



**Illustrative Report of the Board of Directors on point 3 of the Agenda of the Extraordinary Shareholders' Meeting, called for April 27, 2017 in single call**

**Proposal to grant to the Board of Directors, in accordance with Article 2443 of the Civil Code, for a period of five years from the approval date, the faculty to increase the share capital, freely and divisibly, also in a number of tranches, as per Article 2349 of the Civil Code, for a maximum Euro 86,000.00 to be entirely allocated to the share capital, through the issue of a maximum 94,765 shares, to be assigned to the beneficiaries of the 2017-2019 Performance Shares plan; consequent amendment of Article 5 of the By-Laws; resolutions thereon.**

Dear Shareholders,

we submit for your approval the proposal to grant to the Board of Directors, in accordance with Article 2443 of the Civil Code, for a period of five years from the approval date, the faculty to increase the share capital, freely and divisibly, also in a number of tranches, as per Article 2349 of the Civil Code, for a maximum Euro 86,000.00 to be entirely allocated to the share capital, through the issue of a maximum 94,765 new ordinary shares of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. (**FILA** or the **Company**), without indication of nominal value, with the same features as those in circulation, in service of the “2017-2019 Performance Shares Plan” incentive plan (the **Plan**) reserved to key management personnel of the Group, described in the disclosure document drawn up pursuant to Article 84-*bis* of the regulation adopted by Consob with motion No. 11971 of May 14, 1999, as subsequently amended, and made available to the Shareholders for the examination of Matter 3 on the agenda of the ordinary session of today's Shareholders' Meeting (the **Disclosure Document**).

The Disclosure Document, which you are requested to refer to for more information, lists the criteria for the identification of the beneficiaries and the characteristics of the Plan.

The Plan provides for the free assignment of ordinary shares of the Company to the beneficiaries. It is envisaged that these shares will be derived from a share capital increase to be carried out through the use of profits or retained earnings, pursuant to Article 2349 of the Civil Code.

Therefore, the Board submits for your consideration the proposal to grant to the Board of Directors, in accordance with Article 2443 of the Civil Code, for a period of five years from the approval date, the faculty to increase the share capital, freely and divisibly, also in a number of tranches, as per Article 2349 of the Civil Code, for a maximum Euro 86,000.00 to be entirely allocated to the share capital, to be assigned to the beneficiaries of the Plan.

It should be noted that, pursuant to Article 5 of the By-laws as amended by today's Shareholders' Meeting, *"it is permissible, in the manner provided for by law, to allocate profits and/or retained earnings to employees of the Company or subsidiary companies, through the issue of shares pursuant to the first paragraph of Article 2349 of the Civil Code"*. It is specified in this regard that the effectiveness of the motion to grant the power to increase the share capital by Shareholders as described below must be understood as being subject to the Shareholders' approval of the amendment of Article 5 of the By-laws referred to in Point 1 of the extraordinary session of the Shareholders' Meeting and the subsequent registration in the Companies Register of the FILA By-laws' new version which includes the amendment to Article 5 in the aforementioned terms.

## **1. Reasons and purpose of the share capital increase**

The Plan shall be one of the instruments used by the Group to supplement the fixed remuneration component of key personnel with variable components based on certain performance objectives and in accordance with best market practice.

The Plan is of a medium/long-term nature. In particular, such a period is considered more appropriate for the setting of the incentive and loyalty objectives under the Plan.

The proposal to grant the power to increase the share capital submitted for your approval is for the creation of the shares necessary for the plan, in accordance with Article 114-*bis* of Legislative Decree No. 58/1998 (the **CFA**), to be implemented through the free assignment of ordinary FILA shares as per Article 2349 of the Civil Code. In this regard, it should be noted that:

- (i) the proposal for the adoption of the Plan; and
- (ii) the proposal to insert in the By-laws of the Company, the authority to allocate profits and/or retained earnings to employees through the issue of shares reserved for them pursuant to Article 2349, paragraph 1 of the Civil Code,

are presented in a special report drawn up in accordance with applicable legislation and presented for the examination and approval of today's Shareholder's Meeting.

The right to receive the shares in accordance with the Plan is subject to:

- the continued employment of the beneficiary of the Plan with the company or with the relative subsidiary at the allocation date of the shares, without the loss, with reference to the role covered, of the characteristics of the position identified for the growth and sustainability of the Group business within the company, the relevant subsidiary or the Group itself; and
- the achievement of minimum performance objectives outlined in the Disclosure Document.

## **2. Characteristics of the share capital increase reserved to Plan beneficiaries**

For execution of the share capital increase in service of the Plan, it is therefore proposed to grant to the Board of Directors, in accordance with Article 2443 of the Civil Code, the power to freely increase the share capital, in a divisible manner and a number of tranches, through the use of retained earnings in accordance with Article 2349 of the Civil Code, for a maximum Euro 86,000.00 to be fully allocated to the share capital, through the issue of a maximum 94,765 ordinary FILA shares without indication of nominal value, with the same features as those in circulation and normal rights, to be assigned freely to the Plan beneficiaries.

At the date of assignment, the Board of Directors of the company will establish the number of ordinary FILA shares to be allocated to each beneficiary.

For the method of calculation of the total maximum number of ordinary shares subject to the Plan to be assigned to the beneficiaries in execution of the Plan, reference should be made to the Illustrative Report on the Plan prepared in accordance with Article 114-*bis* of the CFA and the Disclosure Document.

The new shares shall be issued as part of the share capital increase in service of the Plan, representing 0.273% of the current capital of the company.

In accordance with Article 2443 of the Civil Code and Article 6 of the By-Laws, the Shareholders' Meeting may grant to the Board of Directors the power to increase on one or more occasions the share capital, up to a determined amount and for a maximum period of five years from the motion approval date.

Taking account that the free assignment of shares to beneficiaries should take place on a single occasion subsequent to the conclusion of the rights maturation period in accordance with the Plan, it is considered that the technically most effective instrument for this purpose is the assignment to the Board of Directors, in accordance with Article 2443 of the Civil Code, of the power to increase freely the share capital in service of the Plan. The profits and/or retained earnings to be allocated for this purpose shall amount to Euro 0.9015 for each newly issued ordinary FILA share (equal to the implied nominal value of the FILA ordinary shares at the date of this Report).

### **3. Features of the newly issued shares**

The company shall freely make available to the beneficiary the newly issued ordinary shares as established by the Plan. The ordinary company shares assigned to the beneficiary shall have the same rights as the ordinary company shares at the issue date and shall therefore be linked with the coupons in place at that date.

### **4. Statutory amendment following the resolution on the proposed share capital increase**

In view of the proposal submitted for your approval, it shall be necessary to supplement Article 5 of the By-Laws with a clause concerning the Shareholders' Meeting motion to grant the power to the Board of Directors, in accordance with Article 2443 of the Civil Code, to freely increase the share capital.

Article 5 of the By-Laws is reported below with the proposed amendments highlighted.

<b>BY-LAWS</b>	
<b>EXISTING TEXT</b>	<b>PROPOSED TEXT</b>
5.1 The share capital amounts to Euro 37,170,830 and is divided into 41,232,296 shares, of which 34,665,788 Ordinary shares and 6,566,508 Special Class B shares ("B Shares"), all without par value.	<i>Unchanged</i>
The Extraordinary Shareholders' Meeting of October 9, 2013, among other matters, approved the increase of the divisible paid-in share capital, for a maximum total amount including share premium of Euro	<i>Unchanged</i>

7,788,750, to be reserved for the exercise of 750,000 F.I.L.A. S.p.A. Sponsor Warrants, in accordance with the terms and conditions established by the regulation approved by the Extraordinary Shareholders' Meeting at the same meeting (as amended by the Board of Directors on January 15, 2015 in accordance with Article 6.2 of the same regulation), through the issuance of a maximum of 750,000 ordinary shares without nominal value at a price of Euro 10,385; the deadline as per Art. 2439 of the Civil Code, the rights and the effectiveness of this last increase shall be regulated by the relevant motion.

5.2 Ordinary shares, Class B shares and the warrants are subject to dematerialisation in accordance with Articles 83-bis and subsequent of Legislative Decree No. 58/1998.

*Unchanged*

5.3 The assignment of profits and/or retained earnings to employees of the company or the subsidiaries, through the issue of shares in accordance with the first paragraph of Article 2349 of the Civil Code is permitted.

*Unchanged*

5.4 The Extraordinary Shareholders' Meeting of April 27, 2017 has resolved to increase the share capital, pursuant to Article 2349, for a nominal value of Euro 90,314.00, through the issue of 100,181 new ordinary shares, without nominal value, to be released through the use of a corresponding part of the existing retained earnings and to be allocated free of charge to employees of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A. and its subsidiaries, to the beneficiaries of the extraordinary bonus approved by the ordinary shareholders' meeting of April 27, 2017, which should be carried out by the final deadline of December 31, 2017.

*Unchanged*

**5.5 The Directors are granted the faculty for five years from April 27, 2017 to increase the share capital in service of implementing the "2017-2019 Performance Shares Plan" for a maximum amount of Euro 86,000 (to**

	<b>be fully allocated to the share capital) with the issue of a maximum 94,765 ordinary FILA shares, without indication of nominal value, with the same features as those in circulation and normal rights, through the assignment of a corresponding maximum amount of profits and/or retained earnings in accordance with Article 2349 of the Civil Code, at the same terms, conditions and means established by the Plan.</b>
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The By-Law amendment in question does not provide the right to withdraw as per Article 2437 of the Civil Code.

Dear Shareholders,

in consideration of that established above, we invite you therefore to adopt the following resolution:

*“The Shareholders’ Meeting of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A., having seen and approved the Board of Directors’ Illustrative Report as well as the proposals to adopt the “Performance Shares 2017-2019 Plan” and the insertion in the Company’s By-laws of the authority to allocate profits and/or retained earnings to employees through the issue of shares reserved for them, pursuant to Article 2349, paragraph 1 of the Civil Code, referred to in the first and third matters on the Agenda*

**resolves**

- *to allocate to the Board of Directors, in accordance with Article 2443 of the Civil Code, for a period of five years from the present motion, the power to freely increase the share capital, also in a number of tranches, in service of the “2017-2019 Performance Shares Plan” for a maximum amount of Euro 86,000 (to be fully allocated to the share capital), with the issue of a maximum 94,765 new ordinary FILA shares without indication of nominal value, with the same features as those in circulation and normal rights, through allocating a corresponding amount of profits and/or retained earnings in accordance with Article 2349 of the Civil Code, at the terms, conditions and means established by the 2017-2019 Performance Shares Plan;*
- *to amend Article 5 of the By-Laws through the introduction of a new paragraph (with consequent renumbering of subsequent paragraphs), as follows: “5.5 The Directors are granted the faculty for five years from April 27, 2017 to increase the share capital in service of implementing the “2017-2019 Performance Shares Plan” for a maximum amount of Euro 86,000.00 (to be fully allocated to the share capital) with the issue of a maximum 94,765 ordinary FILA shares, without indication of nominal value, with the same features as those in circulation and normal rights, through the assignment of a corresponding maximum amount of profits and/or retained earnings in accordance with Article 2349 of the Civil Code, at the same terms, conditions and means established by the Plan.*

- *to grant the Board of Directors, and on its behalf, the Chairman and the Chief Executive Officer pro tempore in office, severally, the powers to implement the above resolutions, including:*
  - i) *the power to update Article 5 of the By-Laws, in terms of the amount of the share capital and the number of shares, in relation to the total or partial subscription of the share capital increase, in addition to the relative filing at the Companies Registration office;*
  - ii) *The powers to perform any activity, prepare, present, sign any document, or act, as required, necessary or appropriate for the implementation of the approved share capital increase and the performance of any activity that is preparatory, ancillary, instrumental, or consequent to it, with a separate mandate to the Chairman and to the Chief Executive Officer pro tempore in office, for all activities not reserved by law or by internal regulations to the competence of the collective corporate body;*
  - iii) *The powers to perform all acts necessary or appropriate for the implementation of the resolution, also conferring a separate mandate on the Chairman and the Chief Executive Officer pro tempore in office for the insertion of the agreed changes or required changes for registration in the Register of Companies."*
  
- *to mandate the Board of Directors and therefore its Chairman and Chief Executive officer, separately, to carry out that required, also through legal representatives, necessary or useful for implementation of all of the motions undertaken today, in addition to the execution of the formalities necessary for the filing of the motions at the Companies Registration Office, with the faculty to introduce any non-substantial changes, amendments or additions considered necessary or required by the relevant authorities, also on filing and, in general, to carry out all necessary actions for complete execution of the motions, with all powers necessary and opportune, without exclusion, in addition to the filing and publication in accordance with law of the updated text of the By-Laws with the changes implemented following passing of the preceding motions and their execution".*

Pero, March 24, 2017

For the Board of Directors  
The Chairman of the Board of Directors