

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



**ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS ON THE ONLY MATTER ON THE AGENDA
OF THE EXTRAORDINARY SHAREHOLDERS' MEETING OF F.I.L.A. - FABBRICA ITALIANA LAPIS ED
AFFINI S.P.A., CALLED FOR APRIL 18, 2019 IN SINGLE CALL**

(prepared in accordance with Article 125-ter of Legislative Decree No. 58 of February 24, 1998 and subsequent amendments and supplements, and Articles 72 and 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 15, 2019 and available on the website www.filagroup.it

Matter 1 on the agenda of the Extraordinary Shareholders' Meeting of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A., called for April 18, 2019 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 and also in a number of tranches in accordance with Article 2349 of the Civil Code, for a maximum Euro 458,049.00, to be entirely allocated to the share capital, through the issue of a maximum 497,879 shares without express nominal value, to be assigned to the beneficiaries of the 2019-2021 incentive plan concerning ordinary F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. shares called the “2019-2021 Performance Shares Plan”; with the consequent amendment of Article 5 of the By-Laws; resolutions thereon. “

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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**”).

This report was approved by the Board of Directors of F.I.L.A. – Fabbrica Italiana Lapis ed Affini S.p.A. (“**Fila**” or the “**company**”) in the meeting of March 15, 2019 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.

The Board of Directors on March 15, 2019 approved, among other matters, the submittal for the review and approval, as the third matter on the agenda of the Shareholders' Meeting of Fila, of an incentive plan called the “2019-2021 Performance Share Plan” (the “**Plan**”), reserved for employees and/or executive directors of the company and/or other Group companies (the “**Subsidiaries**” and this latter and the company collectively considered as the “**Group**”), which has been outlined in detail in the relative illustrative report and in the disclosure document prepared in accordance with Article 84-bis of the Issuers' Regulation, made available to shareholders for their review of the above-stated matter on the agenda of the Shareholders' Meeting and according to the terms and means established by the applicable and consultable legal and regulatory provisions, *inter alia*, on the company website (www.filagroup.it) in the “Governance” section, in addition to the authorised storage mechanism “EMARKET STORAGE” (www.emarketstorage.com).

The above-stated illustrative report and disclosure document, to which reference should be made for further information on the Plan, outline in detail the criteria for the identification of the beneficiaries and the characteristics of the Plan, in addition to the reasons underlying its adoption. Specifically, the Plan provides for the free assignment of ordinary shares of the Company to the beneficiaries. It is also stipulated that these shares derive from (i) a share capital increase to be executed through the use, in accordance with Article 2349 of the Civil Code, of profits or retained earnings and/or (ii) treasury shares from purchases made in accordance with Article 2357 and 2357-ter of the Civil Code.

As described in greater detail in the disclosure document on the Plan, the beneficiaries of the Plan shall be allocated the right to receive ordinary shares of the company, which shall be assigned to them, on conclusion of the three-year vesting period (2019-2021), on one single occasion, *inter alia*, subject to - and on the basis of - the achievement of the specific performance objectives, which are both economic-financial (quantitative objectives) and individually or collectively strategic (qualitative objectives). The achievement of these objectives, as is the case with the additional conditions under the Plan, shall be assessed by the Board of Directors on conclusion of the above vesting period.

Therefore, in order to ensure the availability of a sufficient number of shares to be assigned, where the performance objectives are achieved, and the other conditions of the Plan met, to the employees of the company and/or the subsidiaries who are beneficiaries of the Plan, the Board of Directors intends to submit for your approval, in accordance with law, the proposal to grant the Board of Directors the power, in accordance with Article 2443 of the Civil Code, to increase the share capital freely for a period of five years from the date of this motion, divisible and in a number of tranches, in accordance with Article 2349 of the Civil Code, for a maximum amount of Euro 458,049.00 to be fully allocated to the share capital, through the issue, of a maximum 497,879 ordinary Fila shares without express nominal value.

The above power may be exercised on one or more occasions within five years from the proposal motion, in compliance with the exercise conditions of the Plan, by the deadline of March 18, 2024 through the issue of a maximum 497,879 ordinary Fila shares without express nominal value, to be reserved for employees of the company and/or the subsidiaries who are beneficiaries of the Plan as considered key Group personnel.

For completeness, where all of the shares subject to the Plan are not assigned and consequently not all of the shares are issued, the share capital shall be increased, also freely through the use of profits and/or retained earnings, for an amount corresponding to the ordinary shares effectively assigned and, therefore, issued.

1. Reasons for and use of the share capital increase

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

The Board of Directors considers a share-based incentive plan, with three-year duration and specific performance objectives, as the most effective incentive instrument and one which responds to the interests of the company and of the Group. This Plan, in Fila's opinion, seeks to (i) align the interest of management with those of shareholders, (ii) reward the achievement of the Industrial Plan targets of the Group and (iii) retain strategic personnel.

The adoption of the Plan, reserved for executive directors and/or employees of the Group who, in the opinion of the company, are strategic to implement the company and Group growth and development plan, in addition targets the specific purpose - in line with the remuneration policy of the company for 2019 - to harmonise the remuneration structure for executive directors, senior executives and senior managers of the Group.

Therefore, as stated, the proposal to grant to the Board of Directors the power to increase the share capital submitted for your approval is required to create part of the shares to service this Plan, reserved for employees of the company and/or the subsidiaries who shall be identified as beneficiaries of the Plan.

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

The beneficiaries of the Plan shall include, *inter alia*, employees of the company and/or the subsidiaries and - considering that Article 5 of the By-Laws of Fila permits “*the assignment of profits and/or retained earnings to employees of the company or of subsidiaries, through the issue of shares in accordance with the first paragraph of Article 2349 of the Civil Code*” - it is proposed, therefore, to undertake a free share capital increase in accordance with Article 2349, paragraph 1 of the Civil Code, through the use of profits and/or retained earnings, as resulting from the financial statements approved during the year in which the assignment of the ordinary shares included in the Plan shall be assigned (i.e. the financial statements for the year ending December 31, 2021).

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, in accordance with Article 2349 of the Civil Code, for a maximum amount of Euro 458,049.00, to be fully recognised to the share capital, through the issue of a maximum 497,879 ordinary Fila shares, without express nominal value, with the same features of the ordinary Fila shares in circulation, with full rights, to be assigned free of charge to employees of the company or the subsidiaries who are beneficiaries of the Plan. In this regard, Article 6 of the By-Laws of Fila permits the Shareholders’ Meeting of Fila to “*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*”.

In addition, against a total maximum 789,320 shares to be assigned to beneficiaries where achieving the maximum performance objectives set out under the Plan, the Board of Directors, on conclusion of the three-year vesting period (i.e. December 31, 2021) shall establish the effective number of shares to be assigned to the beneficiaries of the Plan, which shall be made available to each, according to the terms and means established by the Plan and, in particular, not beyond 60 calendar days from approval of the financial statements at December 31, 2021.

The Board of Directors shall also be granted the powers to identify in due time and on a case by case basis the profits and/or retained earnings to be allocated for the purpose, with a mandate to apply the appropriate accounting entries regarding the issue transactions, in compliance with the applicable legal provisions and the applicable accounting standards.

3. Features of the newly issued shares

The company shall freely make available to each of the beneficiaries of the Plan the newly issued ordinary shares as established by the Plan. The ordinary company shares assigned to each of the beneficiaries 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. Amendment of Article 5 of the By-laws

As a consequence of the proposal submitted for your approval, it shall be necessary to supplement Article 5 of Fila's By-Laws through inserting a clause concerning the Shareholders' Meeting motion regarding the granting to the Board of Directors of the power, in accordance with Article 2443 of the Civil Code, to freely increase the share capital in accordance with Article 2349 of the Civil Code.

The full text of Article 5 of Fila's By-Laws, compared with the version which the Board of Directors proposes, is presented below.

Existing Text	Proposed Text
Article 5 - Share capital and shares	Article 5 - Share capital and shares
5.1. The share capital amounts to Euro 46,799,406.00 and is divided into 50,870,740 shares, of which 42,788,884 Ordinary shares and 8,081,856 Special Class B shares ("B Shares"), all without par value. 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 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. "The Extraordinary Shareholders' Meeting of	[Unchanged]

<p>October 11, 2018 approved a divisible paid-in share capital increase for a maximum Euro 1,809,665.44, including any share premium and at a unitary subscription price equal to Euro 10.48, to be executed by and not beyond December 31, 2025, to facilitate exercise of the warrants assigned to managers employed by the subsidiary Pacon Holding Company, and therefore with exclusion of the pre-emption right as per Article 2441, paragraph 8 of the Civil Code, through the issue of 172,678 ordinary shares.</p>	
<p>5.2. The 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.</p>	<p>[Unchanged]</p>
<p>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.</p>	<p>[Unchanged]</p> <p>The Directors are granted the powers for five years from April 18, 2019 to increase the share capital in service of implementing the “2019-2021 Performance Shares Plan” for a maximum amount of Euro 458,049.00 (to be fully allocated to the share capital) with the issue of a maximum 497,879 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 from the latest financial statements approved in accordance with Article 2349 of the Civil Code, at the same terms, conditions and means established by the Plan.</p>
<p>5.4. 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</p>	<p>[Unchanged]</p>

<p>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.</p>	
<p>5.5. The ordinary shares are to bearer, indivisible, freely transferable and confer to the owners equal rights. In particular, each ordinary share attributes the right to one vote at the Ordinary and Extraordinary Shareholders' Meeting of the company, as well as additional equity and administrative rights pursuant to the By-Laws and statutory law.</p>	<p>[Unchanged]</p>
<p>5.6. Class B shares have the same rights as ordinary shares, except exclusively for the following:</p> <ul style="list-style-type: none"> (a) every Class B share has the right to three votes in accordance with Article 127-sexies of Legislative Decree No. 58/1998 at all shareholders' meetings of the Company, in compliance with any limits established by law; (b) they are automatically converted into ordinary shares at the ratio of one ordinary share for every Class B share (without the need for approval at a Special Class B Shareholders' Meeting, nor by the shareholders of the Company) in the event of (i) sale to parties who are not already owners of Class B shares, except in the case where the transferee is a holding company, controlled by or subject to common control with the transferor and, on the understanding that, in this case, if the transferee loses the status of a holding company, controlled by or subject to common control with the transferor, all the 	<p>[Unchanged]</p>

<p>Class B shares of the holder will be automatically converted into ordinary shares at the ratio of one ordinary share for every Class B share and (ii) change of control of the person holding the Class B shares, where the holding company means the party who, under applicable law, is obliged to provide information about major holdings (the "Ultimate Parent") and this, except for cases where this change of control takes place (1) not by inter vivos transaction; or (2) inter vivos in favour of parties who are successors in title of the Ultimate Parent and/or in favour of a Company or other entities directly or indirectly controlled by the Ultimate Parent or its direct successors in title or where they themselves are the beneficiaries, specifying that the change from exclusive control to joint control with third parties acting jointly with the Ultimate Parent will not constitute a change in control for the purposes of this section 5.6 (b);</p> <p>(c) They may be converted, in whole or in part, or in one or more tranches, into ordinary shares at the simple request of the holder, to be sent to the Chairman of the Board of Directors of the Company and in copy to the Chairman of the Board of Statutory Auditors, and always on the basis of one ordinary share for every Class B share.</p> <p>Conversion is to be confirmed by the Board of Directors through a motion passed by statutory majority. In the event that the Board of Directors fails to do so, the conversion is to be confirmed by the Board of Statutory Auditors through a motion passed by a majority of those present.</p> <p>Ordinary shares may not be converted into B Shares.</p>	
<p>5.7. The Company may decide to issue Class B</p>	<p>[Unchanged]</p>

<p>shares to a limited extent in cases of (a) a share capital increase in accordance with Art. 2442 of the Civil Code, i.e. by means of new contributions without exclusion or limitation of option rights, in any case in combination with ordinary shares in accordance with the following art. 5.9; and (b) a merger or spin-off.</p>	
<p>5.8. In the event of a share capital increase to be undertaken through the issue of ordinary shares, all shareholders will have the right to subscribe to the newly-issued ordinary shares (unless the option right is excluded in accordance with law or there is no entitlement) in proportion and in relation to the shares - including ordinary shares or Class B shares – held at the moment of share capital increase. In such cases, the approval of the relevant resolution by a Special Class B Shareholder’s Meeting is excluded in accordance with Art. 2376 of the Civil Code.</p>	<p>[Unchanged]</p>
<p>5.9. In the event of a share capital increase through the issue of ordinary or B Shares: (i) the number of the ordinary and B Shares to be issued must be proportional to the number of ordinary and B Shares of the share capital at the date of the relative resolution; and (ii) the ordinary and B Shares to be issued must be offered to each shareholder in relation to and in proportion to, respectively, the ordinary and B Shares held at the date of the share capital increase, noting that the B Shares may only be subscribed by shareholders already holders of B Shares; in the absence of subscription of the newly issued B Shares by the shareholders of the B Shares, the B Shares will automatically convert into ordinary shares based on one share for every B Share and will be offered to the other shareholders in accordance with applicable legal provisions.</p>	<p>[Unchanged]</p>
<p>5.10. Where the Company participates in a merger by incorporation as the incorporating company or in a merger, the holders of the B Shares will have the right to receive, within the</p>	<p>[Unchanged]</p>

share swap ratio, shares with the same characteristics - in relation to the multi-voting rights – as the B Shares, in accordance with applicable legal provisions.	
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5. Right to withdraw

The amendments to the By-Laws indicated at paragraph 4 above do not include the right to withdrawal as per Article 2437 of the Civil Code.

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Considering that stated above, the Board of Directors submits the following proposal for your approval:

“The Shareholders’ Meeting of F.I.L.A. - Fabbrica Italiana Lapis ed Affini S.p.A., meeting in extraordinary session and having reviewed the illustrative report of the Board of Directors, on the proposals contained therein, while having also viewed the proposals of the plan called the “2019-2021 Performance Share Plan”

resolves

- 1. 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 divisible also in a number of tranches, in service of the incentive plan called the “2019-2021 Performance Shares Plan” for a maximum amount of Euro 458,049.00 (to be fully allocated to the share capital), with the issue of a maximum 497,879 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, as resulting from the latest approved financial statements, in accordance with Article 2349 of the Civil Code, in accordance with the terms, conditions and means established by the 2019-2021 Performance Shares Plan;*
- 2. to amend Article 5 of the By-Laws of Fila through the introduction of a new concluding paragraph to paragraph three, as follows: “The Directors are granted the powers for five years from April 18, 2019 to increase the share capital in service of implementing the “2019-2021 Performance Shares Plan” for a maximum amount of Euro 458,049.00 (to be fully allocated to the share capital) with the issue of a maximum 497,879 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 from the latest financial statements approved in accordance with Article 2349 of the Civil Code, at the same terms, conditions and means established by the Plan”;*
- 3. to grant to the Board of Directors and for it, to the Chairman of the Board of Directors and to the pro-tempore Chief Executive Officer in office, individually, the power to delegate to third parties and also by means of special attorneys-in-fact appointed for the purpose, the broadest powers necessary and/or beneficial, without any exclusion, to carry out that previously resolved, to exercise the faculty covered by the above motions, in addition to apply as required to Article 5 of the By-Laws the changes resulting from the motions, the execution and completion of the dedicated share capital increase, in order to ensure fulfilment of all of the obligations and announcements set out under law, including the obligations and all formalities necessary to ensure that the motions are filed at the competent companies registration*

office and to introduce into the present motions any amendments, changes or additions necessary or however requested by the competent authorities, in addition to all powers to complete the regulatory obligations stemming from the adopted motions.”

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Pero, March 19, 2019

The Chairman of the Board of Directors

(Gianni Mion)