

Recommendation of the Board of Statutory Auditors of F.I.L.A. - Fabbrica Italiana Lapis e Affini S.p.A. on the appointment of the independent audit firm for the 2024-2032 period - pursuant to Articles 13, paragraph 1, and 17, paragraph 1, of Legislative Decree No. 39 of January 27, 2010, as amended, respectively, by Articles 16 and 18 of Legislative Decree No. 135 of July 17, 2016, and Article 16 of European Regulation No. 537/2014 of the European Parliament and of the Council of April 16, 2014.

1. Introduction.

With the approval of the financial statements of F.I.L.A. - Fabbrica Italiana Lapis e Affini S.p.A. (hereinafter also "F.I.L.A. S.p.A." or the "Company") for the year ending December 31, 2023, the appointment of KPMG S.p.A. as the independent audit firm for the nine-year period 2015 - 2023 concludes.

According to the current legally-required audit legislation, most recently amended by European Regulation No. 537/2014 and Legislative Decree No. 39/2010, supplemented by Legislative Decree No. 135/2016:

- KPMG S.p.A. may not be reappointed unless at least four fiscal years have elapsed since the conclusion of the current appointment;
- the new legally-required audit appointment must be awarded by means of a specific selection procedure.

For an appropriate handover between the outgoing auditor and the newly-appointed auditor, while also ensuring compliance with the time limits set to safeguard the auditor's independence, the Board of Statutory Auditors, acting as the Internal Control and Audit Committee pursuant to Article 19 of Legislative Decree No. 39/2010, and as the party responsible for the selection procedure, in agreement with the relevant corporate functions, has initiated and completed this selection process for the appointment of the independent auditor for the nine-year period 2024-2032 on the basis of the specific procedure.

Following this procedure, the Board of Statutory Auditors supervised the planning phase of the selection process, and the selection phase, in order to be able to prepare this recommendation (the "**Recommendation**"), to be submitted to the Board of Directors, which enables the Shareholders' Meeting to vote upon such, according to the purposes set out by the applicable regulation. The Recommendation contains two possible alternatives for the appointment, the reasons for the Board of Statutory Auditors' choices, and indicates the duly justified preference for one of the two, arising from the final score assigned on conclusion of the selection procedure.

2. Regulatory framework.

The EU and national regulatory framework on the legally-required audit is based on the following acts and rules:

- Directive No. 2014/56/EU (the "**Directive**") on the legally-required audit of annual accounts and of consolidated accounts, implemented by Legislative Decree No. 39 of January 27, 2010, as latterly amended by Legislative Decree No. 135 of July 17, 2016;

- Regulation (EU) No. 537/2014 on the legally-required audit of Public Interest Entities, in force since June 17, 2016 (the "**Regulation**"), which is directly applicable in the legal systems of the individual member states;
- Legislative Decree No. 39/2010 with Articles 13, 17 and 19.

The European rules and the domestic enacting provisions seek to further harmonise the standards originally introduced by Directive 2006/43/EC at European Union level to strengthen the independence, objectivity, transparency, and reliability of auditors and improve the quality of audit work, also to improve public confidence in public interest entities' financial disclosure and consequently contribute to the smooth functioning of the market.

Specifically, the Regulation strengthened the role of the Internal Control and Audit Committee in selecting the new independent audit firm, tasking it with submitting to the Board of Directors a reasoned "recommendation" to enable the Shareholders' Meeting to make a fully informed decision.

3. The selection procedure.

3.1 Introduction.

The Chief Financial Officer (CFO) has undertaken all activities regarding the procedure for the selection of the new auditor in compliance with the applicable regulations and as per the relative Procedure adopted by resolution of the Company's Board of Directors of May 14, 2019. The Board of Statutory Auditors, as the party responsible for this procedure, has continuously interacted with the CFO in order to monitor the latter's work, to share the various initiatives, choices and content of the bid documents during the process, and to supervise the correct execution of the procedure.

3.2 The choice of independent audit firms to be invited

The Company identified the independent audit firms to whom the request for proposals was addressed, according to transparent and non-discriminatory criteria, as required by the applicable regulations, opening participation to those with adequate expertise and experience and suitable structures for auditing F.I.L.A. S.p.A. and the Group.

Specifically, the choice of how many and which independent audit firms to invite was made with the following aspects in mind:

- the independent audit firm's presence through its network of overseas personnel, and particularly in the countries in which the Fila Group mainly operates;
- authority, visibility and accreditation, on the market and in the eyes of stakeholders (in particular: investors, lending institutions and regulators) in Italy and the main countries;
- proven experience in the Group's business sector;
- size in terms of turnover for audit services, assignments related to listed companies, and personnel, particularly in Italy and at the Milan office;
- knowledge of the Company and Group based on previous assignments;
- size and characteristics of the Fila Group, including the fact that F.I.L.A. S.p.A., according to the definitions set out in the Corporate Governance Code, is considered a "concentrated ownership company" and as "not large".

On this basis, the decision was reached to invite the following three independent audit firms (hereinafter jointly referred to as the "Bidding Companies"): Deloitte Touche S.p.A. (hereafter also "DTT"), Ernst Young S.p.A. (hereafter also "EY") and PricewaterhouseCoopers S.p.A. (hereafter also "PWC").

For these independent audit firms and the other members of their respective networks, it was found that:

- they have not provided in the fiscal year prior to the start of the new mandate any prohibited non-audit services;
- they have not provided prohibited non-audit services between the beginning of the period under review and the issuance of the audit report.

It should be noted that firms that have received, in the previous calendar year, less than 15% of their total fees for auditing public interest entities in Italy were not precluded in any way from participating in the selection procedure, in compliance with the provisions of Article 16, paragraph 3, letter a) of European Regulation No. 537/2014

3.3 The Invitation Letter

The Board of Statutory Auditors, after a thorough review of the draft request for proposals to the independent audit firms prepared by the CFO, shared the final version of the "Invitation Letter for the appointment of the independent audit firm of F.I.L.A. S.p.A. for the Fiscal Years 2024 to 2032" (hereinafter also referred to as the "Invitation Letter").

Among other matters, the Letter indicated:

- the activities currently carried out by the outgoing auditor and the scope of action on the various Group companies;
- the required services, which, in addition to those attributable to the legally-required audit assignment, include the Limited audit of the Consolidated Non-financial Statement, prepared as per Legislative Decree No. 254/2016 and the verification procedures regarding compliance with the conditions set out in the loan agreement ("covenants");
- the information to be mandatorily included in the bid (i.e. the extent of the work to be performed on the subsidiaries, the expected commitment in terms of hours - broken down by role, and the respective hourly rates);
- the assessment criteria and their scores, which are discussed more fully in the following section;
- the deadline set for any requests for clarifications from the Bidding Companies, and the deadline and manner for submitting the bid.

It was also stated that one or more meetings with the Company and the Board of Statutory Auditors would be held after the submission of the bid for appropriate assessment and further exploration of all aspects concerning the contents of the bid.

Also attached to the Invitation Letter were Annex A - FILA Group Data, Annex B - Technical Proposal Outline, Annex C - Independence Requirements, and Annex D - Confidentiality Agreement.

In particular, in order to facilitate the drafting of bids and ensure that such are as comparable as possible, Annex A provides information regarding the companies included in the consolidation scope, the audit approach ("scope") followed by the previous auditor, and the hours spent on the various companies for the audit of the financial statements at December 31, 2022.

The Company proceeded to send the Invitation Letter to the Bidding Companies by PEC (registered email) on June 8, 2023.

3.4 Assessment Criteria.

After extensive discussion and also in view of best practice, both qualitative and quantitative aspects were taken into account for assessment purposes, deciding to award 6.5 points to the Qualitative Assessment Criteria and 3.5 points to the Quantitative Assessment Criteria. More specifically:

Qualitative criteria	Score
1. Team members	3.0
2. Knowledge and experience of the bidder	1.5
3. Capacity to serve global clients	1.2
4. Technology and tools to support the work	0.4
5. Communication with the company and the Board of Statutory Auditors	0.4
Sub-total	6.5
Quantitative criteria	Score
1. Total fees	2.0
2. Hours and hourly rates	1.5
Sub-total	3.5
Total	10.0

For internal purposes only, the above criteria have been broken down into more objectively measurable sub-criteria and summarised in a matrix used to assign the final scores.

3.4 Review of the bids and meetings with the Bidding Companies

Following the invitation to bid, bids were received from DTT, EY and PWC by the set deadline of July 7, 2023.

After reviewing the bids and a preliminary exploration, the Board of Statutory Auditors and CFO held a meeting with the Bidding Companies on July 25, 2023 to acquire all useful and necessary clarifications and insights. Following this phase, the following main assessment aspects emerged.

The quantitative aspects related to the three bids can be summarised in the following table:

Aspect	DTT	EY	PWC
Hours (No.)	12,650	13,100	12,450
Remuneration (€/000)	901	1,050	1,060
Hourly rate (€)	71	80	85

It is noted that PWC has requested the adjustment of remuneration to the ISTAT cost-of-living index (or a similar index for the overseas subsidiaries) six months ahead (as of July 1, 2024) of the others (as of January 1, 2025) and, unlike DTT and EY, the settlement of flat-rate expenses (related to technology and secretarial and communication services) equating to 8% of the remuneration. Consequently, the total consideration requested by PWC was approx. Euro 1,170 thousand, with an hourly rate of Euro 94.

In terms of the working methodology and the type of activities (“scope”) carried out at the subsidiaries, EY and PWC proposed an approach that is essentially identical and aligned with that of the outgoing auditor. This approach, in summary, involves the "**complete audit**" of the annual Reporting Package of the main subsidiaries, in addition to Industria Maimeri, Fila Dixon China, Fila Argentina, Fila Chile and Canson Brazil, and the involvement of local teams from their respective networks.

DTT and EY planned to employ an essentially identical mix of roles (Partners, Managers, Seniors and Staff), with the only difference being that DTT indicated an identical mix for both F.I.L.A. S.p.A. and the subsidiaries, while EY indicated that the percentage of Partners and Managers would be higher for the parent company. PWC therefore indicates a lower percentage of these more senior roles.

DTT however, for the above-mentioned subsidiaries, proposed a "limited audit" carried out centrally. In addition, for Dixon Ticonderoga it planned to mainly employ personnel from the Italian company, under the direction of a dedicated partner from the Milan office, who would travel to the U.S. as needed and stay there for the necessary time, with the involvement of a partner and personnel from the Milwaukee office only on specific issues (such as tax issues, local rules and regulations, etc.).

Given the above, it was noted that:

- i. PWC's compensation and hourly rate gave rise to a score differential based on the quantitative criteria against the competitors that could not be bridged by the qualitative criteria score;
- ii. the audit approach (scope) on certain subsidiaries and the working methodology, particularly on the U.S. subsidiary, proposed by DTT substantially differed from the other two competitors (as well as the outgoing auditor), and therefore made the proposals difficult to compare.

In light of these assessments, the Board of Statutory Auditors decided to exclude PWC in view of the financial component (significantly higher price) and to proceed to a more thorough examination of the bids of DTT and EY, through further exploration and a second round of bidding.

For these purposes, a letter was sent to these competitors on October 2, 2023, inviting them to communicate any clarifications, additions, or better terms than the initial bid. In addition, DTT was requested to explain more broadly the planned approach to the subsidiaries and to provide an estimate of travel and living expenses associated with working in the US that may be chargeable to the Company.

3.5 Review of the Final Bids of DTT and EY

By the deadline of October 11, communications were received from DTT and EY in response to the Company's letters (hereinafter referred to as the "Addendum"), which in summary contain the following changes, additions, and clarifications to the initial bids.

➤ *Financial aspects*

- The following table shows the new financial conditions.

Aspect	DTT	EY
Hours (No.)	14,610	13,100
Remuneration (€/000)	770	800
Hourly rate (€)	53	61
Discount	26%	24%

- DTT clarified that the higher number of hours indicated in the Addendum compared to the initial bid and the related fees, referring to the initial exploratory phase and the gradual implementation of the Centralised Audit, are to be considered as an investment fully borne by the former. Therefore, net of the above investment, the discount would be approx. 15% and the Hourly Rate would be Euro 61.
- DTT also emphasised that the travel and living expenses to be incurred for the audit of the US subsidiary by the Italian team, estimated at approx. Euro 30 thousand annually, will fully remain its responsibility.
- Both DTT and EY confirmed the mix of roles indicated in the initial bid.

➤ *Audit approach*

- EY did not present substantial changes, which confirmed the scope and involvement of local teams by companies within its network for the full audit of the Reporting Packages of the overseas subsidiaries, specifying its intention to carry out the audit activities under the extensive coordination and control of the central audit team, headed by a partner and a senior manager dedicated to this activity.
- In its Addendum, DTT on the other hand partially revised its audit approach, proposing for the subsidiaries, where it had initially planned a limited audit at least "for the first few years", essentially the same scope as EY and the outgoing auditor, while clarifying that "over the long term" it would seek to carry out a "Centralised Audit" (as an alternative to employing local staff, particularly for the limited half-year audit), "subject to agreement with the management of Fila and the Board of Statutory Auditors."
- On the basis of the new approach, DTT increased its planned commitment by nearly 2,000 hours.

➤ *Working methodology*

- DTT and EY have both confirmed that they will carry out the audit of the US subsidiary's annual Reporting Package in the manner outlined in the initial bid, outlined above.
- In brief summary, EY proposed the use of a team from the local independent audit firm, part of the same network, with a partner and a senior manager co-ordinating with the Milan office, who together with the assignment manager would interface with the Company's management. DTT, on the other hand, while envisaging the involvement of a local partner, has proposed to entrust the bulk of the work to an Italian team, led by a Milan-based partner who would have ultimate responsibility for the work carried out on the US entity and, consequently, would be the contact in the US for the Company's management.

3.6 Assessment.

As indicated in the Invitation Letter, the assessments presented in this Recommendation took into consideration (i) the qualitative aspects and (ii) the quantitative/financial aspects contained in the bids, with the modifications and clarifications provided in the Addendum, also taking into account that discussed and the exploratory aspects acquired during the meetings with the representatives of the Bidding Companies.

- 1) The reasons and assessments, including in terms of scores, behind the decision to exclude PWC from the subsequent selection phase reserved for the other two bidders have been stated above.

This limits the comparison to the bids submitted by EY and DTT, also in light of the changes indicated in the Addendum.

- 2) From a purely financial perspective, DTT's proposed fee is Euro 30 thousand lower on an annual basis, with a forecast of approx. 1,500 more hours than EY and approx. 2,000 more hours than its initial offer. This is the case at least until "Centralised Audit" is fully implemented. The overall mix of professionals employed for the Company is essentially the same, while, as noted above, EY has indicated that the percentage of Partners and Managers will be lower for the subsidiaries. It was thus calculated that the score assigned on the basis of the quantitative criteria to DTT's bid was slightly higher than that of EY.
- 3) The substantial difference between DTT's offer and EY's offer is due to the manner in which the two companies intend to conduct the audit of the subsidiary's annual Reporting Package in the US. In this regard, the Board of Statutory Auditors discussed in depth with the CFO and the Company's management the advantages and disadvantages of the two differing working methods from an operational point of view, and in terms of effectiveness and efficiency for the central structures of F.I.L.A. S.p.A. and for the local structures (for example: ease of contact and dialogue, timeliness and effectiveness of the various actions, any greater impact on the central structures). The Board of Statutory Auditors, having also taken into account the in-depth investigations conducted jointly with the Company's management and - having made appropriate inquiries into the soundness of the approach - considered in this regard the working methodology proposed by DTT as preferable and more appropriate for the Group's organisation.

Lastly, and independent of the quality of the bids received, the Board of Statutory Auditors would like to remark that the price offered by both DTT and EY is substantially lower than that recognized to the outgoing independent audit firm, as a result of the hourly rate applied and not because of the estimated commitment in terms of hours and professional level of the assigned team.

4. Results of the selection procedure.

All of the bids received were extremely good in terms of the quality of the proposals; the meetings held also highlighted the high level of professionalism of the audit teams presented by the invited independent audit firms.

On this basis, for the above reasons and considerations and as a result of the analyses conducted, which were confirmed in the total score awarded on the basis of the qualitative and quantitative criteria, the following ranking is presented:

1. Deloitte Touche S.p.A.;
2. Ernst & Young S.p.A.;
3. PricewaterhouseCoopers S.p.A.;

Specifically, Deloitte Touche S.p.A. was the Board of Statutory Auditors' preferred option for the following reasons, which form the rationale for this Recommendation:

- ✓ assessment of the qualitative-quantitative composition of the team;
- ✓ number of hours dedicated by partners and managers to the audit activities of the most strategically important business areas;
- ✓ appreciation of the proposed audit strategy;
- ✓ lower amount of total fees for the Group.

5. Board of Statutory Auditors' recommendation.

The Board of Statutory Auditors:

On the basis that

- the findings of the process undertaken, which derive from the comparative and overall analysis of the bids received at Group level, with particular attention to the requirement of independence, in addition to technical and financial aspects, were considered and taken on board;
- it was taken into account that Article 16, paragraph 2 of the Regulation provides that the reasoned recommendation of the Board of Statutory Auditors should contain at least two possible alternatives for the assignment in order to permit a choice;
- it was also taken into account that the aforementioned Article 16, paragraph 2 of the Regulation, requires the Board of Statutory Auditors to express a duly justified preference;

HAVING VERIFIED that

- the method for carrying out the audit, illustrated in the Bids, also considering the hours and the professional resources to be employed, along with the fees proposed, are considered adequate in relation to the extent and complexity of the appointment;
- there is no evidence that the Bidding Companies already hold assignments other than the legal audit of the accounts and the audit of the annual financial statements, which by their nature and/or extent could be considered likely to compromise their independence;

RECOMMENDS

to the Board of Directors to propose to the Shareholders' Meeting to assign the legally-required audit appointment of F.I.L.A. - Fabbrica Italiana Lapis e Affini S.p.A. for the fiscal years 2024-2032, pursuant to Articles 13, paragraph 1 and 17, paragraph 1 of Legislative Decree No. 39 of January 27, 2010 as amended, respectively, by Articles 16 and 18 of Legislative Decree No. 135 of July 17, 2016 and Article 16 of European Regulation No. 537/2014 of the European Parliament and Council of April 16, 2014 to Deloitte Touche S.p.A. or, alternatively, to Ernst & Young S.p.A..

The financial conditions and the mix of professional figures offered by the aforementioned independent audit firms are presented in Annex 1 to this Recommendation.

Finally, between the two

EXPRESSES ITS PREFERENCE

for Deloitte Touche S.p.A., since the bid assessment procedure found it to be the highest ranked company and, therefore, the company considered most suitable to perform the assignment, in particular in terms of the proposed audit approach and the better financial terms offered.

This preference is however to be considered subject to the resolution of the Shareholders' Meeting of F.I.L.A. - Fabbrica Italiana Lapis e Affini S.p.A. S.p.A. regarding the granting of the legally-required audit appointment for the fiscal years 2024-2032.

6. Statements.

In accordance with Article 16, paragraph 2 of Regulation (EU) No. 537/2014, the Board of Statutory Auditors confirms, finally, that this Recommendation has not been influenced by third parties and that

none of the type of clauses referred to in paragraph 6 of the aforementioned Article 16 of the Regulation have been applied.

Milan, November 10, 2023

For the Board of Statutory Auditors

The Chairperson

Gianfranco Consorti