


# SUSTAINABILITY REPORT

AT 31 DECEMBER 2015

# SUSTAINABILITY REPORT 2015

## FLOS GROUP

FLOS

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# MESSAGE TO OUR STAKEHOLDERS

2015 is the year of our first Sustainability Report, through which we want to describe our history, evolution and approach to sustainability and to highlight the most significant innovations and key elements underlying our identity and performance.

This is a complex and developing context for the lighting and design industries: mergers and acquisitions, entrance of big financial investors within small and medium enterprises, increasing export shares, increasing pressure on environmental topics and the extension of products portfolio are just some examples of the challenges that our sector is recently experiencing. Within this context, 2015 represents a year of significant changes for Flos mainly due to the acquisitions of Ares in Italy and Lukas Lighting in USA , respectively in June and November 2015. Ares allows Flos Group to expand the outdoor lighting segment to its business, in addition to the decorative and architectural divisions, bringing net sales in 2015 to about 200 million euros.

Together with these drivers, the attention to sustainability issues is increasing. This first Sustainability Report and the recent subscription to the United Nation Global Compact Initiative, represent the proof of Flos' ongoing commitment and the instruments to communicate the results achieved through the years and the objectives planned for the medium and long term.

First of all, for lighting companies sustainability entails the need of exploring new innovative solutions focusing on energy efficiency, use of new LED lighting sources, supply of sustainable materials and considering the developing concept of human centric lighting.

From Flos' point of view, a key element to face all the above evolutions and challenges is the match between innovation and research on one side, and protection and enhancement of its tradition and identity as a design company on the other one. To meet this objective, Flos is focusing on maintaining long-lasting collaborations with well-known designers, discovering new talents, promoting the concept of Made in Italy, improving its research and development processes and its architectural business.  In addition, Flos' will is to maintain its strong relationship with the local context, promoting and supporting local suppliers and know-how.

We believe that Flos' strength is the union of art and design, craftsmanship and industry, innovation and tradition, aimed at continuing to create products that become icons and whose sustainability lies in their design and functional durability.  We give value both to new creations and to our classic and most well-known products, in some cases upgrading them with the newest technologies. We do not live in the past: we are continuously listening to present needs and trying to anticipate future trends. In doing so, we always put our final consumers as the key priority, together with product centricity and designing culture.

*Piero Gandini*
*CEO*

# FLOS' SUSTAINABILITY HIGHLIGHTS

Flos aims to be part of the history and legacy of design while contributing to sustainable value creation for society. Its sustainability approach supports and upholds the UN Global Compact principles on human rights, labour, environment and anti-corruption and taking actions that advance societal goals.

Flos' commitment to sustainability is reflected in the **durability** of its high quality and design solutions, the **innovation** of its products and the **efficiency** delivered to its customers and experienced throughout the production process. Creating long-lasting iconic products that transcend generations simply results in less waste and nurtures long-term sustainability.

This **respect** for the environment is mirrored in Flos' care and commitment to its employees and the communities in which it operates and distinguishes Flos as an employer of choice and a Patron at home and abroad.





## COMMUNITY



### COMMUNITY INVESTMENT

**20%** of the gross sales from the Gun Collection by Philippe Starck donated to the project "Healthy childhood in the Totonicapán Maya Kiché community in Guatemala"

fratelli dell'uomo

LOVE DESIGN®

Il design sostiene AIRC

### CHARITY FUNDRAISING

Participation to the **Love Design** auction

**94**
**COUNTRIES**

**€200M**
**REVENUES**

**80%**
**LOCAL SUPPLIERS***

## ENVIRONMENT

### CRADLE TO CRADLE

Flos' under-Cover Composite material has been Silver level certified

cradle to cradle

### WASTE REDUCTION

**-12%** of waste from packaging in the design collection, as compared to 2013

### ENERGY EFFICIENCY

**0.4** LEDs-to-halogens ratio in 2015 (0.009 in 2013) in the design collection.

## PEOPLE

**576**
Employees

**2,385**
hours of training provided to Flos' employees*

** These data only refers to the design and architectural collection*

## PRODUCT AND INNOVATION

### PRODUCT QUALITY

**1.1%** Incidence of returned products for faultiness on total sales for the design collection

### QUALITY CERTIFICATION

Certified **ISO 9001** quality management system

### R&D INVESTMENT

**€2,83M**

spent for research purposes

*Chapter 1*

# BUSINESS DEVELOPMENT

## 1.1 PHILOSOPHY AND HISTORY

Founded in 1962 by Dino Gavina and Cesare Cassina, Flos Group (hereinafter "Flos") produces a range of residential and architectural lighting products and systems.

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. The same approach has been inherited and enhanced by the current Chief Executive Officer (CEO) Piero Gandini, whose family has been Flos' main shareholder almost since the beginning.

For more than 50 years, Flos has been operating according to its distinctive principles and values and the Company has become a globally-recognized excellence.

Flos has an ongoing commitment to foster research and innovation in lighting technology, combined with an extraordinary ability to identify new creative talents. These key qualities place Flos at the cutting edge of the design world, and enable it to connect and fruitfully collaborate with design masters, to discover new talents, to maintain its high technical and technological leadership and to stay tuned with the constantly changing needs of the mass culture.

Since its founding, Flos' products have received numerous international design awards and several pieces have become collection items hosted by some of the world's leading art and design museums, including the Museum of Modern Art and the Metropolitan Museum of Art in New York, the Victoria & Albert Museum in London, the Triennale Design Museum in Milan, Les Arts Décoratifs and Le Centre Pompidou in Paris and many others. The Company's longstanding relationships with world-renowned designers such as the Castiglioni brothers, Philippe Starck, Antonio Citterio, Piero Lissoni, Patricia Urquiola, the Bouroullec brothers, Ron Gilad and many others constitute a unique feature of the company.

***"For us, light is the substance for expressing new ideas and illuminating unexplored emotions. We write the future, reading our past and expressing the present, in a continuity of positive challenges and bold choices that have shaped our image and identity."***

In spite of its origins, strictly related to design and decorative products, one of Flos' currently distinctive features is the presence of different complementary businesses: the *design* collection, the *architectural* business, developed and strengthened through the complete acquisition of Antares Iluminacion SA in 2005, and the outdoor segment, previously covering a small part of Flos' business and now under development thanks to the acquisition of Ares in June 2015. Antares, based in Spain, is a highly qualified indoor lighting systems both for residential and professional environments, while Ares is located in Italy (Bernareggio) and focuses its activities on outdoor lighting solutions.

The milestones of Flos' history highlight the substantial growth and development process of the Company through the years and the innovations and key elements underlying its success.

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# FLOS TIMELINE

## EARLY 1960'



Arturo Eisenkeil and the Castiglioni brothers reinvent the idea of a lamp, using a revolutionary material and technique called 'cocoon'.

## 1960

### 1962
Flos is founded in Merano by Dino Gavina and Cesare Cassina with Arturo Eisenkeil.

### 1962
The Arco lamp is released by Flos.



### 1964
Sergio Gandini takes up the company's leadership and transfers Flos to the Brescia area.



### 1968
The first Flos store is opened in Milan.




## 1970

### 1971
Flos starts to expand internationally, opening its first foreign branch in Germany.



### 1973
Flos expands its factory facilities and acquires Arteluce.




### 1976
Works are completed in a new area in Bovezzo, serving as plant and company headquarters to this day.



### 1978
Arteluce expands the catalogue range and worldwide sales.



### 1978
Flos continues to produce timeless classic icons.



## 1980

### 1981
New Flos offices are opened in Milan, Corso Monforte 7, designed by A. Castiglioni with Davide Boriani (lighting) and Max Huber (floor pattern).



### 1987
Piero Gandini leads Flos into the post-modern era, teaming with the young talented designer Philippe Starck.



## 1990

### 1991
Flos launches Miss Sissi, revolutioning the concepts of design.



## 1990

### 1992-1999
Flos unifies all divisions into a unique Flos catalogue and expands globally to the Americas and Asia, enriched by fresh ideas from new designers.









## 2000

### 2000-2009
New collaborations with acclaimed international designers.







### 2005
Flos becomes a major shareholder of Antares Iluminación.



### 2000
Flos participates for the first time at the Light & Building fair, launching its Flos Architectural collection and expanding his business to the professional B2B market.



## 2010 - 2014

### 2010-2014
New collaborations with young, talented artists and designers such as Ron Gilad, the Bouroullec brothers and Michael Anastassiades lead to prestigious awards and to enrich the brand bestsellers list.



### 2010
Flos Architectural introduces "Soft Architecture", a revolutionary new concept of sustainable, integrated architectural lighting.



### 2013
The new Flos Architectural catalogue, featuring Carl Kleiner's photography, sets a new standard of graphic excellence.



### 2012
Flos celebrates its 50th anniversary' with the launch of an App, a retrospective exhibition and a party at Palazzo della Permanente in Milan, attended by more than 5000 guests.

### 2014
Investindustrial becomes majority shareholder of Flos.

## 2015 +

### 2015
NYC-based Lukas Lighting, specialized in the design, development, and manufacturing of custom lighting products, enters the Flos group.

### 2015
Ares, a leading Italian manufacturer of architectural outdoor lighting, enters the Flos group. Flos and Ares share advanced research and innovation processes, as well as the concept of integration between light, architecture and spaces.

### 2015
The new Flos Home collection catalogue, curated by art director Stefanie Barth, is released. A journey through Flos history placed in a modern context. Not just a sales tool but an avant-guard communications product.



## 1.2 THE GROUP AND CORPORATE GOVERNANCE

Flos is one of the leading players in the Italian lighting industry, with registered revenues of approximately Euro 181 million in 2015, or Euro 200 million when considering the consolidation on annual basis of the recent acquisitions (Ares and Lukas Lighting).

At present, Flos employs 576 people, mainly located in the three operating sites of Flos S.p.A. in Italy for the design segment (headquartered in Bovezzo, Brescia, 148 employees), and of its subsidiaries Antares Iluminacion SAU in Spain for the architectural and soft architectural segment (Valencia, 159 employees) and Ares (Bernareggio, 80 employees) for the outdoor segment. The remaining people are employed in the smaller commercial subsidiaries of the Group and in the two custom products manufacturing subsidiaries, Light Contract (Collebeato, Brescia) and the newly acquired Lukas Lighting (Long Island City, NY - USA).

Starting from September 2014, the majority partner of Flos S.p.A. was Padme S.r.l., an indirect subsidiary of Investindustrial V L.P. Padme S.r.l. was recently incorporated by Flos S.p.A. through a reverse merger on 26th October 2015. The previous shareholders, including the Gandini family (controlling shareholders), still own a significant portion of Flos' shares.

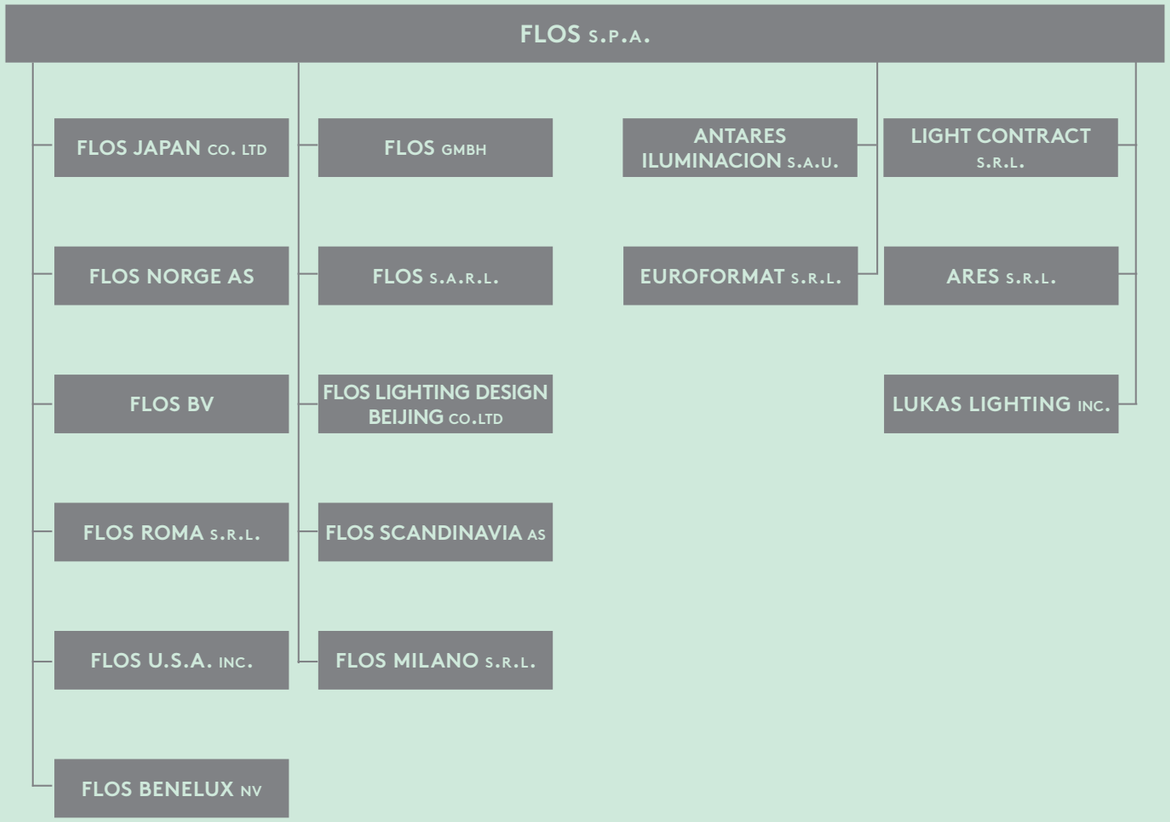


Flos headquarters, Brescia, Italy





# THE GROUP STRUCTURE




*Commercial branches*

*Operating subsidiaries*

# THE COLLECTIONS

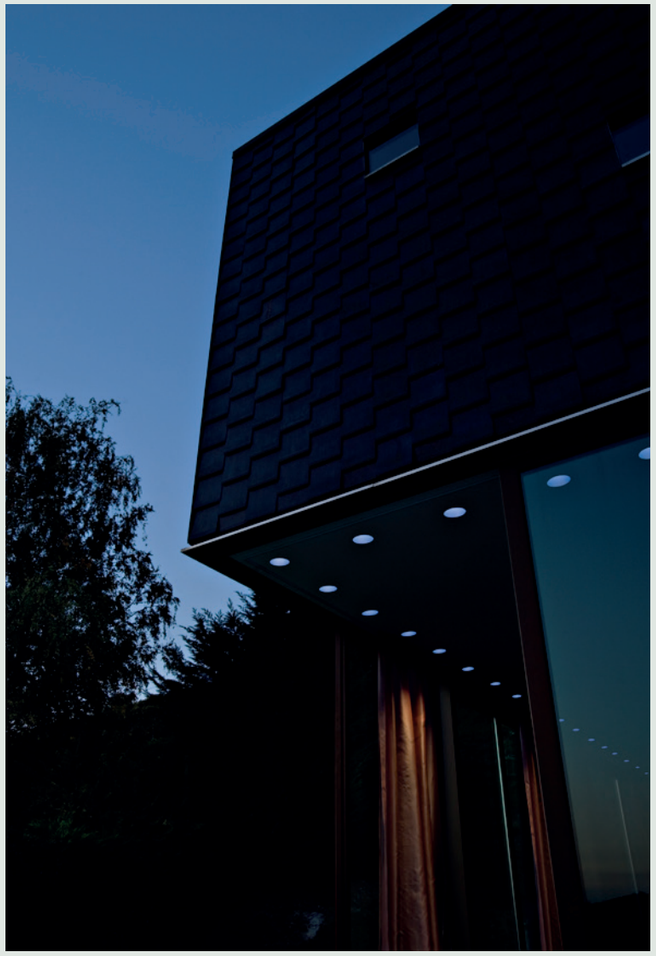


## FLOS *design collection*

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



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## FLOS *architectural* and *soft-architecture collections*

The architectural collection includes indoor lighting systems both for domestic or residential use as well as for professional use.

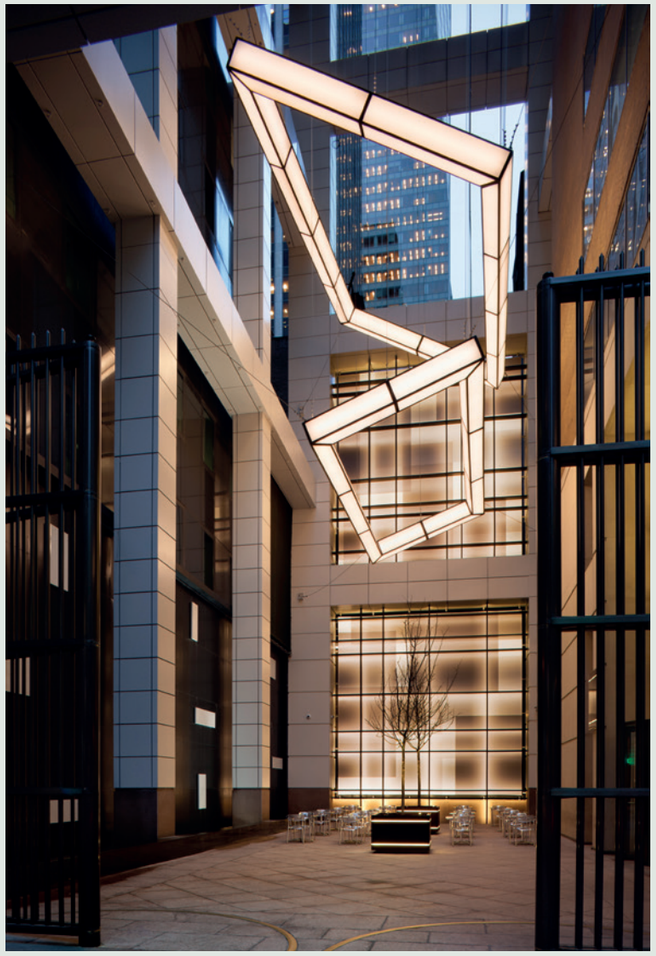


## FLOS *outdoor collection*

The outdoor collection offers innovative, high quality and sophisticated outdoor lighting solutions.







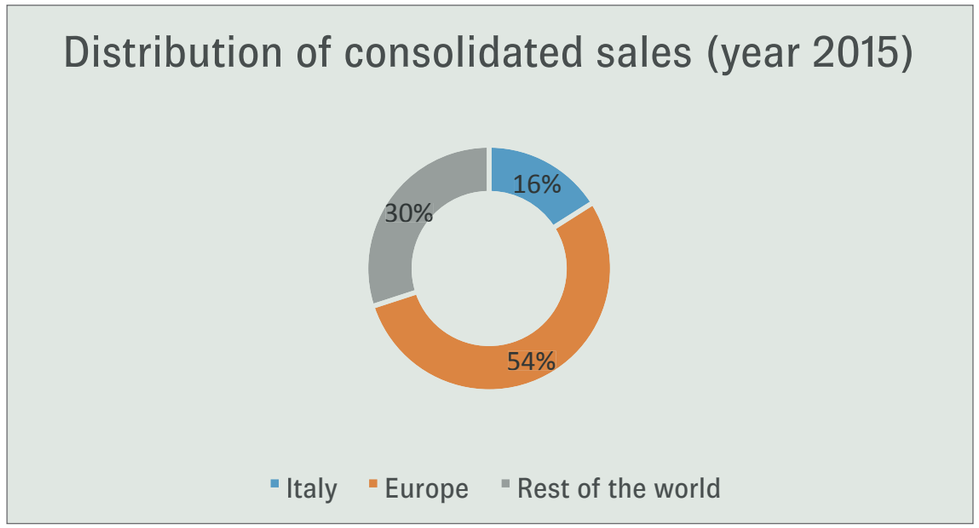
## FLOS *custom products*

Born to satisfy customers' specific practical needs and the increasing desire for exclusivity, this collection includes the custom-made segment.

*"By conceiving new languages around light, we chart new aesthetics and freedoms for living. Our lamps, of yesterday and today, never fail to be serious about their sense of play and irony."*

*(Stefano Casciani)*

Flos has a widespread global presence (serving 94 countries, among which 34 directly host Flos' personnel), with showrooms and shops located in important cities, such as Milan, London, New York, Lion, Stockholm, Hong Kong, Rome and Paris.




When considering the perimeter of Flos Group without Ares and Lukas Lighting acquired in 2015, direct economic value generated and distributed shows a steady increase over the past three years as a result of sales growth, as reported in the following table.

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Direct economic value generated [k€]* | 154,416 | 160,428 | **170,486** |
| Direct economic value distributed [k€]* | 127,336 | 133,594 | **142,226** |
| *Operating costs* | 88,619 | 91,594 | **98,746** |
| *Employee wages and benefit* | 26,071 | 26,450 | **27,848** |
| *Payments to providers of capital* | 3,616 | 5,713 | **12,914** |
| *Payments to government* | 8,896 | 9,718 | **2,588** |
| Community investment** | 134 | 119 | **130** |
| Economic value retained [k€]* | 27,080 | 26,835 | **28,260** |

**The calculation of value generated and distributed includes Flos S.p.A., Antares Iluminacion SA, Light Contact, Euroformat and all the Group's commercial branches.; it does not include Ares and Lukas Lighting.*
*** Values related to Community investment exclude donations of lamps (e.g. donations to charity auctions).*





The increase in economic value distributed to the different categories of stakeholders is mainly due to an increase in operating costs and in payments to providers of capital; the latter could be ascribed to the financial and accounting effects of the leverage buyout operations of December 2014 for the acquisition of Flos S.p.A. by the NewCo Padme S.p.A., later completed with a reverse mergers operation, effective from October 2015.

In contrast, value distributed to the government fell in 2015 as compared to previous years. This trend is not related to current taxes, which are almost stable over the three-year period, but it is an accounting result deriving from the decrease of income tax rate in Italy starting from 1st January 2017. This decrease implied the release of a share of deferred taxes in correspondence of the trademark value registration.

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

- A Board of Directors, comprising nine members, which is entrusted with all 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.

An independent auditing firm has also been appointed.

| Name | Role |
|---|---|
| Vitaliano Borromeo Arese | Chairman of the Board (company's representative) |
| Piero Gandini | Board member (company's representative) - CEO |
| Manuel Perani | Board member (company's representative) - EVP Operations & Finance |
| Federico Otto Martinez Weber | Board member – Antares CEO |
| Roberto Maestroni | Board member |
| Alessandro Fogo | Board member |
| Umberto Magnetti | Board member |
| Carlo Gagliardi | Board member |
| Ambrogio Maria Strano | Board member – Ares CEO |

In order to ensure transparency and responsible day-by-day operations, in 2015 Flos has created its first 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.

As foreseen by the Model 231 and applicable legislation, Flos has appointed a Supervisory Body (*Organismo di vigilanza*) with the task of controlling the implementation and compliance with Model 231 and 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 the company and all its counterparts, i.e. shareholders, employees and partners, suppliers, Public Administration, trade

unions and political parties and clients.

The implementation of 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.

## 1.3 COMPETITIVE ENVIRONMENT

In the last few years, the furniture and artificial lighting industries have been dealing with relevant changes and they actually have to face several challenges arising from a variety of market drivers and trends.

First of all, the need for internationalization which is increasing export shares: this is particularly relevant in Italy, where the export share amounted to 64% of the overall production in 2014[6], making Italy one of the main exporters worldwide.

As a consequence, it is possible to observe a clear increase in M&A (Merger and Acquisition) processes together with the entrance of financial investors within small and medium enterprises, in order to improve their competitiveness abroad.

At the same time, brand protection and identity represent key strength points 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.

In terms of specific environmental and sustainability trends and issues, artificial lighting represents a relevant share of the overall worldwide electricity consumption; as an example, in Europe it accounted for approximately 15% in 2015[7]. Thus, one of the most significant challenges that lighting companies have to face is related to the design of efficient lighting systems and the achievement of energy savings. Recently, the industry has been undergoing a paradigm shift from conventional lighting to LED (Light Emitting Diod) and, even more recently, OLED (Organic LED) technologies. Simultaneously, the market is increasingly asking for the development of automated and intelligently controlled systems, not only for professional purposes but also for residential ones (home automation). In this context, the development of an energy saving culture, also in relation to climate change mitigation, and the increasing spread of voluntary certifications (such as LEED[8]) is driving consumers to ask for more efficient products.

On the other hand, the diffusion of the concept of life-cycle product responsibility is reflected in the need to explore the use of new materials to go beyond legislation requirements and meet sustainability criteria. This involves purchasing activities, supplier selection and qualification steps, as well as end-of-life phases and reuse / recycling opportunities.

Finally, the 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.

For a company like Flos, which has always been focused on quality design, all these evolutions and challenges imply the need to explore a new way of matching aesthetics with high levels of efficiency. In some cases this means just replacing traditional light sources with new ones, while in others it

*6 Source: FederlegnoArredo*

*7 Source: Lighting Europe "2015 Annual Report"*

*8 LEED (Leadership in Energy and Environmental Design) is one of the most popular building certification program used worldwide. The certification takes into account the whole life cycle of the building, including planning and construction.*





led to the reinterpretation of classic icons into new versions. An example of the latter is the shift from the classic Taccia to the new Taccia Led and Taccia Small. In this case, the LED technology allowed Flos to design a new model by inspiring to the original project by Achille and Pier Giacomo Castiglioni. According to this project the iconic bowl reflector wasn't made of glass, but transparent plastic, a solution not compatible with traditional incandescent light sources, as the heat deformed the material.



The classic TACCIA and the new TACCIA SMALL

In this particular scenario, Flos is outlining a way to reconcile efficiency and sustainability trends and requests with its identity and philosophy, as well as with the local dimension of its business. Even though Flos' lamps are famous all over the world, its suppliers and business partners are mainly small companies located near Flos' productive sites, with a high level of know-how and craftsmanship.

## 1.4 STAKEHOLDERS AND MATERIAL ISSUES

The process of drafting the first edition of the Sustainability Report represented the opportunity for Flos to identify and prioritize its stakeholders and to map current engagement tools and activities. A management meeting was held in order to identify key stakeholders: both dependence from Flos and influence on the Company were taken into account.

The table below reports an overview of the results of the stakeholders' prioritization process; for each key stakeholder category a description of existing engagement activities is provided. These results will be the starting point for Flos to evaluate, within the following years, potential additional tools in order to enhance its stakeholder engagement approach.

| Stakeholder mapping and engagement | |
|---|---|
| **Stakeholder category** | **Engagement tools and activities** |
| Employees and trade unions | Continuous dialogue between HR department and employees / trade unions |
| Board of Directors | Formal meetings |
| Suppliers | Continuous dialogue and periodical meetings |
| Clients | Website, fairs, catalogues |
| Competitors | - |
| Media | Press releases |
| Architects and interior designers | Continuous cooperation on research and development of new products |
| Providers of financial capital | Formal meetings and periodical management reports |
| Regulatory and certification bodies | Membership in working groups within regulatory bodies and industry associations (e.g. Assoluce, Lighting Europe, IEC) |

In the course of 2015, the main topics and concerns raised by stakeholders were related to the request for sustainability reporting (providers of financial capitals) and to the active participation and involvement, being the Company a representative of *Assoluce*[9], in working groups aimed at reviewing current legislation (for more detail see Chapter 2).

As a part of the process for defining the Sustainability Report contents, a materiality analysis has been carried out 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.

The first identification of potential relevant issues was based on the GRI G4 Sustainability Guidelines, a benchmarking analysis on sustainability reporting and a sector specific media analysis.

The prioritization of the identified issues has been carried out through individual interviews with the management, considering their relevance both for Flos and for its stakeholders.

*9 Assoluce is part of FederlegnoArredo and includes all the major Italian manufacturers of lighting appliances.*





The significance of each sustainability topic for the company was decided upon considering the perception of the management as raised through the interviews as well as an assessment of:

- The commitment and the policies adopted by Flos regarding each issue and the top management's point of view;
- The potential impacts of each issue outside Flos 's reporting scope, i.e. along its value chain.

Using the same approach to evaluate the relevance of sustainability issues for key stakeholders, the results of the interviews were considered together with:

- The perceptions of the top management in relation to stakeholders priorities;
- Media and public opinion attention on each sustainability issue;
- The relevance of each issue for Flos' specific industry sector.

The result of the match between the relevance for the Company with the relevance for the stakeholders is the list of material issues identified, as reported below.



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

- The most relevant sustainability issues for both Flos and its stakeholders are: **product quality and compliance, customer satisfaction, research and development** and **economic performance;**
- Sector-specific issues related to the **diffusion of energy saving culture** and to the **sustainability of lighting systems** are considered material;
- The **supply chain responsible management** is also material. Furthermore, in accordance with the GRI G4 guidelines, environmental impacts of production activities carried out by suppliers are also considered material, in terms of **material use, energy consumptions, waste, emissions** and **logistic**.

Other relevant issues related to Flos' business model and strategic priorities (**brand protection, product portfolio extension, growth in foreign markets**) and to the company's human capital (**employee care** and **occupational health and safety**).








*With the aim of enhancing the concept of "Made in Italy" and preserving high quality branded products from counterfeiting, Flos is an active member of INDICAM. INDICAM represents nearly 180 companies, industry associations, law and IP firms, security consultants and other organizations daily engaged against counterfeiting activities affecting branded products. Its activity is focused on sharing information and spreading an anti-counterfeiting awareness, on co-operating with police, courts and all other branches of the Italian Public Administration directly dealing with anti-counterfeiting activities and on fighting for better legislation and its stricter enforcement.*

INDICAM
Istituto di Centromarca
per la lotta alla contraffazione

THE GLOBAL COMPACT
WE SUPPORT

*In November 2015, Flos subscribed to the United Nation Global Compact Initiative, a call to companies to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption, and to take actions in support of UN goals, including the Millennium Development Goals. Companies participants to the Global Compact initiative are required to communicate annually on progresses 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.*

*Chapter 2*

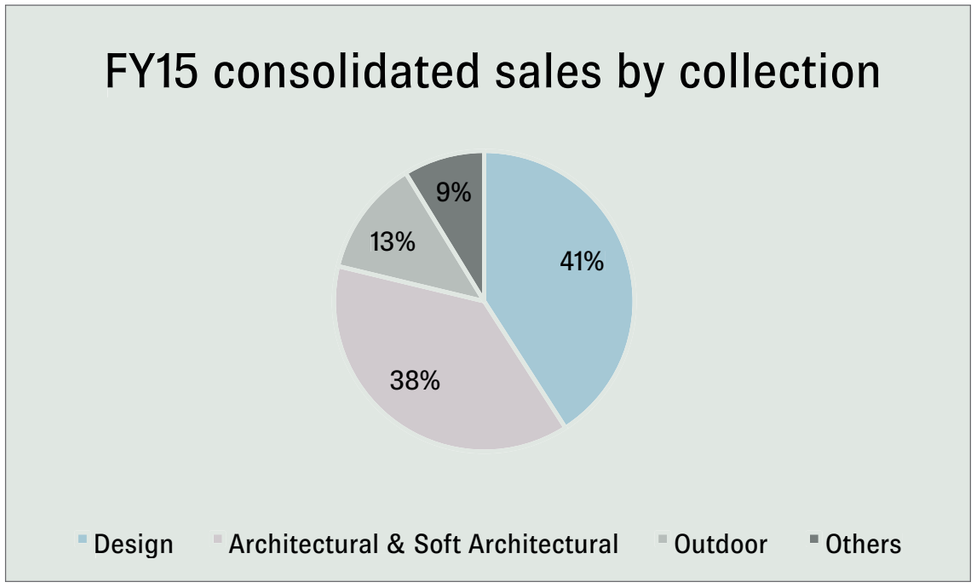
# PRODUCT AND INNOVATION

By combining tradition and innovation, Flos offers to its clients a large and diversified product portfolio, which includes new innovative lighting solutions next to well-known classic icons.

The Group portfolio is made up of the following product categories:

- The **design collection**. All products belonging to Flos' *design collection* are designed and developed in Flos S.p.A. Italian headquarter in Bovezzo, together with selected designers and architects who collaborate with the Company. The *design collection* represents Flos' original core business and comprises several product categories, including table lamps, floor lamps, pendant lamps and *wall & ceiling* solutions.
- The **architectural collection**. This business segment designs and develops lighting solution, 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 is focused on professional and residential lighting systems, custom-made solutions and soft architecture products and it is based in Antares Iluminaciòn S.A. headquarter in Valencia, Spain.
- The **outdoor collection**. Outdoor lighting solutions were internally designed and produced by Flos until 2015 and they represented a small amount of Flos' sales as compared to the design and *architectural collections*. Starting from June 2015 Flos acquired Ares, an Italian company focused on outdoor systems, thus proving its will to expand this business segment within coming years.
- The **custom products**. In addition to the above mentioned collections, Flos offers to its clients customized products and lighting solutions. The custom-made business segment has been developed during last years by Flos' Italian subsidiary Light Contract and it is currently growing following the acquisition of Lukas Lighting (USA) in December 2015.

For all its collections the Group deeply believes both in strengthening existing relationships through long-lasting collaborations with designers, architects and engineers, and in the continuous research for new young talents and innovative solutions, maintaining product quality and aesthetic as the key and distinctive elements of its business.










## SOFT-ARCHITECTURE

Soft architecture is a line of products developed within the architectural segment by the Spanish subsidiary Antares. This collection has a strong focus on sustainable use of raw materials and low environmental impacts thanks to the most advanced energy saving solutions
(for more details please see Chapter 3).

## 2.1 PRODUCT QUALITY AND COMPLIANCE

Product quality represents the core of Flos' business, aimed at fully satisfying final customer's expectations going beyond functional and practical needs. Quality epitomizes for Flos the perfect blend of aesthetics, compliance and attention to details.

Flos has built its activities around a sound production process to become leader in the high design lighting industry by mixing design products with advanced technologies, together with a strategy focused on continuous improvement. In order to foster the achievement of this objective, Flos S.p.A. and Antares Iluminaciòn S.A.U. implemented ISO 9001 Quality Management Systems, which are certified by independent third parties and apply to design, production and sale of lighting systems.

Flos' quality monitoring process is structured on the steps described below. For more details on Flos' production chain please refer to Chapter 3.



*First quality tests on raw materials or components coming from suppliers*





*Statistical quality tests carried out by Flos' quality control personnel on single components following the manifacturing/painting phase by suppliers.*





*Quality check - "routine tests" - on final products carried out in the assembly department as per regulation (including tests on product electrical safety) and additional statistical tests.*

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

- Product safety requirements;
- Performance requirements, such as those related to workplaces lighting (standard photometric tests are carried out, while specific illuminating design and checks depend on the final installation environment and, therefore, are not carried out internally);
- Product labelling;
- Product disposal, such as EU WEEE Directive (Waste Electrical & Electronic Equipment).

At European level, the four most important Directives which apply to product safety are EU Directive for electromagnetic compatibility (2014/30/EU), low voltage EU Directive (2014/35/EU), RoHS II Directive (2011/65/EU) related to restrictions to hazardous substances and Ecodesign Directive (2009/125/EC), establishing a framework for the setting of ecodesign requirements for energy-related products. Each directive contains a series of mandatory requirements in order to allow the application of CE marking and the possibility to sell the products in EU market.

To fulfil all requirements and standards, Flos has its own internal laboratories, which are accredited to verify products safety compliance (some tests are carried out externally).

The compliance with the applicable regulations, as described above, guarantees that all products categories are assessed with respect to health and safety impacts across their life cycle. As a proof of Flos' Quality Management System effectiveness, no episodes of non-compliance with regulations concerning the health and safety impacts of products have been registered during the past three years.

Beyond mere regulatory compliance, safety is continuously monitored during all the product lifetime through the analysis of complaints and communications by consumers. In the rare event (only two cases have been reported throughout Flos' history) of complaints related to safety reasons, Flos reacts quickly by reclaiming the products and conducting tests in order to ensure customer's safety. For other information on complaints management and customer satisfaction please see chapter 4.

In addition to regulatory requirements, Flos can use the ENEC Mark on many of its products. ENEC, which is a voluntary mark complementary to the mandatory CE marking, demonstrates compliance with all European standards and aims at promoting the diffusion of safe electrical products in Europe. 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, ENEC marking is granted by an independent third party verification process.

Product labels include information related to the sourcing of components, to the safe use and to the disposal of products. In addition, labels required by Regulation 874/2012 (and modified by Regulation 518/2015) are supplied to all dealers and they are available for download on Flos' website. No incidents of non-compliance with regulations and voluntary codes concerning product labelling have happened 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.*

*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.*

*Furthermore, Flos is a member of Assoluce, the Italian national association of lighting appliances manufacturers belonging to Federlegno (the Italian wood and furniture sector industry association).*

*Regarding the Spanish counterpart, Antares is an associate of Anfalum, the Spanish Association of lighting Manufacturers that counts on 87 Spanish Companies in the lightning industry.*

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

*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 lighting industry and final customers. Such working groups take place both at national (e.g. CEI – Italian Electrotechnical Committee) and international level (e.g. IEC/CENELEC – International Electrotechnical Commission and European Committee for Electrotechnical Standardization).*

## 2.2 RESEARCH AND DEVELOPMENT

Research and light innovation, together with the ability to identify new talents, have always been a key part of Flos' mission.

The market continuously requires new and technologically advanced products; this entails, on one hand, the need to develop new models and, on the other, to update, reconsider and adapt the old collections to new standards.

During the last years, the most important drivers for innovation in the lighting industry have been the transition from traditional lamps to LED technology and the integration of remote sensor and control systems. The transition from traditional lamps to LED technology often represents for Flos an opportunity to re-design iconic lamps with new shapes and features, while challenging the Group to maintain its iconicity and legacy (for more information, please see §2.2.3).

Furthermore, the relatively new LED technology is now progressing to OLED (organic LED) sources and Flos has already featured this new form of light emitting diodes in one of its products. Other areas of development regard the use of sustainable materials and the concept of *human centric lighting*.

***Our history has taught us to fan the flames of provocation with research into new poetic notions of functionality.***

*(Stefano Casciani)*

### 2.2.1 THE R&D PROCESS AND RESOURCES

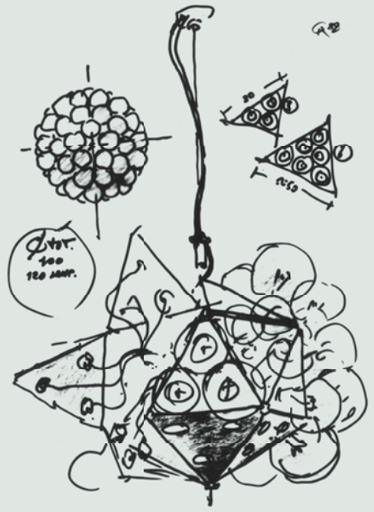
The research and development process is one of the main activities of Flos' business. The key phases are described below, both for the design and the architectural collections.

For products belonging to the design collection, from the initial proposal of the new luminaire to the actual sale of the product, the time lapse is of roughly one to two years.

For the architectural collection  one year is the maximum timeframe to develop a whole product family. Custom products for key clients and special modifications to existing products are always faster and, for the architectural collection, the total lead-time starting from client's request could be compressed in a few days.



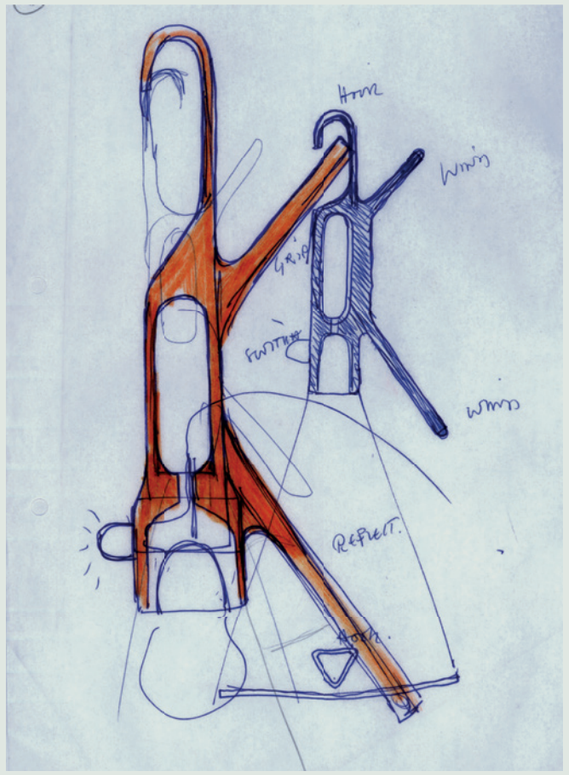




*The designers, the architects and/or the engineers submit the idea of the lighting solution along with some preliminary sketches for Flos' evaluation.*

*For the design collection, whether Flos is dealing with new products or with the remaking of classic icons, the design phase is marked by a strong interaction between the proposing designer and Flos' Research & Development department and top management, who review and discuss the project internally and with the designer before starting any prototype series production.*

*The architectural collection is created both by internal and external architects and designers, thus mixing a strong expertise with great innovations.*

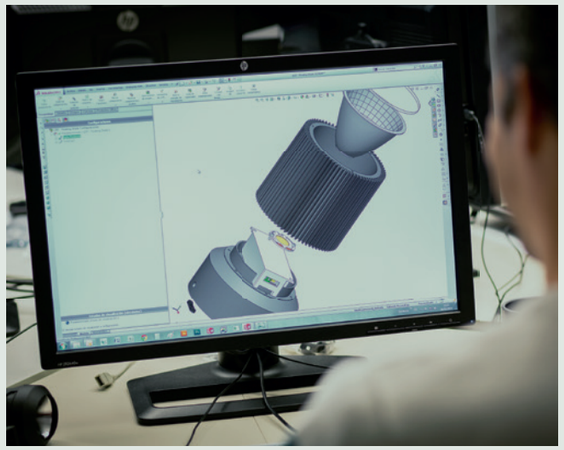




*The realization of a product that represents the concreteness of an idea of light and design is conceivable thanks to the close cooperation between the R&D team and the Procurement Department, that meticulously select the best suppliers available, not only because of their craftsmanship qualities, but also for the willingness to expand their knowledge in order to create innovative products.*

*For the design collection, the interaction between the Group and the designers continues until Flos is satisfied with the outcome of the design and the suppliers selection and fine tunings of craftsmanship are completed and a pre-series of approximately 50 pieces is internally produced and has passed all Flos' strict quality requirements checks (only manufacturing of mechanical components is outsourced).*

*For the architectural collection, the pre-series is partially outsourced.*



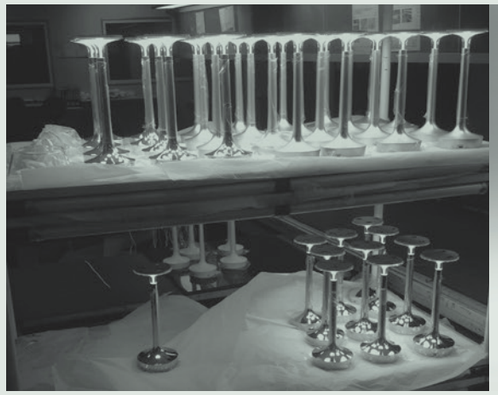






*For the design collection, the prototypes are sent to pilot clients who are asked to fill in a report about the product, giving Flos precious feedback that ranges from product functionality, finish, packaging to the overall product emotion and experience.*

*If the prototypes satisfy, at the same time, both pilot clients' expectations (for the design collection), Flos' internal quality standards and regulatory requirements, the product is confirmed and the production phase is launched.*

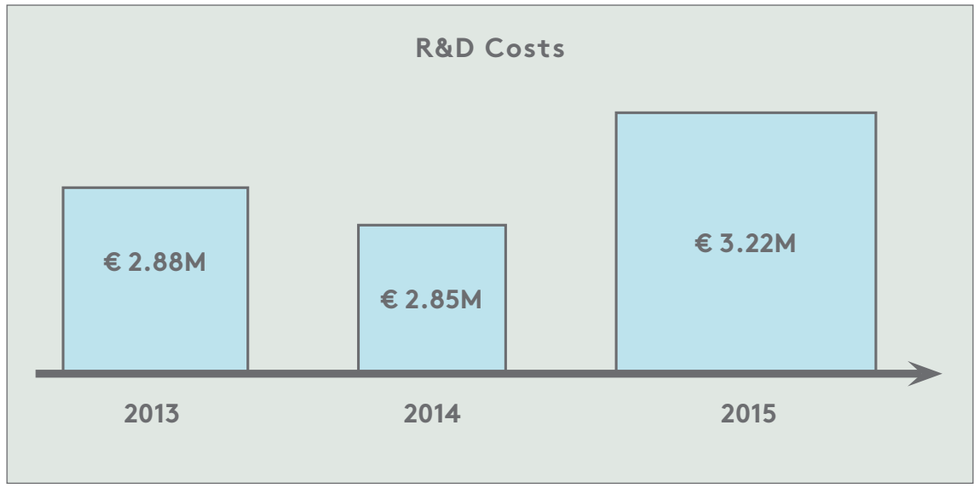




New products are usually presented, in their prototype form, during the two biennial alternating international fairs: *Euroluce*, which takes place every odd year within the very renowned *Salone del Mobile* (Milan), and in the likewise celebrated *Light + Building* event presented at Frankfurt every even year.

During 2015, eight new products were developed by Flos S.p.A. and presented the same year at Euroluce, and their production began recently during the first months of 2016. The 2015 *architectural collection*, as per the previous years, has introduced more than 10 new product families (each family includes about 20-30 single product codes).

The Research & Development team consists of 27 employees (15 for the design and 12 for the *architectural collection*) and, at times and based on needs and requests, may count on the support of one or two interns. Flos' costs for R&D activities amount to more than 3 million euros in 2015, mainly attributable to the cost of personnel (both employees and external consultants) and expenses related to materials for prototypes and molds.






*Euroluce fair, 2015*





## 2.2.2 BRAND PROTECTION AND INTELLECTUAL PROPERTY

In order to protect Flos' brand and innovations within the strongly competitive environment to which the Group's belongs, both Flos S.p.A. (for the *design collection*) and Antares (for the *architectural collection*) file several patents each year. For each new product category Flos, with the support of an international consulting firm, evaluates the best approach and solutions to protect its own work. 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 mentioned above.

Given the nature of Flos' core business, the majority of patents filed belongs to the design registration category, while a minimum part is represented by patents application for invention. This latter type of patents regards mainly the architectural and soft architectural business.

In accordance to the Italian regulation, the first patents are filed in Italy. Such patents, in the 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. Usually, the patents are extended to the European Community and to other foreign countries where Flos has assessed the existence of a strategic region for its business and volume of sales.

The following table reports the total number of patents filed by Flos S.p.A. and by Antares during the last three years, including only the first filing phase and excluding following extensions. The absence of filings in 2014 by Flos S.p.A. is related to the biennial periodicity of *Euroluce*, which is where new lamps belonging to the *design collection* are presented to the public. The large number of design patents filed in 2015 is mainly due to the launch of a high customizable lamp (the Bon Jour lamp by Philippe Starck), for which several filings were necessary.

| | | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Flos S.p.A. | Design | 23 | - | 42 |
| | Invention | 4 | - | - |
| Antares | Design | 4 | 2 | 2 |
| | Invention | 2 | 3 | 1 |

Design registrations have a limited duration; for example, in Italy they last 25 years. Therefore, to guarantee, safeguard and protect some iconic lamps, Flos also filed applications for registration of copyrights in Italy and other strategic countries. In Italy this kind of copyrights, released by the Ministry of Cultural Heritage and Activities and Tourism, are directly linked to the designer and protect its legacy up to seventy years after the author's death.



*Bon Jour unplugged,designed by Philippe Starck, 2015*

## 2.2.3 THE SUSTAINABILITY OF FLOS' PRODUCTS AS DESIGN ICONS AND INNOVATIVE PRODUCTS

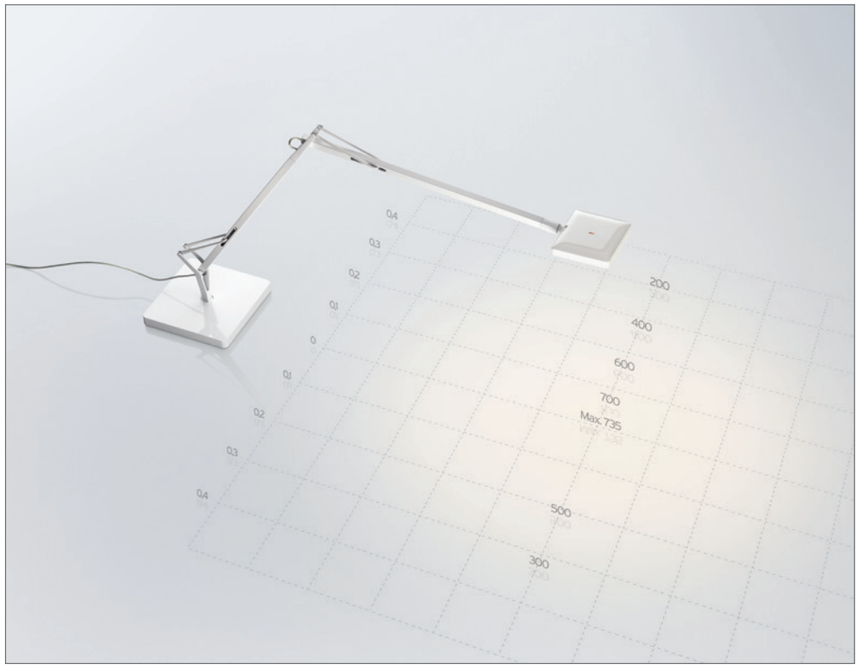
Flos' research and development activities aim at increasing products sustainability and innovation in order to guarantee competitiveness over time within the lighting industry, but also at attempting to contribute to the history and the legacy of design.

At present, the two most important areas on which R&D activities focus are the use of new lighting technologies, in particular LED and OLED, and the introduction of remote sensor and control systems.

For Antares and the architectural segment, the use of LED is, by now, a given as a result of pressures and drivers coming from competitors and final consumers: every new product is designed to be powered by LED since the beginning of this decade even if, in some exceptional cases required by clients, products can continue to use traditional systems such as halogen or fluorescent lamps.

On the other hand, for the *design collection*, R&D activities on LED are still ongoing and more development is needed for the diffusion of new and innovative products. Within this business segment, Flos' primary objective is to match energy efficiency requirements and advantages with design and aesthetic expectations. For this purpose, researchers of the *design collection* work with designers to:

- design and produce lighting systems which are sold without lamps and can be used both with traditional lighting sources and with LED;
- produce new lamps directly conceived to be powered by LED or OLED sources, such as Jasper Morrison's *Superloon* and Philippe Starck's *Light Photon*;
- review and remake iconic lamps, originally conceived to be powered by traditional lighting sources, in order to shift to the LED technology.




Kelvin Edge's LED light emission







*JASPER MORRISON's SUPERLOON (2015)*

*Superloon is a floor lamp designed by Jasper Morrison that consists of a flat disc that houses a light-edge system powered by an innovative ring of LED. The disc can rotate 360° on two different axes, so that light can be directed in all desired directions.*
*Superloon also has also a dimming mechanism which is operated through an optical sensor placed on one of the three supporting stems and developed to increase energy efficiency of the luminaire through its features. This lamp was awarded the EDIDA honor (Elle Decoration International Design Award) in 2016 in the lighting category for being "light years ahead of others of its kind in terms of beauty, intricacy and practical design".*



### *PHILIPPE STARCK's LIGHT PHOTON (2012)*

*Light Photon by Philippe Starck was designed and produced to celebrate Flos' 50th anniversary. It is a table luminaire which uses an organic LED technology (OLED) that features the latest development in nanotechnology and functional chemistry engineering. The lamp emits white light and it is made of thin molecular layers of organic materials. OLEDs can be directly recycled in existing glass waste chain, which classifies them among the most environmental friendly light sources.*





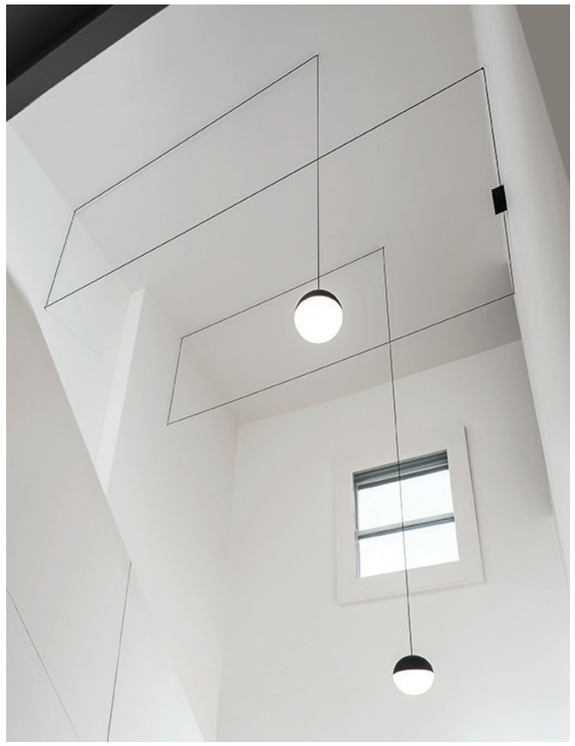


Examples of this technological shift are the new *Taccia* LED and the *Arco* LED, added to Flos' *design collection* catalogue next to the classic versions *Taccia* and *Arco* by Achille & Pier Giacomo Castiglioni (1962). The technological upgrade of iconic luminaries is sometimes accompanied by the "recovering" of the original product design, abandoned at the time because of physical and technological constrains and now achievable thanks to the development of LEDs. An example of this recovered catchment area is the *Taccia* product where the diffuser was originally thought in plastic but because of the excessive heat generated by traditional incandescent light bulbs, glass forced its way into the project. Today, Achille & Pier Giacomo Castiglioni design finally meets its plastic diffuser.

In addition to a drastic increase in energy efficiency, the shifting from halogen lamps to LED allows another relevant advantage: the increase in the average lifetime of lamps, since LED technologies last more than ten times the rated life of traditional lighting sources. The overall results are extremely positive in terms of durability, legacy and environmental impacts, as Flos' luminaires last longer, allowing the Group to reduce the use of raw materials and the production of waste and materials to be disposed of.

Besides LED and OLED technologies, another R&D key area for Flos is related to lighting systems automation, both in the residential and professional sectors.

For almost all of its design products, Flos' strategic approach within this context is not to directly design products with integrated automated systems, but to prepare its lighting solutions to be compatible and customizable with the most advanced existing software and automatic distance control systems. An example of light remote control system is the App "*String Lights – remote dimmer and more*" which can be downloaded from Flos website to control the light intensity of Micheal Anastassiades's lamp.



*String Lights*
*Remote dimmer and more*

On the other hand, the *architectural collection* is experimenting brand new solutions on remote sensor and control systems. Antares researchers are currently engaged with new challenges regarding the integration of automatic sensors in lighting systems; in this way, clients can reach different purposes:

- first of all, an extremely efficient management of interior lighting, thanks to the combination of light sensor, presence sensors and automatic control based on a real time data acquisition and pre-set regulations;
- in addition, the Antares team is developing solutions that, in a few years, will give clients the possibility to monitor their interior spaces by using Flos sensors (inside lighting systems) for a lot of purposes, such as recognition of people flows, correlation with other environmental information (weather, traffic, etc.), ongoing promotions or sellers performers for retail spaces, etc.
- finally, new Flos products of the *architectural collection* will constantly and automatically check their appropriate functioning, thus alerting clients and Flos assistance in case of breakdown, damages, maintenance needs etc., with a consequent improvement of related cost savings and performance.

What mentioned above, known also as "Internet of Things", is the R&D current most advanced field of research for the architectural collection, and it's changing the classic approach to think about lighting systems: from simple lamps receiving inputs (e.g. on/off), to complex apparels which can bi-directionally dialogue with clients and/or a cloud IT environment, thus improving the lighting experience, and also giving information to the retail/house manager. In this perspective, Antares is moving from an electric Company to an electronic one.

First commercial products integrating advanced sensor and control systems are expected within 2017.



Example of architectural installation for retail







FIND ME from the Architectural collection



LIGHT BELL from the Architectural collection

*Chapter 3*

# THE PRODUCTION PROCESS AND THE SUPPLY CHAIN

Flos' elevate aesthetic and quality standards require an articulated production process involving talented designers, architects, engineers, high-specialized artisans and an accurate quality control system. Within this process, Flos directly manages the conception and design of lighting systems, as well as the monitoring activities and tests carried out in order to assess product quality and to ensure compliance with safety requirements. Whereas, for the manufacturing and the majority of the assembly activities, Flos relies on the expertise of a specialized and trusted network of suppliers.

The production chain of the *design collection*, handled in Flos' Italian headquarter in Bovezzo, and of the *architectural collection*, handled in Antares's Spanish headquarter in Valencia, are organized in a comparable and parallel way[5].

Regarding the logistics of purchased goods, Flos' headquarter in Bovezzo relies only on outsourced services, while Antares owns two trucks for the transportation of goods purchased from local suppliers. Transportation and distribution of final products are entirely outsourced.

## 3.1 THE PRODUCTION PROCESS

The production process is illustrated in detail in the following flow chart.

Once the products have passed the prototype and pre-series phases, the production process begins with the purchasing of single components, as the large extent of techniques and materials required for Flos' products implies the externalization of the manufacturing processes. This phase includes highly specialized techniques as 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 (in Bovezzo, for the *design collection* and in Valencia, for the *architectural collection*) to ensure that they meet the elevate quality and safety standards required by Flos and by applicable regulation. The components are then assembled as indicated in the designer and engineer plans. The assembly process is predominantly outsourced (this activity being done only for about 15% both for the *design* and the *architectural collection*), while a network of selected artisan suppliers, mainly based around Bovezzo and Valencia (for details see § 3.4), perform the remaining part.

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

*5 Most data included in this section of the Sustainability Report are presented for the design collection. Flos is committed throughout next years to strengthen and improve the data collection process in order to present the Group's overall figures.*





## FLOS' PRODUCTION PROCESS

### MANUFACTURING

SUPPLIERS

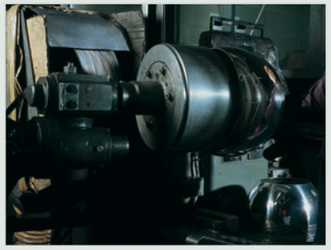
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Processed materials and components

↓

FLOS

Quality control











↓

SUPPLIERS

⋮

FLOS

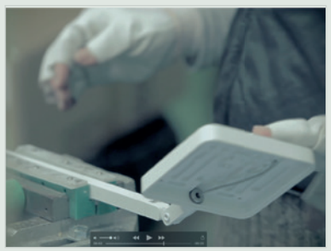
Quality control

Assembled products

↓

FINAL PRODUCT

### ASSEMBLY









## 3.2 ENVIRONMENTAL IMPACT ALONG THE PRODUCTION PROCESS

Flos' main environmental impacts along the production process are related to the use of materials and to the discharge of process water containing toxic substances employed in the coating processes.

Regarding the use of materials, as shown in paragraph 3.2.1, Flos monitors its consumption and is committed to using recyclable and non-toxic materials and to diminish the packaging of its products, in order to reduce its environmental burden. In relation to water emissions, due to the outsourcing of the coating processes, Flos has a limited control over it. Nevertheless, the Company has undertaken measures to reduce, wherever possible, the concentration of hexavalent chrome in process waters through its substitution with the less toxic trivalent chrome. Moreover, Flos is fostering the use of water-based coatings among its suppliers instead of solvent-based ones. Energy consumption and waste production are two additional impacts that Flos is currently monitoring and intends to reduce over the following years. The main environmental impacts of the production process and Flos' related actions to mitigate them are shown in the opposite page.

### 3.2.1 MATERIALS

Flos' usage of materials has always been characterized by a high degree of innovation and reinvention. At present, Flos is addressing its most pressing environmental challenges, such as the need to substitute toxic and non-recyclable materials with more sustainable alternatives, by funneling its efforts and focusing on less impactful and more innovative techniques. Therefore, the Company has chosen to employ recycled timber rather than solid wood for its products, and to replace crystals, which contains lead, with glass, which is 100% recyclable. The same can be said for the finishing procedures for which the use of water-based coatings is preferred to solvent-based ones.

Additionally, conscious that the functional longevity is essential for the sustainability of its products, Flos takes into high consideration, throughout the conceptual design process and the selection of materials and suppliers, the durability of the materials composing the lightening systems. In this sense, the selection of materials is also made in order to ensure the possible substitution of the components.

Table 3.1 and 3.2 show the main primary processed materials and electronic components employed in the *design* and a*rchitectural collections* products.





**ENERGY**

- Energy audits
- Energy supply from an integrated system Waste to energy - District heating in Bovezzo headquarter
- LED lightening conversion in Valencia headquarter

**MATERIALS**

- Use of recycled and non toxic materials
- Reduction of packaging




**WATER EMISSION**

- Substitution of exavalent chrome with trivalent chrome
- Water-based coatings

**WASTE**

- Reduction of scrubs
- Recycling

Table 3.1- Processed materials employed in the *design* and *architectural collections*

| PROCESSED MATERIALS* | Unit | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| glass** | t | 166 | 166 | 175 |
| | kg/€K | 1.58 | 1.48 | 1.43 |
| plastics | t | 262 | 271 | 278 |
| | kg/€K | 1.70 | 1.70 | 1.64 |
| aluminum | t | 730 | 646 | 689 |
| | kg/€K | 4.74 | 4.06 | 4.06 |
| iron** | t | 246 | 252 | 239 |
| | kg/€K | 2.34 | 2.24 | 1.96 |

** Intensity ratios refer to net sales*

***This data only refers to the design collection*

Table 3.2- Electronic components employed in the *design* and *architectural collections*

| ELECTRONIC COMPONENTS* | | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| transformers and power supply | $10^3$ units | 654 | 714 | 675 |
| | units/€K | 4.24 | 4.48 | 3.98 |
| electrical components | $10^3$ units | 3,553 | 3,623 | 3,328 |
| | units/€K | 23.07 | 22.76 | 19.63 |
| LED and LED boards | $10^3$ units | 644 | 618 | 827 |
| | units/€K | 4.18 | 3.88 | 4.88 |

** Intensity ratios refer to net sales*

The amount of materials used is almost stable over the three-year period, mainly following production needs, and it shows an increase of LED components due to the spread of this lighting technology.

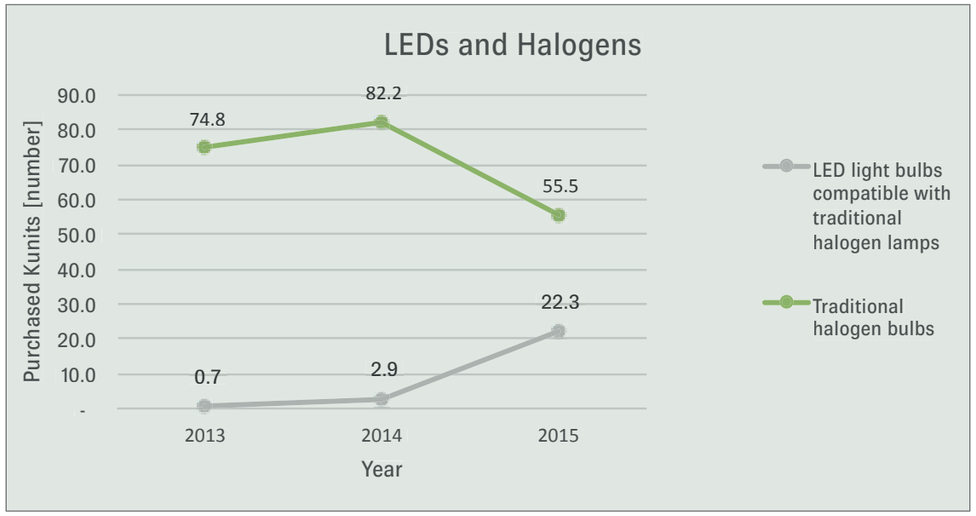
The high number of electrical components purchased is mainly attributable to the production of lighting systems belonging to the *architectural collection*, which is also influenced, on an annual basis, by clients' demand and therefore product mix.

Regarding the design collection, as shown below, over the past three years, Flos has partially replaced its purchases of traditional light bulbs with the more energy-efficient LED light bulbs. The LEDs-to-halogens ratio has increased rapidly, rising from 0.009 in 2013 to 0.4 in 2015.





Graph 3.1 – LEDs-to halogen ratio for the design collection




Within the *architectural collection*, Flos has developed a new product line ca*lled Soft-Architecture*, which is the result of an in-depth lighting and technical research on the use of eco-friendly materials (certified Cradle to Cradle) with a low impact on the environment. In the *Soft-Architecture* line, a special composite material (*Under-Cover technology*), of which Flos holds an exclusive license agreement in the lighting compartment for the production and commercialization worldwide, has been used. This is an innovative material that contemporarily merges lightness and elevated resistance, capable of assuring performance and durability over time. Moreover, the product line employs the most advanced energy saving lighting sources such as power LED, remote phosphor LED, RGB LED systems, fluorescence, cold cathode and low voltage halogen for a perfect harmony of light, architecture and environment.

Sustainability Report 31 December 2015

## CRADLE TO CRADLE

Cradle to Cradle Certified$^{CM}$ is a multi-attribute ecolabel administered by the Cradle to Cradle Products Innovation Institute™ that assesses products for safety to human and environmental health, design for recyclability and responsible manufacturing processes. A certified product must meet requirements in the following five categories:

- Material Health (impact on human & environmental health);
- Material Reutilization (recyclability);
- Renewable Energy Use;
- Water Stewardship;
- Social Responsibility.

Products can be certified at four levels (Basic, Silver, Gold or Platinum) to reflect a progression of achievements. At each level, the product must meet the criteria for that level in all five categories. Flos' Soft-Architecture line produced with Under-Cover Composite material has been silver level certified.



In addition to the use of raw materials and components for the production of lighting systems, another relevant impact arising from Flos' business is related to packaging. Flos has reduced, wherever possible, the usage of polyurethane foam based materials, in the a*rchitectural collection packaging by substituting it with a paper-based materia*l. Moreover, within the next years, Flos aims to design sustainable solutions for its *design collection* packaging with the collaboration of its suppliers, while re-engineering its purchasing process in order to avoid waste. The materials composing the *design collection*'s packaging are shown in Table 3.3.

Table 3.3- Packaging materials employed in the design collection

| PACKAGING MATERIALS* | | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| paper and cardboard | t | 567 | 540 | 551 |
| | kg/€K | 5.38 | 4.81 | 4.51 |
| plastics | t | 52 | 55 | 48 |
| | kg/€K | 0.49 | 0.49 | 0.39 |
| wood | t | 37 | 44 | 46 |
| | kg/€K | 0.35 | 0.39 | 0.37 |

** Intensity ratios refer to net sales*

## 3.2.2 WASTE AND WATER DISCHARGE

Flos truly believes that prevention is the most effective approach for managing waste. In its effort to avoid scraps from the production chain, Flos is engaged in the training of its suppliers, in order to reduce cases of non-compliance of the processed materials with the Company's aesthetics and quality requirements. In the event of faulty products, undamaged components are separated and reused. Moreover, Flos offers its employees the opportunity of buying non-saleable products at a discounted price, thus further reducing the total waste amount.

Waste produced during the assembly phase occurring in Flos' headquarters is collected and separated according to its composition in order to facilitate optimum recycling. The company relies on an external company for waste management and recycling activities.

Table 3.4 – Total waste produced

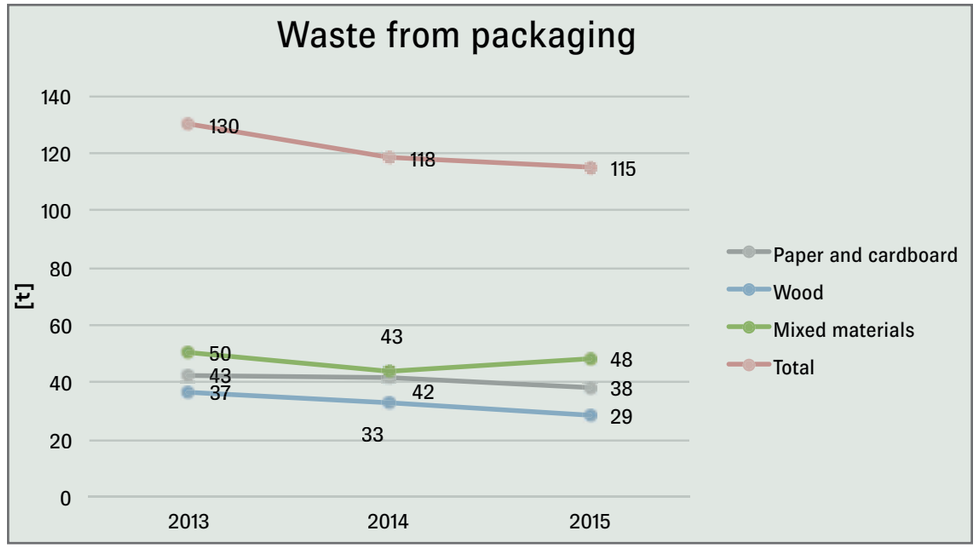
| WASTE | | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Non-hazardous waste | t | 347.7 | 321.6 | 309.3 |
| Hazardous waste | t | 0.0 | 0.8 | 0.5 |
| **TOTAL WASTE** | **t** | **347.7** | **322.4** | **309.8** |

As concerns the *design collection,* almost 90% of waste produced is due to packaging materials. As shown in Graph 3.2, the overall production of this waste typology has decreased over the three-year reporting period, from 130 tons to 115 tons (-11%). In particular, paper and cardboard, wood and mixed material waste showed a decrease respectively of 11%, 22%, 4%.





Graph 3.2 – Waste from packaging, design collection




Main waste category produced by Antares for the *architectural collection* is metal waste, which shows a decrease of more than 50% in 2015 as compared to 2013, while total waste reduced by 7%.

Concerning water discharges, the major impact of Flos' production chain is due to the coating processes operated by its suppliers, as toxic elements are released from plating baths. In order to reduce this environmental burden, Flos has replaced, in the chrome plating process, the traditional hexavalent chromium plating solution with a trivalent chromium solution, which is intrinsically less toxic. Additionally, with the intent to moderate water consumption, Flos has made its suppliers in Valencia recirculate the process water used in the plasterboard production process.

## 3.2.3 ENERGY CONSUMPTION

Even though the lighting industry is not an energy-intensive activity as compared to other sectors, Flos monitors its energy consumption and carried out an energetic audit in 2015 to analyze the energy consumptions of its site in Bovezzo and find possible energy efficiency improvements. Moreover, the Company has converted its headquarter in Valencia to LED lighting.

Flos' production site in Bovezzo is supplied from the district-heating network of Brescia. This is an integrated system Waste to energy - District heating, which contributes to the containing of atmospheric pollution in the city. Table 3.5 shows Flos' electricity consumptions and heating consumptions over the reporting period.

Table 3.5- Energy consumption

| ENERGY CONSUMPTIONS | | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Electricity consumption* | GWh | 1.8 | 1.7 | 1.8 |
| Heating (from district heating)** | GWh | 0.95 | 0.95 | 0.95 |
| Fuel consumption for the Company's car fleet** | l | 50,000 | 50,000 | 50,000 |

** Data are partially available over the reporting period. In case of missing data, conservative estimations have been carried out.*
***Data are available only for 2014; for 2013 and 2015, consumptions have been assumed equal to those of 2014. These data only refer to Bovezzo plant .*

## 3.3 LOGISTICS

The efficiency and flexibility of logistics is essential for Flos to ensure that all products are delivered to the right place at the right time, in order to respond quickly to the demands of the market, while reducing costs and environmental impacts.

Due to its strict quality control system, which implies the monitoring and the quality assessment at each stage of production, Flos has to cope with a high cargo handling from the suppliers to Flos' headquarters and conversely.

As concerns Flos' site in Bovezzo, all transport services are provided by external carriers and defer depending on the area:

- Bovezzo surrounding area (Brescia province): transport is operated by a local truck company, which delivers only Flos' products, under exclusive use. Such an *on demand* transport service allows the flexibility, reliability and promptness required, Flos' supplier network being composed of small-scale companies, which do not have the possibility to stock products for a long time after they have been manufactured or assembled;
- Italy: 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 of primary materials and components are supplied from China through overseas transport by ship and, only in exceptional cases, by airfreight. Following transports from arrival harbors to Flos' headquarters is operated by truck carriers.

Regarding the headquarter in Valencia, part of the suppliers are situated within Flos' same industrial complex. For the remaining part, Flos relies on two owned trucks for the suppliers located in Spain and on an outsourced aircraft service for goods purchased abroad.

Transportation of sold products is entirely outsourced: the national transport is operated by trucks, while the international one is operated by ships and aircrafts. This unless the lightening systems sold to Antares's key accounts, as they directly handle the logistics. As an indicator of the environmental impact of freight transportation, GHG emissions related estimation is reported below.





## GHG EMISSIONS

Greenhouse gas emissions are the major contributor to climate change and are governed by the UNFCCC (*United Nations Framework Convention on Climate Change*).

The first legal instrument which tried to manage GHG emissions at worldwide level was the UN *Kyoto Protocol* (1997). In order to continue the process launched by the *Kyoto Protocol*, in December 2015 the world leaders met at the UN COP21 conference on climate change in Paris with the aim of passing resolutions to mitigate climate change. The conference resulted in an agreement on the combating of climate change and global warming known as the *Paris Agreement*.

As shown in the table below, Flos monitors its emissions throughout the production process and the transportation of purchased goods and sold products.

The greenhouse gas emissions considered are as follows:

**Direct (scope 1)**
- Emissions resulting from the combustion of fuels used for the Company's owned trucks;
- Emissions resulting from the combustion of fuels used for the Company's car fleet.

**Indirect energy (scope 2)**
- Emissions resulting from the generation of purchased electricity and heating.

**Other Indirect (scope 3)**
- Emissions resulting for freight transport by external companies.

*Table 3.6 - GHG emissions*

| GHG EMISSIONS [$tCO_{2eq}$] | 2013 | 2014 | 2015 |
|---|---|---|---|
| **DIRECT (SCOPE 1)** | **207** | **191** | **209** |
| -from fuels used for the Company's trucks fleet | 74 | 59 | 77 |
| -from fuels used for the Company's car fleet* | 133 | 132 | 132 |
| **INDIRECT ENERGY (SCOPE 2)** | **876** | **849** | **883** |
| -from electricity purchased from the national grid | 671 | 644 | 671 |
| -from district heating purchased from the waste to energy plant | 205 | 205 | 212 |
| **OTHER INDIRECT* (SCOPE 3)** | **717** | **815** | **877** |
| -from transportation of purchased goods | 287 | 380 | 502 |
| -from transportation of sold products | 430 | 435 | 375 |
| **TOTAL** | **1,800** | **1,855** | **1,969** |

** Data related only to the design collection*

Flos' GHG emissions show a slight increase over the three-year period, about 9% more in 2015 as compared to 2013. This trend is mainly due to Scope 3 emissions related to transportation of purchased goods. From this point of view, 2015 has been an unusual year as compared to the previous ones: as a consequence of production increase and in order to satisfy timing scheduled, a relevant portion of purchased goods transportation has been carried out by aircraft.

Sustainability Report 31 December 2015



Antares warehouse

## 3.4 SUPPLIER SELECTION AND MANAGEMENT

Flos' production is the outcome of a collaboration with suppliers coming from the most interesting Italian and Spanish manufactures, a fusion of craft heritage and experimentation, an ensemble of high-specialized artisans and the excellence of manufacturing industry. Besides the electronic components, which are imported or purchased from multinational companies, and part of the hand blown glasses, which is purchased from high-specialized artisans in Bohemia, the other semi-processed materials and components are purchased from Italian and Spanish suppliers, mainly from northern Italy and Valencia's surrounding areas. Similarly, as concerns the assembly process, Flos relies on a network of small-scale companies, located near the Company's headquarters. This proximity becomes crucial, also in strategic terms, for the intensive quality control process on semi-processed materials and on finished products.

Regarding the *design collection*, as shown on Table 3.7, in 2015, more than 85% of the Company's suppliers were located in Italy. Of this percentage, almost 80% come from Lombardy and Veneto regions, mainly from Brescia, Bergamo and Verona districts (52%). Likewise was for 2013 and 2014. Flos' preference for local suppliers is not a simple choice of convenience, but stems from its believing in the concept of "Made in Italy", as synonymous with high expertise, artisanship and innovation.

Table 3.7 – number of suppliers by provenance - *design collection*

| SUPPLIERS PROVENANCE BY NUMBER | 2013 | 2014 | 2015 |
|---|---|---|---|
| **ITALY** | **243** | **240** | **245** |
| Brescia, Bergamo and Verona districts | 129 | 126 | 127 |
| Other areas in Lombardy region | 65 | 63 | 66 |
| Italy (except Lombardy region) | 49 | 51 | 52 |
| **ABROAD** | **39** | **38** | **40** |
| TOTAL | 282 | 278 | 285 |

In terms of expenditure, during the years 2013, 2014 and 2015, more than 80% of Flos' purchases have occurred in Italy, mainly in Brescia, Bergamo and Verona districts (57.4% in 2013; 56.5% in 2014 and 55.6% in 2015).

Table 3.8 - percentage spent on suppliers, by provenance - *design collection*

| SUPPLIERS PROVENANCE BY SPENDING | 2013 | 2014 | 2015 |
|---|---|---|---|
| **ITALY** | **84.4%** | **83.5%** | **81.5%** |
| Brescia, Bergamo and Verona districts | 57.4% | 56.5% | 55.6% |
| Other areas in Lombardy region | 10.2% | 10.2% | 10.2% |
| Italy (except Lombardy region) | 16.8% | 16.8% | 15.7% |
| **ABROAD** | **15.6%** | **16.5%** | **18.5%** |





The selection of suppliers for the *architectural collection* is based on their performances in terms of quality as well as on their flexibility and capability to react in short lead-time to Flos' purchasing demands. As shown in Table 3.9, around 70% of the Company suppliers are located in Spain. More specifically, of this percentage, about 55% come from Valencia and its surrounding areas. This proximity allows Flos to react quickly to the fluctuating and pressing demands characterizing the *architectural collection* market.

Table 3.9 – number of suppliers by provenance – *architectural collection*

| SUPPLIERS PROVENANCE BY NUMBER | 2014 | 2015 | 2016 |
|---|---|---|---|
| **SPAIN** | **143** | **133** | **141** |
| Valencia and its surrounding areas | 74 | 73 | 80 |
| Other areas in Spain | 69 | 60 | 61 |
| **ABROAD** | **58** | **49** | **61** |
| TOTAL | 201 | 182 | 202 |

In a similar way, in terms of expenditure, during the years 2013, 2014 and 2015, more than 70% of Flos' purchases have occurred in Spain, mainly in Valencia and its surrounding areas (43.6% in 2013; 46.9% in 2014 and 47.6% in 2015).

Table 3.10 - percentage spent on *suppliers*, by provenance – *architectural collection*

| SUPPLIERS PROVENANCE BY SPENDING | 2013 | 2014 | 2015 |
|---|---|---|---|
| **SPAIN** | **71.2%** | **73.9%** | **71.6%** |
| Valencia and its surrounding areas | 43.6% | 46.9% | 47.6% |
| Other areas in Spain | 27.6% | 27.0% | 24.0% |
| **ABROAD** | **28.8%** | **26.1%** | **28.4%** |

The supply chain sustainable management 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 materials quality, 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 a ISO 9001 QMS certification. Even though Flos' business, focused on the aesthetic and on the functional durability of the products, implies that in the assessment and selection of suppliers a greater attention is paid to quality and technical aspects, over the next few years Flos is committed to add environmental, social and labor practices criteria in the assessment and selection process and to include those issues in standard contractual clauses.

*Chapter 4*

# THE RELATIONSHIPS...

## 4.1 ...WITH EMPLOYEES

Flos' success can be largely attributed to the passion of people who are and have been part of the Group. Being conscious of the importance to be able to count on qualified and committed personnel, ever since its foundation, Flos has put its workforce at the center of its strategies. Following the recent changes in corporate structure, employee care becomes even more important and Flos is committed to strengthen the attention towards its employees, thanks to a more structured approach, implying training and employee development programs.

### 4.1.1 EMPLOYMENT

At 31st December 2015, Flos Group's workforce, excluding the newly acquired entities Ares and Lukas Lighting, amounted to 456 persons, showing an increase with respect to the prior two years (433 in 2013 and 424 in 2014); Flos legal entity and Antares group workforce amounted to 324 and included 16 supervised workers and 6 interns. Women composed 45.1% of Flos' workforce.

Table 4.1 – Flos' workforce

| WORKFORCE | 2013 | 2014 | 2015 |
|---|---|---|---|
| **Total workforce** | **314** | **316** | **324** |
| Employees | 302 | 298 | 302 |
| Supervised workers | 9 | 13 | 16 |
| Interns | 3 | 5 | 6 |
| **Workforce by gender** | **314** | **316** | **324** |
| Women [%] | 48.4% | 46.6% | 45.1% |
| Men [%] | 51.6% | 53.4% | 54.9% |

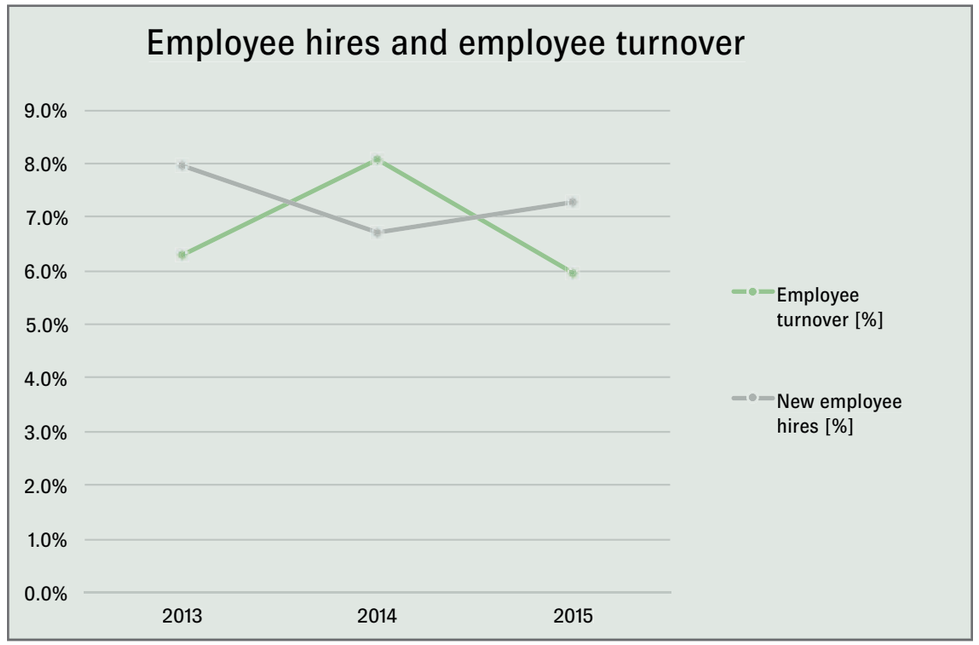
Employees, whose number has remained almost unchanged over the years (302, in 2013; 298, in 2014; 302, in 2015), compose the majority of Flos' workforce. The employee composition shows a balanced proportion between women (48% in 2013, 47% in 2014 and 46% in 2015) and men (52% in 2013, 53% in 2014 and 54% in 2015) employed during the years.

The graph below depicts the trend of the employee turnover and hire rates over the reporting period. The low turnover rate, 6.3% in 2013, 8.1% in 2014 and 6.0% in 2015, is a good indicator of satisfaction among employees, of a good working environment and of loyalty to the Company. As shown in *Graph 4.1* and *Table 4.2*, the total number and rates of new employee hires and employee terminations remained almost constant along the three-year period.





Graph 4.1 – Employee turnover and employee hires




The total number of new employee hires and terminations is illustrated in the following table.

Table 4.2 – Hirings and terminations

| HIRINGS | 2013 | 2014 | 2015 |
|---|---|---|---|
| Men | 15 | 12 | 14 |
| Women | 9 | 8 | 8 |
| Less than 30 years old | 8 | 5 | 7 |
| from 30 to 50 years old | 16 | 13 | 15 |
| More than 50 years old | 0 | 2 | 0 |
| **TOTAL HIRINGS** | **24** | **20** | **22** |

| TERMINATIONS | 2013 | 2014 | 2015 |
|---|---|---|---|
| Men | 10 | 13 | 7 |
| Women | 9 | 11 | 11 |
| Less than 30 years old | 7 | 4 | 4 |
| from 30 to 50 years old | 11 | 19 | 13 |
| More than 50 years old | 1 | 1 | 1 |
| **TOTAL TERMINATIONS** | **19** | **24** | **18** |

The following tables show the percentage breakdown of Flos' employees according to level, age and type of contract.

As illustrated in *Table 4.3*, the personnel is mainly composed by office workers (63%, in 2013; 64% in 2014 and 66%, in 2015).

Table 4.3 – Flos' employees by level

| EMPLOYEES ACCORDING TO LEVEL | 2013 | 2014 | 2015 |
|---|---|---|---|
| Executives | 3% | 3% | 4% |
| Middle managers | 4% | 4% | 4% |
| Office workers | 63% | 64% | 66% |
| Workers | 30% | 29% | 26% |

Table 4.4 – Flos' employees by age

| EMPLOYEES ACCORDING TO AGE | 2013 | 2014 | 2015 |
|---|---|---|---|
| Less than 30 years old | 7% | 4% | 5% |
| from 30 to 50 years old | 75% | 71% | 72% |
| More than 50 years old | 18% | 25% | 23% |

Flos provides permanent contracts (93%, in 2015) to temporary ones (7%, in 2015) for its employees as a means of promoting the human resources retention and development, while enhancing, at the same time, the employees' feeling of being a part of the Company. In 2015, six percent of employees worked part-time, remaining almost unchanged with respect to the prior two years (4% in 2013 and in 2014). All Flos' employees are covered by collective labor agreements, as required by national laws.

Table 4.5 – Flos' employees by contract

| EMPLOYEES ACCORDING TO CONTRACT | 2013 | 2014 | 2015 |
|---|---|---|---|
| Permanent | 277 | 278 | 280 |
| -women | 133 | 130 | 128 |
| -men | 144 | 148 | 152 |
| Temporary | 25 | 20 | 22 |
| -women | 11 | 9 | 12 |
| -men | 14 | 11 | 10 |
| Full time | 95% | 96% | 95% |
| Part time | 4% | 4% | 6% |





## 4.1.2 PEOPLE EMPOWERMENT AND WELFARE

To motivate improvement at a personal and organizational level, Flos has developed a tailor-made training offer, including both technical ad hoc courses and non-technical training courses (such as language and Excel courses). The total and average hours of training provided per year to Flos employees are illustrated in the following table.

Table 4.6 – Average and total hours of training provided by Flos

| TRAINING | 2013 | 2014 | 2015 |
|---|---|---|---|
| Average hours of training provided [hours/employees] | 10 | 11 | 8 |
| **TOTAL HOURS OF TRAINING PROVIDED [HOURS]** | **2,988** | **3,416** | **2,385** |

Over the next years, through a systematic dialogue and cooperation with its employees, Flos intends to develop a more structured and tailor-made training system, with the objective of increasing the total training hours.

In addition to training activities, Flos' focus on its employees is also translated into the provision of benefits, such as health insurances, invalidity coverage, fuel vouchers, canteen services (all these are provided to all full time and part time employees, while fuel vouchers are extended also to temporary workers) and performances bonus related both to product quality and to business profitability.

## 4.1.3 OCCUPATIONAL HEALTH AND SAFETY

Guaranteeing a healthy and safe workplace to all employees and supervised workers and preventing accidents is an essential issue for Flos Group. For this purpose, the Company carries out, on an ongoing basis, several activities to improve occupational safety and people awareness on these topics.

As concerns Flos' headquarter in Bovezzo, the following actions have been implemented:

- Definition and implementation of a procedure to manage and control activities by contractors in order to avoid accidents or damages both to Flos' employees and to contractors;
- Workplace analysis for repeated movements and loads movements (last update was carried out in 2014 in relation to the following departments: assembly, testing, final products warehouse, semi-finished products warehouse).

In relation to Antares's headquarter in Valencia, the following activities are carried out:

- Annual medical check-up to employees, on a free and personal basis;
- Audits, conducted by an external company to assess Flos' compliance with safety regulations.

Additionally, at company level, Flos provides continuous training and education on health and safety topics.

Table 4.7 – Health and safety training

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Total training on health and safety topics [number of hours] | 1,088 | 1,124 | 662 |

Flos' business does not entail specific risks related to employees' health and safety, nor are there any workers with high incidence or risk of diseases related to their jobs. Nevertheless, occupational safety and injury rates are continuously monitored.

Table 4.8 – Health and safety performance indicators

| HEALTH AND SAFETY* | 2013 | 2014 | 2015 |
|---|---|---|---|
| Number of injuries | 6 | 6 | 5 |
| *of which commuting injuries* | 2 | 1 | 1 |
| Lost days** | 118 | 293 | 225 |
| Number of fatalities | 0 | 0 | 0 |
| Injury rate [number of injuries/hours worked x1,000,000]*** | 11.5 | 11.7 | 9.5 |
| Lost day rate [number of lost days/hours worked x 1,000,000]*** | 225 | 569 | 429 |
| Number of occupational diseases | 1 | 0 | 0 |

*All data reported in the table are referred to Flos' employees (excluding contractors).
** Lost days are calculated as calendar days starting from the date of the injury medical certificate, excluding commuting injuries.
*** Injury rate and lost day rate are calculated taking into account only work-related accidents, excluding commuting injuries.

Flos' activities present a low number of accidents; anyway, because of the limited number of employees and hours worked and as a consequence of the long duration of injuries in 2014 and 2015, each episode deeply influences the calculation of injury rates and makes it difficult to analyze their trend.

## 4.2 ...WITH CLIENTS

### 4.2.1 SALES CHANNELS AND COMMUNICATION ACTIVITIES

For the *design collection*, Flos relies on two main sales channels:

- **Trade / Electrical wholesaler** – sale to wholesalers and big players in the electrical industry.
- **End user** – sale to final customers through furniture and lighting stores, Flos' showrooms and one brand shops located in London, New York, Lyon, Stockholm, Rome, Hong Kong, Paris and Milan.

In addition, Flos' products are sold on-line by web retailers, which are identified by the "Flos Official Web Retailers" logo and listed on Flos website. This allows a reduction of purchasing of counterfeit products or products that are not guaranteed or quality-controlled directly by Flos.

For the products belonging to the a*rchitectural collection* and produced in Antares's plant in Valencia, sales channels are structured as follows[6]:

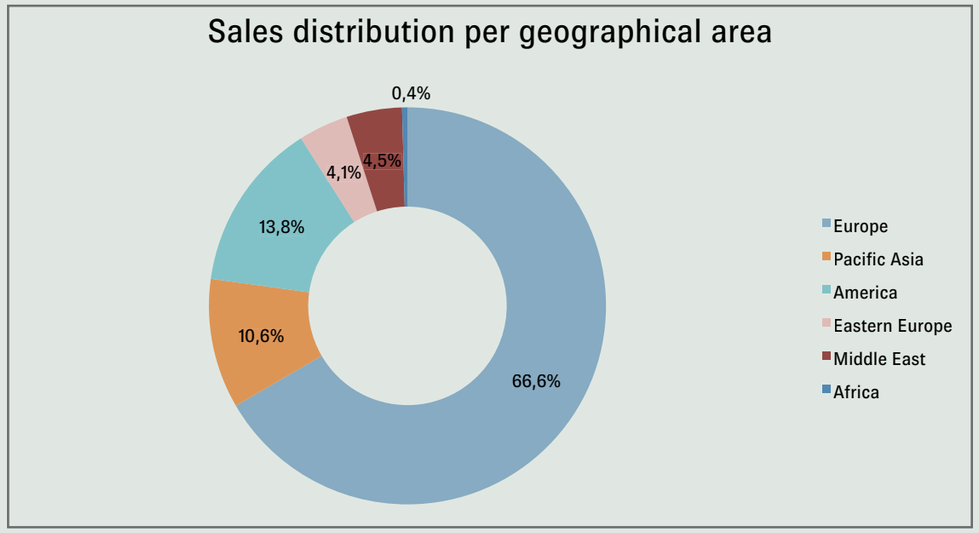
- **Key accounts** – corporate clients requiring the same lighting concept applied in their different stores;
- **Projects** – personalized and unique lighting solution projects for airports, restaurants, hotels etc.;
- **Distributors**.

The presence of different sales channels reflects the need to satisfy clients' requests and expectations, which are mainly attributable to technical specifications on one side and to emotional components on the other.

*6 The sales of a minor part of Flos' architectural collection are managed by Bovezzo headquarter through the home collection sales channels (Trade / Electrical wholesalers and End user) and the specification channel (sale to architectural and engineering firms).*



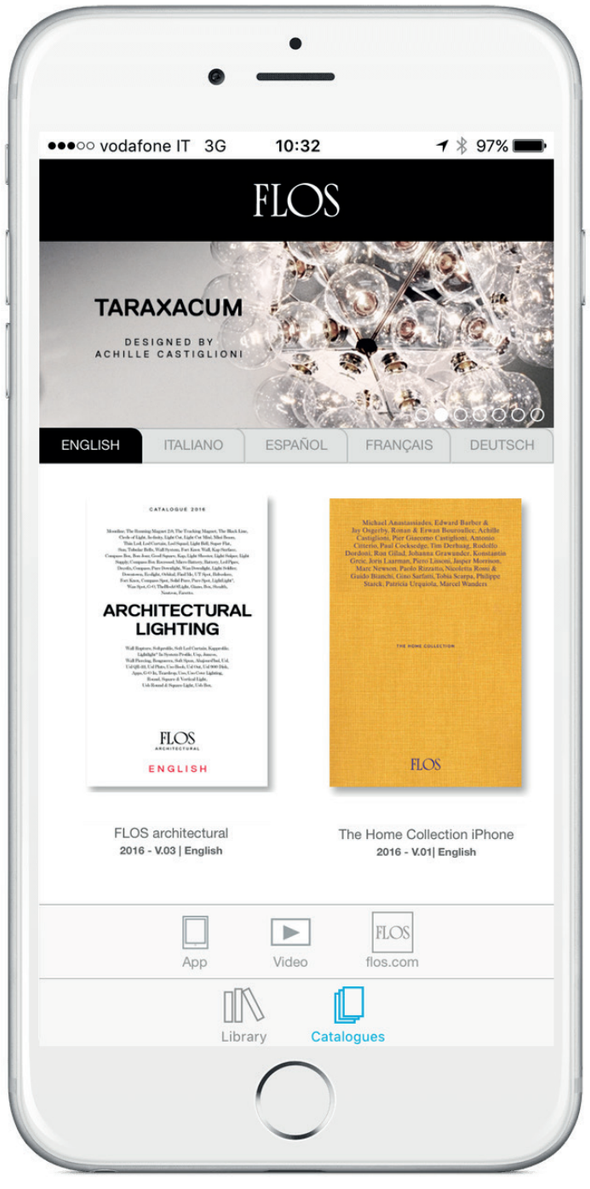
The geographical distribution of markets served, in terms of sales per area, is an indicator of Flos' strong presence in Europe, also as a result of the location of its two headquarters in Bovezzo and Valencia. In 2015, other relevant sales have been registered in America and Pacific Asia regions, as shown below.




Flos' main communication tools towards its customers are the products catalogues: *Flos – The Home Collection* and *Flos – Architectural Lighting*. The catalogues 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 by means of its products.

Recently, Flos has developed an app that offers the clients the possibility to access the Company catalogues directly from their cell phones and tablets. The digitalization of catalogues, together with Flos' website, allows the Company to inform clients in real-time of new products launches and update of technical information. In its effort to support clients, the Company has developed web videos, published on its websites, containing instruction on how to install the lightening systems.

Other means of communication are press releases and, more recently, social networks (such as Facebook, Pinterest and Instagram).








## 4.2.2 CUSTOMER CARE AND SATISFACTION

Customer satisfaction is essential to Flos and the Group demonstrates its attention to clients by offering them exceptionally designed and technologically advanced lighting systems, high quality standards and an efficient repairing/substitution service.

For the *design collection*, in case of complaints from clients for product malfunctioning, Flos evaluates, on a case-by-case basis, the best solution in terms both costs and customers' satisfaction. For less expensive products and for geographical areas far from the two manufacturing sites, Flos usually prefers the immediate substitution of the product. Otherwise, products are recalled and analyzed in order to assess the cause of malfunctioning. Flos continuously monitors the trend of such returned products together with the incidence of returned products for faultiness on total sales ("quality indicator"), excluding intercompany sales. This indicator is also connected to employees' yearly bonus. The trend of this quality indicator is almost stable over the three-year period.

Table 4.9 - Quality indicator for the design collection

| QUALITY INDICATOR | 2013 | 2014 | 2015 |
|---|---|---|---|
| Incidence of returned products for faultiness on total sales* | 1.0% | 1.1% | 1.1% |

*"Total sales" refers to the design collection turnover.

In addition to returned products monitoring, for the architectural collection, the Group submits, on an annual basis, a questionnaire, realized in collaboration with the University of Valencia, to continuously monitor Flos' customer satisfaction on the following aspects:

- Products (more specifically, firm image, brand image, price-quality relationship, innovation, design);
- Service;
- Telephone customer service;
- Salespeople customer service;
- Transport and expeditions (in particular, fulfilment, flexibility, transport quality, packaging and presentation);
- Post-sales service.

The questionnaire is submitted to a diverse sample of 50-100 international and national corporate clients. Companies are asked to fill in the questionnaire evaluating each of the above aspects on a scale from 1 (poor) to 5 (excellent). The results obtained in 2015 showed a great satisfaction among Flos' clients, as all the evaluated items scored at least 3.5 points and most of them reached 4 points.

The Company's efforts are also focused on the management of requests and complaints submitted via e-mail by customers. Every week a meeting is held in Flos' headquarter in Valencia in order to find the best solutions and responses to the client's needs.

## 4.3 ...WITH THE COMMUNITY

### 4.3.1 SPONSORSHIPS AND RELATIONSHIP WITH THE TERRITORY

Contributing to the dissemination of art and 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 festivals, through donations and offering its expertise. Over the years, Flos has donated and lent its products for temporary exhibitions and permanent collections of the most important museums around the word as, for example, the *MOMA (Museum of Modern Art)* in New York, the *Triennale di Milano* in Milan, the *Design Museum* in London and the *Centre National d'Art et de Culture Georges Pompidou* in Paris.

Examples of Flos' technical sponsorship are the lighting projects realized for the exhibition *Renaissance: the recomposed triptych of Antonello da Messina* at Bagatti Valsecchi Museum in Milan (2015), for *Vogue Archive: Celebrating 50th Anniversary of Fashion* (2014) and for the project *Opening Velasca* in Milan (2015).

For the exhibition *Renaissance: the recomposed triptych of Antonello da Messina,* Flos has realized a lighting project of exceptional value and outstanding technical performance, based on one of the most innovative products in Flos *architectural collection, The Running Magnet*. This system, a Flos exclusive composed of revolutionary magnetic tracks on which LED spotlights can be placed in any position, has allowed achieving the delicate task of lighting fragile, centuries-old works of art while avoiding harmful radiation for artworks. This project represents the last step of a long-time collaboration between Flos and Museo Bagatti Valsecchi started in 2009, when old chandeliers were powered by new LED sources.



Recomposed triptych of Antonello da Messina







Piero della Francesca - Angelo Annunciante e Vergine Annunciata



For the exhibit *Vogue Archive: Celebrating 50th Anniversary of Fashion*, Flos has created a path of luminous signs accentuating themes and sections of the digital archive of the fashion magazine and has loaned and installed lamps from its design collection.









In relation to *Opening Velasca*, a project promoted by *Unipol Group* to redevelop the Torre Velasca and enhance the value of one of Milan best-known symbols, Flos has participated in the lighting of the square in which the tower is located and of some special interiors of the building such as an exhibitions gallery and the top floor of the tower, a space for special events and conferences. To light up the square, Flos has selected one of its most eclectic lighting fixtures, the *May Day* lamp designed by Konstantin Grcic, which is a perfect fit for the industrial aesthetics of the impressive metal structure that supports the building and for the refined elegance of the furnishings. For the interiors of the building, Flos has adopted, among other products, the lighting system *The running Magnet* and the iconic floor lamp *Luminator*, designed by Achille and Pier Giacomo Castiglioni in 1954, making a direct reference to the Milan design scene of the period.






Amongst other initiatives, Flos sponsors a master in Light Design & LED Technology in collaboration with the Politecnico di Milano and it periodically donates products for charity fundraising auctions, such as Love Design (promoted by the Italian Association for Cancer Research - AIRC - and the Industrial Design Association - ADI).

## 4.3.2 THE PARTNERSHIP WITH FRATELLI DELL'UOMO

As part of its social commitment towards the community, since 2005 Flos actively supports *Fratelli dell'uomo*, a non-governmental organization for international cooperation working for the growth of local communities and their social structure in underdeveloped countries.

According to this partnership, 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*, which periodically communicate with Flos on the purpose of these resources.

As shown below, during past years, thanks to Flos' contributions, several projects have been supported.

Starting from 2016, Flos decided to allocate the entire contribution to *Fratelli dell'uomo* to the project "Healthy childhood in the Totonicapán Maya Kiché community in Guatemala", whose main objective is to reduce contagious diseases and complications arising from common diseases in childhood population (up to 10 years old). The project will involve four local communities belonging to Santa Lucia la Reforma Municipality (Pamaria, Pabaquit, San Luis Sibilia and Arroyo San Juan) with a beneficiary population of approximately 2,800 children. The primary focus of the initiative will be the improvement of the availability, accessibility and overall quality of childhood health services. Specific indicators have been defined and agreed in order to monitor the impact and success of the project in terms of access to pediatric services, reduction of childhood death rate, families' education and awareness.

fratelli dell'uomo

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

The organization supports projects and initiatives, mainly in Latin America and Africa, related to access to food, environment and common goods protection, responsible economy, community health, migrations and co-development.

*For more details, please see www.fratellidelluomo.org*







**2006**

**Senegal**
Support for woodcraft guilds in Dakar.





**2007 -2009**

**Brazil**
training in Favelas

**Bolivia**
Support for organisations of women farmers.



**2009-2011**

**Senegal**
Local development in the municipality of Malika and fighting the exploitation of minors.





**2009-2011**

**DR Congo**
Diversification of the rural economy

**Senegal**
Promotion of solar energy; local development.



**2012-2013**

**Bolivia**
Strengthening organic agriculture and protecting biodiversity.



**2012-2013**

**Guatemala**
Food sovereignty and safeguarding the water resources of the Maya Mam community.





**2012-2015**

**Perù**
Local development

**Guatemala**
Food and water safeguarding

**Bolivia**
Organic agriculture and biodiversity

## REPORTING PRINCIPLES AND CRITERIA

This document is the first edition of Flos' Sustainability Report and it provides an overview on the Group's sustainability information by describing business activities and related performance and key industry's indicators. The report is drafted in accordance with the "G4 Sustainability Reporting Guidelines", issued in 2013 by GRI – Global Reporting Initiative (hereinafter also GRI-G4 guidelines), with a self-declared level of adherence "In accordance – core option".

The document covers different sustainability issues with a level of detail that reflects the results of the materiality analysis carried out as described in Chapter 1, in accordance with the GRI-G4 guidelines.

In drafting the Sustainability Report, Flos took into account also the reporting requirements from the *United Nation Global Compact* (UNGC) Initiative, subscribed by the Group in November 2015. Thus, the report represents Flos' *Communication On Progress* and the connection between GRI-G4 guidelines aspects and UNGC criteria is highlighted in the table GRI Content Index (*available at page 85)*. At present, the UNGC issues and principles related to *Human Rights* are not addressed by Flos' 2015 Sustainability Report, since the majority of the Group's direct activities and suppliers are located in Europe, where Human Rights are not considered to represent a critical issue. Anyway, considering that some electronic materials are supplied from extra-EU Countries, Flos is committed, over next years, to address issues related to *Human Rights* through additional supply chain management activities.

## SCOPE OF REPORTING

This document includes a description of initiatives and activities carried out during 2015 calendar year as well as the related key performance indicators, presented for the three-year period 2013 – 2015, where available. No events of particular interest known at the date of closing of this report happened in 2016. Data collection process and report publication are structured on an annual basis.

The information included in the Sustainability Report refers to Flos S.p.A. and the fully controlled operating subsidiary Antares Iluminacion S.A.U. All commercial branches and the other operating subsidiaries as of 31st December 2015 are not included. Exception to the scope of reporting are explicitly indicated in the text.

Flos S.p.A. has its registered office and plant in Bovezzo (Brescia - Italy) at Via Angelo Faini, 2, while Antares Illuminacion S.A.U at Carrer Mallorca, Polígono Industrial Reva, Calle Turia, Ribarroja de Turia (Valencia - Spain).

## MATERIAL ISSUE

The following table provides the link between Flos' material issues (as described in Chapter 1) and the corresponding GRI-G4 guidelines aspects (Specific Standard 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.





| GRI G4 MATERIAL ASPECTS | ASPECT BOUNDARY | | LIMITATIONS OF REPORTING ON BOUNDARY | |
|---|---|---|---|---|
| | WITHIN THE ORGANIZATION | OUTSIDE THE ORGANIZATION | WITHIN THE ORGANIZATION | OUTSIDE THE ORGANIZATION |
| Economic Performance | Group | - | - | - |
| Procurement practices | Group | - | - | - |
| Materials | Group | Suppliers | - | Reporting scope not extended to suppliers |
| Energy | Group | Suppliers, Clients | - | Reporting scope not extended to suppliers and clients |
| Emissions | Group | Suppliers | - | Reporting scope partially extended to suppliers |
| Effluents and waste | Group | Suppliers | - | Reporting scope not extended to suppliers |
| Products and services | Group | - | - | - |
| Transport | Group | Suppliers, clients | - | Reporting scope partially extended to suppliers and not extended to clients |
| Supplier environmental assessment | Group | - | - | - |
| Employment | Group | - | - | - |
| Occupational Health and safety | Group | Suppliers | - | Reporting scope not extended to suppliers |
| Training and education | Group | - | - | - |
| Supplier assessment for labor practices | Group | - | - | - |
| Supplier human rights assessment | Group | - | - | - |
| Costumer health and safety | Group | - | - | - |
| Product and service labelling | 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-G4 guidelines. The document highlights both strength and weakness, as well as possible areas of improvements for the Group.

Data collection and reporting process is structured in order to ensure the comparability over the years and to guarantee an accurate interpretation of information by the key stakeholders interested in Flos' performance evolution.

Flos was supported by Ernst & Young Italian *Climate Change and Sustainability Services* team in the drafting of its 2015 Sustainability Report. This first edition of the Sustainability Report is not subject to external assurance.

## CALCULATION METHODOLOGIES

Here below methodologies and assumptions used to calculate performance indicators included in the Report are described.

- Research & Development costs are calculated taking into account only operating costs (e.g. personnel involved, costs for materials, etc.) and excluding capitalizations;
- Where environmental data are not available, conservative estimations were used, resulting in the underestimation of the Group's environmental performance;
- Greenhouse gases emissions calculation has been carried out based on the principles included in the international standard ISO 14064-1. Emissions have been calculated as $CO_2$ equivalent, considering the following gases: $CO_2$ (GWP = 1), $CH_4$ (GWP = 25) and $N_2O$ (GWP = 298). Global Warming Potentials (GWPs) are taken from IPCC Fourth Assessment Report (AR4). The sources of emission factors and the methodologies used are as follows:

  • **Energy consumption**

- Electricity consumption: GHG emissions from electricity consumption have been estimated multiplying the annual consumption by an average emission factor taken from the Italian electricity grid company's (Terna) international comparisons on Enerdata figures – 2013 data.
- District heating consumption: the emission factor has been taken from UK DEFRA (Department for Environment Food & Rural Affairs) - Department of Energy & Climate Change "*Government emission conversion factors for greenhouse gas company reporting*" and has been multiplied by the annual district heating consumption.

  • **Freight transportation**

- Company fleet: the GHG estimation has been based on liters of fuel used. These have been multiplied by an average emission factor, taken from the Italian GHG emission factors table "*Tabella dei parametri standard*" for each reporting year, published by the Italian Ministry of the Environment and for Protection of the Land and Sea.
- Outsourced transportation services: for trucks, planes and cargo ships freight transportation, emissions factors are taken from UK DEFRA - Department of Energy & Climate Change "*Government emission conversion factors for greenhouse gas company reporting*". To calculate emissions, distances travelled and weight transported have been considered and multiplied by an average emission factor in kgCO2eq/(km*transported). Where weight transported was not available, distances were multiplied by an average emission factor in $kgCO_{2eq}$/km.

For further information about this Sustainability Report, please contact:

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