

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

ANNUAL REMUNERATION REPORT

in accordance with Article 123-ter of Legislative Decree 58/1998

June 2015



Issuer: F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A.

Website: www.fila.it

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INTRODUCTION

This report was prepared in accordance with (i) Article 84-*quater* of Consob Regulation No. 11971 of May 14, 1999 (**Issuers' Regulation**), by which Consob has implemented the provisions of Article 123-*ter* of Legislative Decree No. 58 of February 24, 1998 (CFA) and (ii) Article 6 of the Self-Governance Code of listed companies promoted by Borsa Italiana S.p.A. for the remuneration of Directors and key management personnel of listed companies, published in December 2011 (**Report**).

The Shareholders' Meeting of Space S.p.A. (**Space**), called for the approval of the 2014 Annual Accounts, on April 2, 2015, passed a non-binding vote in favour of, in accordance with Art. 123-*ter* CFA, the first section of the remuneration report prepared by the Board of Directors of Space in March 2015.

Following the completion of the merger of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. into Space, the Board of Directors of the latter – which with effect from the effective date of the aforementioned merger changed its name to F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. (**F.I.L.A., Company or Issuer**) – decided to prepare this Report (prepared according to the structure of Annex 3A, schedule 7-*bis* and schedule 7-*ter* of the Issuers' Regulation) to supplement the remuneration report prepared by the Board of Directors of Space in March 2015, in order to define:

- (a) in Section I, the types of remuneration and related criteria adopted by the Issuer from June 1, 2015 for (i) the members of the Board of Directors, including Senior Executives, (ii) Key Management Personnel, as well as (iii) members of the Board of Statutory Auditors; and
- (b) in Section II, the composition and quantification of fees matured in Year 2014 (i) by members of the Board of Directors of Space and F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A., including Senior executives, (ii) by Key Management Personnel, as well as (iii) by members of the Board of Statutory Auditors.

In addition, Section II contains information related to shares held by the Issuer and by the subsidiary companies, by the Board of Directors and Board of Statutory Auditors, by Key Management Personnel, as well as by spouses who are not legally separated and by minor children, in line with what is established in Art. 84-*quater*, paragraph 4, of the Issuers' Regulation.

The Shareholders' Meeting of F.I.L.A. called for the appointment of the corporate bodies, was convened to express itself with a non-binding vote on the first section of the Report, in accordance with Art. 123-*ter* of the CFA. The outcome of the vote will be made available to the public in accordance with Art. 125-*quater*, paragraph 2, of the CFA.

SECTION I

1.1 BOARDS AND INTERESTED PARTIES AND ANY INVOLVEMENT OF INDEPENDENT EXPERTS

The Issuer has adopted a traditional management and control model.

The following are the bodies of the Issuer that are delegated with defining the remuneration policy:

- (a) The Shareholders' Meeting which, among other matters: (i) resolves the remuneration for the Board of Directors; (ii) resolves the remuneration for the Board of Statutory Auditors; (iii) passes an advisory non-binding vote on section I of the remuneration report; (iv) establishes the remuneration for the Executive Committee, where appointed;
- (b) The Board of Directors which, among other matters: i) allocates the total remuneration resolved by the Shareholders' Meeting for the Board among its members; (ii) establishes the remuneration for the Senior Executives in accordance with Article 2389, paragraph 3, of the Civil Code; (iii) defines the remuneration policy; (iv) approves the remuneration report;
- (c) The Board of Statutory Auditors expresses its opinion on proposals for the remuneration of Key Management Personnel in accordance with Art. 2389, paragraph 3, of the Civil Code.

For reasons of simplification and efficiency in the governance structure, having evaluated the organisational requirements of Space and the mode of operation and the size of its Board of Directors, Space had considered it appropriate not to appoint a Remuneration Committee. After the effective merger date (i.e. June 1, 2015), the Issuer will constitute the Remuneration Committee based on the recommendations of the Self-Governance Code, while not constituting the Appointments Committee. Once available, the documentation related to the Remuneration Committee will be made available on the Issuer's website.

Given the simplicity of Space's remuneration policy, no independent experts were involved for the evaluation of this policy, neither were the remuneration policies of other companies taken as a reference.

1.2 REMUNERATION POLICY AND OBJECTIVES FOR THE BOARD OF DIRECTORS YEAR 2015

At the date of this report, the Company has not adopted a policy for the remuneration of Directors.

It should be noted that on March 17, 2014, the Shareholders' Meeting resolved to grant a gross annual emolument equivalent to Euro 12,000 to each Independent Director and no emolument in favour of other directors and on November 26, 2013, the Shareholders' Meeting of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. resolved to grant a gross annual emolument of Euro 12,000 to each Director (with the exception of Directors Ravagli and Berti for whom a gross annual emolument of Euro 50,000 was resolved and the total annual amount granted to the Chairman of the Board of Directors, Alberto Candela, and the executive directors was fixed at Euro 2,600,000, requesting the Board of Directors to establish the amount and method of allocation in each case.

On February 26, 2015, the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. resolved – in line with what had been established in previous years – set a fixed annual remuneration in favour of the Chairman of the Board of Directors of Euro 150,000 (one hundred fifty thousand), inclusive of Euro 12,000 already allocated by the Shareholders' Meeting of November 26, 2013 and the following annual remuneration to the Chief Executive Officer Massimo Candela, and the Executive Director Luca Pelosin:

- Chief Executive Officer Massimo Candela
 - A fixed annual remuneration of Euro 750,000 (seven hundred fifty thousand), inclusive of Euro 12,000 already allocated by the Shareholders' Meeting of November 26, 2013;
 - An additional variable fee, initially established at Euro 750,000 (seven hundred fifty thousand), linked to the following consolidated parameters:
 - (i) Verification of the reported EBITDA in line with the budget;
 - (ii) Verification of the reported NFP/EBITDA in line with the budget.

The comparative parameters between the reported results and the budget have been defined on the basis of like-for-like consolidation, normalising the EBITDA and the NFP respectively for direct and accessory costs/revenues and financial movements related to extraordinary transactions (not provided for in the budget) of acquisition and divestiture;
- Luca Pelosin
 - A fixed annual remuneration of Euro 250,000 (two hundred fifty thousand), inclusive of Euro 12,000 already allocated by the Shareholders' Meeting of November 26, 2013;
 - An additional variable fee of Euro 160,000 (one hundred sixty thousand) to be paid on the condition that the normalised consolidated EBITDA achieved by the Fila Group is at least Euro 40 million.

On June 4, 2015, the Issuer's Board of Directors resolved to grant to the Chief Executive Officer Massimo Candela and the Executive Director Luca Pelosin – co-opted Directors by the Board of Directors of Space on January 15, 2015 with effect from the effective merger date – the above-mentioned annual remuneration. As provided for by the Consob Regulation No.17221 of March 12, 2010 regarding transactions with related parties as subsequently amended (**Related Parties Regulation**), as implemented in the internal procedure adopted by Space on October 15, 2013, and available on the website www.fila.it, the approval of the above-mentioned annual remuneration was resolved by means of non-binding favourable opinion by the Control and Risks Committee as it was not possible to make use of the exemption referred to in Art. 13 of the Related Parties Regulation due to the Company not having adopted a remuneration policy.

In line with the resolution of March 17, 2014 of the Space Shareholders' Meeting, Director Fabio Zucchetti (also co-opted on 15 January 2015) is not entitled to any remuneration as not an Independent Director.

It should also be noted that persons who shall be elected as directors by the Issuers' Shareholders' Meeting called to resolve the appointment of new corporate boards and which should be held by July 31, 2015 shall be remunerated in line with salaries paid in the past by F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A., in accordance with applicable law and regulations for listed companies.

Therefore:

Non-executive Directors

This category includes Directors who do not hold specific management powers and do not hold managerial positions in the Company or the Fila Group of companies. Non-executive Directors are allocated a fixed fee determined by the Shareholders' Meeting in accordance with Art. 2389 of the Civil Code, in addition to the reimbursement of expenses incurred for the discharge of office. Specific remuneration is not provided for participation in committees.

Independent Directors

Remuneration for Independent Directors is equivalent to that of other directors: there is, therefore, no specific remuneration policy for Independent Directors.

Executive Directors

Fixed component

The fixed component of the remuneration acknowledges the breadth and strategic nature of the role, the distinctive subjective characteristics and the strategic capacities held. This measure sufficiently remunerates the level of professional service of the Executive Directors, even in the event that performance objectives, which affect the payment of the variable remuneration, are not met and this – among others – is to discourage behaviour that is not consistent with the Company's risk propensity. The fixed annual remuneration is approximately equivalent to a range between 43% and 100% of the total remuneration and is paid monthly.

Short-term variable component

The variable component of Executive Directors' remuneration is based on the short-term and aims to incentivise Directors to work toward the achievement of annual objectives and to maximise the value of the Company in line with shareholders' interests. The short-term component of Executive Directors' remuneration is only achievable against the reaching of pre-defined annual financial objectives established by the Board of Directors. The variable annual remuneration is approximately equivalent to a range between 0% and 57% of the total remuneration and matures with the approval of the relevant consolidated annual accounts from which the elements to determine the entitlement due will be obtained through arithmetic formulas. The base variable remuneration may increase or decrease depending on the achievement or non-achievement of the budgeted EBITDA targets and the NFP/EBITDA ratio.

In particular, this remuneration may decrease (up to 100% and, therefore, down to zero) in the event of a negative variance of more than 12.70% of the effective EBITDA compared to the budgeted EBITDA or increase (up to a maximum of 20%) in the event that the targeted EBITDA is exceeded by more than 8.15%. In the event of variances between the two extremes, higher or lower percentages of the base variable component are provided for. Once the premium/decrease compared to the base variable component is determined from the EBITDA result, a reduction or premium will apply on the verification of the NFP/EBITDA ratio, and particularly, if there is a negative variance of more than 10%, the reduction in the variable remuneration will be of 40% while if there is a positive variance of more than 10%, the variable remuneration premium will be of 30%. Different percentages of increase or decrease of the base variable component are also provided for in the event of variances between the two extremes.

Honorary Chairman

This is a person chosen from among persons of high standing and who have contributed to the establishment and/or development of the Company. The Honorary Chairman is entitled to an annual emolument determined by the Board of Directors corresponding to what was paid in the past by F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. to the Chairman of the Board of Directors.

For members of the Board of Directors in office, there is no additional compensation in case of termination of office before the natural expiry of the term and there are no non-monetary benefits (cars and/or insurance coverage other than third party liability of corporate bodies in the exercise of their functions, so-called D&O). There are no agreements which take effect, have been amended, or terminate upon a change of control of the Company or request for resignation following a takeover bid or a public exchange offer.

There are no outstanding stock option plans.

1.3 REMUNERATION POLICY FOR KEY MANAGEMENT PERSONNEL YEAR 2015

At the date of this Report, the Company has not adopted a remuneration policy for senior executives.

It should be noted in this respect that at the date of the Report, the Company has no key management personnel.

1.4 REMUNERATION POLICY FOR THE BOARD OF STATUTORY AUDITORS

The remuneration of members of the Board of Statutory Auditors, allocated at the time of establishment of Space on October 7, 2013, is determined in accordance with the provisions of Ministerial Decree 140/2012. In this regard, it should be noted that, in relation to the resulting amount, Space and the Board of Statutory Auditors have agreed to reduce the total remuneration of the Board of Statutory Auditors to Euro 34,172.11, equivalent to 50% of the amount resulting from the application of the parameters referred to in the Ministerial Decree 140/2012. This remuneration was effective up to the completion of the relevant transaction of the object of activity of Space (*i.e.* June 1, 2015, effective date of the merger).

The remuneration of Statutory Auditors is not therefore linked in any way to the financial results of the Company and does not include variable components or monetary incentives; there is no additional compensation in case of termination of office before the natural expiry of the term and there are no non-monetary benefits (cars and/or insurance coverage other than third party liability of corporate bodies in the exercise of their functions). Notwithstanding the above, there are no agreements which take effect, have been amended, or terminate upon a change of control of the Company or request for resignation following a takeover bid or a public exchange offer.

It should also be noted that persons who shall be appointed statutory auditors by the Shareholders' Meeting of the Issuer, called to resolve the appointment of new corporate boards and which should be held before July 31, 2015, shall be remunerated in line with fees paid in the past by F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A., in accordance with applicable laws and regulations for listed companies.

SECTION II

1.1 REMUNERATION COMPONENTS

1.1.1 *Board of Directors*

On March 17, 2014, the Space Shareholders' Meeting resolved the allocation of a gross annual emolument of Euro 12,000 for each Independent Director.

In line with the resolution passed on March 17, 2014 by the Space Shareholders' Meeting, Director Fabio Zucchetti (co-opted by the Board of Directors of Space on January 15, 2015) is not entitled to any remuneration since he is not an Independent Director.

Therefore, at the date of this Report, none of the Directors receive any remuneration in relation to their office, with the exception of Independent Directors who each receive a gross annual salary of Euro 12,000 for each Independent Director and for Key Management Personnel.

1.1.2 *Senior Executives*

On June 4, 2015, the Issuers' Board of Directors resolved to allocate to the Chief Executive Officer Massimo Candela and Executive Director Luca Pelosin – co-opted Directors by the Board of Directors of Space on 15 January 2015 – the same remuneration (with a fixed and variable component) which had been decided by the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. on February 26, 2015.

In particular,

- Chief Executive Officer Massimo Candela
 - A fixed annual remuneration of Euro 750,000 (seven hundred fifty thousand), inclusive of Euro 12,000 already allocated by the Shareholders' Meeting on November 26, 2013;
 - An additional variable fee, initially established at Euro 750,000 (seven hundred fifty thousand), linked to the following consolidated parameters:
 - (i) Verification of the reported EBITDA in line with the budget;
 - (ii) Verification of the reported NFP/EBITDA in line with the budget.

The comparative parameters between the reported results and the budget have been defined on the basis of like-for-like consolidation, normalising the EBITDA and the NFP respectively for direct and accessory costs/revenues and financial movements related to extraordinary transactions (not provided for in the budget) of acquisition and divestiture;
- Luca Pelosin
 - A fixed annual remuneration of Euro 250,000 (two hundred fifty thousand), inclusive of Euro 12,000 already allocated by the Shareholders' Meeting on November 26, 2013;

- An additional variable fee of Euro 160,000 (one hundred sixty thousand) to be paid on the condition that the normalised consolidated EBITDA achieved by the Fila Group is of at least Euro 40 million.

1.1.3 Key Management Personnel

The Company has no key management personnel.

1.1.4 Board of Statutory Auditors

The remuneration of members of the Board of Statutory Auditors, allocated when the Company was set up on the October 7, 2013, is determined in accordance with the provisions of Ministerial Decree 140/2012. In this regard, it should be noted that, in relation to the resulting amount, Space and the Board of Statutory Auditors have agreed to reduce the total remuneration of the Board of Statutory Auditors to Euro 34,172.11, equivalent to 50% of the amount resulting from the application of the parameters referred to in the Ministerial Decree 140/2012. This remuneration was effective up to the completion of the relevant transaction of the object of activity of Space (*i.e.* 1 June 2015, effective merger date).

1.2 REMUNERATION

1.2.1 Board of Directors

The following table shows the fees – including social security expenses – recognised in any capacity and in any form for the year ended December 31, 2014 by Space to members of the Board of Directors and the Board of Statutory Auditors.

<i>(values expressed in Euro)</i>		Board of Directors				
Name and Surname	Office	Fees for office	Non-monetary benefits	Bonus and other incentives	Other remuneration	Remuneration for Space subsidiaries
Gianni Mion	Chairman	-	-	-	-	-
Roberto Italia	CEO	-	-	-	-	-
Carlo Pagliani	Director	-	-	-	-	-
Edoardo Subert	Director	-	-	-	-	-
Maria Patrizia Grieco	Independent Director	5,950.70	-	-	-	-
Francesca Prandstaller	Independent Director	6,000.00	-	-	-	-
Micaela Le Divelec Lemmi	Independent Director	11,950.70	-	-	-	-
Alberto Amadeo Tazartes	Independent Director	12,000.00	-	-	-	-

<i>(values expressed in Euro)</i>		Board of Statutory Auditors				
Name and Surname	Office	Fees for office	Non-monetary benefits	Bonus and other incentives	Other remuneration	Remuneration for Space subsidiaries
Pier Luca Mazza	Chairman	15,231.00	-	-	-	-
Virginia Marini	Standing Auditor	10,154.00	-	-	-	-
Marco Giuliani	Standing Auditor	10,154.00	-	-	-	-
Simona	Alternate	-	-	-	-	-

Valsecchi	Auditor					
Fabio Massimo Micaludi	Alternate Auditor	5,950.70	-	-	-	-

The following table shows the fees - including social security expenses – recognised in any capacity and in any form for the year ended December 31, 2014 by Space to co-opted Directors of the Space Board of Directors with effect from the effective merger date.

		Co-opted Directors					Remuneration for F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. subsidiaries
<i>(values expressed in Euro)</i>							
Name and Surname	Office	Fees for office	Non-monetary benefits	Bonus and other incentives	Other remuneration		
Massimo Candela	Chief Executive Officer	750,000 fixed 825,000 variable	-	-	-	-	
Luca Pelosin	Executive Director	220,000 fixed 140,000 variable	-	-	-	10,000 (Omyacolor) 12,000 US\$ (Dixon Messico)	
Fabro Zucchetti	Director	12,000	-	-	-	12,000 US \$ (Dixon)	

1.2.2 Board of Statutory Auditors

Members of the Board of Statutory Auditors of Space have received total compensation amounting to Euro 35,539 for the Year 2014.

Members of the Board of Statutory Auditors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. have each received remuneration of Euro 22,000 and the Chairman Euro 29,000 for the Year 2014.

1.3 STOCK OPTION PLANS

The Company has not approved any Stock Option Plan.

1.4 ORDINARY SHARES OF THE COMPANY HELD BY MEMBERS OF THE BOARD OF DIRECTORS AND STATUTORY AUDITORS, GENERAL MANAGERS AND KEY MANAGEMENT PERSONNEL

Except as indicated in the following paragraph, there are no ordinary shares held by directors and auditors, nor by spouses who are not legally separated and by minor children, directly or through subsidiary companies, trust companies or nominees resulting from the Shareholder Register, communications received or from other information acquired by the Directors and Auditors.

At the date of this Report, Dr. Massimo Candela holds (i) a direct 12% share in the share capital of Pencil S.p.A. (**Pencil**) and (ii) indirectly through the companies Wood I S.r.l. and Wood II S.r.l., in which he owns 100% of the share capital, a further 52.92% of the share capital in Pencil and, therefore, a total shareholding of 64.92% of the share capital in Pencil. Pencil holds 66.00% of the votes of the Issuer (which will be equivalent to 64.95% on the 5th working day following the effective merger date) against a shareholding in the Issuer's voting that is equal to 53.80% and 52.64% respectively through the holding of Class B shares which have three votes per share.

It should be noted that, at the date of this Report, Directors Gianni Mion and Roberto Italia each hold a share of 18.8% of the share capital of Space Holding S.r.l., the Promoter of Space (now F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A.). At the date of this Report, Space Holding S.r.l. has 460,000 special shares in the Company whose characteristics are specified in the By-laws, and 690,000 Sponsor Warrants F.I.L.A. S.p.A. whose characteristics are set out in the relevant regulation.

On the 5th working day following the effective date of the merger, Space Holding S.r.l. will hold 1.59% of direct votes in respect to the Issuers' voting share capital of 2.15%.

* * *

Milan, June 4, 2015

F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A.

On behalf of the Board of Directors

Gianni Mion

Chairman