facilities and airports will be among the main areas of application of this lighting turnkey service. In fact, applications and functionality of lighting systems are key elements for the implementation of LaaS solutions.

In the near future, the legislative framework will introduce regulation regarding circular economy applications, for instance, the new CEN-CENELEC Technical Commissions 10 (CEN-CLC TC/10) Regulation regarding Ecodesign requirements on materials efficiency aspects for energy-related products¹.

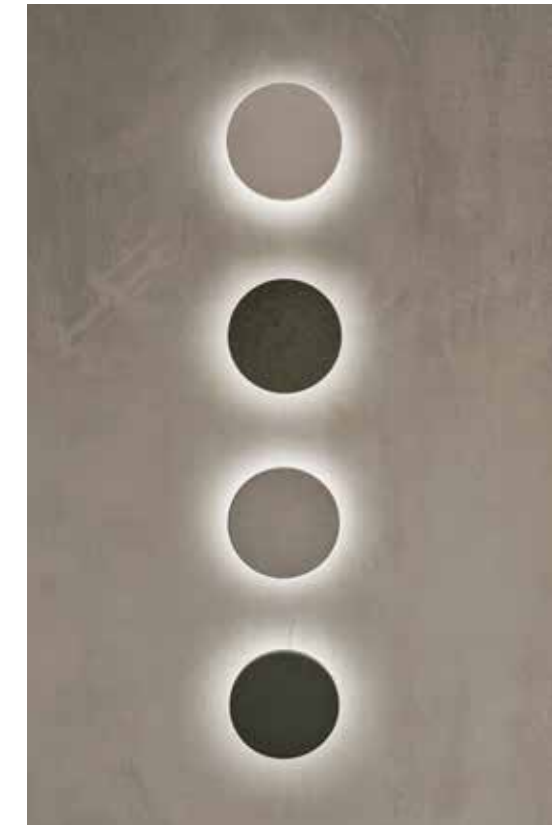
¹ The CEN-CENELEC TC/10 covers Material Efficiency Aspects for Ecodesign. It is structured in several Working Groups (WG), with different subjects, about the development of relevant standardization deliverables required by M/543: WG 1 Terminology; WG 2 Durability; WG 3 Ability to repair, reuse and upgrade energy-related products ; WG 4 Ability to remanufacture and method for determining the proportion of reused components in products; WG 5 Ability to recycle and recover energy-related products, recycled material content of energy-related products; WG 6 Documentation and/or marking regarding information relating to material efficiency of the product.

The Standards delivered by this TC are at the present horizontal, and will be in the future integrated with Product Standards, to support Circular Economy targets.

The Ecodesign Regulation for Lighting, adopted in December 2018 by the Regulatory Committee, provides a further input to the implementation of the circular economy principles. Article 4 of such Regulation specifies requirements to ensure that light sources and separate control gears can be replaced with the use of common available tools and without permanent damage to the containing product, namely the outer part of the lighting solution. Consequently, only products for which a technical justification about the functionality of the containing product is provided in the technical documentation, explaining why the replacement of light sources and separate control gears is not appropriate, can be placed on the EU Market. Furthermore, manufacturers of containing products are required to provide information about the replaceability (or non-replaceability) of light sources and control gears by end-users or qualified persons without permanent damage to the containing product; manufacturers are also required to provide information about how light sources and separate control gears can be dismantled from end-of-life containing products.

In this scenario, Flos focuses its efforts on offering products that are at the same time reliable and characterized by utmost quality. The most symbolic example is the shift from traditional lamps to LED alternatives: even when LED solutions started being commercialized, Flos' strategic approach has been that of waiting for the technology to become mature and highly reliable, in order to maintain the high quality characterizing the Company's products. Besides improving energy efficiency, Flos is also undertaking a thorough implementation of circular economy principles in its product design and production, for instance by guaranteeing the possibility of replacing the lighting source. Such a possibility is actually guaranteed to all Flos' indoor lighting systems for domestic use (also with the availability of spare parts), in addition to the product high durability.

Indeed, the evolution of Flos' products, which goes hand in hand with the progressive adoption of the most suitable new technologies, sometimes only requires the replacement of traditional light sources with new ones, while in other cases it involves reinterpretation of classic icons into new revolutionary products and lighting systems. In this constant quest for innovation, the collaboration with international designers and a strong cultural tradition have been the brand's hallmarks right from the outset, making Flos stand out from its sectorial peers.



A selection of LED lamps

2.1 Developing New Lighting Solutions

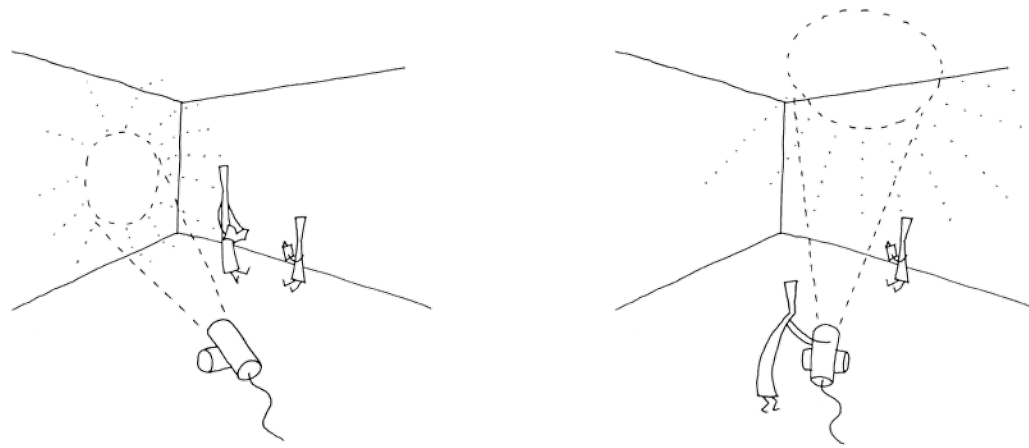


The creation of products that become icons and the conception of new languages around light are the result of an articulated process involving Flos' internal R&D department, as well as renowned and emerging designers, architects and engineers. Concerning products belonging to the design collection, from the initial proposal of the new luminaire to the actual sale of the product, the time lapse ranges roughly from one to two years.

On the contrary, with respect to the architectural collection one year is the maximum timeframe to develop a whole product family. In fact, key clients increasingly ask for customized products and special modifications to existing ones, thus it becomes more and more relevant for Flos to respond to customer requests within a compressed timeframe. The key phases of the process leading to the development of new or revisited lighting system is described below.



Arrangements by Michael Anastassiades



2.1.1
Conception

Designers, architects and/or engineers submit the lighting solution idea along with some preliminary sketches to Flos' R&D Department, and subject them to top management for evaluation before starting the production of the prototype series.

2.1.2
Pre-Series Production

Once the product has been accepted, the R&D team, in collaboration with designers, architects and engineers works to realize it. A pre-series is realized in order to test the mechanical and electrical design, to select the most appropriate materials, to test the production process and to incorporate any necessary improvement to the lighting system. During these phases different assessment regarding construction, mechanical and electrical aspects are carried out. The realization of a product that represents the concreteness of an idea of light and design is conceivable thanks to the close cooperation between the R&D team and the Procurement Department, that meticulously selects the best suppliers available.

2.1.3
Quality And Compliance

The pre-series is tested to assess its adherence to quality and compliance requirements. Regarding the design collection, the final prototypes arising from the pre-series production process are sent to pilot clients who are asked to fill in a report about the product, giving Flos precious feedback covering product functionality, finish, packaging as well as the overall product emotion and experience.

2.1.4
Launch Of The Product

If the prototypes satisfy pilot clients' expectations (for the design collection), Flos' internal quality standards and the applicable regulatory requirements, the product is approved for industrialization and the production phase is launched.

Sawaru by Nendo

2.2 Product Quality And Compliance

1.	2.	3.
First quality check	Statistical quality check	Routine test quality check
on raw materials and components coming from suppliers	carried out by Flos' personnel on single components following the manufacturing/painting phases by suppliers	on final products. Carried out in the assembly department as per regulation (including tests on products electrical safety) and additional statistical tests
Quality epitomizes for Flos the perfect blend of aesthetics, compliance and attention to details. With the aim to improve the production process and to offer clients products characterized by high quality, Flos S.p.A. and Antares Iluminaciòn S.A.U. implemented ISO 9001 Quality Management Systems,		which are certified by independent third parties and cover the design, production and sale activities of lighting systems. Flos' quality monitoring process is structured on the steps described above. For more details on Flos' production chain, please refer to Chapter 3.

The full and continuous implementation of Flos' Quality Management Systems is a key instrument to guarantee that products meet all applicable standards and regulations, both at national and international level of application. This applies particularly to the following categories of regulatory requirements:

- Low Voltage Directive (2014/35/EU), on the placement on the market of electrical equipment designed for use within certain voltage limits with the objective of ensuring the safety of low voltage electrical equipment on the EU market;
 - Electromagnetic Compatibility (EMC) Directive (2014/30/EU), that regulates the electromagnetic compatibility of equipment;
 - Radio Equipment Directive (2014/53/EU), on the harmonization of the European Member States laws establishing a regulatory framework for placing radio equipment on the market;
 - Ecodesign Directive (2009/125/EU), adopted in December 2018 by the European Regulatory Committee, established a framework for the setting of ecodesign requirements for energy-related products;
 - Ecodesign Regulation, that will enter into force in September 2021, requires an improvement of energy efficiency of light sources and introduces new functionality and information requirements for light sources, control gears and containing products (that are also luminaires);
 - Performance requirements, such as photometric tests, carried out according to international standards, used for lighting design;
 - Product labelling, in this respect in 2017 Flos took part in a working group with Lighting Europe and the European Commission with the aim of defining obligations regarding energy labeling and energy classes rescaling. In 2021 new labelling requirements for the lighting products will start and manufacturers of containing products, which include luminaires, will no longer be required to ensure the availability of the energy label that will thus be discontinued. Moreover, manufactures of containing products with integrated light sources (i.e. LED) will be required to provide the energy efficiency class of the light source.
- In addition, working groups tackled the European Registry for Energy Labelling (EPREL) database (Regulation 2017/1369/EU), which requires the European Commission to establish a product database where all new models, covered by an Energy Labelling regulation, have to be registered before they can be placed on the EU market for the first time. Integrated Light sources data will have to be uploaded in EPREL as soon as the second version of such database enters into force in 2021;

- Restriction of Hazardous Substances (RoHS) Directive (2011/65/EU), and relevant updates, on the restriction of the use of certain hazardous substances in electrical and electronic equipment;
- Product disposal, such as EU WEEE Directive (2012/19/EU), Waste Electrical & Electronic Equipment). In particular, in August 2018 the WEEE Directive changed the product categorization to the so called "Open Scope"; the existing ten product categories were reduced to six and more products are now covered by the Directive, such as heat exchange equipment, monitors and lamps;
- "Safe Drinking Water and Toxic Enforcement Act", a Californian law known as Proposition 65, among other issues, was set out to inform the public with warning labels about the presence of toxic substances that cause cancer and/or birth defects in consumer products. In order to check Flos products' compliance with the requirements of the Proposition 65, during 2018 the Company, with an external qualified laboratory, started a program aimed at testing the possible exposure to toxic substances (e.g. lead, phthalates) with foreseeable use of the product, based on the most restrictive standard methods.

In order to fulfil all requirements and standards, Flos has its own internal laboratories, which are accredited to verify product safety compliance (only some tests are carried out externally). Compliance with the applicable regulations guarantees that all Flos' product categories are assessed with respect to health and safety impacts across their life cycle.

Beyond mere regulatory compliance, safety is continuously monitored throughout the product lifetime through the analysis of complaints and communications by consumers. In the rare event of complaints related to safety, Flos reacts quickly by reclaiming the products and conducting tests in order to ensure customer safety. For instance, in relation to the malfunction case of the halogen version of the Skygarden 1 and Skygarden 2 lamps and following few complaints received regarding Romeo S2 Moon and Louis (manufactured until March 2006), Flos reacted in a timely manner, distributing safety kits and collaborating with the local authorities of the countries involved. In 2018, no analogous complaints related to safety aspects were received by Flos.

In addition to ensuring regulatory compliance to the applicable EU Directives, Flos is permitted to use the ENEC Mark logo on many of its products. The ENEC logo is a voluntary mark which complements the mandatory CE marking, and is a seal of compliance to all applicable European standards. While CE marking represents a self-declaration by the manufacturer and does not imply that products have been approved by the European Commission or any other authority (i.e. Test Houses), the ENEC mark demonstrates compliance with European standards and is granted by an independent third party, which is responsible for inspecting also the production process. The ENEC mark can be granted only to Companies in which a Quality System is operating, either certified or qualified by a 3rd party.

Product labels include information necessary to ensure the safe use of luminaires, in compliance with the minimum safety requirements specified in the Low Voltage Directive and other applicable EU Directives. The products are also identified with a batch of production, according to which it is possible to obtain access to the relevant routine test results and to a list of the components used for their production. No incidents of non-compliance with regulations and voluntary codes concerning products have occurred during the last three years.



Participation In Industry Associations

With the aim of proactively participating in the development of new and more effective national and international regulations and standards and of cooperating with other players in the lighting industry, Flos is engaged in several industry associations.

Thanks to its participation in the technical department of Assoluce and other industry associations, Flos is involved in several working groups aimed at discussing new regulations and standards to safeguard both the lighting industry and final customers. Such working groups take place both at a national (e.g. CEI – Italian Electrotechnical Committee) and an international level (e.g. IEC/CENELEC – International Electrotechnical Commission and European Committee for Electrotechnical Standardization). In 2018, Flos' activity continued to focus on the new edition of the IEC/EN 60598-1 safety standard, that will be published in 2020, specifically regarding the new LED light sources (i.e. photo biological safety hazard "Retinal blue light hazard") and all the updates necessary to cover new products, such as Power over Ethernet (PoE), supplied luminaires, Protective Extra Low Voltage construction (PELV). In addition, the Company contributed to the amendment of the IEC/EN 60570 standard about electrical supply track systems for luminaires. Furthermore, Flos worked on the alignment of the two IEC/EN standards mentioned above, focusing in particular on track systems and magnetic suspensions in luminaires.

Flos has been collaborating with Lighting Europe for the promotion of regulations embracing a circular economy perspective, such as Article 4 of the new Ecodesign Regulation for Lighting, since the lighting industry has been the leading figure in the diffusion of energy efficiency solutions. The industry sector also has a strong record of accomplishment in prolonging the lifetime of products, in collection and recycling and in the reduction of hazardous waste. In the next few years Flos anticipates being actively involved in the Electromagnetic Compatibility Directive, Radio Equipment Directive recasting, as occurred with the Low Voltage Directive in 2018.

Indeed, additional challenges may arise from the potential recast of European Directives and Regulations setting rules and procedures regarding the compliance of lighting products.



Assil - Flos is an associate of Assil, the Italian Association of Lighting Manufacturers founded in 1995, which includes about 80 Italian Companies representing over 50% of the Italian market turnover in the lighting segment.



FLA - Flos and Ares are members of Assoluce, the Italian national association comprising more than 150 luminaire manufacturers belonging to Federlegno, which is the Italian wood and furniture industry association.



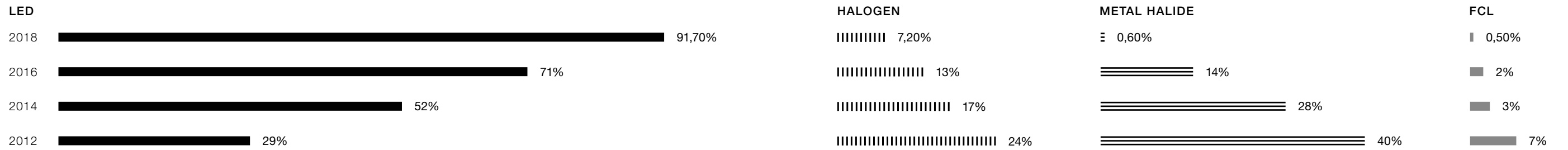
Anfalum - Antares is an associate of Anfalum, the Spanish Association of lighting manufacturers that comprises 87 Spanish companies active in the lightning industry.



Lighting Europe - Assil, Assoluce and Anfalum belong to Lighting Europe, the industry association that represents the lighting industry in Europe. Lighting Europe's main mission is to promote efficiency and sustainability of lighting systems, focusing on environmental challenges, human comfort and customers' health and safety.

2.3 Energy Efficiency Of Lighting Systems

FLOS - Architectural Light Source Evolution



In its research and development activities, Flos is outlining a way to reconcile efficiency and sustainability trends and requests with its identity and philosophy, as well as with clients' quality and aesthetics expectations.

Over the last few years, in its attempt to reduce the energy impact of its products, Flos has created modern LED lighting solutions that have now become renowned icons. This is the result of a selection of top-level LED solutions, delivering visual comfort together with energy efficiency.

Flos has also worked to improve the dimming performance of its lighting systems and products. For the architectural segment, the use of LED is, by now, given as granted, as a result of the mounting pressures coming from competitors and final consumers. Each new Flos product is designed to be LED-powered even if, in case of specific client requests, products can keep using traditional sources such as halogen or fluorescent lamps.

Moreover, Flos has carried out studies on the natural lighting of buildings in order to create dimmable

artificial lighting concepts that optimize the use of daylight. On the other hand, for the design collection, the Company is still conducting dedicated R&D activities. Within this business segment, Flos' primary objective is that of matching energy efficiency requirements with clients' aesthetic and quality expectations. Accordingly, researchers of the design collection work with designers to produce new families of lamps directly conceived to be powered by LED sources and to review and remake iconic models, in order to shift to the LED technology.

Besides its efforts to maximize the energy efficiency of its lighting solutions, Flos is continuously working to improve the overall performance of its lamps. A concrete example of this approach is the choice of a new class of power supply units that meet the Level IV efficiency standard, translating into lower consumption levels and higher conversion efficiency.

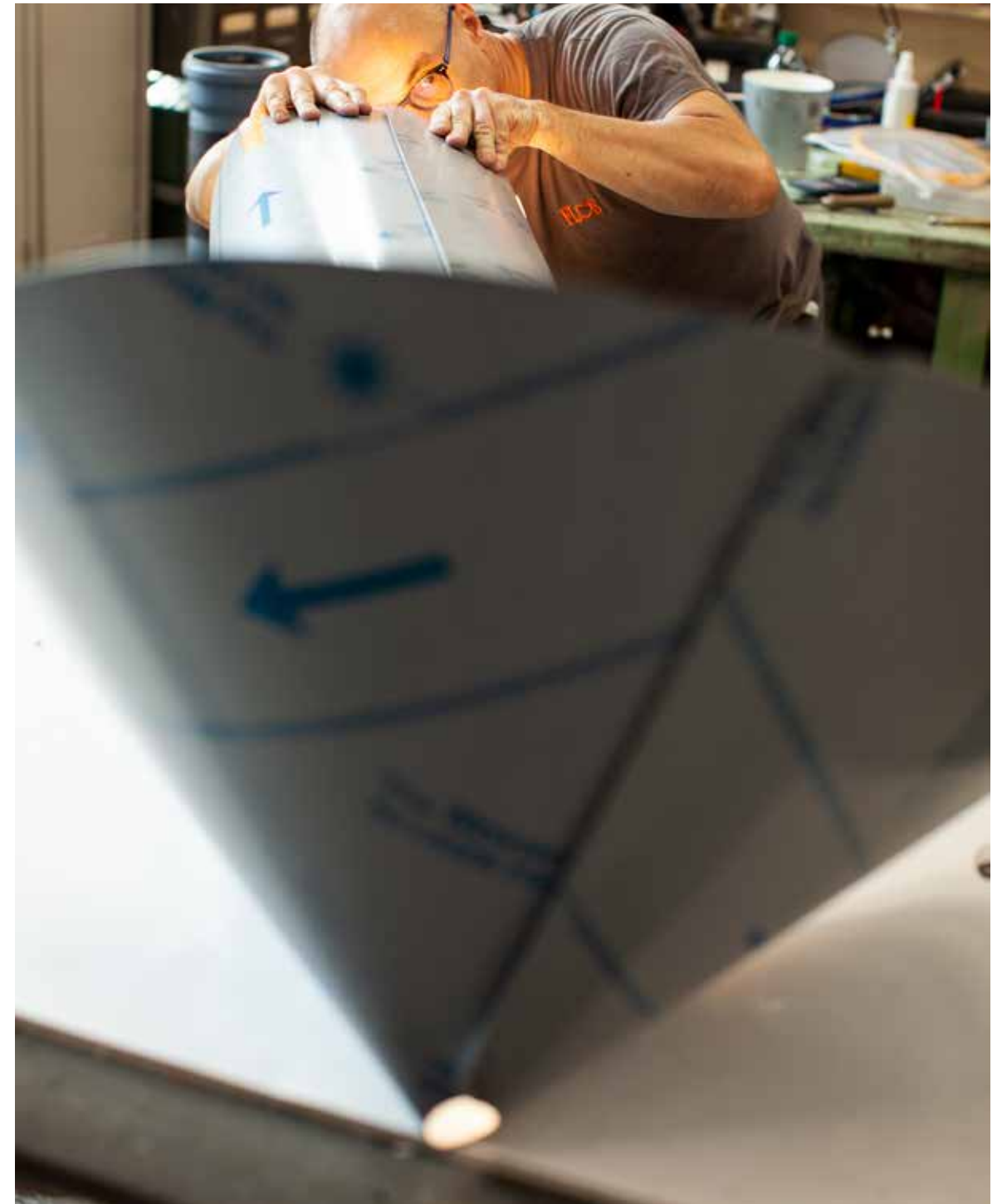
2.4 Investing In Research And Innovation



Research and development is an integral part of Flos' operations that seeks to materialize ideas by investigating the feasibility of creation. The Company's ability to always offer innovative and iconic lighting products and systems is due to the paramount importance paid by the Group to research. In 2018, investments in R&D activities amounted to 3.3 million euros, mainly attributable to the cost of personnel (both employees and external consultants) and expenses related to materials for prototypes and molds. The result of Flos' commitment to innovate has taken shape with one of the first applications in Italy of a pioneering color 3D printing solution. This technology allows the reproduction of 10 million

colors starting from digital 3D models, enabling Flos to realize colored maps. This enables Flos to produce prototypes with high precision in terms of colors and details, a feature impossible to achieve with a different technology in a short timeframe and at a reasonable cost.

One of the main challenges of the R&D department is bringing classic iconic models back into modernity. In fact, Flos continuously strives to preserve the classic charm of design products, while using modern componentry, innovative materials and up-to-date assembly and manufacturing methods to overcome operational limitations and enhance a sustainable production approach.



Re-edition of Chiara by Mario Bellini. Prototype

Technological innovation also involves the connectivity of lighting solutions. Internet of Things (IoT) applications enable to combine and control different devices connected through the internet. As such, via the use of embedded sensors, it is possible to gather information from the surrounding environment, to analyze it and to elaborate effective responses. IoT applications in lighting systems enable, for instance, the improvement of energy efficiency with daylight sensing that can control all the lights in the house, via a network of extremely sensitive detectors. In addition, such a system maps the usage patterns of customers, enabling them to further optimize energy savings and visual comfort in buildings. Over the past few years, Flos has progressively integrated IoT solutions within its existing products, as well as designing a series of new ones specifically intended to profit for the potential of these solutions. Currently Flos' lamps allow for different communication protocols that suit both centralized systems, in which all lighting devices are controlled by a central interface, and single systems, that can be remotely controlled by a simple control switch or a light dimmer.

In 2018, during the Light+Building² and the Biennale Interieur³ exhibitions, Flos presented its new advanced solutions of smart control technologies, both integrated lighting control systems and mobile applications, that easily interface with any home automation standard and are compliant with Smart Building requirements. For instance, Flos' Smart Control® system is an application for smartphones and tablets allowing the total remote control of the luminaires. Light systems can thus be controlled and programmed in limitless positioning, orientation and dimming options to easily adjust to any lighting need and environment.

² The Light + Building fair, that takes place in Frankfurt every two years, is an exhibition where the industry presents the latest products in the fields of lighting, electrical engineering as well as home and building automation.

³ The Belgian fair of Kortrijk, called the Biennale Interieur, is an exhibition dedicated to creative interior design and architecture.

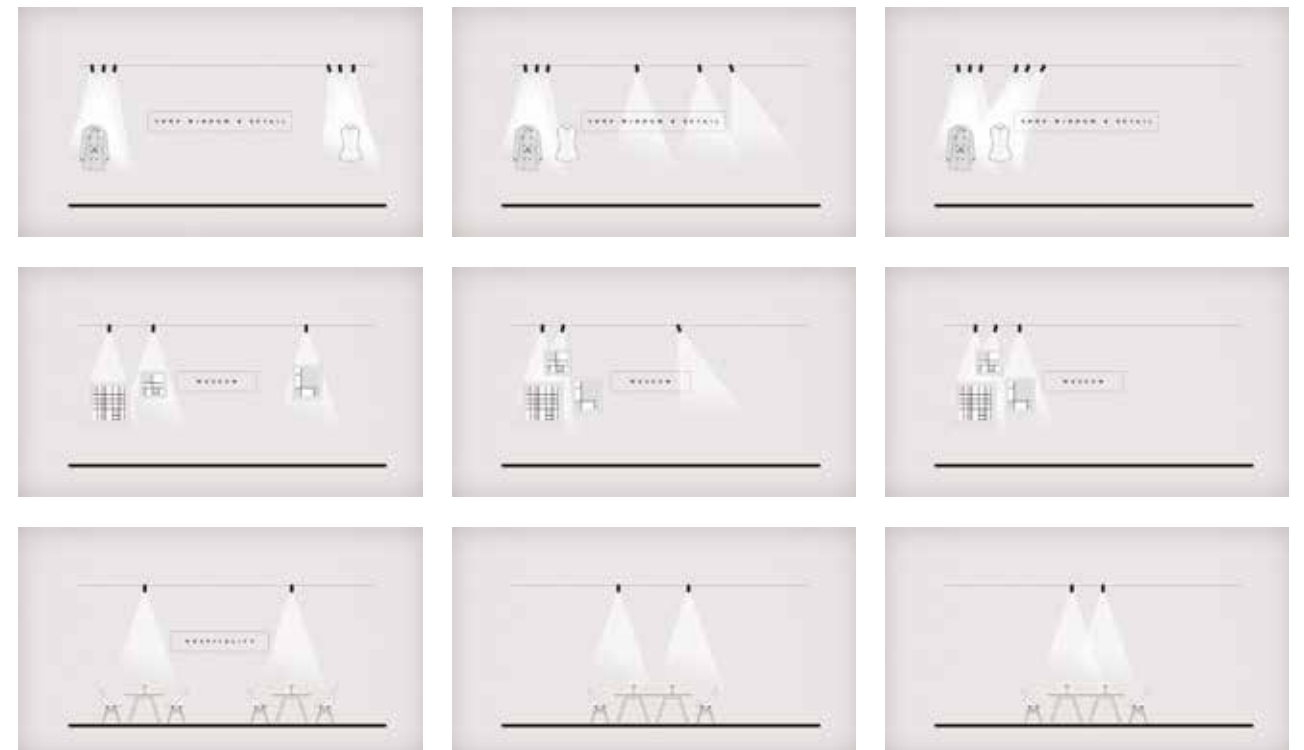
Intensity



Movement

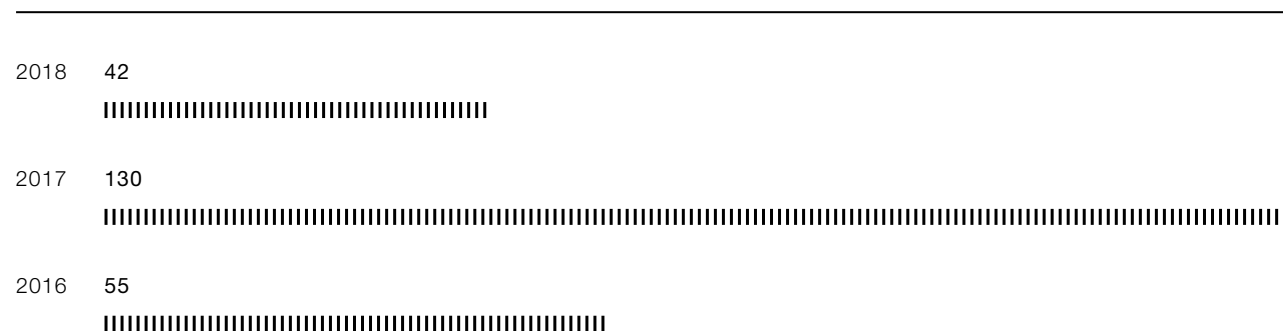


Smart Control



2.5 Protecting Flos' Ideas

Total Number Of Patents Filed By Year⁴



⁴Total number of patents filed by Flos S.p.A., Antares and Ares during the last three years, including the first filing phase only and excluding following extensions.

Depository	Type	2016	2017	2018
Flos S.p.A	Design	4	85	12
	Invention	0	1	1
Antares	Design	33	35	18
	Invention	1	0	1
Ares	Design	17	9	8
	Invention	0	0	2

In order to protect brands and innovations in the global and competitive environment in which the Company operates, in the past few years Flos S.p.A. (for the Design collection), Antares (for the Architectural collection) and Ares (for the Outdoor collection) have filed several patents. For each new product category, Flos, with the support of an international consulting firm, evaluates the best approach and solutions to protect its creations across geographies. Among others, design registrations, patent applications for invention or utility models and registered copyrights are some of the methods currently applied. All patents are filed before the presentation of new prototypes during international fairs. Given the nature of Flos' core business, the majority of patents belong to the design registration category, while the fewest is represented by patent applications for invention.

These latter refer mainly to the architectural and soft architectural business and, in an attempt to provide a broader protection of right, take into account the original design, but also any significant aesthetic variation that the product might undergo in the future. Concerning the design collection, patents are first filed in Italy and then extended to the European Community and to other foreign countries, representing strategic regions in terms of business and sales volumes. Conversely, concerning the architectural collection, patents are filed at a European level. Since 2017, Flos has also extended its brand protection activities to the Outdoor collection. The trend of filings during the years is mainly related to the biennial periodicity of EuroLuce, which is where new lamps belonging to the Design collection are presented to the public.

Design registrations have a limited duration; in Italy, for example, they last 25 years. Therefore, in order to guarantee, safeguard and protect some iconic lamps, Flos also filed applications for copyright registration in Italy and in other strategic countries. In Italy, this kind of copyright, released by the Ministry of Cultural Heritage and Activities and Tourism, is directly linked to the designer and protects its legacy up to 70 years after the author's death. Flos actively combats online infringements and frauds, such as the sale of counterfeit products or the illicit use of images and texts from Flos' website and social media. This latter kind of violation is among the most wide-spread, due to the rapid growth of online shopping. Since 2017, an external specialized company has supported Flos in the continuous process of identification and suppression of worldwide e-commerce platforms, marketplaces

and social networks selling counterfeit products. To strengthen its fight against counterfeiting, during 2018 Flos continued registering in several countries its most iconic products' trademarks. With the aim of enhancing the concept of "Made in Italy" and preserving high quality branded products from counterfeiting, Flos is also an active member of INDICAM. It represents nearly 180 companies, industry associations, legal and IP firms, security consultants and other organizations engaged against counterfeiting activities affecting branded products. Its activity is focused on sharing information and spreading counterfeiting awareness, by co-operating with police, courts and all other branches of the Italian Public Administration directly dealing with anti-counterfeiting activities and by lobbying for better legislation and its stricter enforcement.



Quality control tools

3. The Path Towards A Sustainable Value Chain

Flos' intent of bringing to life inspired sketches and projects from lighting architects and designers demands an articulated production process involving the R&D department, highly-specialized artisans and an accurate quality control system. Within this process, Flos directly manages, in collaboration with designers, architects and engineers, the conception and design of lighting systems, as well as the monitoring activities and tests carried out to assess product quality and to ensure compliance with safety requirements. Whereas, for the majority of manufacturing, assembly and logistic activities, Flos relies on the expertise of a specialized and trusted network of suppliers.

3.1 The Production Process



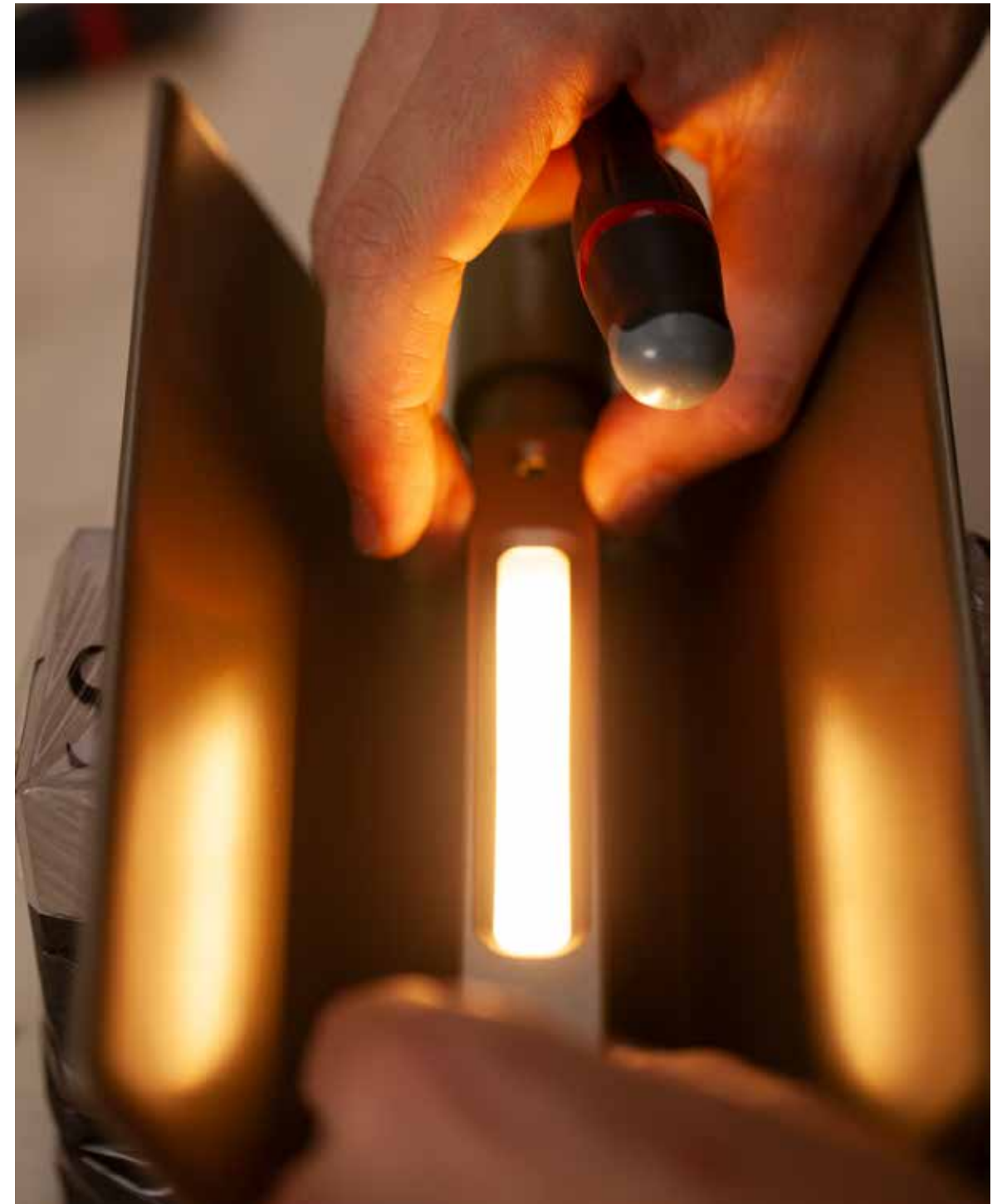
The production chain of the design collection is handled in Flos' Italian headquarters in Bovezzo, for the indoor lighting products, and in Bernareggio, for the outdoor products, while the architectural collection is produced in Antares' Spanish headquarter in Valencia.

The production process begins, once the products have passed the prototype and pre-series phases, with the purchasing of single components, as the large extent of techniques and materials required for Flos' products implies the externalization of most of the manufacturing processes.

This phase includes highly specialized techniques, including those necessary for the manufacturing of hand blown glasses and technical fabrics, but also coating processes and plastics and metals processing.

The processed materials composing the lighting systems are then sent to Flos headquarters to ensure that they meet the high quality and safety standards required by the Company and all applicable regulations. Afterwards, the components are assembled as indicated in the design and engineering plans.

Arco lamp manufacturing



Custom products assembly

The assembly process is predominantly outsourced to a network of selected artisans, mainly based in the Lombardy region and in Valencia (for further details, please refer to § 3.1.1).

The production chain ends with a further quality assessment of the final product, carried out in the Group's internal laboratories.

Over the last few years, production processes have been characterized by an increase in Flos' production volumes that are leading to a saturation of the external network in charge of product assembly. In order to overcome this issue and to continue responding to market needs, in 2018 Flos started a pilot project for setting up a new assembly line in its facilities in Nave, close to its Bovezzo plant. The project aims to increase the ownership of the production process, thus enhancing the control over its supply chain as well as the production capacity and flexibility. To design and manage the new production area, Flos decided to implement the lean manufacturing principles with the support of the Italian Kaizen Institute. Flos' primary objective was to obtain a production and logistics flow organized in accordance with the most advanced manufacturing concepts capable of eliminating faultiness as well as time and materials inefficiencies.

At the end of 2018, a project for implementing the lean manufacturing principles has been implemented also in Ares' Bernareggio plant with the aim of optimizing production processes by increasing quality and minimizing waste.

Flos' Lean Manufacturing

Lean manufacturing is a systematic methodology that focuses on minimizing waste within manufacturing processes while simultaneously maximizing productivity. The lean thinking is based on five key principles, namely value, value streams, flow, pull, perfection. These principles build on the identification of customer's needs and the relative mapping of the "value stream", in order to identify all the actions needed to deliver a given service or product. Afterwards, the objective is to set up a smooth process of value creation with augmented productivity and efficiency. The last two steps are based on the optimization of the process by cutting the time in which the product or the service is delivered to the customer and, finally, on working on the continuous improvement of such an approach by integrating the lean thinking into the corporate culture. The Kaizen principles, in particular, are among the most

acknowledged standards on which lean manufacturing is based and aims to create a continuous improvement in line with the idea that small, ongoing positive changes can reap major improvements. The key component and foundation of the Kaizen method is the so called "5 S program" that stands for: Sort, Set in order, Shine, Standardize and Sustain. The 5 S program focuses on having visual order, organization, cleanliness and standardization of each workspace, resulting in improved profitability, efficiency, service and safety. Flos has implemented the lean thinking principles and the 5 S approach first by analyzing product assembly methods in order to optimize station layout; secondly, by setting up a dedicated training program focused on the lean manufacturing principles and on the creation of a diffused continuous improvement culture through team work and incremental change.

Sort	Set in order	Shine	Standardize	Sustain
Remove all unnecessary items from the workplace	Create a specific location for everything	Clean the work area	Standardize the best practice within the workplace	Never fall back into the old ways

3.1.1 Supplier Selection And Management

Flos' products are the outcome of a long-lasting collaboration with top-quality Italian and Spanish suppliers, a fusion of craft heritage and experimentation. Besides the electronic components, which are usually imported or purchased from multinational companies, the production of other semi-processed materials and components and the majority of the assembly activities are outsourced to Italian and Spanish suppliers, mainly from northern Italy and Valencia's surrounding areas. This proximity becomes crucial, also in strategic terms, given the intensity and timeliness with which Flos conducts quality control processes on semi-processed materials and on finished products. Promoting local suppliers not only gives the opportunity to rely on a shorter supply chain improving reliability and delivery times but also demonstrates support for the local community. In absolute terms, the increase in the number of suppliers for the design collection between 2016 and 2017 is due to the inclusion of Ares in the reporting scope. Despite this extension, for both the design and the architectural collections, the percentage of local suppliers is still relevant both in terms of number of suppliers and in terms of spending and shows a regular trend through the years, as reported in the following tables. Regarding the design collection, Flos' preference for local suppliers is not a simple choice of convenience, but it stems from its attention and attachment to the concept of "Made in Italy", considered as a synonym of expertise, artisanship and innovation. Indeed, more than 87% of the Company's suppliers are located in Italy, mainly in the Lombardy region (approximately 70% out of the total number of suppliers, representing 69.1% of the total spend in 2018). In line with previous years, 2018 also recorded an overall increase in the number of suppliers, mainly related to the launch of new products and collections characterized by distinctive materials, thus requiring highly specialized suppliers.

Suppliers' provenance by number and spending – Design collection

Suppliers Provenance¹	U.M.	2016	<i>spending</i>	2017	<i>spending</i>	2018	<i>spending</i>
Italy	suppliers (n.)	231	83.7%	358	84.1%	425	82.4%
Lombardy region ²	suppliers (n.)	182	67.6%	287	68.6%	341	69.1%
Italy (except Lombardy region)	suppliers (n.)	49	16.0%	71	15.5%	84	13.3%
Other Countries	suppliers (n.)	37	16.3%	49	15.9%	64	17.6%
Total	n.	268	100%	407	100%	489	100%

¹ 2016 data are related to Flos and Antares only, while 2017 and 2018 also include Ares.

² Data include Verona district. For the definition of "local suppliers" Verona district has been also considered, based on the proximity to Bovezzo headquarter.

Concerning the Architectural collection, given the quality performance of all suppliers, the selection process is primarily based on their flexibility and capability to promptly react to Flos' requests, which adapt to the fluctuations and demand shifts characterizing this branch of the lighting market. For these reasons, as shown in the next table, more than 67% of the Company suppliers are located in Spain and, more specifically, in Valencia and its surrounding areas (approximately 39% of the total number of suppliers and 51.3% of the total spend in 2018).

Suppliers' provenance by number and spending – Architectural collection

Suppliers Provenance³	U.M.	2016	<i>spending</i>	2017	<i>spending</i>	2018	<i>spending</i>
Spain	suppliers (n.)	145	70.7%	143	70.8%	137	70.9%
Valencia and surrounding areas	suppliers (n.)	73	47.4%	81	51.4%	79	51.3%
Other areas in Spain	suppliers (n.)	72	23.3%	62	19.4%	58	19.6%
Other Countries	suppliers (n.)	62	29.3%	60	29.2%	67	29.1%
Total	n.	207	100%	203	100%	204	100%

³ 2016 data are related to Flos and Antares only, while 2017 and 2018 also include Ares.

Sustainable management of the supply chain involves a long-lasting relationship between Flos and its suppliers, built on mutual trust and respect. Considering the important role played by the supply chain in Flos' business, the Company is committed to transfer its modus operandi and its expertise to suppliers, providing technical support in order to assure product quality. Flos adopts a strict selection process and conducts audits at the suppliers' sites to evaluate the quality of the materials and services they provide, their technical skills and the tools and machineries they use. Moreover, great attention is paid to the supplier's quality management system (QMS), preferring those who have obtained an ISO 9001 QMS certification. Flos' business model, focused on the aesthetics and on the functional durability of its products, implies a greater attention devoted to quality and technical aspects during the assessment and selection of suppliers. Nevertheless, in its attempts to monitor and reduce its overall impacts along the supply chain, at the beginning of 2018 Flos released new contractual clauses, based on a series of relevant national and international guidelines and regulations.

The latter cover issues such as the safety of products and workplaces, the environmental impact of products and production processes and workers' labor conditions. Relevant examples of such norms are provided by the REACH Regulation, focusing on the assessment and management of the risks posed by chemical substances, the Waste Electrical & Electronic Equipment Directive, for the management of electronic waste, or the International Labor Organization's regulation, such as the Equal Remuneration Convention, which fosters work of equal value for men and women. A further reference has been introduced about Conflict Minerals Rules, as regulated by Section 1502 of the Dodd-Frank Act and of the new Regulation EU 2017/821. Moreover, in order to track their sustainability performance, these additional contractual clauses foresee the possibility of requesting suppliers' specific data related to environmental aspects (such as waste produced, raw materials and energy consumption) or safety issues (such as accident statistics). Similarly, these new contractual clauses foresee the opportunity of conducting environmental and social audits on suppliers' facilities and policies, in order to test their compliance with Flos' requests. In 2018, to carry forward supplier monitoring, Flos also introduced a new tool for supplier qualification. Although designed for collecting business-related supplier information, the tool will also allow the introduction of ESG aspects in supplier screening that, together with the new contractual clauses, will help the Company to further understand and minimize social and environmental burdens across its supply chain.

3.1.2
Logistics

The efficiency and flexibility of logistics are essential to ensure that all products are delivered to the right place at the right time, enabling Flos to respond to market requests in a timely manner, while reducing costs and environmental impacts. Due to its strict quality control system, which implies the monitoring and the quality assessment at each production phase, the Company has to cope with a frequent and substantial cargo handling from suppliers' facilities to Flos' plants, and conversely. In particular, concerning the Bovezzo and Bernareggio sites, all inbound transport services are provided by external carriers and strictly vary depending on the area where the transport is performed:

- Bovezzo and surrounding areas: transport operations are conducted by local truck companies, which deliver exclusively Flos products. Such an on-demand transport service allows the flexibility, reliability and timeliness required by clients, also considering that Flos' supplier network

is mainly composed of small-scale companies, which do not have the possibility to stock products for a long time following the manufacturing and assembly phases;

- Italy: transport activities are operated by truck. Conveyances are not under exclusive use; this allows the optimization of the use of the payload capacity, as trucks can also pick up goods from other customers;
- Other Countries: most overseas transportation is required for raw materials and components supplied from China. These are transported by ship and, only in exceptional cases, by air, while truck carriers operate the ground transportation from arrival harbors to Flos' headquarters.

Regarding the Antares headquarters in Valencia, some suppliers are situated in the same industrial complex as the Company. For the remaining part, Antares relies on owned trucks for the suppliers located in Spain and on an outsourced aircraft service for goods purchased abroad. Finally, concerning Ares' headquarters in Bernareggio, transport operations from local suppliers are mainly shared with other Companies in order to increase efficiency and reduce costs.

Transportation of sold products is entirely outsourced. Depending on the distances, on the time of delivery and on the volumes, transport is operated either by truck, by ship or by aircraft. In 2017, Flos has undertaken a process of reorganization of its outbound logistic suppliers based on parcel dimensions, in order to increase both its efficiency and to reduce the overall environmental impact thanks to the possibility of offsetting the greenhouse gas emissions generated by logistics through climate protection projects (for further details please refer to § 3.2.3).

Ares' Outbound Logistics Management

In June 2018, Ares launched its renovated outbound logistics management system based on the Industry 4.0 principles. As a result, product outflow from the Bernareggio plant has been automated allowing for product tracking across all logistics processes.

Besides significant operational benefits, such as increased efficiency, greater transparency and traceability, the new logistics management system will reduce paper consumption for internal procedures to almost zero, as it is now fully digitalized.

3.2 Environmental Impacts Along The Production Process



The most relevant environmental impacts from Flos' overall production process come from outsourced activities and, only to a limited extent, from the assembly and packaging activities carried out in Bovezzo and Valencia and from manufacturing processes carried out in Bernareggio. Impacts mainly relate to the following environmental aspects: material consumption, scraps and waste from production and assembly, discharge of process water containing toxic substances employed in the coating and painting processes, energy consumption and related indirect emissions from logistics. Flos is conscious

that, in order to be effective, a forward-looking corporate responsibility strategy must encompass environmental footprint assessments and impact reduction initiatives along the entire value chain. In this sense Flos, starting from the R&D and design phase, focuses on selecting materials and production processes that, in line with the aesthetic profiles of products, ensure the utmost environmental respect, with the aim of reducing scraps from the overall production process.

Plastic-free packaging



Water-based painting

Furthermore, Flos is continuing to monitor the environmental impacts generated by its activities outside its organizational boundaries. Flos' carbon footprint, including indirect Greenhouse Gases (GHG) emissions related to employees' business travels and the logistics of products and materials (Scope 3 emissions), has been updated for the three-year period 2016-2018 in order to include Ares and quantify the impact at Group level (see § 3.2.3). Concerning direct impacts coming from manufacturing, assembly and packaging activities carried out in Bovezzo, Bernareggio and Valencia, Flos monitors its energy consumption and waste production, taking actions to reduce the environmental burden resulting from them.

Ares' Environmental Impacts

Ares' headquarters, located in Bernareggio (Monza and Brianza province, Italy), covers an area of 12,000 m² including the research and development department, testing laboratories and a painting and coating system. In addition, the plant has also a specific division equipped with an automatic assembly line for circuit boards and a production department for wiring and assembly activities. Ares manufacturing activities entail both water consumption and air emissions, mainly related to painting processes and the work of the electronic circuit division, which comprises, for instance, welding activities and the use of chemical compounds.

Following Flos' commitment to minimize the environmental impact of its operations, and in accordance with current legislation, Ares' facilities are equipped with an air treatment system for the abatement of particulate and other hazardous compounds as well as a water treatment plant authorized for effluent discharging both in the sewage collection system and on the soil. External specialists carry out wastewater and air quality analyses on a regular basis, in order to guarantee both compliance with normative limits and the correct functioning of treatment plants.

3.2.1 Materials And Energy Consumption

Flos is addressing its most pressing environmental challenges by focusing on less impactful and more innovative techniques, reinventing, where possible, its iconic products. The Company accurately monitors the amounts of materials and components purchased to produce its lighting systems and is committed to reduce the use of non-recyclable or toxic materials. In this direction, Flos replaced the inside packaging of the new lamp collections with Expanded Polystyrene (EPS), a material which is fully recyclable. Additionally, conscious that functional longevity is essential for the sustainability of its products, Flos takes into consideration, throughout the conceptual design process and the selection of materials and suppliers, the durability of the materials composing the lighting systems. In this sense, the selection of materials in the design phase is made to ensure the replaceability of components.

Processed materials (intensity ratios refer to net sales of Flos, Ares and Antares)

Materials ⁴	U.M.	2016	2017	2018
Glass	t	196	191	209
	kg/k€	1.08	1.17	1.24
Plastics	t	326	346	380
	kg/k€	1.80	2.11	2.24
Aluminium & Zamak ⁵	t	2,053	2,194	2,029
	kg/k€	11.32	13.39	11.97
Iron	t	299	442	626
	kg/k€	1.65	2.70	3.69
Brass	t	33	37	51
	kg/k€	0.18	0.23	0.30
Rubber	t	-	5	4
	kg/k€	-	0.03	0.02
Marble/Concrete	t	-	2	0.4
	kg/k€	-	0.01	0.002

⁴ For 2016, data are related to Flos and Antares only.

⁵ Zamak is a family of alloys with a base of zinc and alloying elements of aluminium, magnesium and copper.

Concerning the procurement and processing of raw materials, all materials show a stable consumption trend over the years, both in absolute terms and in relation to net sales. The increase of categories such as iron and the addition of new categories refer to the inclusion of Ares from 2017 data. In particular, marble, concrete and rubber are materials mainly used in Ares' outdoor collections. In addition, the relative increase of the brass category with respect to previous years is due to the launch of a new product family - IC Lights Floor, designed by Michael Anastassiades - made of this metal.

In addition to the above mentioned raw materials, the Bernareggio plant also purchases chemical components for painting and coating activities. In 2018, these compounds, that include paints, artificial resins and silicones, amounted to 15 tons, increasing by 44% compared with 2017, mainly due to an increase in production volumes.

The trend in electronic components purchased is representative of the industry switchover from conventional light sources to LED solutions, due to the spread of this less energy intensive lighting technology. In particular, the significant increase of LED components purchased since 2017 is due to the inclusion of the outdoor collection, which mainly relies on such solutions for its products. Nevertheless, even without considering the outdoor collection produced by Ares, LED components purchases show an increase of 27% with respect to 2016 and of 157% with respect to 2014 (847,864 units). For the architectural segment the transition to LED sources is almost complete, also as a consequence of the market and of competitors' and final customers' requests. For the design collection, the decreasing trend of traditional lamps purchases is also attributable to the Directive 2015/1428/EU, requiring companies not to sell lamps together with traditional light bulbs, thus allowing the customer to buy the solution he or she prefers between LED and traditional sources.

Electronic components employed (intensity ratios refer to net sales of Flos, Ares and Antares)

Electronic Components ⁶	U.M.	2016	2017	2018
Transformers & power supply	units	439,094	436,511	706,722
	units/ k€	2.42	2.66	4.17
Electrical components	units	5,717,871	6,820,962	6,658,154
	units/ k€	31.53	41.63	39.28
LED and LED components	units	1,712,845	5,826,083	6,843,040
	units/ k€	9.45	35.56	40.37
Traditional lamps	units	77,777	22,630	11,931
	units/ k€	0.43	0.14	0.07

⁶ For 2016, data are related to Flos and Antares only.

In addition to the use of raw materials and components to produce lighting systems, another relevant impact arising from Flos' business derives from packaging consumption. Flos' objective is, on one hand, to reduce the amount of packaging used and to improve its recyclability and, on the other hand, to ensure an adequate protective barrier during transport.

Packaging materials (intensity ratios refer to net sales of Flos, Ares and Antares)

Packaging Materials	U.M.	2016	2017	2018
Paper and cardboard	t	1,065	1,047	1,133
	kg/k€	6.8	6.4	6.7
Plastics	t	75	79	78
	kg/k€	0.5	0.5	0.5
Wood	t	264	302	371
	kg/k€	1.7	1.8	2.2

Polyurethane Foam

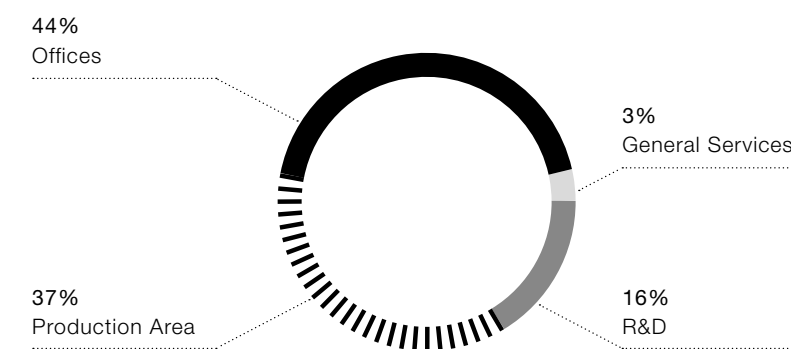
Concerning packaging materials consumption, Flos has decided to reduce the usage of materials based on polyurethane foam, by substituting them with less toxic and more recyclable alternatives for the packaging of all new collections. As a result, with regards to the design collection, the purchase of polyurethane foams shows a further 15% decrease in 2018 compared with 2017, in terms of kilograms/number of products.

In addition to material consumption, Flos monitors its energy consumption, which is mainly related to heating and cooling purposes and to fossil fuel consumption for the corporate fleet. In particular, the production site in Bovezzo is supplied from the district-heating network of Brescia, an integrated system providing energy to the city from waste incineration. Natural gas consumption, instead, derives from the Bernareggio plant, where it is used for heating purposes and for painting activities. The constant increase in natural gas consumption along the reporting period is due to the increase of production volumes.

In 2017, Flos has also implemented a sophisticated real-time monitoring system of its energy consumption levels in the Bovezzo plant. The system, operational since January 2018, allows to monitor the energy demand of the different production processes within the plant, in order to identify the most energy-intensive ones as well as potential inefficiencies. The final goal is to start from consumption patterns to implement mitigation or remediation activities in order to reduce the energy demand and increase the overall efficiency of the plant.

The first result of this initiative has been, in 2018, a 13% reduction of Bovezzo electricity consumption compared with 2017, mainly due to the revamping of the lighting system carried out in the previous years. In addition, in 2018, thanks to the new tool for energy monitoring, Flos has optimized the cooling system and identified outliers through consumption patterns analysis. Although next year's records will provide more in-depth analysis, first results show that 44% of energy consumption is linked to office facilities that, consequently, may be the focus of energy efficiency initiatives in the near future.

Energy Consumption Of The Bovezzo Plant



Furthermore, as already carried out in Valencia facilities over the last few years, in 2018 the Bernareggio plant continued investing in the substitution of the lighting systems with LED lighting. This project will proceed during 2019 with the replacement of the lighting systems with more than 300 LED lamps in the warehouse and manufacturing areas, thus contributing in decoupling increasing production volumes and energy demand.

Energy consumption

Energy Consumption	U.M.	2016	2017	2018
Energy consumption - for buildings	GJ	19,757	22,009	22,951
-of which: electricity purchased from national grid	GJ	8,750	9,247	9,168
-of which: district heating purchased from external waste-to-energy plant	GJ	4,108	5,014	5,892
-of which: natural gas for heating and production processes	GJ	6,899	7,748	7,890
Energy consumption - for fleet	GJ	3,223	2,711	3,593
-of which: for Company car fleet	GJ	2,459	2,217	3,342
-of which: for Company truck fleet	GJ	764	494	356
Total	GJ	22,980	24,720	26,649

3.2.2 Waste Production

Flos' waste production is mainly related to faulty components that do not meet the Company's aesthetics and quality requirements and that are sent back to suppliers. Whenever possible, in the event of faulty products, undamaged components are separated and reused to minimize waste volumes.

Moreover, in the belief that prevention is the most effective approach for eliminating waste, Flos is engaged in the training of its suppliers, in order to reduce cases of non-compliance of input materials with respect to the Company's aesthetics and quality requirements. In particular, Flos inspects and monitors the percentage of defective components coming from different suppliers and the reasons for their return, in order to identify the suppliers experiencing more difficulties, to discuss with them the implementation of potential corrective actions and to provide them with the necessary tools and training to put them into practice.

Finally, Flos offers its employees the opportunity of buying non-saleable, defect products at a discounted price, thus further reducing its total waste volumes. Waste produced during the assembly phase occurring in Flos' headquarters is collected and separated according to its composition to optimize recycling. Moreover, the Company relies on an external provider for waste management and recycling activities.

The following tables illustrate Flos' waste production in the reporting period. The total amount of waste produced increased mainly due to the increase in production. The percentage of recycled waste slightly rose, shifting from 53% in 2016 to 55% in 2018.

In 2017, with the aim of continuously increasing the percentage of recycled waste, Flos has introduced the separated collection of polyethylene in the Bovezzo plant. In 2018, this choice allowed to achieve a further 2% reduction of the unsorted waste production of the plant with respect to 2017, whereas in 2017 the reduction amounted to 14% compared with 2016.

In addition, Flos has also improved the separated collection of unsorted waste in the offices by identifying the areas where most waste is produced and is implementing a new dedicated collection system.

The hazardous waste is mainly related to the introduction of the Bernareggio plant in the reporting scope. The plant hosts manufacturing phases, such as painting and coating, which require the use of chemical compounds.

Waste production by category

Waste Produced	U.M.	2016	2017	2018
Non-hazardous waste	t	489	523	533
Hazardous waste	t	32	31	28
Total	t	521	555	562

Waste production by disposal method

Waste, by disposal method	U.M.	2016	2017	2018
Recycled	t	277	311	311
Not recycled	t	244	244	250
Total	t	521	555	562

3.2.3 GHG Emissions

Flos' commitment to reduce its overall environmental footprint encompasses also the monitoring of its greenhouse gas emissions (GHG) for reduction and compensation purposes. The most part of Flos' GHG emissions are located in the final end of the value chain, i.e. concerning logistics activities. Indeed, the emissions related to the production process are quite limited, in absolute terms. Nonetheless, in the past few years, Flos started putting in place a series of energy efficiency activities aimed at reducing its overall footprint. As shown in the table below, in accordance to the GHG Protocol Corporate Accounting and Reporting Standard, Flos has identified and monitored all relevant direct GHG emissions (Scope 1) and those resulting from energy purchases (Scope 2). Moreover, where data are available and reliable, Flos is monitoring and reporting indirect emissions occurring outside of the Company, in order to extend the analysis to its entire value chain (Scope 3). The GHG emissions resulting from the electricity purchased from the national grid have been calculated both by adopting the location-based and the market-based method. The first one reflects the average emissions intensity of grids from which energy consumption occurs while the second reflects emissions from electricity that the Company has purposefully chosen. In relation to the latter, since August 2018, the electricity purchased by Flos' Bovezzo and Nave plants is entirely covered by Guarantees of Origin (GO), thus certifying that it is produced from renewable sources and results in zero emissions of CO₂ according to the market-based method.

Scope 3 GHG emissions, resulting from the transportation of purchased goods and sold products (when customers do not manage transportation on their own) and from business travels have been calculated in line with last year's approach. The increasing of outbound logistics in 2018 is mainly related to the inclusion of Ares' data in the calculation.

GHG Emissions	U.M.	2016	2017	2018
Direct Emissions (Scope 1)	tCO₂ eq	688	751	858
-Emissions resulting from natural gas burning used for Company's heating and production processes	tCO ₂ eq	377	438	448
-Emissions resulting from fuel (diesel) used for Company's truck fleet	tCO ₂ eq	57	37	27
-Emissions resulting from fuel (diesel) used for Company's car fleet	tCO ₂ eq	246	225	306
-Emissions resulting from fuel (gasoline) used for Company's car fleet	tCO ₂ eq	0.38	0.86	15
-Emissions of refrigerant gases resulting from leakages of air-conditioning systems	tCO ₂ eq	8	51	63
Indirect Emissions (Scope 2) – Location Based	tCO₂ eq	1,019	1,172	1,123
-Emissions resulting from electricity purchased from national grid	tCO ₂	785	897	816
-Emissions resulting from district heating purchased from the waste to energy plant	tCO ₂ eq	233	275	307
Indirect Emissions (Scope 2) – Market Based	tCO₂ eq	1,309	1,411	1,342
-Emissions resulting from electricity purchased from national grid	tCO ₂ eq	1,076	1,136	1,035
-Emissions resulting from district heating purchased from the waste to energy plant	tCO ₂ eq	233	275	307
Other Indirect Emissions (Scope 3)	tCO₂ eq	2,134	2,423	3,590
-Emissions resulting from transportation of purchased goods ⁷	tCO ₂ eq	375	454	1,017
-Emissions resulting from transportation of sold products ⁸	tCO ₂ eq	1,486	1,685	2,261
-Emissions resulting from business travels	tCO ₂ eq	273	284	312
Total Location-based	tCO₂ eq	3,840	4,346	5,571
Total Market-based	tCO₂ eq	4,131	4,585	5,790

⁷ 2016 and 2017 data are related to Flos and Antares (for the last, only finished products from Bovezzo and Bernareggio and returns from consumers are included). 2018 data also include Ares outbound logistics.

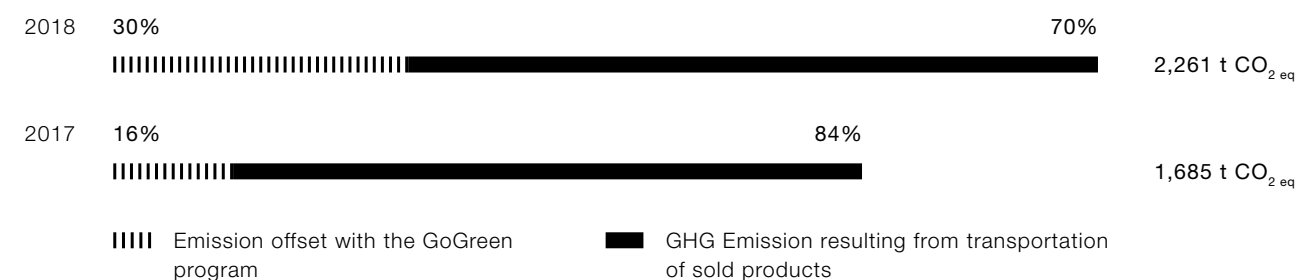
⁸ Emissions data from transportation of sold product show, by nature, a fluctuating trend mainly due to the architectural collection, as a consequence of fluctuating demands from key accounts and other clients, different weights of products and distances covered.

Carbon Offsetting

In order to compensate the environmental impacts of its outbound logistics activities, since 2017 Flos adheres to the Go Green – Climate Neutral program organized by DHL⁹, which allows customers to offset their emissions resulting from the transportation of goods. The methods used for calculating and offsetting greenhouse gas emissions are based on the Greenhouse Gas Protocol's Product Life Cycle Accounting and Reporting Standard. The calculation methodology includes carbon dioxide (CO₂) and further GHG emissions such as methane (CH₄) and nitrous oxide (N₂O) from transport and logistics as well as upstream emissions from fuel and energy production.

On behalf of Flos, and proportionally with the emissions resulting from the transportation service purchased, DHL invests in climate protection projects complying with the Clean Development Mechanism¹⁰ (CDM) criteria set out in the Kyoto Protocol.

Flos' offset for 2018 amounted to 589.90 t CO₂ eq, an increase of 123% compared with 2017, when the offset amounted to 264.58 t CO₂ eq. In addition, in 2018, Ares also participated to the project by offsetting a further 79.76 t CO₂ eq. In total, in 2018 both Flos and Ares contributed to CO₂ savings equal to the CO₂ emitted by around 360 passenger cars, which travel for 10,000 km.



⁹ DHL is an international company providing express deliveries worldwide and logistics services including freight transportation, warehousing and supply chain solutions.

¹⁰ The Clean Development Mechanism certifies emissions reduction projects in developing countries as well as trading and selling certificates arising from projects in order to meet emissions reduction targets through compensation under the Kyoto Protocol.



4. Building Strong And Lasting Relationships

« With the purpose of contributing to our local communities, we continued to build on our strong relationships with the territory by sponsoring and supporting cultural and philanthropic initiatives. In the same vein, regarding our people, we worked to foster an inclusive and constructive working environment, with particular attention on nurturing and retaining our talents by strengthening training activities. »

– Roberta Silva

Fuorisalone 2018, Milan

4.1 With Employees



Passion and expertise of Flos' people have always been key elements of the Group's success. Being conscious of how important it is to be able to always count on qualified and committed employees, ever since its foundation, Flos has put its workforce at the center of its strategies and it always considers its people's needs when

taking important business decisions. In recent years, Flos has taken the first steps of a path aimed at further strengthening its attention towards its employees, by adopting a more structured approach, featuring training activities and employee development programs.

4.1.1 Employment

As of the 31st December 2018, Flos Group's workforce, including Flos USA Inc. and Flos' commercial branches, totalled 619 persons, showing an increase with respect to the prior year (609). Flos, Ares and Antares' workforce was equal to 438 people and included 28 supervised workers and 9 interns.

Workforce By Employee Category And Gender ¹	U.M.	2016	2017	2018
Total workforce	n.	422	444	438
Employees	n.	391	397	401
Supervised workers	n.	22	33	28
Interns	n.	9	14	9
Workforce by gender				
Women	%	47%	44%	43%
Men	%	53%	56%	57%

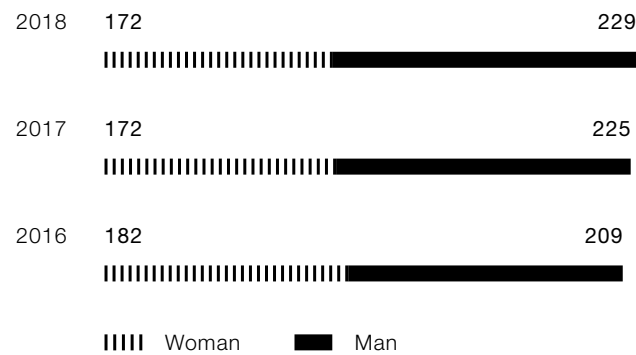
¹ Data do not include Flos USA Inc. and Flos' commercial branches.

Board Composition By Gender And Age Group	U.M.	2016	2017	2018
Women	n.	0	1	0
Men	n.	8	8	4
Less than 30 years	n.	0	0	1
From 30 to 50 years	n.	4	4	3
More than 50 years	n.	4	5	0
Total	n.	8	9	4

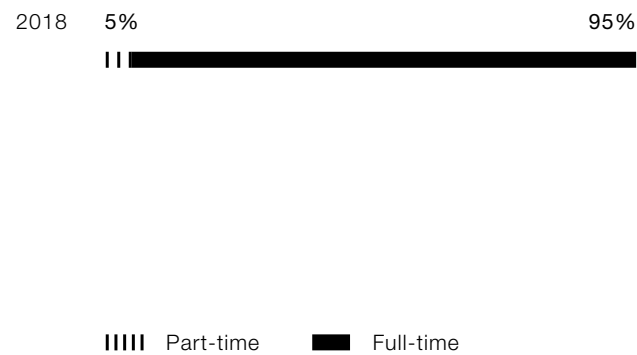
Employees, whose number has remained relatively consistent over the years, represent the majority of Flos, Ares and Antares' workforce, which corresponds to 92% of the total workforce in 2018, with the remainder composed of supervised workers and interns. The employed personnel are mainly located in the Italian plants of Bovezzo (152 employees) and Bernareggio (83 employees) and are mainly composed of office workers (61% of the total, in 2018). The employees' composition shows a balanced proportion between women (43%) and men (57%) employed and a predominance of employees between 30 and 50 years old (67%). Flos is committed to enhancing corporate diversity in order to create an inclusive working environment where all employees, regardless of gender or other individual differences, are able to express their full potential.

Flos prefers permanent contracts (94%, in 2018) to temporary ones as a means of promoting human resources retention and development, while enhancing, at the same time, employees' sense of awareness and commitment. In 2018, only 5% of employees worked part-time, a percentage almost unchanged with respect to the previous two years. All Flos employees are covered by collective bargaining agreements, as required by national laws.

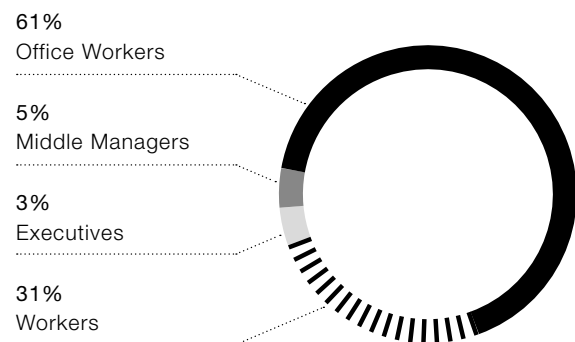
Employees, by Gender



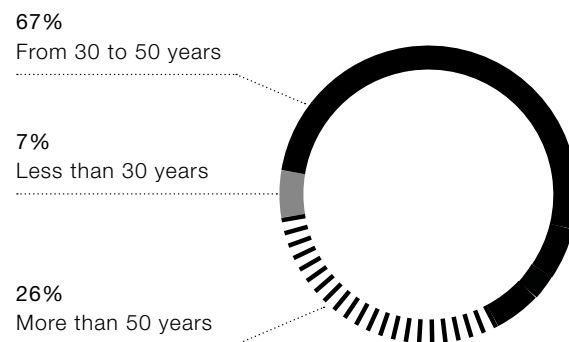
Full-time vs Part-time Employees



Employees, by Category



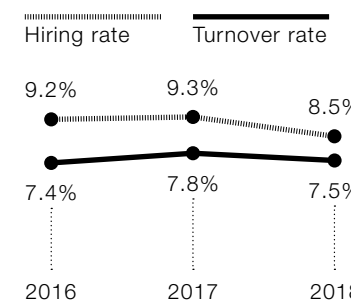
Employees, by Age



Employees By Contract Type	U.M.	2016	2017	2018
Permanent	n.	363	365	375
Women	n.	167	160	165
Men	n.	196	205	210
Temporary	n.	28	32	26
Women	n.	15	12	7
Men	n.	13	20	19
Total	n.	391	397	401

Contrary to the previous years' trend, the graph below shows a slight decrease of the hiring rate in 2018, that is calculated by dividing the number of hirings by the total number of employees at the end of the reporting year. Similarly, the turnover rate, calculated as the number of resignations over the number of employees, slightly declined in comparison to 2017. The low turnover rate, which was mainly due to voluntary resignations, represents a physiological staff renewal.

Employee Hiring And Turnover Rates



Hirings	U.M.	2016	2017	2018
Women	n.	16	13	19
Men	n.	20	24	15
Less than 30 years old	n.	8	12	11
From 30 to 50 years old	n.	26	24	22
More than 50 years old	n.	2	1	1
Total Hirings	n.	36	37	34

Terminations	U.M.	2016	2017	2018
Men	n.	10	15	19
Women	n.	19	16	11
Less than 30 years old	n.	3	4	6
From 30 to 50 years old	n.	20	21	16
More than 50 years old	n.	6	6	8
Total Terminations	n.	29	31	30

4.1.2
People Empowerment
And Welfare

Flos' objective for 2018 was to increase training for all employees to help create a more stimulating working environment. In 2018, expenditure on training increased by more than 5 times the equivalent spend in 2015. To continuously funnel personal and organizational improvements, Flos has designed and developed a dynamic and personalized training program, aligned to the different employees' expectations and corporate responsibilities. The program was conceived to help employees realize their full potential, both in terms of soft and technical skills necessary to meet the Group's evolving requirements and to adapt to the technological and national and international legislative changes taking place in the business world (e.g. Brexit, Eco-design regulation, labeling and EPREL data base). For the design of this program, Flos has considered employees' training needs and has identified a set of minimum training requirements for every cluster of functions. The yearly training program has been evaluated and integrated by each function responsible prior to authorization of the Personnel Department. The training program involves both technical ad hoc courses (e.g. 3D printer and e-commerce) and non-technical training ranging from legislative requirements (e.g. RoHS, Ecodesign, import and export) to public speaking and English, French and German lessons. For instance, in 2017 in the Bernareggio plant the majority of office workers' training activities were dedicated to digitalization and Industry 4.0²; as regards the Bovezzo plant, in 2018 specific courses on lean manufacturing were organized involving seven employees for almost two days of training, with the aim of creating a team for the lean manufacturing pilot project at the Nava site (for further details, please refer to § 3.1). In 2019, training on lean manufacturing will continue, involving employees within the R&D department. In 2018, Flos invested heavily in training providing a total of 3,885 training hours to its employees, corresponding to an average of 9.7 hours per employee, showing a significant increase of 89% compared to 2016. In addition, looking at the non-compulsory training (i.e. excluding training activities required by national regulations, such as health and safety training), the average training hours per employee amounted to 9.3 in 2018. This increase reflects Flos' determination to provide its employees with a training program conceived to be a response to their needs and not only in relation to a compliance requirement. Training courses are mainly provided to middle managers (17 hours by employee in 2018), while executives and office workers' training hours per employee were equal and amounted to 12 hours per employee. With regard to workers, the average training hours provided increased over the three-year period, reaching 4 hours per employee in 2018. Flos has also provided training to supervised workers and interns, for a total of

² Industry 4.0 is the process of automation and digitalization at an industrial level.

almost 100 hours in 2018. In accordance with the 2018 training program, Flos confirms its commitment for 2019 to provide all its employees with adequate training, regardless of employee category and contract types. In addition, specific courses on environmental aspects and impacts management of products and operation will be introduced, aiming at further increasing employees' awareness and involvement in environmental and sustainability issues.

Training	U.M.	2016	2017	2018
Total hours	h	2,005	3,124	3,885
Men	h	1,262	2,048	2,280
Women	h	743	1,076	1,606
Average hours	h/employee	5.1	7.9	9.7
Men	h/employee	6.0	9.1	10.0
Women	h/employee	4.1	6.3	9.3
Non-Compulsory Training				
Total hours	h	1,499	2,696	3,725
Percentage on total training	%	75	86	96
Average hours	h/employee	3.8	6.8	9.3

Average Training Hours, By Employee Category



With the aim of retaining talent and supporting its highly specialized employees, Flos will evaluate the possibility to introduce an evaluation system based on employees' performance. The system will be first launched with a pilot project involving a small group of about 20 employees from the marketing department. This system could help to align individual goals with the organization's expectations, identifying training needs and provide clear communication around work responsibilities and objectives.

Benefits And Welfare

Flos believes that employees' welfare is key to create a motivating working environment encouraging people to give their best efforts. To stimulate employees' growth, advancement and personal well-being, Flos has translated its commitment into the provision of a benefit package that meets employees' needs beyond just base compensation. In 2018, Flos introduced meal vouchers in the benefits package that already included health insurance and invalidity coverage, fuel vouchers and canteen services. Flos also promotes pay for performance to recognize everyone's contribution through offering performance bonuses related both to product quality and to business profitability.

Benefits are provided to all full-time and part-time employees, while fuel vouchers are extended also to temporary workers. In addition, to provide a wider set of benefits to its employees, in 2018 Flos has implemented an online platform developed to manage workers' benefits and performance bonuses. The web-platform will become operational at the end of 2019 and will allow an integrated and simplified way of discovering and access to all the different benefits.

Flos' objective for the near future is to extend the benefit package to all the Group's companies, such as Antares and Ares, and to provide additional benefit categories to meet everyone's needs and priorities.

4.1.3 Occupational Health And Safety

Guaranteeing a healthy and safe workplace for all its workforce and preventing accidents are key commitments for Flos. In line with these objectives, the Group carries out, on an ongoing basis, several activities to improve occupational safety and raise people's awareness of these topics.

The Group provides continuous training and education on health and safety topics. In 2018, a total of 160 hours of health and safety training was provided. This was fewer than in 2016 and 2017, due to the frequency of the activities that are carried out on a two or five-year basis depending on training levels and workers' risks. In particular, in 2018 Flos provided training on health and safety topics to the newly hired employees about specific topics, such as load-handling operations, noise and repetitive movement.

Training On Health And Safety Topics ³	U.M.	2016	2017	2018
Total hours	h	506	428	160

³ Data related to Antares' only include non-compulsory training (data on health and safety training by employee category are not available).

Executives and managers are expected to act in order to reduce injuries and to ensure safety in the workplace. Therefore, in 2017 Flos in the Bovezzo plant carried out a project aimed at improving the structural stability and at reducing the seismic vulnerability of warehouses. In addition, to reduce potential leakages and workers' exposure to chemical substances, Flos introduced a new closed-circuit washing system in the prototype division and substituted the painting cabins, respectively in 2017 and in 2018. Furthermore, Flos invested in the acquisition of four electric forklift trucks with higher security levels and performances as compared to the old ones. In relation to Antares' headquarters in Valencia, the Company provides an annual check-up for all its employees, on a free and personal basis, and every year an audit is conducted by a third party to assess Antares' compliance with health and safety regulations. The audit results include recommendations for workplace safety improvements that the Company integrates and communicates to its suppliers located on its premises. Finally, the Bernareggio plant has started an optimization process of the production lines in order to improve both product quality and workers' safety. Besides redesigning the layout of the production lines, in 2018, new ergonomically designed workstations have been implemented, to encourage a healthy and comfortable working environment. During 2018, Flos registered 5 injuries with relatively lower severity compared with 2017; in 2018, the average number of lost days related to the 5 injuries equated to almost 10 days per injury, whereas in 2017 one injury resulted in 31 lost days. During the three-year reporting period, no occupational diseases have been recorded.

Health And Safety ⁴	U.M.	2016	2017	2018
Number of injuries	n.	3	1	5
Women • Men	n.	2 • 1	0 • 1	2 • 3
Lost days⁵	n.	30	31	47
Women • Men	n.	17 • 13	0 • 31	12 • 35
Injury rate [number of injuries/hours worked x 1,000,000]	-	4.5	1.5	7.3
Women • Men	-	6.6 • 2.7	0.0 • 2.6	7.0 • 7.5
Lost day rate [number of lost days for injuries/hours worked x 1,000,000]	-	45.0	45.8	68.5
Women • Men	-	56.3 • 35.6	0.0 • 80.1	41.8 • 87.8
Absentee rate [number of absentee days/ workable days]	%	2.8	3.4	3.7
Women • Men	%	3.4 • 2.3	4.0 • 3.0	5.4 • 2.4

⁴ All data reported in the table are referred to Flos' employees (excluding contractors). Commuting injuries and first-aid are not included.

⁵ Lost days and absentee days are calculated as working days. For injuries, lost days are calculated starting from the day of the injury.

4.2 With Clients



Sailing event with clients

4.2.1 Sales Channels And Communication Activities

Flos operates through various sales channels to better adapt its offer to clients' different expectations and technical requirements. The Group mainly relies on its own subsidiaries and sales team located worldwide as well as on agencies, which are intermediaries that sell products of the architectural and design collection to distributors. Flos' distributors comprise wholesalers of electric equipment and lighting specialists, which sell products to installers, and generalist retailers, that are mostly composed of family-run furniture or lighting shops, which predominantly serve final customers. Key accounts, instead, are B2B clients, which have a direct contact with the Company also through the distribution network, that represents an additional service and a market advantage compared to competitors.

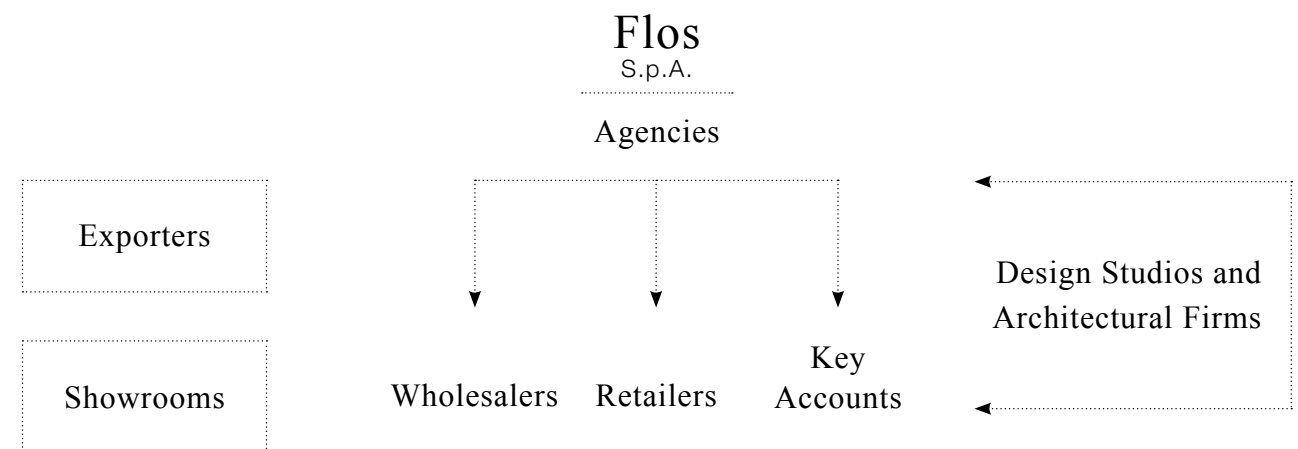
By doing so, Flos operates closely with the key accounts both to meet their need of having the same lighting concept applied to their different stores and to help them to better develop their project and business.

Flos also relies on Agencies that operate through active sales, by collaborating with design studios and architectural firms, proposing personalized and unique lighting solutions. In these cases, lighting products can be sold either directly to the final client or via distributors.

Furthermore, Flos relies on showrooms for sales of its architectural and design collections. These showrooms are corporate shops operating either through B2C or through B2B models.

Finally, in those markets where these sales channels are not available, Flos relies on exporters, which allow Flos to reach final customers and intermediaries in those Countries where direct sales activity is not present.

Flos' sales channels



Flos uses its products catalogues as the main media to interact with its customers. The three catalogues, each dedicated to a specific collection, are not only a list of products and corresponding technical specifications, but they represent a way for Flos to express and communicate its identity, its philosophy and its history. Flos has also developed a mobile app that offers clients the opportunity to access the Company's catalogues directly from their cell phones and tablets.

The digitalization of catalogues, together with the corporate website, allows the Company to inform clients in real time about new product launches and periodic updates of technical information. In its effort to support clients, the Company has published on its website a series of web videos, containing instructions on how to install the lighting systems.

Moreover, Flos has made available to download the app "String Lights – Remote dimmer and more", which allows clients to control the light intensity of their "String Lights" lamps designed by Michael Anastassiades.

In this app, it is also possible to find additional contents such as the biography of the designer, interviews, ideas and instructions for the installation, image galleries, and more. Other means of communication are press releases and, importantly, social networks (such as Facebook, Pinterest and Instagram). In 2017, Flos created a new organizational function dedicated to Social Media management, in an effort to focus on digital channels of communication in order to effectively engage with younger clients.



4.2.2
Customer Care
And Satisfaction

Customer satisfaction is essential to Flos' business. The Group demonstrates its attention to clients by offering exceptionally designed and technologically advanced lighting systems, high quality standards and an efficient repairing/ substitution service. Flos continuously monitors clients' claims regarding product malfunctioning or faultiness, with the purpose of improving the overall process, thus enhancing customer satisfaction. In the event of claims, Flos evaluates, on a case-by-case basis, the best solutions in terms of both costs and customer satisfaction. For instance, the Company may either recall the product to analyze the causes of its malfunctioning, substitute it immediately or, in case of widely installed systems, to send a Flos technician from the internal quality department to conduct a site visit in order to identify more suitable solutions. In 2017, Flos invested in reorganizing its customer care services to offer a unique contact for both the design and the architectural collections. With a new structure based on those countries where Flos is present, the Company is able to build a strong relationship with every customer and to respond effectively and promptly to all customer needs allowing them to interface with a single customer care service.

Moreover, since 2018, Flos' front office organizes periodic meetings once every quarter involving specific departments – i.e. quality, production and R&D – to report and analyze the complaints received and evaluate corrective actions. The Group monitors the number of products returned for faultiness reasons and the evolution of the quality indicator, which is calculated as the incidence of returned products for faultiness reasons on the total costs of goods sold. This indicator, which contributes to determining employees' yearly bonus, has slightly increased by 11% with respect to 2016.

Quality Indicator	U.M.	2016	2017	2018
Cost of returned product for faultiness on cost of goods sold ⁶	%	1.36	1.28	1.51

⁶ 2017 and 2018 data also includes Ares.

Concerning the architectural collection, the Company has carried out an analysis on return causes (design, transportation, suppliers etc.) and product types (electric, mechanical, aesthetic). The results of this analysis have shown that product returns are mainly due to suppliers' production process and to the design phase of the products. This has served as the basis for defining strategies and actions aimed at reducing the problems leading to client claims. A deeper analysis has been carried out in order to identify faultiness reasons related to top products (in terms of sales). Following the analysis, for each specific cause identified, whereas possible, corrective actions have been implemented. Otherwise, dedicated initiatives have been planned for the next few years. An additional relevant aspect, which demonstrates Flos' attention to its customers, is the importance devoted to the timeliness of deliveries. Regarding the design collection, the time lag between orders and deliveries is usually less than 6 days. In 2018 Flos' time lag extended compared with 2017, as a consequence of an increase in outdoor and architectural orders, characterized by a higher level of customization thus requiring longer manufacturing times.

Time lag between orders and deliveries



In order to provide customers with a deep understanding of Flos' products, both in technological and aesthetic terms, the Group offers a series of training programs specifically designed to cover the needs of the different interlocutors (agents, distributors, lighting designers etc.). Flos offers a series of courses concerning the architectural collection products, aimed at explaining their technical features and how to install them.

Through the training program "Progettazione della luce negli interni" (Interior light design), Flos offers to furniture retailers an opportunity to understand how to present and sell a lighting concept. For the next few years, a training program has been designed for lighting retailers on how to communicate the value of design and the importance of the iconicity of Flos' lamps. The courses, which are carried out at Flos' showrooms in Valencia and Milan or directly at the client's site, provide an opportunity for collecting feedback from clients on products. In addition, taking the opportunity of the restructuring activities of its facilities in Bernareggio, Ares has built its own training room mainly dedicated to its customers, lighting designers and architects.

Since 2016, in its attempt to gather customers' opinions Flos has also carried out an analysis on customer satisfaction, which has involved direct interviews, held at retailers' locations.

The aim is to test retailers' opinion on the following aspects:

- Product innovation;
- Product quality;
- Response and processing time to/for clients' requests;
- Management of product-related problems;
- Response to customization requests.

This qualitative analysis, which continued both in 2017 and 2018, has shown a great satisfaction among Flos' retailer clients across all aspects and has served as the basis for implementing specific corrective actions following the suggestions collected from interviewed personnel, in particular regarding the response time lag to product-related problems and the satisfaction of customization requests. In 2018, in particular, in line with its commitment, Flos extended the customer satisfaction survey to around 100 retailers aiming at gathering an even more representative client sample.

4.3 With The Community



4.3.1 Art And Design Culture

Contributing to the dissemination of the art and design culture amongst the community is one of Flos' key commitments in terms of social responsibility. In line with this objective, the Group offers its support to cultural events, exhibitions and design festivals through donations, loans, light installations and co-organization efforts. For over 50 years, Flos has collaborated with the most prestigious art, architecture and design museums across the world. A variety of products have been donated or lent to such institutions and actually feature in the permanent collections of iconic museums, such as the MOMA (Museum of Modern Art) in New York, the Triennale di Milano in Milan, and the Centre National d'Art et de Culture Georges Pompidou in Paris.



Refettorio Paris au Foyer de la Madeleine, Paris

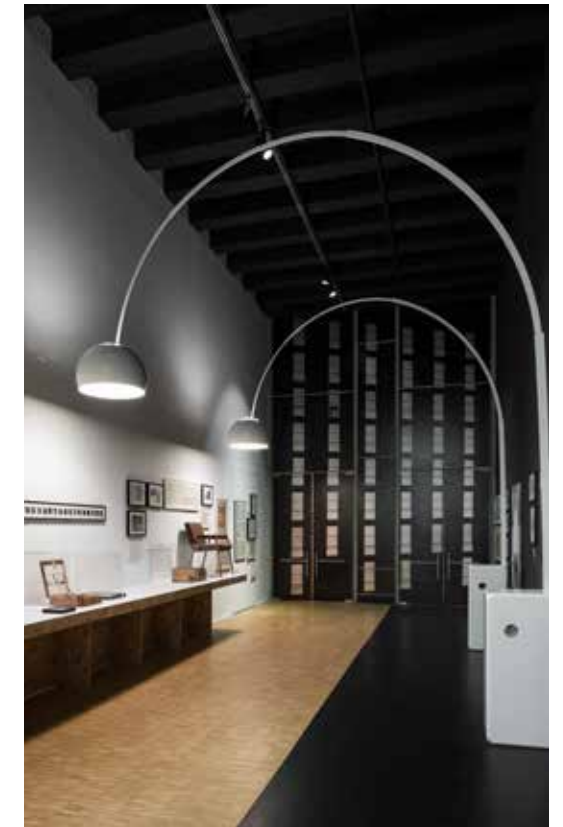
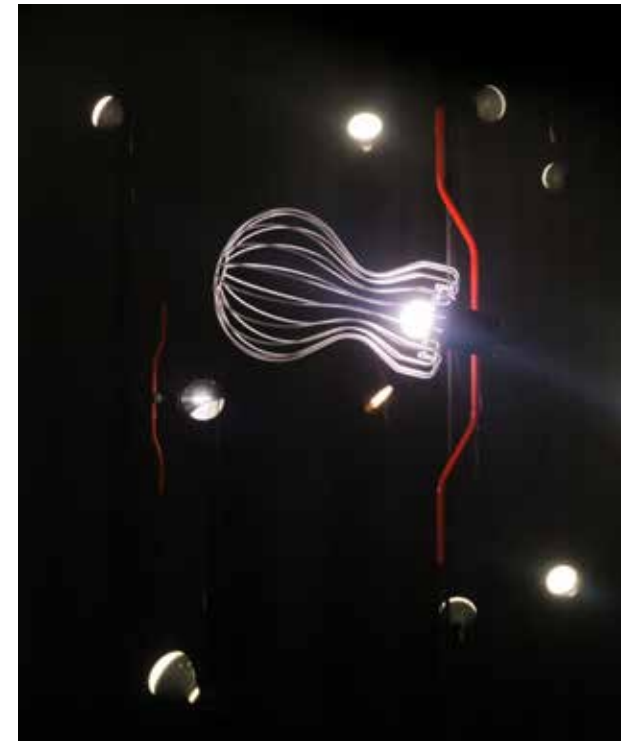
In 2018, Flos' commitment to foster the art and design culture amongst the community materialized by participating, as creative partner of the Triennale di Milano, in the "A Castiglioni" exhibition, celebrating his 100th birthday anniversary. The history of Flos is closely intertwined the Castiglioni brothers who, together with Tobia Scarpa, have been the reference designers of the Company since its foundation, in the early 1960s, with an unprecedented fermentation of revolutionary ideas and intuitions that would lead to the creation of objects destined to remain forever in the history of design. In addition to the extraordinary series of cocoon lamps, such as Taraxacum, Viscontea and Gatto, the professional relationship between Achille and Pier Giacomo with Sergio Gandini resulted in some iconic products such as Arco, Taccia, Toio and Snoopy. The successful and prolific collaboration of the Castiglioni brothers then continued with Achille after the untimely death of Pier Giacomo, resulting in a new series of successes, with highlights including Lampadina, Aoy, Gibigiana, and Parentesi, the brilliant height-adjustable lamp designed in 1971 from a Pio Manzù's spark, winner of a Compasso d'Oro ADI award and exhibited in the permanent collections of the most important design museums in the world.

In the "A Castiglioni" exhibition Flos had a twofold role. Firstly, most of the lighting fixtures designed by the brothers or by Achille alone, came from the Flos archive or the Castiglioni Foundation itself, together with a selection of original catalogues and documents and valuable period images. In addition, in collaboration with Studio Urquiola, Flos created an ironic and at the same time poetic site-specific installation entitled "(traparentesi)". The exhibition, celebrating one of the most important masters of Italian design, has been one of the most visited of the Milan Triennale generating a large attendance of public throughout the course of the event, from October 2018 to January 2019.

The "(traparentesi)" Installation

Besides the supply of unique historical lighting fixtures, Flos created "(traparentesi)", a party of 100 Parentesi lamps which, like 100 candles, were activated by the presence of visitors, recreating the innate joy that Achille brought to every environment and transferred to every object. One can find the call of an owl, the noise of

a switch being tuned on, the bounces of a ping-pong ball and many other entertaining sounds bringing a voice to the lighting effect produced by the 100 Parentesi lamps, some of which have been hacked and hybridised for the occasion with unusual and surprising heads and light sources.



The exhibition "A Castiglioni" – Milan Triennale

In the same way, Flos, on the occasion of the 26th edition of Biennale Interieur, the international design exhibition that takes place once every two years in Kortrijk, Belgium, and the first design fair attended by Flos, sponsored two inspiring lectures held by Giovanna Castiglioni. Achille Castiglioni's daughter retraced the inspiration and philosophy behind some of the most iconic lamps designed by the Castiglioni brothers for Flos, especially conveying the irony and genius, which originated many brilliant objects that are still recognized as design icons worldwide.

Flos' commitment in support of design and culture continued also with the support of the Master in Lighting Design & LED Technology, proposed by POLI.design, founded by Politecnico di Milano. The Master aims at forming professionals able to follow the productive process of lighting in interiors, urban exteriors, temporary and museum environments, residential and show exploring both the production process and the innovation of the field of application.

As regards the technical partnerships, in 2018, Flos has been invited for the first time by the International Fair of Modern and Contemporary Art in Milan (miart). Flos, as technical sponsor of the event, realized a site-specific light installation in the exhibition's VIP Lounge. The product featured in the project was Arrangements, designed by Michael Anastassiades, a perfect example of collaboration and interdisciplinarity between art and design.

In 2018, Flos has also been the lighting partner of "Italiana. Italy through the Lens of Fashion 1971-2001", an exhibition promoted and produced by Comune di Milano-Cultura, Palazzo Reale and Camera Nazionale della Moda Italiana, showed at Palazzo Reale in Milan from February to May 2018. Conceived and curated by Maria Luisa Frisa and Stefano Tonchi to mark the sixtieth anniversary of the Camera Nazionale della Moda Italiana, the exhibition celebrates the story of Italian fashion from 1971 to 2001, highlighting the progressive affirmation of the Italian fashion system in this great season for Made in Italy. In partnership with exhibition designers and artistic directors Selldorf Architects and Studio Baschera Brigolin Mocchi, Flos developed the lighting project and supplied innovative and high-performance light sources from its Architectural collection, best suited to the exhibition. Special accessories like lenses and anti-glare filters provided better optical control and comfortable light shaping by reducing glare to a minimum for visitors. All the lights had dimmers so that the light could be adjusted to the right level for each object or outfit and to enhance the atmosphere and theatricality of the exhibition design.



Biennale Interieur, Kortrijk

M. Anastassiades installation – Miart 2018, Milan

The exhibition "Italiana. Italy through the Lens of Fashion 1971-2001" – Palazzo Reale, Milan

Finally, in 2018, Flos partnered with the Museum of Cycladic Art in Athens for an exclusive installation of Arrangements, designed by Michael Anastassiades. Curated by Afroditi Gonou & Atalanti Martinou, with the support of premier design retailer and Flos' local distributor Deloudis, the project fills the museum's foyer and Cycladic Cafè with compositions of geometric light sculptures. The Cycladic Cafè Art Project is part of the museum's Contemporary Art Programme, which brings together social gathering venues and art. With the ultimate aim of embracing the Greek and international contemporary art scene, the Museum presents works by internationally acclaimed and emerging artists, associated with its current exhibitions and activities.

4.3.2 Philanthropy Initiative

Besides supporting cultural events, Flos' relationships with the local territory involve contributing to charity and fundraising events. In 2018, for instance, Flos donated lamps to "Convivio", the most renowned charity exhibition and market promoted by the fashion and luxury industries to support ANLAIDS, operating in favor of HIV research, helping HIV-positive people and their families. Similarly, Flos donated four of its iconic models for the auction organized at Fondazione Prada for supporting the Bianca Garavaglia Onlus foundation, aiming at raising funds to promote scientific studies and medical treatment in the field of pediatric oncology.

In addition, in 2018, Flos contributed with Patricia Urquiola to the Kālida Sant Pau project in Barcelona. Patricia Urquiola, in particular, has joined the project designing the interior of the building, giving it a cozy and dynamic atmosphere through Flos' decorative lamps and architectural luminaires that are the main base of the center's lighting. Kālida Sant Pau has opened in 2019 as a place where people with cancer can find support, information and feel able to share their feelings and concerns in an environment of total understanding. The ultimate goal of the project was creating a place where providing social and practical support to people with cancer, to their caregivers and relatives throughout the cancer process, within a specially-designed architectural environment.

In the same vein, Flos participated as technical partner to the realization of Refettorio Paris, a collaborative project between Food for Soul and Le Foyer de la Madeleine. Food for Soul is a non-profit organization founded by chef Massimo Bottura to empower local communities to fight against food waste through social inclusion while The Foyer de la Madeleine is a social restaurant based in Paris aiming at serving nutritious and in-season meals every day to elderly people and workers.



Centro Kālida Sant Pau, Barcelona

An integral part of Flos' commitment towards the community, is the long-lasting support to Fratelli dell'uomo, a non-governmental organization for international cooperation working for the growth of local communities in developing countries.

According to this partnership, started in 2015, 20% of the gross sales from the Gun Collection by Philippe Starck (Bedside Gun, Lounge Gun, and Table Gun lamps) is donated each year to Fratelli dell'uomo. During the past few years, thanks to Flos' contributions, several projects have been supported. For instance, since 2016, Flos has allocated its entire Fratelli dell'uomo contribution to the project "Healthy childhood in the Tonicapán Maya Kiché community in Guatemala" carried out by the organization "Asociación CDRO", with the purpose of reducing communicable diseases and complications arising from common pathologies spreading among the child populations. The project involves four local communities belonging to the Santa Lucia la Reforma Municipality (which supersedes the villages of Pamaria, Pabaquit, San Luis Sibilia and Arroyo San Juan) with the primary focus of improving the availability, accessibility and overall quality of childhood health services. The project moved forward in 2018, during which more than 3,000 consultations were carried out between clinical and home medical visits also by delivering medicines and food supplements according to the pathologies identified. Chronic malnutrition, for instance, represented 59% of the consultations, of which 1% related to acute chronic malnutrition.

Fratelli dell'Uomo, which is acknowledged by the Italian Foreign Ministry, was launched in Italy in 1969 and it is part of the Frères des hommes Group.

The organization supports projects and initiatives, mainly in Latin America and Africa, related to access to food, protection of the environment and common goods, responsible economy, community health, migration and co-development. For more details, please visit www.fratellidelluomo.org.



"Infanzia in salute", a charity project developed with Fratelli dell'Uomo

Reporting Principles And Criteria

For the fourth consecutive year, Flos is publishing its annual Sustainability Report, 2018. This report has been prepared in accordance with the GRI Standards: Core option. The contents of this report reflect the materiality analysis carried out according to the approach described in the paragraph "Flos' commitment to sustainability", in accordance with the GRI Standards. As a signatory to the United Nations Global Compact (UNGC) initiative since 2015, through this report Flos is also fulfilling its commitment to producing an annual Communication on Progress – a public disclosure outlining its progress in implementing the Ten Principles of the UNGC. The UNGC Principles are clearly mapped against the GRI indicators in the GRI Content Index. At present, Flos' 2018 Sustainability Report does not directly address the UNGC issues and principles related to Human Rights, since the majority of the Group's direct activities and suppliers are located in Europe, where Human Rights are regulated by laws. To avoid any possible risk of complicity and as a proof of its commitment, Flos introduced clauses on labor conditions and on the respect of human rights in its contracts as described in the paragraph "Supplier Selection and Management". In addition, some of the most important human rights issues related to Flos' activity, such as the protection of workers' occupational health and safety, are already included among the "Labor" principles and issues the Group reports on.

Scope of Reporting

This document includes a description of initiatives and activities carried out during the 2018 calendar year as well as the related key performance indicators, presented for the entire 2016-2017 period, where available. The data collection process and the report publication activities are structured on an annual basis. The information included in the Sustainability Report refers to Flos S.p.A. and the fully controlled operating subsidiaries Antares Iluminacion S.A.U. and Ares S.r.l.

All commercial branches and the other operating subsidiaries as of 31st December 2018 are not included. Any exceptions to this reporting scope are explicitly indicated in the text. Flos S.p.A. has its registered headquarters in:

- Bovezzo (Brescia - Italy), Via Angelo Faini, 2;
- Antares Iluminacion S.A.U, Carrer Mallorca, Poligono Industrial Reva, Calle Turia, Ribarroja de Turia (Valencia - Spain);
- Ares S.r.l., V.le dell'Artigianato, 24 (Bernareggio, Italy).

Material Issues

The following table provides the link between Flos' material issues (as described in Chapter 1) and the corresponding GRI Standards topics (Topic-specific Disclosures), together with their scope and any eventual limitations on the reporting boundary, due to the unavailability of data and information on the external perimeter. In the coming years, Flos is committed to identify and implement specific actions aimed at gradually extending the scope of data collection and reporting for material aspects.

Flos' Material Aspects	GRI Material Aspects	Aspect Boundary		Limitations Of Reporting On Boundary	
		Within The Organization	Outside The Organization	Within The Organization	Outside The Organization
Economic Performance	Economic performance	Group	-	-	-
Supply Chain Responsible Management	Procurement practices	Group	-	-	-
	Supplier environmental assessment	Group	-	-	-
	Supplier social assessment	Group	-	-	-
Sustainability Of Materials	Materials	Group	Suppliers	-	Reporting scope not extended to suppliers
Sustainability Of Lighting Systems	Energy	Group	Suppliers, clients	-	Reporting scope not extended to suppliers
Emissions	Emissions	Group	Suppliers	-	Reporting scope partially extended to suppliers
Logistics	Emissions	Group	Suppliers	-	Reporting scope partially extended to suppliers
	Energy	Group	Suppliers	-	Reporting scope partially extended to suppliers
Employee Care	Employment	Group	-	-	-
	Training and education	Group	-	-	-
Occupational Health And Safety	Occupational health and safety	Group	Suppliers	-	Reporting scope not extended to suppliers
Product Quality And Compliance	Customer health and safety	Group	-	-	-
	Marketing and labeling	Group	-	-	-
Customer Satisfaction	Marketing and labeling	Group	-	-	-
Diversity	Diversity and equal opportunities	Group	-	-	-
Competitive Behavior	Anti-competitive behavior	Group	-	-	-
Brand Protection	-	Group	-	-	-
Research & Development	-	Group	-	-	-
Product Portfolio Extension	-	Group	-	-	-
Growth In Foreign Markets	-	Group	-	-	-
Corporate Identity	-	Group	-	-	-
Diffusion Of Energy Saving Culture	-	Group	-	-	-
Internet Of Things	-	Group	-	-	-

Quality Reporting Principles

Flos' Sustainability Report is drafted in accordance with the principles of balance, comparability, accuracy, timeliness, clarity and reliability, as defined by the GRI Standards. The document highlights both strengths and weaknesses, as well as possible areas of improvements for the Group. The data collection and reporting processes are structured in a way to ensure information comparability over the years and to guarantee an accurate interpretation by the key stakeholders interested in Flos' performance evolution. Flos' Sustainability Report, 2018, is not subject to external assurance.

Calculation Methodologies

The methodologies and assumptions used to calculate the performance indicators included in the Report are described below:

- Research & Development costs are calculated taking into account capital expenses and operating costs (e.g. personnel involved, costs for materials, etc.).
- All data related to injuries refer to the Group employees, thus excluding contractors. Commuting injuries and first-aid cases are not included.
- Where environmental data are not available, conservative estimations have been used, resulting in the underestimation of the Group's environmental performance;
- Energy consumption from the Group's fleet has been calculated starting from the following available data:
 - a) Flos' car fleet: kilometers covered;
 - b) Ares and Antares' fleet: fuel consumption.

Concerning the Scope 2 emissions resulting from the consumption of electricity purchased from the national grid, two calculation methodologies have been implemented: the location-based and the market-based approaches. The first one reflects the average emission intensity of grids taking into account both renewable and non-renewable productions, while the second one reflects emissions from the electricity source that the company has purposefully chosen through, for instance, contractual instruments. The following table shows the conversion factors that have been used:

Average fuel consumption car [l fuel/100km]	UK Department for Transport, Fuel Consumption 2017
Fuel density [l/t]	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2017, 2016
LCV (Lower Calorific Value) [GJ/t]	Italian Ministry for Environment, Tabella parametri standard nazionali, 2018, 2017, 2016

Greenhouse gases emissions calculations have been carried out based on the principles included in the GHG Protocol Corporate Accounting and Reporting Standard.

Emissions have been calculated as follows:

GHG Emissions Scope 1			
Source	Activity Data	Emission Factor	GWP
Fios' Car Fleet	Kilometers covered	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2017, 2016	CO ₂ equivalent, considering the following gases: CO ₂ (GWP = 1), CH ₄ (GWP = 25) and N ₂ O (GWP = 298). Global Warming Potentials (GWPs) are taken from IPCC Fourth Assessment Report (AR4).
Ares And Antares' Fleet	Fuel consumption (gasoline and diesel)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2017, 2016	CO ₂ equivalent, considering the following gases: CO ₂ (GWP = 1), CH ₄ (GWP = 25) and N ₂ O (GWP = 298). Global Warming Potentials (GWPs) are taken from IPCC Fourth Assessment Report (AR4).
Leakages From Air-Conditioning Systems Of Refrigerant Gases	Leakages (kg)	-	Global Warming Potentials (GWPs) are taken from IPCC Fifth Assessment Report (AR5).
GHG Emissions Scope 2			
Source	Activity Data	Emission Factor	GWP
Electricity Purchased From The National Grid (Location Based Approach)	Electricity consumption	Terna international comparisons on Enerdata figures – 2016 data	Only CO ₂ emissions have been considered
District-Heating Purchased From The Waste To Energy Plant	Heat consumption	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors 8- Full set, 2018, 2017, 2016	CO ₂ equivalent, considering the following gases: CO ₂ (GWP = 1), CH ₄ (GWP = 25) and N ₂ O (GWP = 298). Global Warming Potentials (GWPs) are taken from IPCC Fourth Assessment Report (AR4).
Electricity Purchased From The National Grid (Market Based Approach)	Electricity consumption	AIB, European Residual Mixes 2017	Only CO ₂ emissions have been considered

GHG Emissions Scope 3			
Source	Activity Data	Emission Factor	GWP
-Business travels by plane; -Logistics	Kilometers	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2017, 2016	CO ₂ equivalent, considering the following gases: CO ₂ (GWP = 1), CH ₄ (GWP = 25) and N ₂ O (GWP = 298). Global Warming Potentials (GWPs) are taken from IPCC Fourth Assessment Report (AR4).
Business travels by train	Kilometers	Ferrovie dello Stato Italiane, "Rapporto di Sostenibilità 2017", 2017.	Only CO ₂ emissions have been considered

Some data have been restated with respect to those included within the 2017 Sustainability Report where more updated and reliable information were made available.

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* Flos adapts its decision-making approach by taking into account the social and environmental issues according to the precautionary approach.

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** No suppliers were assessed for environmental impact. In 2018, Flos released new contractual clauses that foresee the possibility of requesting suppliers' specific data related to environmental aspects.

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*** No suppliers were assessed for environmental impact. In 2018, Flos released new contractual clauses that foresee the possibility of requesting suppliers' specific data related to social aspects.

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