

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

ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS PREPARED IN ACCORDANCE WITH ARTICLE 125-TER OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998 AND SUBSEQUENT AMENDMENTS AND SUPPLEMENTS AND ARTICLE 84-TER OF THE REGULATION ADOPTED WITH CONSOB MOTION No. 11971 OF MAY 14, 1999 AND SUBSEQUENT AMENDMENTS AND SUPPLEMENTS

Report approved by the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. at the meeting of March 16, 2018 and available on the website www.filagroup.it

Points 3 and 4 on the agenda of the Ordinary Shareholders' Meeting called for April 27, 2018 in single call:

- *“establishment of the number of members and appointment of the Board of Directors, establishment of the duration of office and the remuneration of the members of the Board of Directors; resolutions thereon”*
- *“appointment of the Board of Statutory Auditors, establishment of the remuneration of the members of the Board of Statutory Auditors; resolutions thereon”*

Dear Shareholders,

this Report has been prepared in accordance with Article 125-ter, paragraph 1 of Legislative Decree No. 58 of February 24, 1998 and subsequent amendments and supplements (the “CFA”) and Article 84-ter of the Regulation adopted with Consob motion No. 11971 of May 14, 1999 and subsequent amendments and supplements (the “Issuers’ Regulation”).

It was approved by the Board of Directors on March 16, 2018 and is made available to the public, in accordance with applicable law and regulations, at the registered office, on the company website (www.filagroup.it) and also by the other means established by the applicable regulation.

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With the approval of the statutory financial statements at December 31, 2017, the mandate concludes of the Corporate Boards of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. (the “**company**” or “**FILA**”) appointed by the Shareholders’ Meeting of July 22, 2015. Therefore, the Board of Directors has called you to appoint the new Corporate Boards in compliance with the applicable regulatory and statutory provisions.

In view of this, the main By-Law clauses governing the composition, duration of mandate and means for the appointment of the members of the Board of Directors and of the Board of Statutory Auditors of the company are presented below.

1. Appointment of the Board of Directors, with prior establishment of the number of members; establishment of the duration of office and relative remuneration; resolutions thereon.

1.1 Composition and duration of office of the Board of Directors

In accordance with Article 11 of the By-Laws, the company is administered by a Board of Directors composed of a minimum of 7 and a maximum of 12 members.

It is recalled that the company complies with the recommendations of the Self-Governance Code of listed companies of Borsa Italiana S.p.A. (the “**Self-Governance Code**”) and that the shares of the company are listed on the “STAR” segment of the Italian Stock Exchange.

Given this and in accordance with the applicable regulations, the new Board of Directors should possess an adequate number of Directors considered independent in accordance with Article 148, paragraph 3 of the CFA and the Self-Governance Code (the “**Independent Directors**”), i.e. at least (i) 2 Independent Directors for a Board of Directors comprising up to 8 members and (ii) 3 Independent Directors for a Board of Directors comprising between 9 and 12 members.

The composition of the Board of Directors should in addition guarantee gender parity in compliance with the applicable legal and statutory provisions. In particular, on the basis of the applicable rules (Law No. 120 of June 12, 2011 and Consob motion No. 18098 of February 8, 2012), and as per the

By-Laws, at least one-third (rounded upwards in the case of fractioning) of the number of members on the new Board of Directors should be of the under-represented gender on the Board.

With regards to the duration of mandate, the members of the Board of Directors remain in office for the period established on appointment and however for not more than three financial years, with their mandate concluding on the date of the Shareholders' Meeting called to approve the financial statements for their final year of office, subject to the conditions of discontinuation and lapse established by law and the By-Laws. Therefore, the maximum duration of the appointed Board of Directors shall not extend beyond the date of the Shareholders' Meeting called for approval of the 2020 Annual Accounts.

1.2 Presentation of slates of candidates for the office of Director

The Board of Directors is appointed on the basis of slates filed by shareholders. Slates presented without complying with the By-Law provisions outlined below are considered as not presented.

In accordance with Article 11 of the By-Laws and Consob motion No. 20273 of January 24, 2018, slates may be presented by shareholders possessing, alone or together with others, a holding of at least 2.5% of the share capital. The ownership of the minimum holding necessary is established considering the shares which have been registered in favour of the shareholder on the day on which the slates are filed with the company. The relative ownership certificate may be sent after the filing of the slate, although by the deadline for the publication of slates.

Individual Shareholders, shareholders belonging to the same group or members of a shareholder agreement pursuant to Article 122 of the CFA, may not present or be involved in the presentation, even through nominees or trust companies, of more than one slate or vote on other slates.

In accordance with Article 147-ter, paragraph 1-bis of the CFA, the slates, accompanied by the necessary documentation, should be filed by shareholders at least twenty-five days in advance of the Shareholders' Meeting; however, in consideration of the fact this deadline would fall on a holiday (i.e. April 2, 2018), it is postponed by one day, therefore with a deadline of **April 3, 2018**. The filing of slates should be made according to one of the following means: (i) by registered letter with signed receipt, to be sent to the registered office of the company; (ii) by certified e-mail to the address amministrazione@pec.fila.it.

In accordance with the applicable provision, at least 21 days before the date fixed for the Shareholders' Meeting, the company shall make available to the public at the registered office and on Fila's website (www.filagroup.it) the slates of candidates filed, together with the accompanying filed documentation.

Those presenting slates should also file a copy of the certifications issued by intermediaries declaring ownership of the number of shares necessary for the presentation of such slates, in accordance with the deadlines and means indicated by the applicable regulation.

The slates should contain not less than 3 candidates and not more than 12, listed by progressive number. Each candidate may run on one slate only, subject to ineligibility.

The slates must comprise candidates from both genders. The candidates from the under-represented gender on these slates should not account for less than one-third (rounded upwards) of all candidates presented on the slate.

In accordance with Article 144-octies of the Issuers' Regulation and the By-Laws, the following should be filed together with each slate (at the risk of ineligibility): (i) declarations of the individual candidates, in which they accept their candidature and certify, under their own responsibility, the inexistence of any cause of ineligibility or incompatibility, as well as the satisfaction of the requirements prescribed by applicable regulations for the office of Director of the company, including

where applicable, declarations on the independence of candidates; (ii) a curriculum vitae containing exhaustive information on their personal and professional characteristics of each candidate; (iii) indication of the identity of the shareholders who have presented the slates and their overall shareholding; and (iv) any other further declaration, disclosure and/or document required by law and applicable regulatory rules.

In accordance with Consob Communication No. DEM/9017893 of 26.2.2009, shareholders presenting a “minority slate” should file together with the slate a declaration certifying the absence of connecting relationships, even indirect, as per Article 147-*ter*, paragraph 3 of the CFA and Article 144-*quinquies* of the Issuers’ Regulation, with shareholders possessing, even jointly, a controlling or relative majority holding, identified on the basis of the communications of significant holdings as per Article 120 of the CFA or the publication of shareholder agreements in accordance with Article 122 of the same Decree.

1.3 Appointment of the members of the Board of Directors

In accordance with Article 11 of the By-Laws, the Board of Directors is elected as follows:

- from the slate obtaining the highest number of votes, all directors are elected (according to the progressive numbering on the slate) except one;
- from the slate obtaining the second highest number of votes and which is not connected, even indirectly, with the shareholders presenting or voting upon the slate receiving the highest number of votes, the remaining director is elected.

Consideration is not taken of the slates which have not obtained at least half of the votes required for the presentation of slates.

Should two slates receive the same number of votes, a second vote of the entire Shareholders’ Meeting shall decide, with the candidates being elected by means of a simple majority of the votes and without the application of slate voting.

Where on conclusion of voting the legal and regulatory requirements concerning gender parity are not met, the candidate of the over-represented gender elected last according to the progressive number of the slate which achieved the highest number of vote is excluded and replaced with the first candidates not elected belonging to the other gender. Where it is not possible to implement the above procedure to guarantee compliance with the gender parity laws and regulations, the remaining directors will be elected by the Shareholders’ Meeting through ordinary majority, with presentation of candidates belonging to the under-represented gender.

Where, on conclusion of voting, the appointment of the minimum number of independent directors as required by the applicable regulation in relation to the total number of directors is not ensured, the candidate or the candidates not considered independent elected last according to the progressive numbering of the slates which carries the highest number of votes will be replaced by the first independent candidate or candidates not elected from the same slate according to the progressive numbering by which the candidates are listed, or where not possible, the replacement shall be made according to a motion of the Shareholders’ Meeting as per the normal means and applicable majorities, following presentation of candidates considered as independent as per the applicable rules.

Where only one slate is presented, the Shareholders’ Meeting will vote on that slate and, where this slate receives the majority of the votes, all the members of the Board of Directors will be taken from this slate in accordance with the applicable provisions (including in terms of gender parity).

In the case in which no slates are presented, or only one slate is presented which does not obtain a relative majority of votes, or where the number of directors elected on the basis of the slates presented is lower than the number of members to be elected, or where, for any reason, it is not possible to

proceed with the appointment of the Board of Directors according to the procedures described above, the Shareholders' Meeting decides according to the statutory means and majorities. In this case, the applicable provisions concerning the presence of a minimum number of independent directors and regarding gender parity should also be applied.

1.4 Remuneration of the members of the Board of Directors

Shareholders are finally called to consider the fixed annual remuneration for office of the members of the Board of Directors. The Shareholders' Meeting is called to consider the overall amount of the Board's remuneration; this sum is thereafter broken down among the membership of the Board of Directors. In addition to this amount, senior directors have the right to remuneration established by the same Board of Directors, having consulted the Board of Statutory Auditors, in accordance with Article 2389, paragraph 3 of the Civil Code.

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In light of that stated above, the Board of Directors invites shareholders to consider each of the following points, on the basis of the proposals and the slates to be presented in accordance with law and the By-Laws:

1. Establishment of the number of members of the Board of Directors.
2. Appointment of the members of the Board of Directors;
3. Duration of office of the appointed Board of Directors;
4. Establishment of the remuneration of the members of the Board of Directors.

2. Appointment of the Board of Statutory Auditors and of the Chairman; establishment of the relative remuneration; resolutions thereon.

2.1 Composition and duration of office of the Board of Statutory Auditors

In accordance with Article 17 of the By-Laws, the Board of Statutory Auditors comprises 3 statutory auditors and 2 alternate auditors.

The composition of the Board of Statutory Auditors should in addition guarantee gender parity in compliance with the applicable legal and statutory provisions. In particular, on the basis of the applicable rules (Law No. 120 of June 12, 2011 and Consob motion No. 18098 of February 8, 2012),

and as per the By-Laws, at least one-third (rounded upwards in the case of fractioning) of the number of members on the new Board of Statutory Auditors should be of the under-represented gender on the Board.

Subject to the other incompatibilities under the applicable legal and regulatory provisions, those not considered of good standing and professionalism as per Ministry of Justice Decree of March 30, 2000, No. 162 may not be appointed to the Board of Statutory Auditors. In addition, those who do not comply with the limit upon the cumulative number of administration and control positions established by the applicable legal and regulatory provisions may not be appointed to the Board of Statutory Auditors.

Finally, in accordance with law, the appointed Board of Statutory Auditors shall remain in office for three financial years, with their mandate therefore concluding at the Shareholders' Meeting called for the approval of the 2020 Annual Accounts.

2.2 Presentation of slates of candidates for the office of Statutory Auditor

The Board of Statutory Auditors shall be appointed on the basis of slates presented by shareholders.

In accordance with Article 17 of the By-Laws and Consob motion No. 20273 of January 24, 2018, slates may be presented by shareholders possessing, alone or together with others, a holding of at least 2.5% of the share capital. The ownership of the minimum holding necessary is established considering the shares which have been registered in favour of the shareholder on the day on which the slates are filed with the company. The relative ownership certificate may be sent after the filing of the slate, although by the deadline for the publication of slates.

Individual Shareholders, shareholders belonging to the same group or members of a shareholder agreement pursuant to Article 122 of the CFA, may not present or be involved in the presentation, even through nominees or trust companies, of more than one slate or vote on other slates.

In accordance with Article 147-ter, paragraph 1-bis of the CFA - as required by Article 148, paragraph 2 of the CFA - the slates, accompanied by the necessary documentation, should be filed by shareholders at least twenty-five days in advance of the Shareholders' Meeting; however, in consideration of the fact this deadline would fall on a holiday (i.e. April 2, 2018), it is postponed by one day, therefore with a deadline of **April 3, 2018**. The filing of slates should be made according to one of the following means: (i) by registered letter with signed receipt, to be sent to the registered office of the company; (ii) by certified e-mail to the address amministrazione@pec.fila.it.

In accordance with the applicable provision, at least 21 days before the date fixed for the Shareholders' Meeting, the company shall make available to the public at the registered office and on Fila's website (www.filagroup.it) the slates of candidates filed, together with the accompanying filed documentation.

Those presenting slates should also file a copy of the certifications issued by intermediaries declaring ownership of the number of shares necessary for the presentation of such slates, in accordance with the deadlines and means indicated by the applicable regulation.

The candidates on the slates presented by shareholders should be listed by progressive numbers. Each slate should comprise of two sections: one containing one or more candidates for the position of statutory auditor, with the other containing one or more candidates for the office of alternate auditor. The number of candidates on each slate however should not exceed the number of board members to be elected. Where the slates contain 3 or more candidates, both genders should be represented. In this

case, the slates must contain a number of candidates in both sections to ensure that the composition of the Board of Statutory Auditors, both for statutory auditors and alternate auditors, complies with the applicable legal and regulatory provisions.

Each candidate may run on one slate only, subject to ineligibility.

In accordance with Article 144-*octies* of the Issuers' Regulation and the By-Laws, the following should be filed together with each slate (at the risk of ineligibility): (i) information concerning the identity of the shareholders who have presented the slates and their overall shareholding; (ii) the declaration of the shareholders presenting the slate and other than those who hold, including jointly, a controlling or relative majority shareholding, stating the absence of connecting relationships with these latter, according to the applicable regulation ⁽¹⁾; (iii) comprehensive personal and professional details upon the candidates; (iv) declarations in which the individual candidates accept their candidature and certify that they fulfill the legal requirements; (v) the list of management and control positions held by the candidates at other companies; (vi) any other further declaration, disclosure and/or document required by law and applicable regulatory rules.

Where, on conclusion of the deadline for the filing of slates, only one slate is presented, or slates are only presented by connected shareholders in accordance with the applicable regulation, other slates may be presented until the third day subsequent to the deadline, while the minimum percentage for the presentation of slates is reduced by half. Communication shall be made in the forms established by the current provisions.

2.3 Means for the appointment of members of the Board of Statutory Auditors

In accordance with Article 17 of the By-Laws, the Board of Statutory Auditors is elected as follows:

- from the slate obtaining the highest number of votes (according to the progressive numbering on the slate) two statutory auditors and one alternate auditor are elected;
- from the slate obtaining the second highest number of votes and not connected with the shareholders presenting or voting upon the slate obtaining the highest number of votes (according to the progressive numbering on the slate) the remaining statutory auditor and the other alternate auditor are elected;

The Chair of the Board of Statutory Auditors is assumed by the statutory auditor from the slate which obtained the second highest number of votes at the Shareholders' Meeting.

Should two slates receive the same number of votes, a second vote of the entire Shareholders' Meeting shall decide, with the candidate being elected by means of a simple majority of the votes.

Where on conclusion of voting, the statutory provisions concerning gender parity have not been complied with, the candidate for statutory auditor belonging to the over-represented gender elected as last from the slate obtaining the highest number of votes is excluded and shall be replaced by the subsequent candidate from the same slate belonging to the other gender.

¹() In particular, in accordance with Consob communication No. DEM/9017893 of 26.2.2009, shareholders presenting a "minority slate" should provide in the declaration the following information: (a) any existing relationships, where significant, with shareholders who hold, even jointly, a controlling or relative majority share, identifiable on the basis of the communications of significant holdings as per Article 120 of the CFA or according to the shareholder agreement published as per Article 122 of the same Decree. In particular, at least those listed at point 2 of the Consob Communication should be indicated. Alternatively, the absence of significant relationships should be indicated; and where applicable (b) the reasons why these relations are not considered connecting relationships as per Article 148, paragraph 2, CFA and Article 144-*quinquies* of the Issuers' Regulation.

Where, despite the above process, only one slate is presented, the Shareholders' Meeting will vote on that slate and, where this slate receives the majority of the votes, all the statutory auditors and alternate auditors will be taken from this slate in accordance with the applicable law and regulations (including in terms of gender parity).

Where no slates are presented, or where, for any reason, it is not possible to appoint the Board of Statutory Auditors according to the means indicated, the Shareholders' Meeting will vote by statutory means and majorities. In this case, the applicable provisions regarding gender parity should also be applied.

2.4 Remuneration of the members of the Board of Statutory Auditors

Shareholders are finally called to consider the annual remuneration of the members of the Board of Statutory Auditors for the entire period of office in accordance with Article 2402 of the Civil Code.

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In light of that stated above, the Board of Directors invites shareholders to consider each of the following points, on the basis of the proposals and the slates to be presented in accordance with law and the By-Laws:

1. Appointment of the Board of Statutory Auditors and the Chairman;
2. Establishment of the remuneration of the members of the Board of Statutory Auditors.

Milan, March 16, 2018

The Chairman of the Board of Directors

Gianni Mion