

**Report of the Board of Statutory Auditors of
F.I.L.A. – FABBRICA ITALIANA LAPIS ED AFFINI S.P.A.
to the Shareholders' Meeting
called for the approval of the 2016 Annual Accounts**

Dear Shareholders,

This Report was prepared by the Board of Statutory Auditors appointed for a three-year mandate by the Shareholders' Meeting of July 22, 2015, comprising Claudia Mezzabotta, Chairperson, Stefano Amoroso and Rosalba Casiraghi, Statutory Auditors, while confirming that the activities carried out by the previous Board of Statutory Auditors have been based on the underlying accounting records. The Board of Statutory Auditors will remain in office until the approval of the 2017 Annual Accounts.

1. Independence of the members of the Board of Statutory Auditors and activities carried out

The Board verified the absence of grounds for loss of office, in accordance with Article 148 of the CFA, with regard to its members, in addition to their independence as per point 10.C.2 of the current Self-Governance Code for listed companies (hereafter the "Self-Governance Code"), which the Company adopted with Board of Directors' motion of March 15, 2016.

The Board of Statutory Auditors, in accordance with Article 153 of Legislative Decree No. 58/1998 (hereafter the "CFA") and Article 2429, paragraph 2 of the Civil Code, is called to report to the Shareholders' Meeting on the supervisory activities carried out and on any omissions or citable events arising. The Board of Statutory Auditors may also make observations and proposals upon the financial statements, with regard to their approval and on any matters within their remit.

During the year ended December 31, 2016, the Board performed the supervisory activities required by law, in accordance with the Conduct principles for Boards of Statutory Auditors endorsed by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

On the activities undertaken during the year, as per Consob's indications of Communication of April 6, 2001, as amended and supplemented by Communication DEM/3021582 of April 4, 2003, and subsequently by Communication DEM/6031329 of April 7, 2006, the Board:

- (a) oversaw compliance with law and the By-Laws;

- (b) obtained from the Directors the required information on activities carried out and upon the operations of greatest economic, financial and equity significance in the year of F.I.L.A. FABBRICA ITALIANA LAPIS ED AFFINI S.p.A. (hereafter F.I.L.A. S.p.A.) and its subsidiaries; this disclosure was exhaustively provided in the Directors' Report, to which reference should be made. On the basis of the information made available to the Board, we reasonably consider that these operations comply with law and the By-Laws and were not manifestly imprudent, hazardous or against the motions undertaken by the Shareholders' Meeting or such as to compromise the integrity of the company's assets;
- (c) did not note any atypical or unusual operations with Group companies, third parties or with other related parties. The Board of Statutory Auditors had not received at the date of the present report any communication from the control boards of the subsidiaries, associates or investees, or from the independent audit firm containing issues which require disclosure in this report. The Board of Directors in the Annual Report provided exhaustive disclosure upon the operations executed with subsidiaries and with other related parties, outlining the economic effects, in addition to the method for the calculation of consideration, highlighting that they were undertaken within the course of normal operations and were generally governed at market conditions - i.e. the same conditions that would be applied between unrelated parties for transactions of a similar nature.

With regard to the activities of the current Board of Statutory Auditors, we met on 9 occasions with almost full attendance, as highlighted in greater detail in the table included in the relevant section of the 2016 Corporate Governance Report. The Board of Statutory Auditors attended the meetings of the Board of Directors and ensured the presence of at least one member at all Control and Risks Committee, Remuneration Committee and Related Parties Committee meetings in the period. In the same period, the Board of Statutory Auditors also supervised the adequacy of the organisational, administrative and accounting structure of the Company, to the extent of its remit and did not encounter in this regard substantial irregularities requiring disclosure in this Report. The oversight activities of the Board particularly focused on these issues, in view also of the acquisition of the Daler-Rowney-Lukas on February 3, 2016, of the Canson Group (France) on October 5, 2016 and of the company St. Cuthberts Holding Limited on September 14, 2016. The Board of Statutory Auditors indicates that the company in 2016 significantly improved the functioning of its corporate boards, which are now more in line with best practice for listed companies. We recall that the listing took place in 2015 and in the subsequent months extensive and at times complex fine-tuning

activities were undertaken to optimise the functioning of the Boards. The Board of Statutory Auditors consistently supervised and will continue to closely supervise the proper functioning of the corporate governance boards.

2. Relations with the Independent Audit Firm, in accordance with Legislative Decree 39/2010 and observations on its independence

With regard to the audit of accounts, such was awarded to the independent audit firm KPMG S.p.A. (hereafter the “Independent Audit Firm”).

The Board of Statutory Auditors supervised the efficacy of the audit, examining in specific meetings with the Independent Audit Firm the audit plan and discussing the activities carried out.

The above-stated Audit Firm communicated the fees invoiced to F.I.L.A. S.p.A. for the audit of the 2016 Consolidated Annual Accounts, in addition to the limited audit of the half-year financial statements and the control activities on the proper maintenance of accounting records. The 2016 fees for the services provided to the F.I.L.A. Group by the Independent Audit Firm and entities belonging to its network (including non-audit services) are reported, with a breakdown of the various appointments in the paragraph “Disclosure as per Article 149-*duodecies* of the Consob Issuers’ Regulation” in the *Explanatory Notes to the Consolidated Financial Statements of the F.I.L.A. Group* for 2016, in compliance with the above-stated Article 149-*duodecies* of the Issuers’ Regulation.

The Independent Audit Firm also communicated to the Board of Statutory Auditors that, taking account of the regulatory and professional requirements for audit activities, on the basis of the best information available, it has maintained in the period considered by this Report, its independence and objectivity towards F.I.L.A. S.p.A. and that no changes occurred in terms of the absence of any causes of incompatibility, particularly with regards to the situations and parties considered by Article 17, Legislative Decree No. 39/2010 and by the Articles of Heading I-bis (“Incompatibility”) of Section VI (“Audit”) of the Issuers’ Regulation. The verifications carried out by the Board of Statutory Auditors were also executed in accordance with Regulation EC 537/2014 of the European Parliament and Council of April 16, 2014 and in particular Article 5 of this Regulation. In drawing up our opinion, the Board of Statutory Auditors also took account of that reported in this regard in the “Position Paper” on the “Interpretative questions on the application of Regulation (EC) No. 537/2014 and of Legislative Decree No. 39 of January 27, 2010, as amended by Legislative Decree No. 135 of July 17, 2016 in enactment of Directive 2014/56/EC”, published by Assirevi on January 23, 2017.

Following the specific meeting with the Independent Audit Firm KPMG S.p.A., the Board of Statutory Auditors noted that the Auditor's Report upon the 2016 financial statements, dated March 29, 2017, did not highlight any critical aspects.

The Board of Statutory Auditors in addition examined the Report on Fundamental Questions arising on the audit of accounts and in particular significant deficiencies raised in terms of the internal control system on the financial disclosure process prepared by the Independent Audit Firm KPMG S.p.A. in implementation of Article 19 of Legislative Decree 39/2010. The report does not indicate any significant deficiencies.

3. Financial disclosure process and the internal control system

The current Board of Statutory Auditors, as indicated above, supervised the adequacy of the administrative and accounting system, in addition to its reliability to correctly represent the operating events, obtaining information from the administrative department managers and exchanging information with the Control and Risks Committee, the Internal Audit department and the Independent Audit Firm.

The Board of Statutory Auditors supervise, also through periodic meetings with the Executive Officer responsible for financial reporting, the organisation and company procedures for the drawing up of the statutory financial statements, the consolidated financial statements and the periodic financial reports, in addition to other financial communications, assessing their adequacy and effective adoption.

The Board of Statutory Auditors also noted the declaration issued by the Executive Officer for financial reporting in accordance with Article 36, paragraph 1, letter c) point ii) of the Markets' Regulation, on the adequacy and appropriateness of the powers and financial means assigned to the Board of Directors for the execution of office.

The Board of Statutory Auditors considers the administrative and accounting systems substantially adequate and reliable in view of the size and complexity of the Company and of the Group, and in this regard, indicates that the work for the adoption of a Group ERP system has begun, overseen by the Executive Director Mr. Luca Pelosin.

As not having any responsibility for the audit of the accounts, the Board of Statutory Auditors supervised the general lay-out of the statutory financial statements and the consolidated financial statements and their compliance with the rules governing their formation and structure. The Board of Statutory Auditors also verified their consistency with the events and information noted during the execution of their duties. In this regard, the Board of Statutory Auditors does not highlight any particular observations.

The Board of Statutory Auditors supervised, within the extent of its remit, the adequacy of the internal control system: a) obtaining information from the managers of the respective company departments, so as to verify the existence, adequacy and proper implementation of the procedures; b) attended the meetings of the Control and Risks Committee and of the other Board-established Committees; c) met periodically with the Internal Audit manager; d) exchanged information on an ongoing basis with the Independent Audit Firm.

The Board of Statutory Auditors also met with the Supervisory Board set up in accordance with Legislative Decree 231/2001 and subsequent amendments, obtaining adequate disclosure on the activities carried out by them.

The Board of Statutory Auditors, on the basis of the control activities put in place and the improvement actions being implemented, considers that the internal control system should be considered in overall terms adequate to the size and complexity of the operations undertaken by the Company and by the Group. The Board of Statutory Auditors, considering the overseas acquisitions in the period covered by this report and the consequent further expansion of the Group internationally, also in non-EU countries, highlights the need for a greater commitment by company management to further strengthen the control functions and in particular the internal audit function.

4. Additional activities of the Board of Statutory Auditors and Consob required disclosure

In accordance with that required by Consob, the Board of Statutory Auditors reports the following:

- a) the current Board of Statutory Auditors did not receive any petitions as per Article 2408 of the Civil Code, nor notices from third parties;
- b) the Company, during the year, did not receive disclosure requests from Consob, in accordance with Article 115 of the CFA, nor disclosure requests (to the market) from Consob in accordance with Article 114 of the CFA;
- c) the current Board of Statutory Auditors, during the year, did not receive any disclosure requests from Consob, neither as per Article 115 of the CFA, nor as per Article 114 of the CFA;
- d) during the year, the Board of Statutory Auditors issued opinions as per Article 2389, paragraph 3 of the Civil Code, concerning the remuneration of directors with specific offices;
- e) the Board of Statutory Auditors examined the instructions imparted by the Company to the subsidiaries, in accordance with Article 114, paragraph 2 of the CFA, considering such as adequate;

- f) the Board of Statutory Auditors noted the preparation of the Remuneration Report as per Article 123-ter, CFA, and 84-quater of the Issuers' Regulation and did not raise any particular issues in this regard;
- g) with regard to the meetings of the Board of Directors, the Board of Statutory Auditors notes that these were carried out during the reference period of the present Report in compliance with the statutory, legislative and regulatory rules governing their functioning. During these meetings, the directors provided, in accordance with the corporate governance rules of the Company, information on the general operating performance and on the outlook.

5. *Final considerations*

During the course of the supervisory activities described above, no citable events, omissions or irregularities which require disclosure in this report were noted.

On the basis of that reported above, the Board of Statutory Auditors does not raise, within the extent of its remit, any reason to oppose the approval of the 2016 Annual Accounts drawn up by the Board of Directors, nor raises any objections with regard to the proposal for the allocation of the net profit.

Milan, March 29, 2017

Claudia Mezzabotta, Chairperson

Stefano Amoroso

Rosalba Casiraghi